VERISIGN INC/CA
Form 10-Q
October 28, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _______ to _______

Commission File Number: 000-23593

VERISIGN, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Class	**Shares Outstanding October 21, 2011**
Common stock, $.001 par value	159,066,793

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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VERISIGN, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,202,788	$ 1,559,628
Marketable securities	32,136	501,238
Accounts receivable, net	14,831	14,874
Deferred tax assets and other current assets	113,935	102,217
Total current assets	1,363,690	2,177,957
Property and equipment, net	205,304	190,319
Goodwill and other intangible assets, net	54,172	55,146
Other assets	34,543	20,584
Total long-term assets	294,019	266,049
Total assets	$ 1,657,709	$ 2,444,006
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 137,307	$ 195,235
Deferred revenues	501,924	457,478
Total current liabilities	639,231	652,713
Long-term deferred revenues	221,019	205,560
Convertible debentures, including contingent interest derivative	586,566	581,626
Long-term deferred tax liabilities	336,880	309,696
Other long-term liabilities	40,751	17,981
Total long-term liabilities	1,185,216	1,114,863
Total liabilities	1,824,447	1,767,576
Commitments and contingencies		
Stockholders (deficit) equity:		
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: 316,351 at September 30, 2011 and 313,313 at December 31, 2010; Outstanding shares: 159,032 at September 30, 2011 and 172,736 at December 31, 2010	316	313
Additional paid-in capital	20,110,522	21,040,919
Accumulated deficit	(20,274,391)	(20,363,468)

Accumulated other comprehensive loss	(3,185)	(1,334)
Total stockholders (deficit) equity	(166,738)	676,430
Total liabilities and stockholders (deficit) equity	$ 1,657,709	$ 2,444,006

See accompanying Notes to Condensed Consolidated Financial Statements.

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VERISIGN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues	$ 196,965	$ 172,286	$ 568,332	$ 501,749
Costs and expenses:				
Cost of revenues	41,694	39,751	123,230	118,411
Sales and marketing	25,090	18,412	69,660	62,861
Research and development	13,488	14,468	40,156	40,483
General and administrative	24,775	33,514	86,610	101,155
Restructuring charges	2,971	6,269	12,160	14,042
Total costs and expenses	108,018	112,414	331,816	336,952
Operating income	88,947	59,872	236,516	164,797
Interest expense	(11,797)	(12,140)	(135,473)	(36,104)
Non-operating income, net	3,591	4,640	15,218	13,318
Income from continuing operations before income taxes	80,741	52,372	116,261	142,011
Income tax expense	(22,126)	(7,267)	(23,034)	(40,312)
Income from continuing operations, net of tax	58,615	45,105	93,227	101,699
Income (loss) from discontinued operations, net of tax	301	740,440	(4,150)	772,660
Net income	58,916	785,545	89,077	874,359
Less: Net income from discontinued operations, net of tax, attributable to noncontrolling interest in subsidiary		(642)		(2,887)
Net income attributable to Verisign stockholders	$ 58,916	$ 784,903	$ 89,077	$ 871,472
Basic income (loss) per share attributable to Verisign stockholders from:				
Continuing operations	$ 0.36	$ 0.26	$ 0.56	$ 0.57
Discontinued operations		4.26	(0.03)	4.29
Net income	$ 0.36	$ 4.52	$ 0.53	$ 4.86
Diluted income (loss) per share attributable to Verisign stockholders from:				
Continuing operations	$ 0.36	$ 0.26	$ 0.55	$ 0.56
Discontinued operations		4.22	(0.02)	4.26
Net income	$ 0.36	$ 4.48	$ 0.53	$ 4.82

Shares used to compute net income per share attributable to Verisign stockholders:				
Basic	163,046	173,572	167,492	179,240
Diluted	163,902	175,034	169,176	180,634
Amounts attributable to Verisign stockholders:				
Income from continuing operations, net of tax	$ 58,615	$ 45,105	$ 93,227	$ 101,699
Income (loss) from discontinued operations, net of tax	301	739,798	(4,150)	769,773
Net income attributable to Verisign stockholders	$ 58,916	$ 784,903	$ 89,077	$ 871,472

See accompanying Notes to Condensed Consolidated Financial Statements.

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VERISIGN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2011	**2010**
Cash flows from operating activities:		
Net income	$ 89,077	$ 874,359
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain on sale of discontinued operations, net of tax		(735,491)
Depreciation of property and equipment and amortization of other intangible assets	41,455	53,379
Stock-based compensation	36,107	42,201
Excess tax benefit associated with stock-based compensation	(1,851)	(167,194)
Other, net	6,804	8,435
Changes in operating assets and liabilities, excluding the effects of acquisitions and divestitures:		
Accounts receivable	(38)	11,154
Deferred tax assets and other assets	(12,434)	2,074
Accounts payable and accrued liabilities	(7,338)	8,607
Deferred revenues	59,905	70,955
Net cash provided by operating activities	211,687	168,479
Cash flows from investing activities:		
Proceeds from maturities and sales of marketable securities and investments	543,503	239,680
Proceeds received from divestiture of businesses, net of cash contributed		1,165,030
Purchases of marketable securities and investments	(75,705)	(714,592)
Purchases of property and equipment	(63,444)	(68,646)
Other investing activities	(1,179)	(4,688)
Net cash provided by investing activities	403,175	616,784
Cash flows from financing activities:		
Proceeds from issuance of common stock from option exercises and employee stock purchase plans	41,510	56,442
Repurchases of common stock	(548,803)	(434,234)
Payment of dividends to stockholders	(463,498)	
Excess tax benefit associated with stock-based compensation	1,851	167,194
Other financing activities	(1,117)	(736)
Net cash used in financing activities	(970,057)	(211,334)
Effect of exchange rate changes on cash and cash equivalents	(1,645)	9,100
Net (decrease) increase in cash and cash equivalents	(356,840)	583,029
Cash and cash equivalents at beginning of period	1,559,628	1,477,166
Cash and cash equivalents at end of period	$ 1,202,788	$ 2,060,195

Supplemental cash flow disclosures:		
Cash paid for interest, net of capitalized interest	$ 140,047	$ 39,628

See accompanying Notes to Condensed Consolidated Financial Statements.

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VERISIGN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

Interim Financial Statements

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

Reclassifications

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

Note 2. Cash, Cash Equivalents, and Marketable Securities

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

	September 30, 2011	December 31, 2010
	(In thousands)	
Cash	$ 108,225	$ 106,270
Money market funds	596,804	648,054
Time deposits	501,731	803,797
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	32,136	359,160
Corporate debt securities		141,338
Debt securities issued by foreign governments		5,040
Total	$ 1,238,896	$ 2,063,659
Included in Cash and cash equivalents	$ 1,202,788	$ 1,559,628
Included in Marketable securities	$ 32,136	$ 501,238
Included in Other assets (Restricted cash)	$ 3,972	$ 2,793

As of September 30, 2011, the Company held marketable securities with maturities between one and three years that consisted of debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies. The fair value of the marketable securities as of September 30, 2011 was $32.1 million including gross and net unrealized gains of $0.3 million which were recorded in other comprehensive income.

