VERISIGN INC/CA
Form 10-Q
November 06, 2009
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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, 2009

OR

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

Commission File Number: 000-23593

VERISIGN, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-3221585**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
487 East Middlefield Road, Mountain View, CA	**94043**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

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

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

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

Class	**Shares Outstanding October 31, 2009**
Common stock, $.001 par value	192,345,267

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PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

Financial Statement Description	Page
Condensed Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008	4
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VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,432,306	$ 789,068
Accounts receivable, net of allowance for doubtful accounts of $668 at September 30, 2009 and $1,208 at December 31, 2008	73,247	83,749
Prepaid expenses and other current assets	151,003	268,178
Assets held for sale	240,202	483,840
Total current assets	1,896,758	1,624,835
Property and equipment, net	372,413	385,498
Goodwill	290,214	283,109
Other intangible assets, net	24,681	35,312
Other assets	37,397	38,118
Total long-term assets	724,705	742,037
Total assets	$ 2,621,463	$ 2,366,872
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 246,592	$ 263,535
Accrued restructuring costs	5,980	28,920
Deferred revenues	656,751	629,800
Liabilities related to assets held for sale	41,455	49,160
Other current liabilities	2,712	5,463
Total current liabilities	953,490	976,878
Long-term deferred revenues	224,541	215,281
Long-term accrued restructuring costs	3,114	3,037
Convertible debentures, including contingent interest derivative	571,526	568,712
Other long-term liabilities	86,692	84,543
Total long-term liabilities	885,873	871,573
Total liabilities	1,839,363	1,848,451
Commitments and contingencies		
Stockholders equity:		
VeriSign, Inc. and subsidiaries stockholders equity:		
Preferred stock par value $.001 per share; Authorized shares: 5,000,000; Issued and outstanding shares: none		

Common stock par value $.001 per share; Authorized shares: 1,000,000,000; Issued and outstanding shares: 192,271,949 excluding 115,079,736 held in treasury, at September 30, 2009; and 191,547,795 excluding 112,717,587 held in treasury, at December 31, 2008	307	304
Additional paid-in capital	22,009,195	21,891,786
Accumulated deficit	(21,286,483)	(21,439,988)
Accumulated other comprehensive income	9,039	17,111
Total VeriSign, Inc. and subsidiaries stockholders equity	732,058	469,213
Noncontrolling interest in subsidiary	50,042	49,208
Total stockholders equity	782,100	518,421
Total liabilities and stockholders equity	$ 2,621,463	$ 2,366,872

See accompanying Notes to Condensed Consolidated Financial Statements.

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VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues	$ 257,995	$ 245,934	$ 769,609	$ 723,232
Costs and expenses:				
Cost of revenues	56,736	57,265	174,520	172,498
Sales and marketing	45,015	41,646	128,341	133,779
Research and development	24,940	21,764	72,976	70,528
General and administrative	42,634	49,677	134,721	152,742
Restructuring, impairments and other charges	10,428	5,909	15,673	107,293
Amortization of other intangible assets	3,112	2,500	9,394	7,675
Total costs and expenses	182,865	178,761	535,625	644,515
Operating income	75,130	67,173	233,984	78,717
Other loss, net	(8,669)	(13,450)	(23,228)	(22,308)
Income from continuing operations before income taxes and loss from unconsolidated entities	66,461	53,723	210,756	56,409
Income tax expense	18,111	8,876	71,213	7,466
Loss from unconsolidated entities, net of tax		(2,509)		(3,099)
Income from continuing operations, net of tax	48,350	42,338	139,543	45,844
Income (loss) from discontinued operations, net of tax	6,249	(242,613)	16,343	(321,463)
Net income (loss)	54,599	(200,275)	155,886	(275,619)
Less: Net income attributable to noncontrolling interest in subsidiary	(988)	(815)	(2,381)	(2,710)
Net income (loss) attributable to VeriSign, Inc. and subsidiaries common stockholders	$ 53,611	$ (201,090)	$ 153,505	$ (278,329)
Basic income (loss) per share attributable to VeriSign, Inc. and subsidiaries common stockholders from:				
Continuing operations	$ 0.25	$ 0.21	$ 0.71	$ 0.22
Discontinued operations	0.03	(1.25)	0.09	(1.62)
Net income (loss)	$ 0.28	$ (1.04)	$ 0.80	$ (1.40)
Diluted income (loss) per share attributable to VeriSign, Inc. and subsidiaries common stockholders from:				
Continuing operations	$ 0.24	$ 0.21	$ 0.71	$ 0.21
Discontinued operations	0.04	(1.24)	0.08	(1.58)

