VERISIGN INC/CA
Form 10-Q
July 27, 2012

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 June 30, 2012

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 000-23593

VERISIGN, INC.
(Exact name of registrant as specified in its charter)

Delaware	94-3221585
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12061 Bluemont Way, Reston, Virginia	20190
(Address of principal executive offices)	(Zip Code)

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

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

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 o

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 o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): YES o 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 July 20, 2012
Common stock, $.001 par value	156,394,428

TABLE OF CONTENTS

Table of Contents

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

Table of Contents
VERISIGN, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$315,621	$1,313,349
Marketable securities	1,122,397	32,860
Accounts receivable, net	12,653	14,974
Deferred tax assets and other current assets	79,940	86,598
Total current assets	1,530,611	1,447,781
Property and equipment, net	329,328	327,136
Goodwill and other intangible assets, net	53,202	53,848
Other assets	28,883	27,414
Total long-term assets	411,413	408,398
Total assets	$1,942,024	$1,856,179
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	$112,508	$156,385
Deferred revenues	560,127	502,538
Total current liabilities	672,635	658,923
Long-term deferred revenues	243,622	226,033
Convertible debentures, including contingent interest derivative	597,935	590,086
Long-term debt	100,000	100,000
Long-term deferred tax liabilities	341,733	325,527
Other long-term liabilities	45,294	43,717
Total long-term liabilities	1,328,584	1,285,363
Total liabilities	2,001,219	1,944,286
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock—par value $.001 per share; Authorized shares: 5,000; Issued and outstanding shares: none	—	—
Common stock—par value $.001 per share; Authorized shares: 1,000,000; Issued shares: 317,982 at June 30, 2012 and 316,781 at December 31, 2011; Outstanding shares: 156,667 at June 30, 2012 and 159,422 at December 31, 2011	318	317
Additional paid-in capital	20,027,665	20,135,237
Accumulated deficit	(20,084,096)	(20,220,577)
Accumulated other comprehensive loss	(3,082)	(3,084)
Total stockholders' deficit	(59,195)	(88,107)
Total liabilities and stockholders' deficit	$1,942,024	$1,856,179

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

VERISIGN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	$214,142	$189,844	$419,868	$371,367
Costs and expenses:				
Cost of revenues	42,844	40,667	84,100	81,536
Sales and marketing	26,313	22,179	54,128	44,570
Research and development	15,461	13,074	30,226	26,668
General and administrative	22,726	28,206	46,234	61,835
Restructuring charges	(182)	3,659	(730)	9,189
Total costs and expenses	107,162	107,785	213,958	223,798
Operating income	106,980	82,059	205,910	147,569
Interest expense	(12,580)	(111,856)	(24,920)	(123,676)
Non-operating (loss) income, net	(2,097)	6,149	(1,290)	11,627
Income (loss) from continuing operations before income taxes	92,303	(23,648)	179,700	35,520
Income tax (expense) benefit	(23,831)	15,967	(45,123)	(908)
Income (loss) from continuing operations, net of tax	68,472	(7,681)	134,577	34,612
(Loss) income from discontinued operations, net of tax	—	(2,929)	1,904	(4,451)
Net income (loss)	68,472	(10,610)	136,481	30,161
Foreign currency translation adjustments	—	48	—	76
Change in unrealized gain on investments, net of tax	42	1,077	37	609
Realized gain on investments, net of tax, included in net income (loss)	(30)	(1,398)	(35)	(1,415)
Other comprehensive income (loss)	12	(273)	2	(730)
Comprehensive income (loss)	$68,484	$(10,883)	$136,483	$29,431
Basic income (loss) per share:				
Continuing operations	$0.43	$(0.05)	$0.85	$0.20
Discontinued operations	—	(0.01)	0.01	(0.02)
Net income (loss)	$0.43	$(0.06)	$0.86	$0.18
Diluted income (loss) per share:				
Continuing operations	$0.42	$(0.05)	$0.82	$0.20
Discontinued operations	—	(0.01)	0.01	(0.02)
Net income (loss)	$0.42	$(0.06)	$0.83	$0.18
Shares used to compute net income per share				
Basic	157,599	167,471	158,471	169,751
Diluted	164,178	167,471	163,530	171,850

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents
VERISIGN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	$136,481	$30,161
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment and amortization of other intangible assets	26,273	27,642
Stock-based compensation	16,584	29,014
Excess tax benefit associated with stock-based compensation	(11,638)	(854)
Other, net	10,947	1,627
Changes in operating assets and liabilities		
Accounts receivable	2,213	354
Deferred tax assets and other assets	5,855	(12,786)
Accounts payable and accrued liabilities	(16,644)	(22,736)
Deferred revenues	75,178	50,814
Net cash provided by operating activities	245,249	103,236
Cash flows from investing activities:		
Proceeds from maturities and sales of marketable securities	8,101	369,586
Purchases of marketable securities	(1,097,669)	(44,038)
Purchases of property and equipment	(26,242)	(29,481)
Other investing activities	(520)	(1,181)
Net cash (used in) provided by investing activities	(1,116,330)	294,886
Cash flows from financing activities:		
Proceeds from issuance of common stock from option exercises and employee stock purchase plans	15,348	32,445
Repurchases of common stock	(152,725)	(310,671)
Payment of dividends to stockholders	—	(463,498)
Excess tax benefit associated with stock-based compensation	11,638	854
Other financing activities	189	—
Net cash used in financing activities	(125,550)	(740,870)
Effect of exchange rate changes on cash and cash equivalents	(1,097)	3,285
Net decrease in cash and cash equivalents	(997,728)	(339,463)
Cash and cash equivalents at beginning of period	1,313,349	1,559,628
Cash and cash equivalents at end of period	$315,621	$1,220,165
Supplemental cash flow disclosures:		
Cash paid for interest, net of capitalized interest	$20,476	$120,082
Cash paid for income taxes, net of refunds received	$21,193	$4,737

See accompanying Notes to Condensed Consolidated Financial Statements.

VERISIGN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Note 1. Basis of Presentation
Interim Financial Statements
The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by VeriSign, Inc. (“Verisign” or the “Company”) in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and, therefore, do not include all information and notes normally provided in audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for any other interim period or for a full fiscal year. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes contained in Verisign's fiscal 2011 Annual Report on Form 10-K (the “2011 Form 10-K”) filed with the SEC on February 24, 2012.

Note 2. Cash, Cash Equivalents, and Marketable Securities
The following table summarizes the Company’s cash, cash equivalents, and marketable securities:

	June 30, 2012	December 31, 2011
	(In thousands)	
Cash	$79,731	$1,127,196
Money market funds	238,223	132,145
Time deposits	2,109	57,930
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	1,122,397	32,860
Total	$1,442,460	$1,350,131
Included in Cash and cash equivalents	$315,621	$1,313,349
Included in Marketable securities	$1,122,397	$32,860
Included in Other assets (Restricted cash)	$4,442	$3,922

The following table presents the contractual maturities of the Marketable securities held as of June 30, 2012:

	June 30, 2012		
	Amortized Cost	Unrealized Gains	Fair Value
	(In thousands)		
Due within one year	$1,092,220	$59	$1,092,279
Due after one year through three years	29,931	187	30,118
Total	$1,122,151	$246	$1,122,397

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 June 30, 2012 and December 31, 2011:

Table of Contents

	Total Fair Value (In thousands)	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)
As of June 30, 2012				
Assets:				
Investments in money market funds	$238,223	$238,223	$ —	$—
Investments in fixed income securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	1,122,397	1,089,571	32,826	—
Foreign currency forward contracts (1)	536	—	536	—
Total	$1,361,156	$1,327,794	$ 33,362	$—
Liabilities:				
Contingent interest derivative on Convertible Debentures	$15,585	$—	$ —	$15,585
Foreign currency forward contracts (2)	72	—	72	—
Total	$15,657	$—	$ 72	$15,585
As of December 31, 2011:				
Assets:				
Investments in money market funds	$132,145	$132,145	$ —	$—
Investments in fixed income securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	32,860	—	32,860	—
Foreign currency forward contracts (1)	49	—	49	—
Total	$165,054	$132,145	$ 32,909	$—
Liabilities:				
Contingent interest derivative on Convertible Debentures	$11,625	$—	$ —	$11,625
Foreign currency forward contracts (2)	444	—	444	—
Total	$12,069	$—	$ 444	$11,625

(1) Included in Deferred tax assets and other current assets
(2) Included in Accounts payable and accrued liabilities

The fair value of the Company's investments in 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 consisting of U.S. Treasury bills is based on their quoted market prices and are classified as Level 1. The fair value of the Company's investments in other 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 and are classified as Level 2. The Company's investments in fixed income securities are included in Marketable securities.