The Company recognized pre-tax net gains of $1.9 million and $4.2 million, respectively, during the three and nine months ended September 30, 2011 related to the sale of marketable securities. The Company sold $543.5 million of marketable securities during the nine months ended September 30, 2011, primarily to fund a special dividend paid in May 2011 (the May 2011 Dividend) and repurchases of common stock during the three months ended September 30, 2011 discussed further in Note 6. Net gains or losses recognized during the three and nine months ended

September 30, 2010 related to sales of marketable securities were not material.

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Note 3. Fair Value of Financial Instruments

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes the Company s financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010:

	Observable Inputs	Observable Inputs	Observable Inputs	Observable Inputs
		Fair Value Measurement Using		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
As of September 30, 2011:				
Assets:				
Investments in money market funds	$ 596,804	$ 596,804	$	$
Investments in fixed income securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	32,136		32,136	
Foreign currency forward contracts (1)	729		729	
Total	$ 629,669	$ 596,804	$ 32,865	$
Liabilities:				
Contingent interest derivative on Convertible Debentures	$ 10,000	$	$	$ 10,000
Foreign currency forward contracts (2)	108		108	
Total	$ 10,108	$	$ 108	$ 10,000
As of December 31, 2010:				
Assets:				
Investments in money market funds	$ 648,054	$ 648,054	$	$
Investments in fixed income securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	359,160	2,700	356,460	
Corporate debt securities	141,338		141,338	
Debt securities issued by foreign governments	5,040		5,040	
Total	$ 1,153,592	$ 650,754	$ 502,838	$
Liabilities:				
Contingent interest derivative on Convertible Debentures	$ 10,500	$	$	$ 10,500
Foreign currency forward contracts (2)	282		282	

Total	$	10,782	$		$	282	$	10,500

(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 certain money market funds approximates their face value. Such instruments are classified as Level 1 and are included in Cash and cash equivalents.

The fair value of the Company s investments in fixed income securities are obtained using the weighted-average price of available market prices for the underlying securities from various industry standard data providers, large financial institutions and other third-party sources. Such instruments are included in either Cash and cash equivalents or Marketable securities. The $2.7 million fair value of U.S. Treasury bills held by the Company at December 31, 2010 was based on their quoted market prices and included in Cash and cash equivalents.

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 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.

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The following table summarizes the change in the fair value of the Company s contingent interest derivative on Convertible Debentures during the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Beginning balance	$ 10,250	$ 8,250	$ 10,500	$ 10,000
Unrealized (gain) loss on contingent interest derivative on Convertible Debentures	(250)	625	(500)	(1,125)
Ending balance	$ 10,000	$ 8,875	$ 10,000	$ 8,875

Other

The Company s other financial instruments include accounts receivable, restricted cash, and accounts payable. As of September 30, 2011, the carrying value of these financial instruments approximated their fair value. The fair value of the Company s Convertible Debentures as of September 30, 2011, is $1.3 billion, and is based on quoted market prices.

Note 4. Other Balance Sheet Items

Deferred Tax Assets and Other Current Assets

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

	September 30, 2011	December 31, 2010
	(In thousands)	
Deferred tax assets	$ 88,395	$ 69,807
Prepaid expenses	11,296	9,939
Non-trade receivables	10,968	14,158
Receivables from buyers	427	8,198
Other	2,849	115
Total deferred tax assets and other current assets	$ 113,935	$ 102,217

The Company recognized additional deferred tax assets due to net operating losses incurred on a tax basis during the nine months ended September 30, 2011. Non-trade receivables primarily consist of income tax receivables and value added tax receivables. As of December 31, 2010, Receivables from buyers primarily represents amounts due from Symantec for services performed on its behalf under transition services agreements. During the nine months ended September 30, 2011, the Company received substantially the entire amount included in Receivables from buyers as of December 31, 2010.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	September 30, 2011	December 31, 2010
	(In thousands)	

Accounts payable	$ 16,954	$ 16,727
Accrued employee compensation	34,863	52,628
Customer deposits, net	18,353	18,681
Payables to buyers	218	11,337
Taxes payable, deferred and other tax liabilities	28,595	38,168
Accrued restructuring costs	4,096	17,460
Other accrued liabilities	34,228	40,234
Total accounts payable and accrued liabilities	$ 137,307	$ 195,235

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Accrued employee compensation primarily consists of liabilities for employee leave, salaries, payroll taxes, employee contributions to the employee stock purchase plan, and incentive compensation. Accrued bonus as of December 31, 2010, included in Accrued employee compensation, was paid during the nine months ended September 30, 2011. As of December 31, 2010, Payables to buyers primarily consists of amounts due to Symantec for certain post-closing purchase price adjustments related to the sale of the Authentication Services business and accrued bonus for employees associated with the Authentication Services business, substantially the entire amount of which was paid during the nine months ended September 30, 2011. Taxes payable, deferred and other tax liabilities as of September 30, 2011 reflects a decrease in current taxes payable from December 31, 2010 as the result of lower income tax expense during the nine months ended September 30, 2011. As of September 30, 2011, Accrued restructuring costs primarily represents restructuring costs related to the sale of the Authentication Services business. 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.

Note 5. Restructuring Charges

2010 Restructuring Plan

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

Under the 2010 Restructuring Plan, the Company has incurred pre-tax cash severance charges, stock-based compensation expenses upon acceleration of stock-based awards, and excess facility exit costs of $22.2 million, $16.2 million, and $4.4 million, respectively, through September 30, 2011, inclusive of amounts reported in discontinued operations. The Company expects to complete the 2010 Restructuring Plan in the fourth quarter of 2011, during which the Company expects to incur $6.2 million primarily for excess facility exit costs.

The following table presents the nature of the restructuring charges:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Workforce reduction	$ 253	$ 15,295	$ 8,123	$ 28,846
Excess facilities	2,718	374	4,037	482
Total consolidated restructuring charges	$ 2,971	$ 15,669	$ 12,160	$ 29,328
Amounts classified as continuing operations	$ 2,971	$ 6,269	$ 12,160	$ 14,042
Amounts classified as discontinued operations	$	$ 9,400	$	$ 15,286

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

	Accrued Restructuring Costs at December 31, 2010	Costs Incurred	Costs Paid or Settled	Stock-Based Compensation	Accrued Restructuring Costs at September 30, 2011
			(In thousands)		
Workforce reduction	$ 15,120	$ 8,123	$ (14,203)	$ (5,701)	$ 3,339
Excess facilities	3,098	4,037	(3,229)		3,906
Total accrued restructuring costs	$ 18,218	$ 12,160	$ (17,432)	$ (5,701)	$ 7,245

Current portion of accrued restructuring costs	$	4,096
Long-term portion of accrued restructuring costs	$	3,149

Amounts included in the tables above relate primarily to the 2010 Restructuring Plan.