Net income (loss)	$ 0.28	$ (1.03)	$ 0.79	$ (1.37)
Shares used to compute net income (loss) per share attributable to VeriSign, Inc. and subsidiaries common stockholders:				
Basic	192,619	193,853	192,527	198,622
Diluted	193,472	195,930	193,235	202,951
Amounts attributable to VeriSign, Inc. and subsidiaries common stockholders:				
Income from continuing operations, net of tax	$ 47,362	$ 41,523	$ 137,162	$ 43,134
Income (loss) from discontinued operations, net of tax	6,249	(242,613)	16,343	(321,463)
Net income (loss) attributable to VeriSign, Inc. and subsidiaries common stockholders	$ 53,611	$ (201,090)	$ 153,505	$ (278,329)

See accompanying Notes to Condensed Consolidated Financial Statements.

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VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

		VeriSign, Inc. and Subsidiaries Stockholders Equity						
		Common Stock						
	Total Stockholders Equity	Shares	Amount	Additional Paid- In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total	Noncontrolling Interest In Subsidiary
Balance at December 31, 2008	$ 50,795	191,548	$ 304	$ 21,472,790	$ (21,439,410)	$ 17,111	$ 50,795	$
Cumulative adjustment to beginning balance upon adoption of FSP APB 14-1, codified into FASB ASC Subtopic 470-20 (Note 1)	418,418			418,996	(578)		418,418	
Cumulative adjustment to beginning balance upon adoption of FAS 160, codified into ASC 810 (Note 1)	49,208							49,208
Adjusted balance at December 31, 2008	518,421	191,548	304	21,891,786	(21,439,988)	17,111	469,213	49,208
Comprehensive income:								
Net income	155,886				153,505		153,505	2,381
Other comprehensive income:								
Foreign currency translation adjustments	(9,039)					(8,182)	(8,182)	(857)
Change in unrealized gain on investments, net of tax	207					110	110	97
Total comprehensive income	147,054						145,433	1,621
Issuance of common stock under stock plans	32,906	3,086	3	32,903			32,906	
Stock-based compensation	41,449			41,429			41,429	20
Dividend declared to noncontrolling interest in subsidiary	(807)							(807)
Income tax associated with stock options	94,759			94,759			94,759	
Repurchase of common stock	(51,682)	(2,362)		(51,682)			(51,682)	
Balance at September 30, 2009	$ 782,100	192,272	$ 307	$ 22,009,195	$ (21,286,483)	$ 9,039	$ 732,058	$ 50,042

See accompanying Notes to Condensed Consolidated Financial Statements.

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VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cash flows from operating activities:		
Net income (loss)	$ 155,886	$ (275,619)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Loss (gain) on divestiture of businesses, net of tax	46,000	(32,853)
Depreciation of property and equipment	52,321	85,593
Amortization of other intangible assets	9,394	22,758
Estimated (reversals) losses on assets held for sale	(33,293)	308,765
Stock-based compensation	39,405	75,368
Loss on sale and impairment of long-lived assets	14,237	80,534
Impairment of goodwill		45,793
Excess tax benefit associated with stock-based compensation	(100,583)	(7,094)
Other, net	(5,951)	5,846
Changes in operating assets and liabilities:		
Accounts receivable, net	14,519	30,547
Prepaid expenses and other assets	(7,271)	12,093
Accounts payable and accrued liabilities	28,209	(116,273)
Accrued restructuring costs	(22,841)	29,752
Deferred revenues	32,010	97,830
Net cash provided by operating activities	222,042	363,040
Cash flows from investing activities:		
Proceeds from maturities and sales of investments	117,901	1,440
Proceeds from sale of property and equipment		48,843
Purchases of property and equipment	(66,067)	(88,093)
Reclassification of cash equivalents to short-term investments		(248,403)
Proceeds received from divestiture of businesses, net of cash provided	282,178	60,613
Investment in unconsolidated entities		(15,679)
Cash received from trust, previously restricted		45,000
Other investing activities	(3,300)	5,697
Net cash provided by (used in) investing activities	330,712	(190,582)
Cash flows from financing activities:		
Proceeds from issuance of common stock from option exercises and employee stock purchase plan	32,906	120,591
Repurchases of common stock	(51,682)	(1,276,683)
Proceeds from credit facility		200,000
Repayment of short-term debt related to credit facility		(200,000)
Excess tax benefit associated with stock-based compensation	100,583	7,094
Dividend paid to noncontrolling interest in subsidiary	(113)	(741)
Net cash provided by (used in) financing activities	81,694	(1,149,739)