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

The Company utilizes a valuation model to estimate the fair value of the contingent interest derivative on the Convertible Debentures. The inputs to the model include stock price, bond price, risk adjusted interest rates, volatility, and credit spread observations. As several significant inputs are not observable, the overall fair value measurement of the derivative is classified as Level 3. The volatility and credit spread assumptions used in the calculation are the most significant unobservable inputs. As of June 30, 2012, the valuation of the contingent interest derivative assumed a volatility rate of approximately 33%. A hypothetical

Table of Contents

10% increase or decrease in the volatility rate would not significantly change the fair value of the contingent interest derivative. The credit spread assumed in the valuation was approximately 5% at June 30, 2012. A hypothetical 1% increase or decrease in the credit spread would not significantly change the fair value of the contingent interest derivative.

The following table summarizes the change in the fair value of the Company's contingent interest derivative on Convertible Debentures during the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Beginning balance	$12,438	$10,950	$11,625	$10,500
Unrealized loss (gain) on contingent interest derivative on Convertible Debentures	3,147	(700)	3,960	(250)
Ending balance	$15,585	$10,250	$15,585	$10,250

Other

The Company's other financial instruments include cash, accounts receivable, restricted cash, accounts payable, and long-term debt. As of June 30, 2012, the carrying value of these financial instruments approximated their fair value. The fair value of the Company's Convertible Debentures as of June 30, 2012, is $1.8 billion, and is based on available market information from public data sources. The fair value measurement of the Company's Convertible Debentures is classified as Level 2.

Note 4. Other Balance Sheet Items

Deferred Tax Assets and Other Current Assets

Deferred tax assets and other current assets consist of the following:

	June 30, 2012	December 31, 2011
	(In thousands)	
Deferred tax assets	$62,012	$64,751
Prepaid expenses	15,182	12,016
Non-trade receivables	2,087	9,452
Other	659	379
Total deferred tax assets and other current assets	$79,940	$86,598

Non-trade receivables as of December 31, 2011 consisted primarily of income tax receivables which were subsequently collected during the six months ended June 30, 2012.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	June 30, 2012	December 31, 2011
	(In thousands)	
Accounts payable	$16,019	$19,283
Accrued employee compensation	32,011	40,251
Customer deposits, net	17,287	18,558
Taxes payable, deferred and other tax liabilities	12,547	28,441
Accrued restructuring costs	5,068	8,685
Other accrued liabilities	29,576	41,167
Total accounts payable and accrued liabilities	$112,508	$156,385

Accrued employee compensation primarily consists of liabilities for employee leave, salaries, payroll taxes, employee

8

Table of Contents

contributions to the employee stock purchase plan, and incentive compensation. Accrued employee incentive compensation as of December 31, 2011 was paid during the six months ended June 30, 2012. Taxes payable, deferred and other tax liabilities as of June 30, 2012 reflects a decrease in current taxes payable from December 31, 2011 as the result of income tax payments made during the six months ended June 30, 2012. As of June 30, 2012, Accrued restructuring costs represents the remaining lease payments to be made related to excess facilities that were abandoned as part of the relocation of the Company's headquarters during 2011. Other accrued liabilities include miscellaneous vendor payables and interest on the Convertible Debentures which is paid semi-annually in arrears on August 15 and February 15. Other accrued liabilities as of December 31, 2011 included certain retained liabilities related to divested businesses that were reversed or paid during the six months ended June 30, 2012.

Note 5. Stockholders' Deficit

On July 27, 2010, the Company's Board of Directors ("Board") authorized the repurchase of up to approximately $1.1 billion of common stock, in addition to the $393.6 million of its common stock remaining available for repurchase under the previous 2008 Share Buyback Program, for a total repurchase authorization of up to $1.5 billion of its common stock (collectively, the "2010 Share Buyback Program"). The 2010 Share Buyback Program has no expiration date. During the three and six months ended June 30, 2012 the Company repurchased 1.9 million and 3.7 million shares of its common stock, respectively, at an average stock price of $39.88 and $38.64, respectively. The aggregate cost of the repurchases under the 2010 Share Buyback Program in the three and six months ended June 30, 2012 was $76.1 million and $144.5 million, respectively. As of June 30, 2012, $686.9 million remained available for further repurchases under the 2010 Share Buyback Program.

During the six months ended June 30, 2012, the Company placed 0.2 million shares, at an average stock price of $38.19 and for an aggregate cost of $8.3 million, into treasury stock for purposes related to tax withholdings upon vesting of Restricted Stock Units ("RSUs"). The Company placed less than 0.1 million shares into treasury for purposes related to tax withholdings during the three months ended June 30, 2012.

Since inception the Company has repurchased 161.3 million shares of its common stock for an aggregate cost of $4.8 billion, which is presented as a reduction of Additional paid-in capital.

Note 6. Calculation of Net Income per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Weighted-average number of common shares outstanding	157,599	167,471	158,471	169,751
Weighted-average potential shares of common stock outstanding:				
Stock options	189	—	195	436
Unvested RSUs	659	—	713	802
Conversion spread related to Convertible Debentures	5,636	—	4,089	833
Employee stock purchase plan	95	—	62	28
Shares used to compute diluted net income per share	164,178	167,471	163,530	171,850

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

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
Weighted-average stock options outstanding	58	2,443	59	270
Weighted-average exercise price	$40.81	$27.14	$40.81	$38.43
Weighted-average RSUs outstanding	4	2,856	3	17
Employee stock purchase plan	—	653	60	255

Note 7. Stock-based Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Cost of revenues	$1,451	$1,846	$2,988	$3,836
Sales and marketing	1,833	1,697	3,349	3,551
Research and development	1,327	1,353	2,569	2,871
General and administrative	3,843	7,179	7,678	13,778
Restructuring charges	—	1,989	—	4,978
Total stock-based compensation expense	$8,454	$14,064	$16,584	$29,014

The following table presents the nature of the Company’s total stock-based compensation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Stock options	$281	$1,031	$636	$2,494
Employee stock purchase plan	1,098	798	2,108	1,978
RSUs	7,822	11,141	15,235	21,356
RSUs/Stock options acceleration	—	1,989	—	4,978
Capitalization (Included in Property and equipment, net)	(747)	(895)	(1,395)	(1,792)
Total stock-based compensation expense	$8,454	$14,064	$16,584	$29,014

Note 8. Interest Expense

The following table presents the components of the Company's interest expense:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Contractual interest on Convertible Debentures	$10,156	$10,156	$20,312	$20,313
Amortization of debt discount on the Convertible Debentures	1,975	1,819	3,910	3,602
Contingent interest to holders of Convertible Debentures	—	100,020	—	100,020
Interest capitalized to Property and equipment, net	(176)	(166)	(564)	(310)
Credit facility and other interest expense	625	27	1,262	51
Total interest expense	$12,580	$111,856	$24,920	$123,676

Interest expense in the three and six months ended June 30, 2011 includes $100.0 million of interest paid to holders of the Convertible Debentures as a result of the May 2011 Dividend. The Indenture governing the Convertible

Debentures requires

10

Table of Contents

the payment of contingent interest to the holders of the Convertible Debentures if the Board declares a dividend to its stockholders that is designated by the Board as an extraordinary dividend. The contingent interest is calculated as the amount derived by multiplying the per share declared dividend with the if-converted number of shares applicable to the Convertible Debentures.

Note 9. Non-operating (Loss) Income, Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Interest and dividend income	$605	$1,579	$905	$3,670
Unrealized (loss) gain on contingent interest derivative on Convertible Debentures	(3,147)	700	(3,960)	250
Income from transition services agreements	1,086	2,271	2,179	5,733
Other, net	(641)	1,599	(414)	1,974
Total non-operating (loss) income, net	$(2,097)	$6,149	$(1,290)	$11,627

Interest and dividend income is earned principally from the Company’s surplus cash balances and marketable securities. Unrealized losses on the contingent interest derivative on the Convertible Debentures in the three and six months ended June 30, 2012, reflect the change in value of the derivative that resulted primarily from an increase in the Company's stock price. Income from transition services agreements includes fees generated from services provided to the purchasers of divested businesses for a certain period of time to facilitate the transfer of business operations. This income decreases over time as the transition services agreements expire. Other, net for the three and six months ended June 30, 2011 includes $2.3 million of realized gains on the sale of investments. Gains on the sale of investments in the three and six months ended June 30, 2012 were not material.

Note 10. Income Taxes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands)			
Income tax (expense) benefit from continuing operations	$(23,831)	$15,967	$(45,123)	$(908)
Effective tax rate	26%	68%	25%	3%

The effective tax rate for the three and six months ended June 30, 2012 is lower than the statutory federal rate of 35% primarily due to tax benefits from foreign income taxed at lower rates and the release of $0.4 million and $3.1 million of valuation allowances, respectively, which related to investments with differing book and tax bases, partially offset by state income taxes and non-deductible stock based compensation. The effective tax rate for the three and six months ended June 30, 2011 differed from the statutory federal rate of 35% primarily due to tax benefits from foreign income taxed at lower rates, partially offset by state income taxes and non-deductible stock based compensation. In the three months ended June 30, 2011, the Company also recognized a discrete income tax benefit of $39.7 million relating to the contingent interest paid to the holders of the Company's Convertible Debentures.