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Note 6. Stockholders (Deficit) Equity

Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Net income	$ 58,916	$ 785,545	$ 89,077	$ 874,359
Foreign currency translation adjustments	(78)	3,160	(2)	7,251
Realized foreign currency translation adjustments attributable to the sale of the Authentication Services business, included in net income		(29,357)		(29,357)
Change in unrealized gain on investments, net of tax	94	2,886	703	5,628
Realized gain on investments, net of tax, included in net income	(1,136)	(87)	(2,551)	(239)
Comprehensive income	57,796	762,147	87,227	857,642
Less: Comprehensive loss attributable to noncontrolling interest in subsidiary		(11,928)		(7,747)
Comprehensive income attributable to Verisign stockholders	$ 57,796	$ 774,075	$ 87,227	$ 865,389

Repurchase of Common Stock

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 nine months ended September 30, 2011, the Company repurchased 7.9 million and 16.3 million shares of its common stock, respectively, at average stock prices of $29.69 and $32.76, respectively. The aggregate cost of the repurchases under the 2010 Share Buyback Program in the three and nine months ended September 30, 2011 was $235.0 million and $534.6 million, respectively. As of September 30, 2011, $831.3 million remained available for further repurchases under the 2010 Share Buyback Program.

During the three and nine months ended September 30, 2011, the Company placed 0.1 million and 0.4 million shares, respectively, at average stock prices of $30.39 and $33.87, respectively, for an aggregate cost of $3.1 million and $14.2 million, respectively, into treasury stock to cover tax withholdings upon vesting of Restricted Stock Units (RSUs).

Since inception the Company has repurchased 157.3 million shares of its common stock for an aggregate cost of $4.6 billion, which is recorded as a reduction of Additional paid-in capital.

Special Dividend

On April 27, 2011, the Board declared a special dividend of $2.75 per share of the Company s common stock, totaling approximately $463.5 million, which was paid on May 18, 2011. The special dividend was accounted for as a reduction of Additional paid-in capital.

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

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

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	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
	(In thousands)			
Weighted-average number of common shares outstanding	163,046	173,572	167,492	179,240
Weighted-average potential shares of common stock outstanding:				
Stock options	186	424	353	397
Unvested restricted stock units	667	962	756	889
Conversion spread related to Convertible Debentures			555	
Employee stock purchase plan	3	76	20	108
Shares used to compute diluted net income per share attributable to Verisign stockholders	163,902	175,034	169,176	180,634

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

	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
	(In thousands, except per share data)			
Weighted-average stock options outstanding	645	2,969	395	3,654
Weighted-average exercise price	$ 33.68	$ 31.33	$ 35.85	$ 31.06
Weighted-average restricted stock units outstanding	92	33	42	70
Employee stock purchase plan	746	73	419	486

Note 8. Stock-based Compensation

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

	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
	(In thousands)			
Stock-based compensation:				
Cost of revenues	$ 1,443	$ 987	$ 5,279	$ 3,256
Sales and marketing	1,305	360	4,856	2,964
Research and development	1,094	1,508	3,965	3,812
General and administrative	2,528	4,944	16,306	15,429
Restructuring charges	723	931	5,701	1,043
Stock-based compensation for continuing operations	7,093	8,730	36,107	26,504
Discontinued operations		8,161		15,697
Total stock-based compensation expense	$ 7,093	$ 16,891	$ 36,107	$ 42,201

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(In thousands)			
Stock-based compensation:				
Stock options	$ 628	$ 1,307	$ 3,122	$ 5,952
Employee stock purchase plan	941	1,960	2,919	7,687
Restricted stock units	5,448	4,943	26,804	20,375
RSUs/Stock options acceleration	723	9,123	5,701	9,693
Capitalization (Included in Property and equipment, net)	(647)	(442)	(2,439)	(1,506)
Total stock-based compensation expense	$ 7,093	$ 16,891	$ 36,107	$ 42,201

Note 9. Interest Expense

The following table presents the components of interest expense:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(In thousands)			
Contractual interest	$ 10,156	$ 10,156	$ 30,469	$ 30,469
Amortization of debt discount on the Convertible Debentures	1,858	1,711	5,460	5,029
Contingent interest to holders of Convertible Debentures			100,020	
Interest capitalized to Property and equipment, net	(242)	(119)	(552)	(586)
Other interest expense	25	392	76	1,192
Total interest expense	$ 11,797	$ 12,140	$ 135,473	$ 36,104

Interest expense in the nine months ended September 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 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 10. Non-operating Income, Net

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(In thousands)			
Interest and dividend income	$ 763	$ 1,908	$ 4,433	$ 5,047
Unrealized gain (loss) on contingent interest derivative on Convertible Debentures	250	(625)	500	1,125
Income from transition services agreements	1,255	3,020	6,988	6,898
Realized net gain (loss) on investments	1,892	352	4,246	(646)

Other, net	(569)	(15)	(949)	894
Total non-operating income, net	$ 3,591	$ 4,640	$ 15,218	$ 13,318

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

Note 11. Discontinued Operations

The Company will continue to generate cash flows and will report income statement activity in continuing operations associated with providing transition related services to Symantec for the divested Authentication Services business for a remaining term of 22 months.

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

	$0,000,000	$0,000,000	$0,000,000	$0,000,000
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Revenues	$	$ 43,335	$ 44	$ 248,740
Income (loss) from discontinued operations before income taxes	$ 283	$ 984,499	$ (1,311)	$ 1,042,083
Income tax benefit (expense)	18	(244,059)	(2,839)	(269,423)
Income (loss) from discontinued operations	301	740,440	(4,150)	772,660
Less: Income from discontinued operations, net of tax, attributable to noncontrolling interest in subsidiary		(642)		(2,887)
Total income (loss) from discontinued operations, net of tax, attributable to Verisign stockholders	$ 301	$ 739,798	$ (4,150)	$ 769,773

Loss from discontinued operations before income taxes for the nine months ended September 30, 2011 primarily represents the effects of certain retained litigation of the divested businesses. Income tax expense for discontinued operations for the nine months ended September 30, 2011 includes a $2.9 million charge attributable to a change in the purchase price allocation prepared for income tax purposes related to the divestiture of the Authentication Services business. Income from discontinued operations before income taxes for the three and nine months ended September 30, 2010 represents the results of operations of the Authentication Services business, and adjustments to gains and losses on divestitures completed in 2009, as a result of certain one-time employee termination costs and settlement of certain retained litigation of the divested businesses.

Note 12. Income Taxes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Dollars in thousands)			
Income tax expense from continuing operations	$ 22,126	$ 7,267	$ 23,034	$ 40,312
Effective tax rate	27%	14%	20%	28%

The effective tax rate for the three and nine months ended September 30, 2011 differs from the statutory federal rate of 35% due to state taxes, non-deductible stock based compensation, the effect of non-US operations, and tax benefits from foreign income taxed at lower rates. The effective tax rate for the nine months ended September 30, 2011 was also impacted by a $39.7 million discrete tax benefit, which was recognized in the second quarter of 2011, related to the contingent interest paid to the holders of the Company s Convertible Debentures (see Note 9). The effective tax rate for the three and nine months ended September 30, 2010 differs from the statutory federal rate of 35% due to state taxes, non-deductible stock based compensation, the effect of non-US operations, tax benefits from foreign income taxed at lower rates, discrete tax benefits related to lapses of statutes of limitation, and a one-time discrete tax expense related to a change in tax status in a foreign jurisdiction.