Effect of exchange rate changes on cash and cash equivalents	8,790	4,084
Net increase (decrease) in cash and cash equivalents	643,238	(973,197)
Cash and cash equivalents at beginning of period	789,068	1,376,722
Cash and cash equivalents at end of period	$ 1,432,306	$ 403,525
Supplemental cash flow disclosures:		
Cash paid for interest, net of capitalized interest	$ 39,256	$ 35,677
Dividend payable to noncontrolling interest in subsidiary	$ 694	$

See accompanying Notes to Condensed Consolidated Financial Statements.

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VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

Interim Financial Statements

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by VeriSign, Inc. and its subsidiaries (collectively, VeriSign or the Company) in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, therefore, do not include all information and notes normally provided in audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for any other interim period or for a full fiscal year. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes contained in VeriSign s fiscal 2008 Annual Report on Form 10-K (the 2008 Form 10-K) filed with the SEC on March 3, 2009.

The Company evaluated subsequent events through November 6, 2009, the date this Quarterly Report on Form 10-Q was filed with the SEC.

Reclassifications

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

During the first quarter of 2009, the Company disaggregated its Enterprise and Security Services (ESS) disposal group held for sale, into the following three businesses: (i) Global Security Consulting (GSC), (ii) iDefense Security Intelligence Services (iDefense) and (iii) Managed Security Services (MSS). The Company decided to retain its iDefense business and, accordingly, reclassified the assets and liabilities related to iDefense as held and used in 2009. The Company also reclassified the historical results of operations of iDefense from discontinued operations to continuing operations for all periods presented.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13 *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13). ASU 2009-13 addresses how to measure and allocate arrangement consideration to one or more units of accounting within a multiple-deliverable arrangement. ASU 2009-13 modifies the requirements for determining whether a deliverable can be treated as a separate unit of accounting by removing the criteria that objective evidence of fair value exist for the undelivered elements in order to account for those undelivered elements as a single unit of accounting. ASU 2009-13 is effective for the Company prospectively for revenue arrangements entered into or materially modified beginning January 1, 2011. Early adoption is permitted. Currently, the Company is evaluating the impact adoption will have on its financial condition and results of operations.

In October 2009, the FASB issued ASU No. 2009-14 *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-14). ASU 2009-14 modifies the scope of the software revenue recognition guidance to exclude arrangements that contain tangible products for which the software element is essential to the functionality of

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the tangible products. ASU 2009-14 is effective for the Company prospectively for revenue arrangements entered into or materially modified beginning January 1, 2011. Early adoption is permitted. Currently, the Company is evaluating the impact adoption will have on its financial condition and results of operations.

Adoption of New Accounting Standards

Effective January 1, 2009, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 160 (SFAS 160), *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51,* codified into FASB Accounting Standards Codification (ASC) 810, *Consolidation*. The standard requires all entities to report noncontrolling interests in subsidiaries as equity in the consolidated financial statements, and requires that transactions between entities and noncontrolling interests be treated as equity. The Company reclassified the noncontrolling interest in its consolidated VeriSign Japan subsidiary of $49.2 million to Stockholders equity as of December 31, 2008.

Effective January 1, 2009, the Company retroactively adopted FASB Staff Position (FSP) No. Accounting Principles Board (APB) 14-1 (FSP APB 14-1), *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* , codified into FASB ASC Subtopic 470-20, *Debt with Conversion and Other Options*. The standard specifies that issuers of convertible debt instruments should separately account for the liability (debt) and equity (conversion option) components of such instruments in a manner that reflects the borrowing rate for a similar non-convertible debt. The Company s adoption of the standard affected its 3.25% junior subordinated convertible debentures due 2037 (the Convertible Debentures). The condensed consolidated financial statements have been retroactively adjusted for all periods presented in accordance with the standard. See Note 9, Junior Subordinated Convertible Debentures, for further information regarding the adoption of the standard.