Note 11. Contingencies

Legal Proceedings

On May 31, 2007, plaintiffs Karen Herbert, et al., on behalf of themselves and a nationwide class of consumers, filed a complaint against Verisign, m-Qube, Inc., and other defendants alleging that defendants collectively operated an illegal lottery under the laws of multiple states by allowing viewers of the NBC television show “Deal or No Deal” to incur premium text message charges in order to participate in an interactive television promotion called “Lucky Case Game.” The lawsuit is pending in the U.S. District Court for the Central District of California, Western Division. The defendants' motion to dismiss the Herbert matter was denied by the district court on December 3, 2007 and that ruling was appealed. On July 8, 2010, the Court of Appeals for the Ninth Circuit dismissed the appeal for lack of jurisdiction and remanded the case to the district court. Certain defendants had asserted indemnity claims against Verisign in connection with these matters.

Table of Contents

On July 13, 2011, the parties reached an agreement in principle to settle this matter and the defendants, including Verisign, previously reached an agreement in principle to resolve the indemnity claims noted above. The parties have entered into fully documented settlement agreements. Under the agreement to resolve the Herbert case, class members will be able to claim a full refund for premium text message charges incurred entering the Lucky Case Game. Verisign will pay sixty percent of the settlement costs but will receive an approximately $0.5 million contribution towards those costs from a co-defendant as part of the indemnity claim settlement. The Company has accrued for the expected settlement costs, which were not material to its financial condition or results of operations. See Note 4, “Discontinued Operations,” of Notes to Consolidated Financial Statements in the 2011 Form 10-K. This estimate of the expected settlement costs, by its nature, is based on judgment and currently available information and involves a variety of factors, including, but not limited to, the type and nature of the lawsuit, the progress of the lawsuit, and the Company's experience in similar matters. Given the inherent uncertainties involved in litigation, the Company cannot assure you that the ultimate resolution of this matter will not exceed the amount accrued for the settlement costs.

The court granted preliminary approval of the Herbert settlement on September 19, 2011 and final approval on December 19, 2011.

On March 5, 2012, a complaint entitled Warhanek v. Bidzos, et al. was filed in the United States District Court for the District of Delaware. The complaint asserts derivative claims on behalf of Verisign against current directors D. James Bidzos, William L. Chenevich, Roger H. Moore, Kathleen A. Cote, John D. Roach, Louis A. Simpson, Timothy Tomlinson and a former director, President and Chief Executive Officer Mark D. McLaughlin (the “Director Defendants”). The complaint also asserts one derivative claim against officers and certain former officers Richard H. Goshorn, Christine C. Brennan, and Kevin A. Werner (the “Executive Defendants,” and together with the Director Defendants and nominal defendant Verisign, the “Defendants”).

The complaint alleges that the Director Defendants fraudulently obtained shareholder approval of certain incentive-based compensation plans by misrepresenting the tax deductibility of certain compensation paid to Verisign's executive officers, including the Executive Defendants. Verisign adopted and obtained shareholder approval of several incentive-based compensation plans, including a 2010 Annual Incentive Compensation Plan (“AICP”), and an Amended and Restated VeriSign, Inc. 2006 Equity Incentive Plan (“2006 Plan”) and these plans were submitted to shareholders for approval in the 2010 and 2011 Proxy Statements (the “Proxy Statements”), respectively. The complaint alleges that the Proxy Statements falsely disclosed, or failed to adequately disclose, the material terms under which performance-based compensation would be paid under the AICP and the 2006 Plan. The complaint further alleges that the Proxy Statements falsely represented that certain compensation paid to certain employees in excess of $1 million would be tax deductible.

The complaint asserts derivative claims against the Director Defendants for (1) violations of Section 14(a) of the Exchange Act for making false statements in and omitting material facts from the Proxy Statements; (2) breach of fiduciary duty; and (3) waste of corporate assets. The complaint asserts an additional derivative claim against the Director Defendants and Executive Defendants for unjust enrichment based on compensation payments they received under the AICP or the 2006 Plan, as disclosed in the Proxy Statements. No demand was made on the Board to institute this action, and the complaint alleges that any such demand would be futile because each director is either interested or lacks independence with respect to the challenges to the AICP and 2006 Plan. The relief sought by the complaint includes, among other things, an order nullifying the shareholder approval of the AICP and the 2006 Plan, an injunction requiring correction of the alleged misrepresentations in the Company's Proxy Statements, and an order requiring equitable accounting, with disgorgement, in favor of the Company for the purported losses it has and will sustain. On May 25, 2012, the defendants filed motions to dismiss this action in its entirety.

The Defendants intend to defend this action vigorously.

Indemnifications

In connection with the sale of the Authentication Services business to Symantec in August 2010, the Company has agreed to indemnify Symantec for certain potential legal claims arising from the operation of the Authentication Services business for a period of sixty months after the closing of the sale transaction. The Company's indemnification obligations in this regard are triggered only when indemnifiable claims exceed in the aggregate $4.0 million. Thereafter, the Company is obligated to indemnify Symantec for 50% of all indemnifiable claims. The Company's maximum indemnification obligation with respect to these claims was capped at $125.0 million until February 9, 2012, at which time the cap was reduced to $50.0 million.

While certain legal proceedings and related indemnification obligations to which the Company is a party specify the amounts claimed, such claims may not represent reasonably possible losses. Given the inherent uncertainties of the litigation, the ultimate outcome of these matters cannot be predicted at this time, nor can the amount of possible loss or range of loss, if any, be reasonably estimated, except in circumstances where an aggregate litigation accrual has been recorded for probable and reasonably estimable loss contingencies. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in each

Table of Contents

matter or changes in approach such as a change in settlement strategy in dealing with these matters. The Company does not believe that any such matter currently being reviewed will have a material adverse effect on its financial condition or results of operations.

Verisign is involved in various other investigations, claims and lawsuits arising in the normal conduct of its business, none of which, in its opinion, will have a material adverse effect on its financial condition or results of operations. 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.

Table of Contents

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

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements involve risks and uncertainties, including, among other things, statements regarding our anticipated costs and expenses and revenue mix. Forward-looking statements include, among others, those statements including the words "expects," "anticipates," "intends," "believes" and similar language. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q. You should also carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q or Current Reports on Form 8-K that we file in 2012 and our 2011 Form 10-K, which was filed on February 24, 2012, which discuss our business in greater detail. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

Overview

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

Our business consists of one reportable segment, Naming Services, which consists of Registry Services and Network Intelligence and Availability ("NIA") Services. Registry Services is the registry operator for all .com, .net, .cc, .tv, and .name domain names and also operates the back-end systems for all .gov, .jobs and .edu domain names. As of June 30, 2012, we had approximately 118.5 million domain names registered under the .com and .net registries, our principal registries. The number of domain names registered is largely driven by continued growth in online advertising, e-commerce, and the number of Internet users, which is partially driven by greater availability of broadband, as well as advertising and promotional activities carried out by us and third-party registrars. Although growth in absolute number of registrations remains greatest in the U.S., growth on an annual percentage basis is expected to be greatest in markets outside of the U.S. over the long-term. NIA Services provides infrastructure assurance services to organizations and is comprised of Verisign iDefense Security Intelligence Services, Managed Domain Name System Services, and Distributed Denial of Service Protection Services. Revenues from NIA Services are not significant in relation to our consolidated revenue.

Business Highlights and Trends

- On June 23, 2012, the board of directors of Internet Corporation of Assigned Names and Numbers ("ICANN") approved the renewal of our agreement to serve as the authoritative registry operator for the .com registry for the term commencing on December 1, 2012, through November 30, 2018. Our board of directors approved the renewal of the .com registry agreement on June 16, 2012. The U.S. Department of Commerce (the Department) is now reviewing the renewal of the .com registry agreement under the terms of the Cooperative Agreement between the Department and Verisign.
- We recorded revenues of $214.1 million and $419.9 million during the three and six months ended June 30, 2012, respectively. This represents an increase of 13% in both the three and six months ended June 30, 2012, as compared to the same periods in 2011. The increase was primarily due to an 8% year-over-year increase in active domain names ending in .com and .net and increases in our .com and .net registry fees in July 2010 and January 2012.
-

We recorded operating income of $107.0 million and $205.9 million during the three and six months ended June 30, 2012, respectively, an increase of 30% and 40%, respectively, as compared to the same periods last year. The increase was primarily due to an increase in our revenues as well as a reduction in restructuring expenses and general and administrative expenses as we realize the effect of post-divestiture cost savings.

- We repurchased 1.9 million and 3.7 million shares, respectively, of our common stock under the 2010 Share Buyback Program for an aggregate cost of $76.1 million and $144.5 million, respectively, during the three and six

Table of Contents

months ended June 30, 2012.

- We generated cash flows from operating activities of $245.2 million during the six months ended June 30, 2012, an increase of 138% as compared to the same period last year. The increase was primarily due to the payment of $100.0 million of contingent interest to the holders of our Convertible Debentures during 2011 and an increase in cash received from customers resulting from revenue growth in 2012, partially offset by an increase in income taxes paid.
- We purchased $1.1 billion of marketable securities during the six months ended June 30, 2012. Substantially all of the marketable securities purchased in 2012 consisted of U.S. Treasury bills with maturities of less than one year.