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

As of September 30, 2011 and December 31, 2010, the Company had gross unrecognized tax benefits for income taxes associated with uncertain tax positions of $50.3 million and $28.8 million, respectively. During the three and nine months ended September 30, 2011, the Company recorded an increase in unrecognized tax benefits of $6.8 million and $21.5 million, respectively, related to current period activities. As of September 30, 2011 and December 31, 2010, $41.6 million and $24.9 million, respectively, of unrecognized tax benefits, including penalties and interest, would affect the Company s effective tax rate if realized. The amount of the gross unrecognized tax benefits is expected to increase in the next 12 months.

In accordance with its accounting policy, the Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. Interest and penalties related to income tax liabilities recognized through Income tax expense during the three and nine months ended September 30, 2011 were not material. During the three and nine months ended September 30, 2010, the Company recognized a net benefit of $1.4 million and $1.1 million, respectively, for interest and penalties through Income tax expense.

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

Note 13. Commitments and Contingencies

Commitments

On September 15, 2010, the Company entered into a lease agreement for an office building in Reston, Virginia to be used as the Company s corporate headquarters. The lease term is for 15 years and 5 months and commenced in July 2011. The lease contains a provision giving the Company the right of first refusal according to which, if the landlord desires to sell the property during the term of the lease, it must, subject to certain exceptions, first offer to sell the property to the Company. Pursuant to this right of first refusal, the Company entered into an agreement in the third quarter of 2011 to purchase the property from the landlord for $118.0 million. In connection with the purchase, the Company made an earnest money deposit of $11.8 million in August 2011 which is included in Other assets on the Condensed Consolidated Balance Sheet. The closing on the purchase of the property is subject to customary closing conditions and is currently scheduled to occur on November 15, 2011 at which time the existing lease will terminate and the balance of the purchase price will be due and payable.

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 have asserted indemnity claims against Verisign in connection with these matters.

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 11, Discontinued Operations, of Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q. 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 final settlement agreement in *Herbert* is terminable upon certain contingencies, including the number of class members who opt out of the settlement and the cost of notice to the class.

The court granted preliminary approval of the *Herbert* settlement on September 19, 2011 and scheduled a hearing for final approval on December 19, 2011. Although the parties do not anticipate that the court would reject or would require material changes to the settlement terms, these outcomes are possible.

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 million. Thereafter, the Company is obligated to indemnify Symantec for 50% of all indemnifiable claims. The Company s maximum indemnification obligation with respect to these claims is capped at $125 million.

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

Verisign is involved in various other investigations, claims and lawsuits arising in the normal conduct of its business, none of which, in its opinion, will have a material 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.

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

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

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

Overview

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

Our business consists of one reportable segment, namely Naming Services, which consists of Registry Services and Network Intelligence and Availability (NIA) Services. Registry Services operates the authoritative directory of all *.com, .net, .cc, .tv,* and *.name* domain names and the back-end systems for all *.gov*, *.jobs* and *.edu* domain names. As of September 30, 2011, we had approximately 111.9 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 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 Three and nine months ended September 30, 2011

We recorded revenues of $197.0 million and $568.3 million during the three and nine months ended September 30, 2011, respectively. This represents an increase of 14% and 13% in the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. 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.

We recorded operating income of $88.9 million and $236.5 million during the three and nine months ended September 30, 2011, respectively, an increase of 49% and 44%, 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 general and administrative expenses.

We repurchased 7.9 million and 16.3 million shares, respectively, of our common stock under the 2010 Share Buyback Program for an aggregate cost of $235.0 million and $534.6 million, respectively, during the three and nine months ended September 30, 2011.

We generated cash flows from operating activities of $211.7 million during the nine months ended September 30, 2011, an increase of 26% as compared to the same period last year. The increase was primarily due to a decrease in cash payments to suppliers and employees as well as greater income taxes payable in 2010 as a result of the gain resulting from sale of the Authentication Services business, before consideration of carried forward excess tax benefits from exercises of stock options and other employee stock purchases. This increase was partially offset by the contingent interest payment related to the Convertible Debentures and elimination of cash flows from the divested Authentication Services business.

During the second quarter, we renewed our agreement with the Internet Corporation for Assigned Names and Numbers (ICANN) to serve as the authoritative registry operator for the *.net* registry for another six years, effective July 1, 2011.

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Results of Operations

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

	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Revenues	100%	100%	100%	100%
Costs and expenses				
Cost of revenues	21	23	22	24
Sales and marketing	13	11	12	13
Research and development	7	8	7	8
General and administrative	13	19	15	20
Restructuring charges	2	4	2	3
Total costs and expenses	56	65	58	68
Operating income	44	35	42	32
Interest expense	(6)	(7)	(24)	(7)
Non-operating income, net	2	3	3	3
Income from continuing operations before income taxes	40	31	21	28
Income tax expense	(11)	(4)	(4)	(8)
Income from continuing operations, net of tax	29	27	17	20
Income (loss) from discontinued operations, net of tax	1	429	(1)	155
Net income	30	456	16	175
Less: Net income from discontinued operations attributable to noncontrolling interest in subsidiary				(1)
Net income attributable to Verisign stockholders	30%	456%	16%	174%

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 greater availability of broadband, as well as advertising and promotional activities carried out by us and third-party registrars. On July 1, 2010, we increased our *.com* domain name registration fees by 7% from $6.86 to $7.34 and our *.net* domain name registration fees by 10% from $4.23 to $4.65. In July 2011, we announced another fee increase for *.com* domain name registrations of 7% from $7.34 to $7.85 and for *.net* domain name registrations of 10% from $4.65 to $5.11. The fee increases announced in July 2011 will be effective January 15, 2012. 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 renewed 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.

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A comparison of revenues is presented below:

	Three Months Ended September 30, 2011	% Change	2010	Nine Months Ended September 30, 2011	% Change	2010
	(Dollars in thousands)					
Revenues	$ 196,965	14%	$ 172,286	$ 568,332	13%	$ 501,749

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

	September 30, 2011	% Change	September 30, 2010
Active domain names ending in *.com* and *.net*	111.9 million	8%	103.5 million

Our revenues increased by $24.7 million and $66.6 million during the three and nine months ended September 30, 2011, respectively, 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 as per our agreements with ICANN.

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

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

Geographic revenues

We 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:

	Three Months Ended September 30, 2011	% Change	2010	Nine Months Ended September 30, 2011	% Change	2010
	(Dollars in thousands)					
U.S.	$ 120,319	14%	$ 105,654	$ 347,502	12%	$ 309,224
APAC	29,402	11%	26,501	86,173	13%	76,360
EMEA	28,455	21%	23,420	80,139	18%	68,147
Other	18,789	12%	16,711	54,518	14%	48,018
Total revenues	$ 196,965		$ 172,286	$ 568,332		$ 501,749

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

Revenues from each of the respective regions increased during the three and nine months ended September 30, 2011, as compared to the same period last year, primarily driven by an increase in the number of domain names ending in *.com* and *.net* and increases in our *.com* and *.net* registry fees in July 2010. The increase in the number of domain names ending in *.com* and *.net* was driven by continued Internet growth and domain name promotional programs.