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The following tables present the effects of the retroactive adjustments to the Company s Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2008:

	Three Months Ended September 30, 2008			
	As Reported (1)	Adoption of New Accounting Standard (2)	Reclassification to Continuing Operations (3)	As Adjusted
	(In thousands, except per share data)			
Revenues	$ 243,031	$	$ 2,903	$ 245,934
Cost of revenues	55,626	9(4)	1,630	57,265
Other costs and expenses	119,961	20(4)	1,515	121,496
Operating income	67,444	(29)	(242)	67,173
Other loss, net	(12,689)	(761)(5)		(13,450)
Income from continuing operations before income taxes and loss from unconsolidated entities	54,755	(790)	(242)	53,723
Income tax expense	9,433	(557)(6)		8,876
Loss from unconsolidated entities, net of tax	(2,509)			(2,509)
Income from continuing operations, net of tax	42,813	(233)	(242)	42,338
Loss from discontinued operations, net of tax	(242,830)	(25)(4)	242	(242,613)
Net loss	(200,017)	(258)		(200,275)
Less: Net income attributable to noncontrolling interest in subsidiary	(815)			(815)
Net loss attributable to VeriSign common stockholders	$ (200,832)	$ (258)	$	$ (201,090)
Basic loss per share attributable to VeriSign common stockholders:				
Continuing operations	$ 0.22	$ (0.01)	$	$ 0.21
Discontinued operations	(1.26)	0.01		(1.25)
Net loss	$ (1.04)	$	$	$ (1.04)
Diluted loss per share attributable to VeriSign common stockholders:				
Continuing operations	$ 0.21	$	$	$ 0.21
Discontinued operations	(1.24)			(1.24)
Net loss	$ (1.03)	$	$	$ (1.03)
Shares used to compute net loss per share attributable to VeriSign common stockholders:				
Basic	193,853			193,853
Diluted	195,930			195,930

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	Nine Months Ended September 30, 2008			
	As Reported (1)	Adoption of New Accounting Standard (2)	Reclassification to Continuing Operations (3)	As Adjusted
	(In thousands, except per share data)			
Revenues	$ 714,726	$	$ 8,506	$ 723,232
Cost of revenues	167,776	9(4)	4,713	172,498
Other costs and expenses	466,922	44(4)	5,051	472,017
Operating income	80,028	(53)	(1,258)	78,717
Other loss, net	(20,069)	(2,239)(5)		(22,308)
Income from continuing operations before income taxes and loss from unconsolidated entities	59,959	(2,292)	(1,258)	56,409
Income tax expense	8,519	(1,053)(6)		7,466
Loss from unconsolidated entities, net of tax	(3,099)			(3,099)
Income from continuing operations, net of tax	48,341	(1,239)	(1,258)	45,844
Loss from discontinued operations, net of tax	(322,655)	(66)(4)	1,258	(321,463)
Net loss	(274,314)	(1,305)		(275,619)
Less: Net income attributable to noncontrolling interest in subsidiary	(2,710)			(2,710)
Net loss attributable to VeriSign common stockholders	$ (277,024)	$ (1,305)	$	$ (278,329)
Basic loss per share attributable to VeriSign common stockholders:				
Continuing operations	$ 0.23	$	$ (0.01)	$ 0.22
Discontinued operations	(1.62)	(0.01)	0.01	(1.62)
Net loss	$ (1.39)	$ (0.01)	$	$ (1.40)
Diluted loss per share attributable to VeriSign common stockholders:				
Continuing operations	$ 0.22	$	$ (0.01)	$ 0.21
Discontinued operations	(1.58)	(0.01)	0.01	(1.58)
Net loss	$ (1.36)	$ (0.01)	$	$ (1.37)
Shares used to compute net loss per share attributable to VeriSign common stockholders:				
Basic	198,622			198,622
Diluted	202,951			202,951

(1) As reported in or derived from the Company s 2008 Form 10-K, except per share amounts and Net income attributable to noncontrolling interest in subsidiary. Per share amounts have been adjusted to present the net loss per share attributable to VeriSign common stockholders. Net income attributable to noncontrolling interest in subsidiary has been presented to derive the net loss attributable to VeriSign common stockholders.

(2) Adjustment upon adoption of FSP APB 14-1, codified into ASC FASB Subtopic 470-20, *Debt with Conversion and Other Options*.

(3) Reclassification of the results of operations of the Company s iDefense business from discontinued operations to continuing operations.

(4) Cost of revenues, Other costs and expenses and Loss from discontinued operations, net of tax, increased during the three and nine months ended September 30, 2008, due to additional depreciation expense recorded retroactively as result of an increase in capitalized interest costs.