Pursuant to our agreements with ICANN, Verisign makes available on its website at www.verisigninc.com/zone files containing all active domain names registered in the .com and .net registries. On July 26, 2012, at the same website address, Verisign began making available a summary of the number of active domain names registered in the .com and .net registries and the number of .com and .net domain names that are registered but are not configured for use. These files and the related summary data will be updated at least once per day. The update times may vary each day. The summary data provided on the website includes domain names that, at the time of publication, were recently purchased and subject to a five day grace period during which the domain names may be deleted and a credit may be issued to a registrar (the “add grace period”). The number of active domain names subject to the add grace period is typically immaterial. The numbers provided in this Form 10-Q are the numbers as of midnight of the date reported, include domain names registered but not configured for use, and do not include domain names subject to the add grace period and therefore cannot be compared to the summary posted on our website. Information available on, or accessible through, this website is not incorporated herein by reference.

Results of Operations

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
Revenues	100	%	100	%	100	%	100	%
Costs and expenses:								
Cost of revenues	20		21		20		22	
Sales and marketing	12		12		13		12	
Research and development	7		7		7		7	
General and administrative	11		15		11		17	
Restructuring charges	—		2		—		2	
Total costs and expenses	50		57		51		60	
Operating income	50		43		49		40	
Interest expense	(6	)	(59	)	(6	)	(33	)
Non-operating (loss) income, net	(1	)	3		—		3	
Income (loss) from continuing operations before income taxes	43		(13	)	43		10	
Income tax (expense) benefit	(11	)	8		(11	)	—	
Income (loss) from continuing operations, net of tax	32		(5	)	32		10	
(Loss) income from discontinued operations, net of tax	—		(1	)	1		(2	)
Net income (loss)	32	%	(6	)%	33	%	8	%

Revenues

Revenues related to our Registry Services are primarily derived from registrations for domain names in the .com, .net, .cc, .tv, .name, .gov, and .jobs domain name registries. Revenues from .cc, .tv, .name, .gov, and .jobs are not significant in relation to our consolidated revenue. For domain names registered with the .com and .net registries, we receive a fee from third-party registrars per annual registration that is fixed pursuant to our agreements with ICANN. Individual customers, called registrants, contract directly with third-party registrars or their resellers, and the third-party registrars in turn register the .com, .net, .cc, .tv, .name and .jobs domain names with Verisign. Changes in revenues are driven largely by increases in the number of new domain name registrations and the renewal rate for existing registrations, in each case as impacted by continued growth in online advertising, e-commerce, and the number of Internet users, which is partially driven by

Table of Contents

greater availability of broadband, as well as advertising and promotional activities carried out by us and third-party registrars. On January 15, 2012, we increased our .com domain name registration fees by 7% from $7.34 to $7.85 and .net domain name registration fees by 10% from $4.65 to $5.11. We have the contractual right to increase the fees for .net domain name registrations by up to 10% each year during the term of our .net agreement with ICANN through June 30, 2017. We offer promotional marketing programs for our registrars based upon market conditions and the business environment in which the registrars operate. We are largely insulated from the risk posed by fluctuations in exchange rates due to the fact that all revenues paid to us for .com and .net registrations are in U.S. dollars. Revenues from NIA Services are not significant in relation to our total consolidated revenue.

A comparison of revenues is presented below:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	% Change	2011	2012	% Change	2011
	(Dollars in thousands)					
Revenues	$214,142	13 %	$189,844	$419,868	13 %	$371,367

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

	June 30, 2012	% Change	June 30, 2011
Active domain names ending in .com and .net	118.5 million	8 %	109.9 million

Our revenues increased by $24.3 million and $48.5 million during the three and six months ended June 30, 2012, as compared to the same periods last year, primarily due to an 8% year-over-year increase in the number of domain names ending in .com and .net and increases in our .com and .net registry fees in July 2010 and January 2012 as per our agreements with ICANN.

The growth in the number of active domain names was primarily driven by continued Internet growth and new domain name promotional programs. We expect to see continued growth in the number of active domain names in 2012 as a result of further Internet growth. In addition, we expect to see continued growth internationally in both .com and .net domain name bases, especially in markets that we have targeted through our marketing programs. According to published reports, Google recently changed its search algorithm and pay-per-click advertising policies to provide less compensation for certain types of websites. This could make such websites less profitable and result in fewer domain registrations and renewals. We believe that some first time renewing websites affected by this change did not renew during the second quarter. We expect revenues to increase in fiscal 2012 as compared to fiscal 2011 as a result of continued growth in the number of active domain names ending in .com and .net and implementation of the price increase which became effective in January 2012 as domain names are renewed at the increased price.

During the first half of 2012, ICANN began the application process for new gTLDs, including new IDN gTLDs. The application period closed in May 2012, and new registration opportunities are expected to be available beginning in 2013. We applied directly for 14 new gTLDs including 12 transliterations of .com and .net. In addition, applicants for approximately 220 new gTLDs selected us to provide back-end registry services. We cannot predict whether we will be successful in becoming the registry for all or any of these gTLDs or whether any of the 220 applications for which we would serve as the back-end service provider will be successful, and whether there will be any delays in ICANN's approval process.

We cannot assess the impact, if any, the introduction of these new gTLDs will have on our revenues and results of operations. See Item 1A. “Risk Factors—We may face additional competition, operational and other risks from the introduction of new TLDs by ICANN, which could have a material adverse effect on our business and results of operations,” of this Form 10-Q.

Geographic revenues

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

The following table presents a comparison of our geographic revenues:

16

Table of Contents

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	% Change	2011	2012	% Change	2011
	(Dollars in thousands)					
U.S.	$129,180	12 %	$115,800	$255,107	12 %	$227,183
EMEA	33,176	14 %	29,171	63,845	12 %	56,771
APAC	32,311	21 %	26,625	63,414	23 %	51,684
Other	19,475	7 %	18,248	37,502	5 %	35,729
Total revenues	$214,142		$189,844	$419,868		$371,367

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

Revenues from each of the respective regions increased during the three and six months ended June 30, 2012, as compared to the same period last year, primarily driven by an increase in the number of domain names ending in .com and .net and increases in our .com and .net registry fees in July 2010 and January 2012. The increase in the number of domain names ending in .com and .net was driven by continued Internet growth and domain name promotional programs. Mature markets such as the U.S., where broadband and e-commerce have seen strong market penetration, are expected to see decreasing incremental growth rates reflecting the maturing of the markets. We expect to see larger increases in certain international regions, resulting from greater broadband and Internet penetration and expanding e-commerce as electronic means of payments are increasingly adopted.

Cost of revenues

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

A comparison of cost of revenues is presented below:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	% Change	2011	2012	% Change	2011
	(Dollars in thousands)					
Cost of revenues	$42,844	5 %	$40,667	$84,100	3 %	$81,536

Cost of revenues increased during the three months ended June 30, 2012, as compared to the same period last year, due to increases in a variety of expenses, none of which were individually significant.

Cost of revenues increased during the six months ended June 30, 2012, as compared to the same period last year, due to increases in salary and employee benefits expenses and direct cost of revenues, partially offset by a decrease in depreciation expenses. Salary and employee benefits expenses increased by $1.9 million due to an increase in the average headcount to support our Registry Services business and continued growth of our NIA Services business, partially offset by a decrease in stock-based compensation due to additional vested RSUs granted to option holders during the six months ended June 30, 2011 as they did not participate in the May 2011 and December 2010 special cash dividends. Direct cost of revenues increased by $1.5 million, primarily due to an increase in the .tv registry fees required to be paid in the renewed .tv registry agreement, which took effect beginning in 2012. Depreciation expenses decreased by $2.2 million due to the acceleration of depreciation on an abandoned software project in the six months ended June 30, 2011 and a change in the estimated useful lives of computer hardware and equipment assets from three years to four years beginning in 2012.

We expect cost of revenues as a percentage of revenues to decrease during the remainder of 2012 compared to the six months ended June 30, 2012 due to revenue growth resulting from the increase in .com and .net registry fees in January 2012 and our continued focus on effectively managing our expenses.

Sales and marketing

Sales and marketing expenses consist primarily of salaries, sales commissions, sales operations and other personnel-related expenses, travel and related expenses, gTLD application costs, 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 online, television, radio, print and direct mail advertising costs, and allocations of indirect costs such as corporate overhead.

Table of Contents

A comparison of sales and marketing expenses is presented below:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	% Change	2011	2012	% Change	2011
	(Dollars in thousands)					
Sales and marketing	$26,313	19 %	$22,179	$54,128	21 %	$44,570

Sales and marketing expenses increased during the three months ended June 30, 2012, as compared to the same period last year, due to increases in salary and employee benefits expenses and advertising expenses. Salary and employee benefits expenses increased by $1.9 million due to an increase in the average headcount related to growth in the NIA Services sales and marketing teams and the expansion of the international marketing team for our Registry Services business. Advertising expenses increased by $2.5 million due to increases in product marketing initiatives promoting our Registry Services business.