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

Cost of revenues

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

A comparison of cost of revenues is presented below:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	% Change	2010	2011	% Change	2010
	(Dollars in thousands)					
Cost of revenues	$ 41,694	5%	$ 39,751	$ 123,230	4%	$ 118,411

Cost of revenues increased during the three months ended September 30, 2011, 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 $2.2 million, primarily due to an increase in average headcount to support Registry Services.

Cost of revenues increased during the nine months ended September 30, 2011, as compared to the same period last year, primarily due to increases in salary and employee benefits expenses, depreciation expenses, and telecommunication expenses, partially offset by a decrease in allocated overhead expenses. Salary and employee benefits expenses increased by $5.8 million, primarily due to an increase in average headcount to support Registry Services, and an increase in stock-based compensation expenses due to additional vested RSUs granted during the nine months ended September 30, 2011 to option holders as they did not participate in the December 2010 and May 2011 special cash dividends. Depreciation expenses increased by $2.8 million, primarily due to an increase in capitalized hardware and software purchased to support investments in infrastructure projects. Telecommunication expenses increased by $2.2 million, primarily due to additional circuits required to support the increase in our network infrastructure. Allocated overhead expenses decreased by $5.7 million, primarily due to a decrease in allocable indirect costs and a decrease in proportional headcount within the cost of revenues function as a result of the divestiture of the Authentication Services business.

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

Sales and marketing

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

A comparison of sales and marketing expenses is presented below:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	% Change	2010	2011	% Change	2010
	(Dollars in thousands)					
Sales and marketing	$ 25,090	36%	$ 18,412	$ 69,660	11%	$ 62,861

Sales and marketing expenses increased during the three months ended September 30, 2011, as compared to the same period last year, primarily due to increases in advertising and consulting expenses and salary and employee benefits expenses. Advertising and consulting expenses increased by $3.4 million, primarily due to increases in product marketing initiatives promoting Registry Services. Salary and employee benefits expenses increased by $3.2 million, primarily due to an increase in average headcount of our sales force.

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Sales and marketing expenses increased during the nine months ended September 30, 2011 as compared to the same period last year primarily due to increases in salary and employee benefits expenses and advertising and consulting expenses, partially offset by a decrease in allocated overhead expenses. Salary and employee benefits expenses increased by $7.0 million, primarily due to an increase in average headcount of our sales force and an increase in stock-based compensation expenses due to additional vested RSUs granted during the nine months ended September 30, 2011 to option holders as they did not participate in the December 2010 and May 2011 special cash dividends. Advertising and consulting expenses increased by $1.9 million, primarily due to increases in product marketing initiatives promoting Registry Services. Allocated overhead expenses decreased by $3.8 million, primarily due to a decrease in allocable indirect costs and a decrease in proportional headcount within the sales and marketing function as a result of the divestiture of the Authentication Services business.

We expect sales and marketing expenses as a percentage of revenues to remain consistent during the remainder of 2011 as compared to the nine months ended September 30, 2011.

Research and development

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

A comparison of research and development expenses is presented below:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	% Change	2010	2011	% Change	2010
			(Dollars in thousands)			
Research and development	$ 13,488	(7%)	$ 14,468	$ 40,156	(1%)	$ 40,483

Research and development expenses decreased during the three months ended September 30, 2011, as compared to the same period last year, primarily due to a $0.8 million decrease in allocated overhead expenses, resulting from a decrease in allocable indirect costs.

Research and development expenses decreased during the nine months ended September 30, 2011, as compared to the same period last year, primarily due to a decrease in allocated overhead expenses, partially offset by an increase in salary and employee benefits expenses. Allocated overhead expenses decreased by $3.0 million, primarily due to a decrease in allocable indirect costs. Salary and employee benefits expenses increased by $2.8 million, primarily due to an increase in average headcount to support the development of our DNS infrastructure and new services and an increase in stock-based compensation expenses due to additional vested RSUs granted during the nine months ended September 30, 2011 to option holders as they did not participate in the December 2010 and May 2011 special cash dividends.

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

General and administrative

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

A comparison of general and administrative expenses is presented below:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	% Change	2010	2011	% Change	2010
			(Dollars in thousands)			
General and administrative	$ 24,775	(26%)	$ 33,514	$ 86,610	(14%)	$ 101,155

General and administrative expenses decreased during the three months ended September 30, 2011, as compared to the same period last year primarily due to decreases in salary and employee benefits expenses and contractor and professional services, partially offset by a decrease in corporate overhead expenses allocated to other cost types and an increase in legal expenses. Salary and employee benefits expenses decreased by $8.8 million, primarily as a result of reduced corporate support functions needed subsequent to the divestiture of the Authentication Services business as well as reductions in stock-based compensation and bonus expense due to the departures of the former Chief Executive Officer and Chief Financial Officer. Contractor and professional services expenses decreased by $1.3 million, primarily due to costs in 2010 to support the divestiture of the Authentication Services business. Corporate overhead expenses allocated to other cost types decreased by $1.9 million, primarily due to a decrease in allocable indirect costs. Legal expenses increased by $1.2 million, primarily due to insurance reimbursements in 2010 related to a certain legal matter.

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General and administrative expenses decreased during the nine months ended September 30, 2011, as compared to the same period last year, primarily due to decreases in salary and employee benefits expenses, occupancy expenses, miscellaneous expenses, depreciation expenses, telecommunication expenses, and contractor and professional services expenses, partially offset by a decrease in corporate overhead expenses allocated to other cost types and an increase in legal expenses. Salary and employee benefits expenses decreased by $11.1 million, primarily as a result of reduced corporate support functions needed subsequent to the divestiture of the Authentication Services business as well as reductions in stock-based compensation and bonus expense due to the departures of the former Chief Executive Officer and Chief Financial Officer. The decrease in salary and employee benefits expenses was partially offset by an increase in stock-based compensation expenses due to additional vested RSUs granted during the nine months ended September 30, 2011 to option holders as they did not participate in the December 2010 and May 2011 special cash dividends. Occupancy expenses decreased by $5.7 million, primarily due to lower rent expenses as the lease for certain office buildings expired in 2010. Miscellaneous expenses decreased by $4.7 million, primarily due to the release of $5.9 million of liabilities, which is non-recurring in nature, related to non-income tax expenses as a result of the lapse of the statutes of limitations. Depreciation expenses decreased by $2.9 million, primarily due to ceasing further depreciation on corporate assets held for sale in May 2010, the expenses of which were classified in continuing operations until the third quarter of 2010. Telecommunication expenses decreased by $1.6 million, primarily due to lower shared costs included in continuing operations as a result of divestitures. Contractor and professional services expenses decreased by $1.5 million, primarily due to costs in 2010 to support the divestiture of the Authentication Services business. Corporate overhead expenses allocated to other cost types decreased by $12.5 million, primarily due to a decrease in allocable indirect costs and proportionately higher headcount in the general and administrative function as a result of the divestiture of the Authentication Services business. Legal expenses increased by $1.8 million, primarily due to additional legal fees in 2011 and insurance reimbursements in 2010 related to a certain legal matter.