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(5) Other loss, net, increased during the three and nine months ended September 30, 2008, primarily due to additional interest expense recorded retroactively.

(6) Income tax expense decreased during the three and nine months ended September 30, 2008, primarily due to a decrease in income from continuing operations before taxes.

Note 2. Stock-Based Compensation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)			
Cost of revenues	$ 1,886	$ 1,721	$ 5,349	$ 6,231
Sales and marketing	2,350	712	7,496	6,931
Research and development	1,789	1,499	4,798	5,803
General and administrative	4,080	4,568	15,048	21,193
Restructuring and other charges	137	3,151	935	8,323
Stock-based compensation for continuing operations	10,242	11,651	33,626	48,481
Stock-based compensation for discontinued operations	1,067	7,386	5,779	26,887
Total consolidated stock-based compensation	$ 11,309	$ 19,037	$ 39,405	$ 75,368

VeriSign currently uses the Black-Scholes option pricing model to determine the fair value of stock options and employee stock purchase plan awards. The determination of the fair value of stock-based payment awards using an option-pricing model is affected by the Company s stock price as well as assumptions regarding a number of complex and subjective variables. The following table sets forth the weighted-average assumptions used to estimate the fair value of the stock options and employee stock purchase plan awards:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Stock options:				
Volatility	40%	35%	46%	35%
Risk-free interest rate	2.07%	2.87%	1.56%	2.77%
Expected term	3.29	3.41	3.67	3.29
Dividend yield	Zero	Zero	Zero	Zero
Employee stock purchase plan awards:				
Volatility	44%	36%	50%	36%
Risk-free interest rate	0.54%	2.28%	0.50%	2.31%
Expected term	1.25	1.25	1.25	1.25
Dividend yield	Zero	Zero	Zero	Zero

VeriSign s expected volatility is based on the average of the historical volatility over the period commensurate with the expected term of the options and the mean historical implied volatility of traded options. The risk-free interest rates are derived from the average United States (U.S.) Treasury constant maturity rates during the respective periods commensurate with the expected term. The expected terms are based on an analysis of the observed and expected time to post-vesting exercise and/or cancellation of options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of

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zero. The Company estimates forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option and award forfeitures and records stock-based compensation only for those options and awards that are expected to vest.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)			
Stock options	$ 2,897	$ 3,699	$ 9,688	$ 15,664
Employee stock purchase plans	2,468	4,729	7,856	19,423
Restricted stock units	6,044	5,565	22,010	20,751
Stock options/awards acceleration	596	5,808	1,985	21,438
Capitalization (1)	(696)	(764)	(2,134)	(1,908)
Total consolidated stock-based compensation	$ 11,309	$ 19,037	$ 39,405	$ 75,368

(1) The capitalized amount is included in Property and equipment, net.

During the nine months ended September 30, 2009 and 2008, the Company modified certain stock-based awards to accelerate the vesting of twenty-five percent (25%) of unvested in-the-money stock options outstanding and 25% of unvested restricted stock units outstanding on the termination dates of employees affected by divestitures and workforce reductions. The Company remeasured the fair value of these modified awards and recorded the charges over the future service periods, if any. The modification charges are included in restructuring for continuing operations as well as for discontinued operations.

During the nine months ended September 30, 2008, the Company modified certain stock-based awards outstanding for Mr. William A. Roper, Jr., the former chief executive officer. Pursuant to the settlement agreement with Mr. Roper, the Company accelerated the vesting of Mr. Roper s then unvested sign-on options, unvested sign-on restricted stock units, first-year options outstanding that would otherwise have vested had Mr. Roper remained employed with the Company through August 8, 2008, and one-third of the first-year restricted stock units outstanding. Upon acceleration of vesting of Mr. Roper s stock-based awards, the Company recognized an additional amount of $5.4 million of stock-based compensation in general and administrative expenses during the nine months ended September 30, 2008.

Note 3. Assets Held for Sale and Discontinued Operations

In 2007, VeriSign announced a change to its business strategy to allow management to focus its attention on its core competencies and to make additional resources available to invest in its core businesses. This strategy calls for the divesture or winding down of the following remaining non-core businesses in the Company s portfolio as of September 30, 2009: GSC (sold in October 2009), Messaging Services, and Pre-Pay billing and payment (Pre-Pay) Services. The Messaging Services business is comprised of Messaging and Mobile Media (MMM) Services (sold in October 2009), Content Portal Services (CPS), and Mobile Delivery Gateway (MDG) Services. All of the remaining non-core businesses in the Company s portfolio, except for the Pre-Pay Services business, which the Company is currently in the process of winding down, are classified as disposal groups held for sale as of September 30, 2009, and their results of operations have been classified as discontinued operations for all periods presented.