Sales and marketing expenses increased during the six months ended June 30, 2012, as compared to the same period last year, due to increases in salary and employee benefits expenses, advertising expenses, fees paid to ICANN for gTLD applications and allocated overhead expenses. Salary and employee benefits expenses increased by $3.4 million due to an increase in the average headcount related to growth in the NIA Services sales and marketing teams and the expansion of the international marketing team for our Registry Services business partially offset by a decrease in stock-based compensation due to additional vested RSUs granted to option holders during the six months ended June 30, 2011 as they did not participate in the May 2011 and December 2010 special cash dividends. Advertising expenses increased by $3.0 million due to increases in product marketing initiatives promoting our Registry Services business. During the six months ended June 30, 2012, we incurred fees of $2.6 million related to applications for new gTLDs. Allocated overhead expenses increased by $1.5 million due to an increase in the relative headcount of the sales and marketing function compared to other functions.

We expect sales and marketing expenses as a percentage of revenues to decrease during the remainder of 2012 compared to the six months ended June 30, 2012 due to revenue growth resulting from the increase in .com and .net registry fees in January 2012 and our continued focus on effectively managing our expenses.

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, facilities costs, computer and communications equipment, support services used in our service and technology development, and allocations of indirect costs such as corporate overhead.

A comparison of research and development expenses is presented below:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	% Change	2011	2012	% Change	2011
	(Dollars in thousands)					
Research and development	$15,461	18 %	$13,074	$30,226	13 %	$26,668

Research and development expenses increased during the three months ended June 30, 2012, as compared to the same period last year, primarily due to increases in salary and employee benefits expenses. Salary and employee benefits expenses increased by $1.5 million due to an increase in average headcount to support the development of our DNS infrastructure and new services partially offset by a decrease in stock-based compensation due to additional vested RSUs granted to option holders during the three months ended June 30, 2011 as they did not participate in the May 2011 special cash dividend.

Research and development expenses increased during the six months ended June 30, 2012, compared to the same period last year, primarily due to increases in salary and employee benefits expenses and contract and professional services expenses, partially offset by an increase in capitalized labor. Salary and employee benefits expenses increased by $2.9 million due to an increase in average headcount to support the development of our DNS infrastructure and new services partially offset by a decrease in stock-based compensation due to additional vested RSUs granted to option holders during the six months ended June 30, 2011 as they did not participate in the May 2011 and December

2010 special cash dividends. Contract and professional services increased by $1.7 million primarily to support projects in our NIA Services business. Capitalized labor increased by $1.7 million due to an increase in the volume of work performed on internally developed software projects.

We expect research and development expenses as a percentage of revenues to increase during the remainder of 2012 compared to the six months ended June 30, 2012 as we further invest in the development of our product portfolio.

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, costs of facilities, computer and

Table of Contents

communications equipment, management information systems, support services, professional services fees, certain tax and license fees, and bad debt expense, offset by allocations of indirect costs such as facilities and shared services expenses to other cost types.

A comparison of general and administrative expenses is presented below:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	% Change	2011	2012	% Change	2011
	(Dollars in thousands)					
General and administrative	$22,726	(19)%	$28,206	$46,234	(25)%	$61,835

General and administrative expenses decreased during the three months ended June 30, 2012, as compared to the same period last year primarily due to decreases in salary and employee benefits expenses and contract and professional services expenses. These decreases were partially offset by an increase in miscellaneous expenses. Salary and employee benefits expenses decreased by $7.0 million, including a $3.3 million decrease in stock-based compensation, as a result of reduced headcount in corporate support functions subsequent to the divestiture of the Authentication Services business. Stock-based compensation expenses decreased due to additional vested RSUs granted to option holders during the three months ended June 30, 2011 as they did not participate in the May 2011 special cash dividend. Contract and professional services expenses decreased by $2.1 million due to reductions in consulting services expenses. Miscellaneous expenses increased due to the release of $5.9 million of liabilities related to non-income tax expenses as a result of the lapse of the statutes of limitations during the three months ended June 30, 2011.

General and administrative expenses decreased during the six months ended June 30, 2012, as compared to the same period last year primarily due to decreases in salary and employee benefits expenses, contract and professional services expenses, occupancy expenses and an increase in overhead costs allocated to other cost types. These decreases were partially offset by an increase in miscellaneous expenses. Salary and employee benefits expenses decreased by $14.1 million, including a $6.1 million decrease in stock-based compensation, as a result of reduced headcount in corporate support functions subsequent to the divestiture of the Authentication Services business. Stock-based compensation expenses decreased due to additional vested RSUs granted to option holders during the six months ended June 30, 2011 as they did not participate in the May 2011 and December 2010 special cash dividends. Contract and professional services expenses decreased by $2.8 million due to reductions in consulting services expenses. Occupancy expenses decreased by $2.3 million as we exited certain facilities in Mountain View, California and Dulles, Virginia during 2011 as part of the relocation of our corporate headquarters. Overhead expenses allocated to other cost types increased by $2.9 million due to a decrease in the relative headcount of the general and administrative function compared to other functions subsequent to the divestiture of the Authentication Services business. Miscellaneous expenses increased due to the release of $5.9 million of liabilities related to non-income tax expenses as a result of the lapse of the statutes of limitations during the six months ended June 30, 2011.

We expect general and administrative expenses as a percentage of revenue to decrease during the remainder of 2012 compared to the six months ended June 30, 2012 due to revenue growth resulting from the increase in .com and .net registry fees in January 2012 and our continued focus on effectively managing our expenses.

Restructuring charges

Restructuring charges in the three and six months ended June 30, 2012 decreased from the same periods of the prior year as we substantially completed our 2010 Restructuring Plan during the fourth quarter of 2011.

Interest expense

See Note 8, "Interest Expense" of our Notes to Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q.

Non-operating (loss) income, net

See Note 9, "Non-operating (loss) income, net" of our Notes to Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q.

Income tax expense

See Note 10, "Income Taxes" of our Notes to Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q.

(Loss) Income from discontinued operations, net of tax

Income from discontinued operations before income taxes for the six months ended June 30, 2012 primarily represents the reversal of certain retained liabilities related to the prior operations of a divested business. Losses from discontinued operations before income taxes for the three and six months ended June 30, 2011 primarily represent the effects of certain

Table of Contents

retained litigation of the divested businesses. Income tax expense for discontinued operations for the six months ended June 30, 2011 includes a $2.9 million discrete charge attributable to a change in the purchase price allocation prepared for income tax purposes related to the divestiture of the Authentication Services business.

Liquidity and Capital Resources

In summary, our cash flows for the six months ended June 30, 2012 and 2011 are as follows:

	Six Months Ended June 30,	
	2012	2011
	(In thousands)	
Net cash provided by operating activities	$245,249	$103,236
Net cash (used in) provided by investing activities	(1,116,330)	294,886
Net cash used in financing activities	(125,550)	(740,870)
Effect of exchange rate changes on cash and cash equivalents	(1,097)	3,285
Net decrease in cash and cash equivalents	$(997,728)	$(339,463)

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, as well as payments related to taxes and facilities.

Net cash provided by operating activities in the six months ended June 30, 2012 increased due to an increase in cash received from customers which resulted from revenue growth compared to the same period last year and a reduction in interest paid as a result of the $100.0 million of contingent interest paid to holders of our Convertible Debentures in May 2011. This increase was partially offset by an increase in payments for income taxes during the six months ended June 30, 2012 compared to the same period of last year.

Cash flows from investing activities

The changes in cash flows from investing activities primarily relate to purchases, maturities and sales of marketable securities, and purchases of property and equipment.

The changes in cash (used in) provided by investing activities in the six months ended June 30, 2012 compared to the same period last year was due to an increase in purchases of marketable securities and a decrease in the proceeds from sales of marketable securities.

Cash flows from financing activities

The changes in cash flows from financing activities primarily relate to borrowings from our credit facility, stock repurchases, stock option exercises, our employee stock purchase plan ("ESPP"), excess tax benefits from stock-based compensation, and dividend payments.

Net cash used in financing activities decreased primarily due to the payment of a special cash dividend in May 2011 and a decrease in the amount of share repurchases made during the six months ended June 30, 2012 compared to the same period of the prior year and an increase in realized excess tax benefits from exercises of stock options and vesting of RSUs, partially offset by a decrease in proceeds from stock option exercises and our ESPP.