We expect general and administrative expenses as a percentage of revenue to decrease during the remainder of 2011 as compared to the nine months ended September 30, 2011, as we continue to realize post-divestiture cost reductions in our general and administrative function.

Restructuring charges

2010 Restructuring Plan

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

Under the 2010 Restructuring Plan, we have incurred pre-tax cash severance charges, stock-based compensation expenses upon acceleration of stock-based awards, and excess facility exit costs of $22.2 million, $16.2 million, and $4.4 million, respectively, through September 30, 2011, inclusive of amounts reported in discontinued operations. We expect to complete the 2010 Restructuring Plan in the fourth quarter of 2011, during which we expect to incur $6.2 million primarily for excess facility exit costs.

The following table presents the nature of the restructuring charges:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Workforce reduction	$ 253	$ 15,295	$ 8,123	$ 28,846
Excess facilities	2,718	374	4,037	482
Total consolidated restructuring charges	$ 2,971	$ 15,669	$ 12,160	$ 29,328
Amounts classified as continuing operations	$ 2,971	$ 6,269	$ 12,160	$ 14,042
Amounts classified as discontinued operations	$	$ 9,400	$	$ 15,286

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Amounts included in the table above relate primarily to the 2010 Restructuring Plan.

Interest expense

The following table presents the components of interest expense:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(In thousands)			
Contractual interest	$ 10,156	$ 10,156	$ 30,469	$ 30,469
Amortization of debt discount on the Convertible Debentures	1,858	1,711	5,460	5,029
Contingent interest to holders of Convertible Debentures			100,020	
Interest capitalized to Property and equipment, net	(242)	(119)	(552)	(586)
Other interest expense	25	392	76	1,192
Total interest expense	$ 11,797	$ 12,140	$ 135,473	$ 36,104

Interest expense in the nine months ended September 30, 2011 includes $100.0 million payment of contingent interest to holders of our Convertible Debentures. The Indenture governing our Convertible Debentures requires the payment of contingent interest to the holders of the Convertible Debentures if the Board declares a dividend to our 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.

Non-operating income, net

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

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(In thousands)			
Interest and dividend income	$ 763	$ 1,908	$ 4,433	$ 5,047
Unrealized gain (loss) on contingent interest derivative on Convertible Debentures	250	(625)	500	1,125
Income from transition services agreements	1,255	3,020	6,988	6,898
Realized net gain (loss) on investments	1,892	352	4,246	(646)
Other, net	(569)	(15)	(949)	894
Total non-operating income, net	$ 3,591	$ 4,640	$ 15,218	$ 13,318

Non-operating income, net, decreased during the three months ended September 30, 2011, as compared to the same period last year, primarily due to decreases in interest and dividend income as a result of lower invested balances in 2011 and lower income from transition services agreements in 2011 to support the sale of the Authentication Services business, partially offset by net gains of $1.9 million recognized on the sale of marketable securities in 2011.

Non-operating income, net, increased during the nine months ended September 30, 2011, as compared to the same period last year, primarily due to net gains of $4.2 million recognized on the sale of marketable securities in 2011, partially offset by a $1.1 million increase in foreign exchange losses.

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Income tax expense

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Dollars in thousands)			
Income tax expense from continuing operations	$ 22,126	$ 7,267	$ 23,034	$ 40,312
Effective tax rate	27%	14%	20%	28%

The effective tax rate for the three and nine months ended September 30, 2011 differs from the statutory federal rate of 35% due to state taxes, non-deductible stock based compensation, the effect of non-US operations, and tax benefits from foreign income taxed at lower rates. The effective tax rate for the nine months ended September 30, 2011 was also impacted by a $39.7 million discrete tax benefit, which was recognized in the second quarter of 2011, related to the contingent interest paid to the holders of the Company s Convertible Debentures. The effective tax rate for the three and nine months ended September 30, 2010 differs from the statutory federal rate of 35% due to state taxes, non-deductible stock based compensation, the effect of non-US operations, tax benefits from foreign income taxed at lower rates, discrete tax benefits related to lapses of statutes of limitation, and a one-time discrete tax expense related to a change in tax status in a foreign jurisdiction.

Income (loss) from discontinued operations, net of tax

We will continue to generate cash flows and will report income statement activity in continuing operations associated with providing transition related services to Symantec for the divested Authentication Services business for a remaining term of 22 months.

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

	$1,000,000	$1,000,000	$1,000,000	$1,000,000
	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(In thousands)			
Revenues	$	$ 43,335	$ 44	$ 248,740
Income (loss) from discontinued operations before income taxes	$ 283	$ 984,499	$ (1,311)	$ 1,042,083
Income tax benefit (expense)	18	(244,059)	(2,839)	(269,423)
Income (loss) from discontinued operations	301	740,440	(4,150)	772,660
Less: Income from discontinued operations, net of tax, in attributable to noncontrolling interest in subsidiary		(642)		(2,887)
Total income (loss) from discontinued operations, net of tax, attributable to Verisign stockholders	$ 301	$ 739,798	$ (4,150)	$ 769,773

Loss from discontinued operations before income taxes for the nine months ended September 30, 2011 primarily represents the effects of certain retained litigation of the divested businesses. Income tax expense for discontinued operations for the nine months ended September 30, 2011 includes a $2.9 million charge attributable to a change in the purchase price allocation prepared for income tax purposes related to the divestiture of the Authentication Services business. Income from discontinued operations before income taxes for the three and nine months ended September 30, 2010 represents the results of operations of the Authentication Services business, and adjustments to gains and losses on divestitures completed in 2009, as a result of certain one-time employee termination costs and settlement of certain retained litigation of the divested businesses.

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Liquidity and Capital Resources

In summary, our cash flows for the nine months ended September 30, 2011 and 2010 are as follows:

	Nine Months Ended September 30,	
	2011	2010
	(In thousands)	
Net cash provided by operating activities	$ 211,687	$ 168,479
Net cash provided by investing activities	403,175	616,784
Net cash used in financing activities	(970,057)	(211,334)
Effect of exchange rate changes on cash and cash equivalents	(1,645)	9,100
Net (decrease) increase in cash and cash equivalents	$ (356,840)	$ 583,029

Cash flows from operating activities

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

Net cash provided by operating activities increased primarily due to lower income taxes payable before consideration of excess tax benefits from exercises of stock options and other employee stock purchases and a decrease in cash payments to suppliers and employees, primarily resulting from the divestiture of the Authentication Services business. The increase was offset by the payment of $100.0 million of contingent interest to holders of our Convertible Debentures and a decrease in cash received from customers resulting from a decrease in consolidated revenues due to the divestiture of the Authentication Services business in 2010.

Cash flows from investing activities

The changes in cash flows from investing activities primarily relate to the divestiture of businesses, timing of purchases, maturities and sales of investments, and purchases of property and equipment. Purchases of property and equipment in the nine months ended September 30, 2011 includes the $11.8 million deposit made related to the purchase of a property in Reston, Virginia to be used as our new corporate headquarters.

The decrease in cash provided by investing activities in the nine months ended September 30, 2011 from the same period in the prior year was primarily due to proceeds received from the divestiture of businesses in the nine months ended September 30, 2010, partially offset by increased sales and maturities of marketable securities and investments in 2011 as well as decreases in purchases of marketable securities.