During the first quarter of 2009, the Company disaggregated its ESS disposal group held for sale into the following three businesses: (i) GSC, (ii) iDefense and (iii) MSS. The Company decided to retain its iDefense

business and, accordingly, reclassified the assets and liabilities related to iDefense as held and used in 2009. The Company also reclassified the historical results of operations of iDefense from discontinued operations to continuing operations as part of Naming Services for all periods presented.

Completed Divestitures during 2009

On July 6, 2009, the Company sold its MSS business which enables enterprises to effectively monitor and manage their network security infrastructure 24 hours per day, every day of the year, while reducing the associated time, expense, and personnel commitments by relying on the MSS Business security platform and experienced security staff for a net cash consideration of $42.9 million. During the nine months ended September 30, 2009, the Company recorded a loss on sale of $5.3 million, net of an income tax expense of $12.9 million, and reversal of estimated losses on disposal recorded prior to sale.

On May 5, 2009, the Company sold its Real-Time Publisher (RTP) Services business which allows organizations to obtain access to and organize large amounts of constantly updated content, and distribute it, in real time, to enterprises, Web-portal developers, application developers and consumers. During the nine months ended September 30, 2009, the Company recorded a gain on sale of $7.2 million, net of an income tax benefit of $5.2 million, and reversal of estimated losses on disposal recorded prior to sale.

On May 1, 2009, the Company sold its Communications Services business which provides Billing and Commerce Services, Connectivity and Interoperability Services, and Intelligent Database Services to Transaction Network Services, Inc. (TNS) for cash consideration of $226.2 million. During the nine months ended September 30, 2009, the Company recorded a loss on sale of $57.3 million, net of an income tax expense of $55.3 million, and estimated losses on disposal recorded prior to sale. The cash consideration of $226.2 million was determined after certain initial adjustments to reflect the parties then-current estimate of working capital associated with the Communications Services business as of the closing date. During the quarter ended September 30, 2009, the Company determined the final working capital adjustment associated with the Communication Services business of $3.8 million which was received by the Company during the quarter.

On April 10, 2009, the Company sold its International Clearing business which enables financial settlement and call data settlement for wireless and wireline carriers. The Company recorded a gain on sale of $12.2 million, net of an income tax benefit of $6.0 million, primarily representing cumulative translation adjustments associated with the business.

Assets Held for Sale

The following table presents the carrying amounts of major classes of assets and liabilities related to assets held for sale as of September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
	(In thousands)	
Assets:		
Accounts receivable	$ 24,552	$ 58,588
Other current assets	50,047	63,516
Goodwill	97,712	237,177
Other long-lived assets	67,891	124,559
Total assets held for sale	$ 240,202	$ 483,840
Liabilities:		
Accounts payable and accrued liabilities	$ 36,027	$ 35,853
Deferred revenues	5,428	13,307
Total liabilities related to assets held for sale	$ 41,455	$ 49,160

As of September 30, 2009, businesses classified as held for sale and presented as discontinued operations are the following:

Global Security Consulting

The Company s GSC business helps companies understand corporate security requirements, comply with all applicable regulations, identify security vulnerabilities, reduce risk, and meet the security compliance requirements applicable to the particular business and industry. On October 1, 2009, the Company sold its GSC business for cash consideration of $4.9 million.

Messaging and Mobile Media Services

The Company s MMM Services business consists of the InterCarrier Messaging, PictureMail, Premium Messaging Gateway, and Mobile Enterprise Service offerings. The MMM Services business is an industry-leading global provider of short-messaging, multimedia messaging, and mobile content application services. MMM Services enables messages and multimedia content to be sent globally across any wireless operator and mobile device. MMM Services offers the global connectivity, network reliability, and scalability necessary to capitalize on the fast growing global messaging and media content markets.

On October 23, 2009, the Company sold its MMM Services business for cash consideration of $174.5 million after preliminary adjustments to reflect the parties estimate of working capital. The divestiture transaction will be subject to a final adjustment to reflect the actual working capital balance as of the closing date.