Other Liquidity and Capital Resources Information

	June 30, 2012	December 31, 2011
	(In thousands)	
Cash and cash equivalents	$315,621	$1,313,349
Marketable securities	1,122,397	32,860
Total	$1,438,018	$1,346,209

As of June 30, 2012, our principal source of liquidity was $315.6 million of cash and cash equivalents and $1.1 billion of marketable securities. The marketable securities consist of debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies meeting the criteria of our investment policy, which is focused on the preservation of our capital through investment in investment grade securities. The cash equivalents consist mainly of amounts deposited in

20

money market funds.
The $1.1 billion of marketable securities held as of June 30, 2012 consist primarily of U.S. Treasury bills that were purchased during the second quarter of 2012 using funds held by foreign subsidiaries. All of the U.S. Treasury bills purchased have contractual maturities of less than one year. Approximately $30.1 million of marketable securities held as of June 30, 2012 have contractual maturities between one year and three years. Our cash and cash equivalents are readily accessible. For additional information on our investment portfolio, see Note 2, "Cash, Cash Equivalents, and Marketable Securities," of our Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

As of June 30, 2012, the amount of cash and cash equivalents and marketable securities held by foreign subsidiaries was $1.2 billion. Our intent is to permanently reinvest outside of the U.S. those funds held by foreign subsidiaries that have not been previously taxed in the U.S. Currently, we do not anticipate that we will need funds that were generated from foreign operations to fund our domestic operations. In the event funds from foreign operations are needed to fund operations in the U.S. and if U.S. tax has not already been previously provided, we would be required to accrue and pay additional U.S. taxes in order to repatriate these funds.

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

During the six months ended June 30, 2012, we purchased $1.1 billion of marketable securities that consisted primarily of U.S. Treasury bills with maturities of less than one year. Due to the short maturity and credit quality of these investments, we do not believe there has been a significant change in our market risk exposure since December 31, 2011.

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 June 30, 2012, 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 June 30, 2012 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 their inherent limitations, our disclosure controls and procedures and 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 effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to risks, including that the control may become inadequate because of changes in conditions or that the degree of compliance with our policies or procedures may deteriorate.

Table of Contents

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under “Legal Proceedings” in Note 11, “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:

- current global economic and financial conditions as well as their impact on e-commerce, financial services, and the communications and Internet industries;
- volume of new domain name registrations and customer renewals;
- the long sales and implementation cycles for, and potentially large order sizes of, some of our services and the timing and execution of individual customer contracts;
- our success in direct marketing and promotional campaigns;
- in the case of our Registry Services business, any changes to the scope and success of marketing efforts by third-party registrars;
- market acceptance of our services by our existing customers and by new customers;
- customer renewal rates and turnover of customers of our services, and in the case of our Registry Services business, the customers of the distributors of our services;
- continued development of our distribution channels for our products and services, both in the U.S. and abroad;
- the impact of price changes in our products and services or our competitors' products and services;
- the impact of decisions by distributors to offer competing or replacement products or modify or cease their marketing practices;
- the availability of alternatives to our products;
- seasonal fluctuations in business activity;
- changes in marketing expenses related to promoting and distributing our services or services provided by third-party registrars or their resellers;
- potential attacks, including hacktivism, by nefarious actors, which could threaten the perceived reliability of our products and services;
- potential attacks on the service offerings of our distributors, such as distributed denial-of-service (“DDoS”) attacks, which could limit the availability of their service offerings and their ability to offer our products and services;
- changes in policies regarding Internet administration imposed by governments or governmental authorities outside the U.S.;
- potential disruptions in regional registration behaviors due to catastrophic natural events or armed conflict;
- changes in the level of spending for information technology-related products and services by our customers; and
- the uncertainties, costs and risks as a result of the sale of our Authentication Services business, including costs related to our transition services agreements and any retained liability related to existing and future claims or retained

litigation.

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

Due to all of the above factors, our revenues and operating results are difficult to forecast. Therefore, we believe that period-to-period comparisons of our operating results will not necessarily be meaningful, and you should not rely upon them as an indication of future performance. Also, operating results may fall below our expectations and the expectations of

Table of Contents
securities analysts or investors in one or more future periods. If this were to occur, the market price of our common stock would likely decline.

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

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

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

In addition, to the extent that the economic, social and political environment impacts specific industry and geographic sectors in which many of our customers are concentrated, that may further negatively impact our business. If the market, economic, social and political 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.

The operation of our business depends on numerous factors.

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 domain names and the DNS are used for e-commerce and communications;
- changes in customer behavior, Internet platforms, mobile devices and web-browsing patterns;
- growth in demand for our services;
- the competition for any of our services;
- the perceived security of e-commerce and communications over the Internet;
- the perceived security of our services, technology, infrastructure and practices;
- the loss of customers through industry consolidation or customer decisions to deploy in-house or competitor technology and services;
- our continued ability to maintain our current, and enter into additional, strategic relationships;
- our ability to successfully market our services to new and existing distributors and customers;
- our success in attracting, integrating, training, retaining and motivating qualified personnel;
- our response to competitive developments;
- the successful introduction, and acceptance by our current or new customers, of new products and services, including our NIA Services;
- potential disruptions in regional registration behaviors due to catastrophic natural events and armed conflict;
- seasonal fluctuations in business activity;
- our ability to implement remedial actions in response to any attacks by nefarious actors; and
- the successful introduction of enhancements to our services to address new technologies and standards, alternatives to our products and services and changing market conditions.

Issues arising from our agreements with ICANN, the DOC and the GSA could harm our Registry Services business.

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

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

- the .com Registry Agreement may not renew when it expires in 2012, which could have a material adverse effect on

Table of Contents

our business;

- 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 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, which, in the case of the .com and .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;
- under certain circumstances, the GSA could terminate our agreement to be the registry for the .gov gTLD, which could have a material adverse impact on how the Registry Services business is perceived; and
- our Registry Services business faces, and could continue to face, legal or other challenges resulting from our activities or the activities of registrars and registrants, and any adverse outcome from such matters could have a material adverse effect on our business.

In addition, under the .com, .net and .name Registry Agreements, as well as the Cooperative Agreement with the DOC, we are prohibited from holding a greater than 15% ownership interest in any ICANN accredited registrar. This prohibition on cross-ownership currently applies to all eighteen ICANN gTLDs, but does not apply to ccTLDs. ICANN has adopted a proposal to allow the operators of new gTLDs to also own, be owned 100% by, or otherwise be affiliated with, a registrar. The impact of these changes to the distribution channel is uncertain but could have a material adverse effect on our business. In addition, ICANN has also adopted a procedure pursuant to which an operator of one of the existing eighteen ICANN gTLDs can apply to remove the cross-ownership restrictions with respect to new, but not existing gTLDs. If Verisign were to seek removal of the cross-ownership restriction with respect to new gTLDs, it is uncertain whether ICANN and/or the DOC approval would be obtained.

Substantially all of our revenue is derived from our Registry Services business.

Our Registry Services business, which derives most of its revenues from registration fees for domain names, generates substantially all of our revenue. If there is a disruption in the Registry Services business, including any disruption from changes in the domain name industry, changes in or challenges to our agreements with ICANN, including any changes resulting from legal challenges to these agreements, changes in customer preferences, a downturn in the economy or changes in technology related to the use of domain names, there may be a material adverse effect on our business and results of operations. In addition, a failure of the DOC to approve the renewal of the .com Registry Agreement prior to the expiration of its current term on November 30, 2012 could have a material adverse effect on our business.

Challenges to Internet administration could harm our Registry 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 operation 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 established several multi-party review panels and contemplates a greater involvement by foreign governments and governmental authorities in the oversight and review 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 Registry Services business and we could also be subject to additional restrictions on how this business is conducted, which may not also apply to our competitors.

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

As of June 30, 2012, we had 129, or 12%, 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

Table of Contents

succeed in expanding our services into new international markets or expand our presence in existing 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 services 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;
- tariffs and other trade barriers and restrictions;
- difficulties in staffing and managing foreign operations;
- longer sales and payment cycles;
- problems in collecting accounts receivable;
- currency fluctuations, as a small portion of our international revenues are not always denominated in U.S. dollars and some of our costs are denominated in foreign currencies;
- high costs associated with repatriating profits to the U.S.;
- potential problems associated with adapting our services to technical conditions existing in different countries;
- difficulty of verifying customer information;
- 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;
- potentially conflicting or adverse tax consequences; and
- reliance on third parties in foreign markets in which we only recently started doing business.

We are exposed to risks faced by financial 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.

As of June 30, 2012, we had $1.4 billion in cash, cash equivalents, marketable securities and restricted cash, of which $1.1 billion 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 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, as well as any cash deposited in bank accounts, are subject to general credit, liquidity, market and interest rate risks, which may be exacerbated by unusual events, such as the eurozone crisis and the U.S. debt ceiling crisis, which have 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 reached unprecedented levels. If the global credit market deteriorates further, 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,

Table of Contents

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 (especially as we consider providing NIA Services and Registry Services to this sector), counterfeit goods, and cybersquatting; laws designed to require registrants to provide additional documentation or information in connection with domain name registrations; and laws designed to promote cyber security may impose significant additional costs on our business or subject us to additional liabilities. We have contracts pursuant to which we provide services to the U.S. government and even though these contracts are immaterial, they impose compliance costs, including compliance with the Federal Acquisition Regulation, which could be significant to the Company.

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, any such new laws could impede growth of or result in a decline in domain name registrations, as well as impact the demand for our services.

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 Registry 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 Registry 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, or presents inconsistent data for the top-level domains.