Cash flows from financing activities

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

Net cash used in financing activities increased primarily due to payment of $463.5 million for the special cash dividend in May 2011, an increase in share repurchases, and a decrease in realized excess tax benefits from exercises of stock options and the employee stock purchase plan.

Other Liquidity and Capital Resources Information

	September 30, 2011	December 31, 2010
	(In thousands)	
Cash and cash equivalents	$ 1,202,788	$ 1,559,628
Marketable securities	32,136	501,238

Total	$ 1,234,924	$ 2,060,866

As of September 30, 2011, our principal source of liquidity was $1.2 billion of cash and cash equivalents and $32.1 million of marketable securities. The marketable securities consist of debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies meeting the criteria of our investment policy, which is focused on the preservation of our capital through investment in investment grade securities. The cash equivalents consist mainly of time deposits and amounts deposited in money market funds. As of September 30, 2011, all marketable securities were invested in fixed income securities with maturities between one and three years. Our cash and cash equivalents are readily accessible. For additional information on our investment portfolio, see Note 2, Cash, Cash Equivalents, and Marketable Securities, of our Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

As of September 30, 2011, the amount of cash, cash equivalents and marketable securities held by foreign subsidiaries was $1.1 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.

During the third quarter of 2011, we reached an agreement to purchase a property in Reston, Virginia that will be used as our corporate headquarters. The purchase price of the property is $118.0 million of which $11.8 million was paid as a deposit during the third quarter. We expect the purchase to close on November 15, 2011 at which time we will pay the remaining $106.2 million of the purchase price. In consideration of our commitment to purchase the Reston property, we are evaluating several possibilities to supplement current cash balances held in the U.S. We intend to repatriate a portion of the funds held by foreign subsidiaries that has been previously taxed in the U.S. We are also exploring debt financing to fund the purchase of the Reston property. We can provide no assurance that we will be able to repatriate funds from our foreign subsidiaries or to secure debt financing on terms that are favorable to us, if at all. 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

Other than the decrease in the amount of marketable securities held as of September 30, 2011, there have been no significant changes in our market risk exposures since December 31, 2010.

ITEM 4. CONTROLS AND PROCEDURES

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

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Inherent Limitations of Disclosure Controls and Internal Control over Financial Reporting

Because of 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.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under Legal Proceedings in Note 13, Commitments and 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 in our Naming Services businesses;
- the long sales and implementation cycles for, and potentially large order sizes of, some of our services and the timing and execution of individual customer contracts;
- our success in direct marketing and 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 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 by nefarious actors, which could threaten the perceived reliability of our products and services;

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

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

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

the uncertainties, costs and risks as a result of the sale of our Authentication Services business, including costs related to our transition services agreements and any retained liability related to existing and future claims or retained litigation.

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

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

Our operating results may continue to be adversely affected as a result of 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 recent hostilities in the Middle East, natural disasters, the eurozone crisis and the U.S. debt ceiling crisis. 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.

We may experience significant fluctuations in our financial results.

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

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

changes in customer behavior, Internet platforms, 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;

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- our success in attracting, integrating, training, retaining and motivating qualified personnel;
- our response to competitive developments;
- the successful introduction, and acceptance by our customers, of new products and services, including our NIA Services;
- potential disruptions in regional registration behaviors due to catastrophic natural events and armed conflict;
- seasonal fluctuations in business activity;
- 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 the Internet Corporation for Assigned Names and Numbers (ICANN), the U.S. Department of Commerce (DOC) and the U.S. General Services Administration (GSA) could harm our Registry Services business.

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

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

- the *.com* Registry Agreement may not renew when it expires in 2012, which could have a material adverse effect on 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 Registry 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 *.com* Registry Agreement to renew on the same or similar terms when it expires in 2012 could have a material adverse effect on our business.

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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 September 30, 2011, we had 120, 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 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;

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- export and import restrictions on cryptographic technology and products incorporating that technology;
- additional vulnerability from terrorist groups targeting U.S. interests abroad;
- seasonal reductions in business activity; and
- potentially adverse tax consequences.

We are exposed to risks faced by financial institutions.

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 September 30, 2011, we had $1.2 billion in cash, cash equivalents, marketable securities and restricted cash, of which $32.1 million was invested in marketable securities. The marketable securities consist of debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies 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, 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, 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 may be exposed to potential risks if we do not have an effective system of disclosure controls or internal controls over financial reporting.

As a public company, we are subject to the rules and regulations of the SEC, including those that require us to report on and receive an attestation from our independent registered public accounting firm regarding our internal control over financial reporting. Despite our efforts, if we were to fail to maintain an effective system of disclosure controls or internal control over financial reporting, we may not be able to accurately or timely report on our financial results or adequately identify and reduce fraud. As a result, our financial position could be harmed and current and potential future stockholders could lose confidence in us and/or our reported financial results, which may cause a negative effect on our stock price, and we could be exposed to litigation or regulatory proceedings, which may be costly or divert management attention.

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

We currently administer and operate only two of the thirteen root zone servers. The others are administered and operated by independent operators on a non-regulated basis. Root zone servers are name servers that contain authoritative data for the very top of the DNS hierarchy. These servers have the software and data needed to locate name servers that contain authoritative data for the top-level domains. These root zone servers are critical to the functioning of the Internet. Consequently, our 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 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. 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.

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. For example, the recent strategic investment in The Go Daddy Group, Inc. (GoDaddy) by a consortium of private equity firms could lead to changes or reductions in GoDaddy s marketing campaigns, which could, in turn, result in decreased demand 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.

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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 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; 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 secondary or tertiary sites, any damage or failure that causes interruptions in any of these facilities or our other computer and communications systems could materially harm our business. Although we carry insurance for property damage, 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.

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.

We experienced security breaches in the corporate network in 2010 which were not sufficiently reported to Management.

In 2010, the Company faced several successful attacks against its corporate network in which access was gained to information on a small portion of our computers and servers. We have investigated and do not believe these attacks breached the servers that support our Domain Name System (DNS) network. Information stored on the compromised corporate systems was exfiltrated. The Company s information security group was aware of the attacks shortly after the time of their occurrence and the group implemented remedial measures designed to mitigate the attacks and to detect and thwart similar additional attacks. However, given the nature of such attacks, we cannot assure that our remedial actions will be sufficient to thwart future attacks or prevent the future loss of information. In addition, although the Company is unaware of any situation in which possibly exfiltrated information has been used, we are unable to assure that such information was not or could not be used in the future.

The occurrences of the attacks were not sufficiently reported to the Company s management at the time they occurred for the purpose of assessing any disclosure requirements. Management was informed of the incident in September 2011 and, following the review, the Company s management concluded that our disclosure controls and procedures are effective. However, the Company has implemented reporting line and escalation organization changes, procedures and processes to strengthen the Company s disclosure controls and procedures in this area. See Item 4 Controls and Procedures in Part I of this report.