Mobile Delivery Gateway Services

MDG Services offer solutions to manage the complex operator interfaces, relationships, distribution, reporting and customer service for the delivery of premium mobile content to customers. The MDG messaging aggregation services enable short messaging and multimedia messaging service connectivity for content providers, aggregators and others to all wireless subscribers of certain carriers and/or countries and regions. MDG Services enable content providers to more rapidly expand their global reach.

Content Portal Services

CPS enables a seamless end-to-end business solution focused on providing best-in-class digital content portal services. CPS can be used as a content delivery platform for games, ringtones, and other content services. CPS is provided to mobile carriers and media companies primarily located in Canada.

In October 2009, the Company decided to wind down the operations of the CPS business after termination of active negotiations with a potential buyer. The Company expects the wind-down to be completed no later than the end of 2010.

The current and historical operations, gains and losses upon disposition, including estimated losses upon disposition, of these disposal groups are presented as discontinued operations for all periods presented in the Company s Condensed Consolidated Statements of Operations. The amounts presented represent direct operating costs of the disposal groups. The Company has determined direct costs consistent with the manner in which the disposal groups were structured and managed during the respective periods. Allocations of indirect costs such as corporate overhead and goodwill impairments that are not directly attributable to a disposal group have not been made.

For a period of time, the Company will continue to generate cash flows and will report income statement activity in continuing operations that are associated with these disposal groups and certain of the completed divestitures. The activities that will give rise to these impacts are transitional in nature and generally result from agreements that ensure and facilitate the orderly transfer of business operations. The nature, magnitude and duration of the agreements will vary depending on the specific circumstances of the service, location and/or business need. The agreements can include the following: logistics, customer service, support of financial processes, procurement, human resources, facilities management, data collection and information services. Existing agreements generally extend for periods less than 12 months.

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During the three months ended September 30, 2009, the Company recorded net gains on disposal, and net reversals of estimated losses on disposal of $5.0 million which are included in discontinued operations. During the nine months ended September 30, 2009, the Company recorded net losses on disposal, and net reversals of estimated losses on disposal of $5.2 million which are included in discontinued operations. During the three and nine months ended September 30, 2008, the Company recorded net losses on disposal, and estimated losses on disposal, of $236.4 million and $273.2 million, respectively, which are included in discontinued operations. Net gains on disposal are recorded on the date the sale of the disposal group is consummated. Full or partial reversals of previously reported estimated losses on disposal are recorded upon changes in the fair values and/or carrying values of the disposal groups.

The following table presents the revenues and the components of discontinued operations, net of tax:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)			
Revenues	$ 40,544	$ 141,883	$ 212,981	$ 448,979
(Loss) income before income taxes	$ (5,707)	$ 10,348	$ 27,930	$ (40,589)
Income tax (benefit) expense	(6,937)	16,583	6,346	7,659
Gain (loss) from discontinued operations	1,230	(6,235)	21,584	(48,248)
Gain (loss) on sale of discontinued operations and estimated (losses) reversals on assets held for sale, before income taxes	17,028	(236,738)	43,099	(276,539)
Income tax expense (benefit)	12,009	(360)	48,340	(3,324)
Gain (loss) on sale of discontinued operations	5,019	(236,378)	(5,241)	(273,215)
Total income (loss) from discontinued operations, net of tax	$ 6,249	$ (242,613)	$ 16,343	$ (321,463)

Note 4. Restructuring, Impairments and Other Charges

A comparison of restructuring, impairments and other charges is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)			
Restructuring charges for continuing operations	$ 744	$ 5,895	$ 5,927	$ 28,210
Impairments for continuing operations	9,684		9,684	
Other charges for continuing operations		14	62	79,083
Total restructuring, impairments and other charges for continuing operations	10,428	5,909	15,673	107,293
Restructuring charges for discontinued operations	2,046	7,058	4,959	30,422
Impairments for discontinued operations				45,793
Total restructuring charges and impairments for discontinued operations	2,046	7,058	4,959	76,215
Total consolidated restructuring, impairments and other charges	$ 12,474	$ 12,967	$ 20,632	$ 183,508

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Restructuring Charges

As part of its divestiture strategy, VeriSign initiated a restructuring plan in the first quarter of 2008 (the 2008 Restructuring Plan) which includes workforce reductions, abandonment of excess facilities and other exit costs. The restructuring charges in the table above are substantially related to the 2008 Restructuring Plan. Through September 30, 2009, VeriSign recorded a total of $80.5 million in restructuring charges, inclusive of amounts for discontinued operations, under its 2008 Restructuring Plan.