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 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' preferences or practices were to shift away from direct navigation; (iv) Internet users were to increase the use of web and phone applications to locate and access content; or (v) Internet users were to increase the use of second or third level domains or alternate identifiers, such as social networking and microblogging sites, in each case 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. For example, according to published reports, Google recently changed its search algorithm and pay-per-click advertising policies to provide less compensation for certain types of websites. This could make such websites less profitable and result in fewer domain registrations and renewals. In addition, as a result of the general economic environment, spending on on-line advertising and marketing may not increase as projected or may be reduced, which in turn, may result in a further decline in the demand for those domain names.

Changes in state taxation laws and regulations may discourage the registration or renewal of domain names for e-commerce.

Many Internet merchants are not currently required to pay sales or other similar taxes in respect of shipments of goods into most states. However, state taxation laws and regulations may change in the future and one or more states may seek to impose sales tax collection obligations on out-of-state companies that engage in online commerce. The enactment of any such law in any state may impair the growth of e-commerce and discourage the registration or renewal of domain names for e-commerce.

Table of Contents

Consolidation or changes in ownership or management among third-party registrars could result in reduced marketing efforts or other operational changes that could harm our Registry Services business.

Third-party registrars utilize substantial marketing efforts to increase the demand and/or renewal rates for domain names. Consolidation in the registrar industry or changes in ownership or management among individual registrars could result in significant changes to their business, operating model and cost structure. Such changes could include reduced marketing efforts or other operational changes that could adversely impact the demand and/or the renewal rates for domain names. Our Registry Services business, which generates substantially all of our revenue, derives most of its revenues from registrations and renewals of domain names, and decreased demand for and/or renewals of domain names could cause a material adverse effect on our business and results of operations.

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 or failures, 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, including hacktivism, by hackers or nefarious actors;
- computer viruses or software defects;
- physical or electronic break-ins, sabotage, intentional acts of vandalism, terrorist attacks and other events beyond our control;
- State suppression of Internet operations; and
- any failure to implement effective and timely remedial actions in response to any damage or interruption.

Most of our systems are located at, and most of our customer information is stored in, our facilities in New Castle, Delaware; Dulles, Virginia; and Fribourg, Switzerland. To the extent we are unable to partially or completely switch over to primary alternate 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, we do not carry insurance or financial reserves for interruptions or potential losses arising from terrorism.

In addition, our Registry Services business 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 beyond our scope of control.

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 or a misdirection of a domain name to a different server. In the event that a registrar has not implemented back up services recommended by us in conformance with industry best practices, 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 also 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 or a misdirection of a domain name to a different server. 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 the Internet as well as of the security or reliability of our services.
In addition, a failure in our NIA Services could have a negative impact on our reputation and our business could suffer.
If we experience security breaches, we could be exposed to liability and our reputation and business could suffer.
We retain certain customer and employee 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. The Company, as an operator of critical infrastructure, is frequently targeted and experiences a high rate of attacks. These include the most sophisticated form of attacks, such as advanced persistent threat ("APT") attacks and zero-hour threats, which means that the threat is not compiled or has been previously unobserved within our observation and threat indicators space until the moment it is launched, making these attacks virtually impossible to anticipate and difficult to defend against. The Shared Registration System, the domain name root zone servers and top-level domain name zone servers that we operate are critical hardware and software to our Registry Services operations. We expend significant time and money on 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 nefarious actors or similar disruptive problems, including hacktivism. 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, all or any of which could adversely affect our reputation and harm our business. 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 the Internet 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 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 help differentiate ourselves in the marketing of our products. Dilution of the strength of our brand could harm our business. We are at risk that we will be unable to register, build equity in, or enforce the new logo for the Company.

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. The international use of the Company's logo could present additional potential risks for third party claims of infringement. Any claims, with or without merit, could be time consuming, result in costly litigation and diversion of technical and management personnel attention, cause delays in our business activities

Table of Contents

generally, or require us to develop a non-infringing logo or 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 identify and adopt an alternative non-infringing logo, 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 could become involved in claims, lawsuits or investigations that may result in adverse outcomes.

In addition to possible intellectual property litigation and infringement claims, we may become involved in other claims, lawsuits and investigations. Such proceedings may initially be viewed as immaterial but could prove to be material. Litigation is inherently unpredictable, and excessive verdicts do occur. Adverse outcomes in lawsuits and investigations could result in significant monetary damages, including indemnification payments, 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. Given the inherent uncertainties in litigation, even when we are able to reasonably estimate the amount of possible loss or range of loss and therefore record an aggregate litigation accrual for probable and reasonably estimable loss contingencies, the accrual may change in the future due to new developments or changes in approach. In addition, such investigations, claims and lawsuits could 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, including in international markets. 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 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, any changes by our distributors to their existing marketing strategies could have a material adverse effect on our business. Similarly, if one or more of our distributors were to encounter financial difficulties, or if there were a significant reduction in marketing expenditures by our distributors (including registrars), as a result of industry consolidation or otherwise, it could have a material adverse effect on our business, including a decrease in domain name registrations and renewals. Failure of one or more of our strategic, channel or other 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 existing relationships or to enter into additional relationships, this could harm our business.

The success of our NIA Services depends in part on the acceptance of our services.

We are investing in our NIA Services, and the future growth of these services depends, in part, on the commercial success, acceptance, and reliability of our NIA Services. These services will suffer if our target customers do not adopt or use these services. We are not certain that our target customers will choose our NIA Services or continue to use these services even after adoption.

We rely on third parties to provide products which are incorporated in our NIA Services.

The NIA Services incorporate and rely on third party hardware and software products, many of which have unique capabilities. If Verisign was unable to procure these third party products, the NIA Services may malfunction, not perform as well as they should perform, not perform as well as they have been performing or not perform as planned, and our business could suffer.

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.

Our Registry Services and NIA Services businesses are developing services in emerging markets, including services that

29

Table of Contents

involve naming and directory services other than registry and related infrastructure services. 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 devices;
- the ability of the Internet infrastructure to accommodate increased levels of usage; and
- government regulations affecting Internet access and availability, e-commerce and telecommunications over the Internet.

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.

We depend on key employees to manage our business effectively and have experienced changes in our senior management team, and we may face difficulty in attracting and retaining full-time, qualified leaders.

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 employees, both in the U.S. and abroad.

During the second quarter of 2012, our Board appointed George E. Kilguss, III as Senior Vice President and Chief Financial Officer, effective May 14, 2012. During the period of transition following the commencement of Mr. Kilguss' employment, there may be operational inefficiencies as Mr. Kilguss becomes familiar with our business and operations.

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 (“Board”). 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, 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 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 has the ability to designate the terms of and issue new series of preferred stock without stockholder approval.

We have 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. The rights plan is scheduled to expire in September 2012. Under the rights plan:

- The rights will generally become exercisable if a person or group acquires 20% or more of our outstanding common stock (unless such transaction is approved by our Board) and thus becomes an “acquiring person.”
- Each right, when exercisable, will entitle the holder, other than the “acquiring person,” to acquire shares of our 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 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.

Table of Contents

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. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are subject to audit by various tax authorities. 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.
A significant portion of our foreign earnings for the current fiscal year were earned by our Swiss subsidiaries. Our effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates.
Various legislative proposals that would reform U.S. corporate tax laws have been proposed by the Obama administration as well as members of Congress. We are unable to predict whether these or other proposals will be implemented. We have not yet determined whether, or the extent to which, these proposals will ultimately impact us.

Our inability to indefinitely reinvest our foreign earnings could materially adversely affect our results of operations.
Deferred income taxes are not provided on most of the undistributed earnings of our foreign subsidiaries because these earnings are intended to be indefinitely reinvested and we do not plan to initiate any action that would precipitate the payment of income taxes thereon. We consider the following matters, among others, in evaluating our plans for indefinite reinvestment: the forecasts, budgets and financial requirements of the parent and subsidiaries for both the long and short term; the tax consequences of a decision to reinvest; and any U.S. and foreign government programs designed to influence remittances. If factors change and as a result we are unable to indefinitely reinvest the foreign earnings, the income tax expense and payments may differ significantly from the current period and could materially adversely affect our results of operations.
We are subject to the risks of owning real property.
We own the land and building in Reston, Virginia, which constitutes our headquarters facility. Ownership of this property, as well as our data centers in Sterling, Virginia and New Castle, Delaware, may subject us to risks, including:

- adverse changes in the value of the properties, due to interest rate changes, changes in the commercial property markets, or other factors;
- ongoing maintenance expenses and costs of improvements;
- the possible need for structural improvements in order to comply with zoning, seismic, disability law, or other requirements;
- the possibility of environmental contamination and the costs associated with fixing any environmental problems; and
- possible disputes with neighboring owners, service providers or others.

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: 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 Registry 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, .coop and

.xxx gTLDs and registries offering services related to ccTLDs. ICANN currently has registry agreements with 16 registries for the operation of 18 gTLDs. In addition, there are over 250 Latin script ccTLD registries and 38 IDN 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, methods of distribution and use of registrars that do not apply to ccTLDs and therefore may create a competitive disadvantage. If other registries launch marketing campaigns for new or existing TLDs, including forms of marketing campaigns that we are

Table of Contents

prohibited from running under the terms of our agreements with ICANN, which result in registrars giving other TLDs greater prominence on their websites, advertising or marketing materials, we could be at a competitive disadvantage and our business could suffer.