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

We retain certain customer information in our secure data centers and various registration systems. It is critical to our business strategy that our facilities and infrastructure remain secure and are perceived by the marketplace to be secure. 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 APT (advanced persistent threats) attacks and zero-hour threats, which means that the threat is not compiled until the moment it is launched, making these attacks virtually impossible to anticipate and 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. Therefore, we may have to expend significant time and money to maintain or increase the security of our facilities and infrastructure. Despite our security measures, our infrastructure may be vulnerable to physical break-ins, computer viruses, attacks by hackers or nefarious actors or similar disruptive problems. It is possible that we may have to expend additional financial and other resources to address such problems. Any physical or electronic break-in or other security breach or compromise of the information stored at our secure data centers and domain name registration systems may jeopardize the security of information stored on our premises or in the computer systems and networks of our customers. In such an event, we could face significant liability, customers could be reluctant to use our services and we could be at risk for loss of various security and standards-based compliance certifications needed for certain of our businesses, 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. For example, in 2010 our corporate network was breached. See Risk Factor We experienced security breaches in the corporate network in 2010 which were not sufficiently reported to Management.

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.

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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 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 launch of the new logo for the Company 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 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. Additionally, 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.

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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 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 may not be successful in attracting and retaining such employees.

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.

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

We have experienced changes in our senior management team, and we may face difficulty in attracting and retaining full-time, qualified leaders.

During the third quarter of 2011, our Board appointed D. James Bidzos, our Executive Chairman, as President and Chief Executive Officer, and John Calys, our Vice President, Controller, as Interim Chief Financial Officer, following the resignations of our President and Chief Executive Officer and our Chief Financial Officer, respectively. The search for a regular full-time replacement to fill the chief financial officer position may be a distraction to our senior management, business partners and customers, and, although we believe we have taken appropriate measures to address the impact of these departures, there is a risk that such changes may impair our ability to meet our business objectives. During the period of transition following the appointment of a permanent chief financial officer, there may be operational inefficiencies as the chief financial officer becomes familiar with our business and operations. We cannot provide you with any assurance that the search for any replacements will be successful, and if we cannot recruit (or experience delays in recruiting) a qualified regular full-time replacement for such position, our business may suffer.

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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. 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.

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, as well as in the execution of our divestitures, 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.

We are a U.S.-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. 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.

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Our inability to indefinitely reinvest our foreign earnings could materially adversely affect our results of operations.

Deferred income taxes have not been provided on most of the undistributed earnings of our foreign subsidiaries because these earnings have been 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 may become subject to the risks of owning real property.

We expect the closing on the purchase of the land and building in Reston, Virginia, constituting our headquarters facility, to occur on November 15, 2011. Ownership of this property will subject us to risks, including:

- adverse changes in the value of this property, 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 240 Latin script ccTLD registries and 36 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 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 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 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 phone applications.

Additional competition to our business may arise from the introduction of new TLDs by ICANN. These include IDN TLDs and the upcoming introduction of new gTLDs by ICANN. 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. Other new domain extensions (including ones for which we could apply) could be available for application by the beginning of 2012 with new registration opportunities available by the end of 2012. We do not yet know the impact, if any, that these new domain extensions may have on our business. Applicants for such new TLDs may have greater financial, technical, marketing and other resources than we do. 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. While we may apply for one or more of these new domain extensions, there is no certainty that we will ultimately be successful, and even if we are successful in obtaining one or more of these new domain extensions, there is no guarantee that such extensions will be any more successful than the domain name extensions obtained by our competitors.

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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, SecureWorks, Inc., 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.

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

The Internet and communications network services industries are characterized by rapid technological change and frequent new product and service announcements which require us continually to improve the performance, features and reliability of our services, particularly in response to competitive offerings 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, transition services agreements with buyers in connection with the divestiture of certain businesses, including the Authentication Services business. These transition services may be required for a longer period of time than anticipated by management. In addition, we have agreed to perform certain transition services for a fixed price or for fixed hourly rates, but our actual costs to provide such services may exceed the fees buyers are contractually obligated to pay us under the relevant transition services agreements. The scope and magnitude of the transition services we have agreed to provide in connection with the sale of the Authentication Services business are greater than those provided under our previous divestitures, and we may face challenges performing such transition services, including that the focus of employees and resources supporting the transition services may impact their ability to support our existing businesses.

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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 September 30, 2011, we had one billion authorized common shares, of which 159.0 million shares were outstanding. In addition, of our authorized common shares, 20.4 million common shares were reserved for issuance pursuant to outstanding employee stock option and employee stock purchase plans (Equity Plans), and 36.4 million shares were reserved for issuance upon conversion of the 3.25% junior subordinated convertible debentures due 2037 (the Convertible Debentures). As a result, we keep substantial amounts of our common stock available for issuance upon exercise or settlement of equity awards outstanding under our Equity Plans and/or the conversion of Convertible Debentures into our common stock. Issuance of all or a large portion of such shares would be dilutive to existing security holders, could adversely affect the prevailing market price of our common stock and could impair our ability to raise additional capital through the sale of equity securities.

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

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 we currently intend to settle the principal amount of the Convertible Debentures in cash as required under the Indenture, we may not have sufficient funds to repurchase the Convertible Debentures in cash or have the ability to arrange necessary financing on acceptable terms or at all. In addition, upon conversion of the Convertible Debentures, we will be required to make cash payments to the holders of the Convertible Debentures equal to the lesser of the principal amount of the Convertible Debentures being converted and the conversion value (as defined in the Indenture) of those debentures. Such payments could be significant, and we may not have sufficient funds to make them at such time. Our maintenance of substantial levels of debt could also adversely affect our ability to take advantage of corporate opportunities.

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

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

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

The following table presents the share repurchase activity during the three months ended September 30, 2011:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)
		(Shares in thousands)		
July 1 31, 2011		$		$1,066.3 million
August 1 31, 2011	7,052	29.73	7,052	856.6 million
September 1 30, 2011	864	29.31	864	831.3 million
	7,916		7,916	

(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.

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ITEM 6. EXHIBITS

(a) Index to Exhibits

Exhibit Number	**Exhibit Description**
10.01	Purchase and Sale Agreement for 12061 Bluemont Way Reston, Virginia between 12061 Bluemont Owner, LLC, a Delaware limited liability company, as Seller and VeriSign, Inc., a Delaware corporation, as Purchaser Dated August 18, 2011 (incorporated by reference to exhibit 10.1 to Current Report on Form 8-K filed on September 7, 2011).
10.02	Separation & General Release of Claims Agreement between VeriSign, Inc. and Christine Brennan, effective as of July 13, 2011 (incorporated by reference to exhibit 10.06 to Quarterly Report on Form 10-Q filed on July 29, 2011). +
31.01	Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a).
31.02	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a).
32.01	Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350). *
32.02	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350). *
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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

\+ Indicates a management contract or compensatory plan or arrangement.

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SIGNATURES

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

VERISIGN, INC.

Date: October 28, 2011	By:	/s/ D. JAMES BIDZOS **D. James Bidzos** **Chief Executive Officer**
Date: October 28, 2011	By:	/s/ JOHN D. CALYS **John D. Calys** **Interim Chief Financial Officer**

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EXHIBITS

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

Exhibit Number	Exhibit Description
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). *
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