We also face competition from service providers that offer outsourced domain name registration, resolution and other DNS services to organizations that require a reliable and scalable infrastructure. Among the competitors are Neustar Inc., Afilias Limited, ARI Registry Services and Nominet UK, Inc. In addition, to the extent end-users navigate using search engines or social media, as opposed to direct navigation, we may face competition from search engine operators such as Google Inc., Microsoft Corporation, and Yahoo! Inc., operators of social networks such as Facebook, and operators of microblogging tools such as Twitter. Furthermore, to the extent end-users increase the use of web and phone applications to locate and access content, we may face competition from providers of such web and mobile applications.

Competition in Network Intelligence and Availability Services: 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, we may experience difficulty establishing or increasing demand for our products and services or distributing our products successfully.

We face competition in the network intelligence and availability services industry from companies or services such as iSight Partners, Security Services X-Force Threat Analysis Service, Secunia ApS, Dell SecureWorks, McAfee, Inc., Prolexic Technologies, Inc., AT&T Inc., Verizon Communications, Inc., Dyn, Inc.'s Dynect Platform, NeuStar Ultra Services, OpenDNS, BlueCat Networks, Inc., Infoblox Inc., Nominum, Inc. and Afilias Limited.

We may face additional competition, operational and other risks from the introduction of new TLDs by ICANN, which could have a material adverse effect on our business and results of operations.

Additional competition to our business may arise from the introduction of new TLDs by ICANN. ICANN announced the introduction of new gTLDs, which include IDN gTLDs. On October 30, 2009, ICANN approved a fast track process for the awarding of new IDN ccTLDs and such new IDN ccTLDs have started to be introduced into the root. On June 13, 2012, ICANN announced it received 1930 applications to operate over 1400 new gTLDs, with new registration opportunities expected to be available beginning in 2013. We do not yet know the impact, if any, that these new domain extensions may have on our business, including if or how the introduction of these new gTLDs will affect registrations for .com and .net and therefore have a material adverse effect on our business and results of operations.

Applicants for new gTLDs include companies which may have greater financial, marketing and other resources than we do, including companies that are existing competitors as well as domain name registrars and new entrants into the domain name industry. Furthermore, ICANN will allow the operators of new gTLDs to also own, be owned 100% by or otherwise affiliated with a registrar, whereas we are currently prohibited by our agreements with ICANN and the DOC from owning more than 15% of a registrar. As a result, operators of new gTLDs may be able to obtain competitive advantages through such vertical integration. ICANN has also approved a process pursuant to which an operator of an existing gTLD could apply to become a registrar with respect to a new gTLD; however, it is uncertain whether ICANN and/or the DOC would approve the necessary changes to Verisign's existing agreements to allow us to vertically integrate with respect to new gTLDs, in which case, we may be at a competitive disadvantage.

We have applied for 14 gTLDs, including 12 IDN gTLDs. 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. Similarly, while we have entered into agreements to provide back-end registry services to other applicants for approximately 220 new gTLDs, there is no guarantee that such applicants with which we have entered into agreements will be successful in obtaining one or more of these new domain extensions or that such domain extensions will be successful.

Furthermore, our agreements to provide back-end registry services directly to other applicants and indirectly through reseller relationships expose us to operational and other risks. For, example, the increase in the number of gTLDs for which we provide registry services on a standalone basis or as a back-end service provider could further increase costs or increase the frequency or scope of targeted attacks from nefarious actors. Finally, IDN TLDs face additional challenges in that current desktop software does not ubiquitously recognize IDN TLDs and may be slow to adopt standards even if demand for such products is strong.

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

Table of Contents

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 or alternatives to our products and services. 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 and practices, or launch entirely new products and services in anticipation of, or in response to, market trends. We cannot assure you that we will be able to adapt to these challenges or anticipate 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.

Risks related to the sale of our Authentication Services business and the completion of our divestitures

We face risks related to the terms of the sale of the Authentication Services business.

Under the agreement reached with Symantec for the sale of our Authentication Services business (the "Symantec Agreement"), we agreed to several terms that may pose risks to us, including the potential for confusion by the public with respect to Symantec's right to use certain of our trademarks, brands and domain names, as well as the risk that current or potential investors in or customers of the Company may incorrectly attribute to the Company problems with Symantec products or services that currently use the VERISIGN brand pursuant to a license granted by the Company to Symantec. Any such confusion may have a negative impact on our reputation, our brand and the market for our products and services. In addition, we may determine that certain assets transferred to Symantec could have been useful in our Naming Services businesses or in other future endeavors, requiring us to forego future opportunities or design or purchase alternatives which could be costly and less effective than the transferred assets. Further, we may not be able to achieve the full strategic and financial benefits we expect from the sale of our Authentication Services business.

Under the terms of the Symantec Agreement, we have licensed rights to certain of our domain name registrations to Symantec. We are at risk that our customers will go to a URL for a licensed domain name and be unable to locate our Registry or NIA Services. In addition, we will continue to maintain the registration rights for the domain names licensed to Symantec for which Symantec has sole control over the displayed content, and we may be subject to claims of infringement if Symantec posts content that is alleged to infringe the rights of a third party.

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 divested businesses, including the Authentication Services business, 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, a transition services agreement with Symantec in connection with the divestiture of the Authentication Services business. These transition services may be required for a longer period of time than anticipated by management, and currently, we are obligated to provide the transition services at a fixed price, but our actual costs to provide such services may exceed the fees Symantec is contractually obligated to pay.

There is a possibility that we will incur unanticipated costs and expenses associated with management of liabilities relating to the businesses we have divested, including requests for indemnification by the buyers of the divested businesses. These liabilities could potentially relate to (i) breaches of contractual representations and warranties we gave to the buyers of the divested businesses, or (ii) certain liabilities relating to the divested businesses that we retained under the agreements reached with the buyers of the divested businesses. Such liabilities could 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 we divested, including the Authentication Services business, 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 June 30, 2012, we had one billion authorized common shares, of which 156.7 million shares were outstanding. In addition, of our authorized common shares, 18.7 million common shares were reserved for issuance pursuant to outstanding

Table of Contents

equity 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 Facility with a borrowing capacity of $200.0 million. As of June 30, 2012, we had borrowed $100.0 million under the Facility. 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. The Facility is described in Note 7, "Debt and Interest Expense," of the Notes to Consolidated Financial Statements of our 2011 Form 10-K.

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 a result of the sale of the Convertible Debentures, we have a substantial amount of long-term debt outstanding. 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, in certain situations, the indenture requires us to pay this repurchase price in cash, 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 permitted, if we so elect, to make cash payments to the holders of the Convertible Debentures based on the conversion value (as defined in the Indenture) of the Convertible Debentures being converted. Such payments could be significant, and we may not have sufficient funds to make them at such time. If our Convertible Debentures become currently redeemable or convertible for cash or other assets at the end of any fiscal period, we will be required to reclassify the carrying value of the debt component to current liabilities and the corresponding carrying value of the equity component to temporary equity on the balance sheet for that period.

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 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. Earnings per share will most likely be lower under the if-converted method as compared to the treasury stock method.

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

The following table presents the share repurchase activity during the three months ended June 30, 2012:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or	Approximate Dollar Value of Shares That May Yet Be Purchased

			Programs (1)	Under the Plans or Programs (1)
	(Shares in thousands)			
April 1 – 30, 2012	447	$38.92	447	$745.6 million
May 1 – 31, 2012	761	40.16	761	715.0 million
June 1 – 30, 2012	700	$40.19	700	$686.9 million
	1,908		1,908	

Table of Contents

(1) On July 27, 2010, the Board of Directors authorized the repurchase of up to approximately $1.1 billion of Verisign's common stock, in addition to the $393.6 million of its common stock remaining available for repurchase under the previous 2008 Share Buyback Program, for a total repurchase of up to $1.5 billion of its common stock (collectively, the "2010 Share Buyback Program"). The 2010 Share Buyback Program has no expiration date. Purchases made under the 2010 Share Buyback Program could be effected through open market transactions, block purchases, accelerated share repurchase agreements or other negotiated transactions.

ITEM 6. 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	Employment Offer Letter between the Registrant and George E. Kilguss, III dated April 20, 2012. +
10.02	Letter Agreement between the Registrant and George E. Kilguss, III dated June 28, 2012. +
10.03	VeriSign, Inc. 2006 Equity Incentive Plan Form of Non-Employee Director Restricted Stock Unit Agreement. +
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

+ Indicates a management contract or compensatory plan or arrangement

* 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.

Table of Contents

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.

Date: July 27, 2012	By: /S/ D. JAMES BIDZOS D. James Bidzos Chief Executive Officer
Date: July 27, 2012	By: /S/ GEORGE E. KILGUSS, III George E. Kilguss, III Chief Financial Officer