The following table presents the nature of the restructuring charges:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)			
Continuing operations:				
Workforce reduction severance and benefits	$ 467	$ 1,408	$ 3,598	$ 17,161
Workforce reduction stock-based compensation	138	3,762	936	8,324
Total workforce reduction	605	5,170	4,534	25,485
Excess facilities	139	979	1,393	1,267
Other exit costs		(254)		1,458
Total restructuring charges for continuing operations	$ 744	$ 5,895	$ 5,927	$ 28,210
Discontinued operations:				
Workforce reduction severance and benefits	$ 1,585	$ 3,621	$ 3,768	$ 22,705
Workforce reduction stock-based compensation	458	3,437	1,049	7,717
Total workforce reduction	2,043	7,058	4,817	30,422
Excess facilities	3		142	
Other exit costs				
Total restructuring charges for discontinued operations	$ 2,046	$ 7,058	$ 4,959	$ 30,422
Consolidated:				
Workforce reduction severance and benefits	$ 2,052	$ 5,029	$ 7,366	$ 39,866
Workforce reduction stock based compensation	596	7,199	1,985	16,041
Total workforce reduction	2,648	12,228	9,351	55,907
Excess facilities	142	979	1,535	1,267
Other exit costs		(254)		1,458
Total consolidated restructuring charges	$ 2,790	$ 12,953	$ 10,886	$ 58,632

As of September 30, 2009, the consolidated accrued restructuring costs are $9.1 million and consist of the following:

	Accrued Restructuring Costs at December 31, 2008	Restructuring Charges	Cash Payments	Non-cash	Accrued Restructuring Costs at September 30, 2009
			(In thousands)		
Workforce reduction	$ 25,374	$ 9,351	$ (28,993)	$ (1,985)	$ 3,747

Excess facilities	6,583	1,535	(2,421)	(350)	5,347
Total accrued restructuring costs	$ 31,957	$ 10,886	$ (31,414)	$ (2,335)	$ 9,094
Included in current portion of accrued restructuring costs					$ 5,980
Included in long-term portion of accrued restructuring costs					$ 3,114

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Cash payments totaling $8.3 million related to the abandonment of excess facilities will be paid over the respective lease terms, the longest of which extends through 2016. The present value of future cash payments related to lease terminations due to the abandonment of excess facilities is expected to be as follows:

	Contractual Lease Payments	Anticipated Sublease Income (In thousands)	Net
2009 (remaining 3 months)	$ 960	$ (225)	$ 735
2010	2,522	(528)	1,994
2011	2,309	(505)	1,804
2012	589	(223)	366
2013	421	(279)	142
Thereafter	942	(636)	306
	$ 7,743	$ (2,396)	$ 5,347

As part of the 2008 Restructuring Plan, the Company anticipates recording additional charges related to its workforce reduction, excess facilities and other exit costs through 2009. The estimate of these charges is not yet finalized and the total amount and timing of these charges will depend upon the nature, timing, and extent of these future actions.

Impairments and Other Charges

The following table presents the consolidated impairments and other charges, inclusive of amounts for discontinued operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Impairments for continuing operations	$ 9,684	$	$ 9,684	$
Impairments for discontinued operations				45,793
Other charges for continuing operations		14	62	79,083
Total consolidated impairments and other charges	$ 9,684	$ 14	$ 9,746	$ 124,876

During the three and nine months ended September 30, 2009, the Company recorded an impairment charge of $9.7 million related to its *.name* generic top-level domain (gTLD) intangible asset. See Note 5, Goodwill and Other Intangible Assets for further information.

During the nine months ended September 30, 2008, the Company recorded a goodwill impairment charge of $45.8 million in discontinued operations related to its divested Post-Pay business.

During the nine months ended September 30, 2008, the Company recorded a loss of $79.1 million in continuing operations as a result of the sale of certain Mountain View facilities. The sale of the Mountain View facilities was consummated as a result of the 2008 Restructuring Plan to divest or wind down the Company s non-core businesses.

Note 5. Goodwill and Other Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill during the nine months ended September 30, 2009.

	(In thousands)
Balance at December 31, 2008	$ 283,109
Reclassification from assets held for sale	7,000
Other adjustments (1)	105
Balance at September 30, 2009	$ 290,214

(1) Other adjustments consist of foreign exchange fluctuations.

During the first quarter of 2009, the Company disaggregated its ESS disposal group held for sale, into the following three businesses: (i) GSC, (ii) iDefense, and (iii) MSS. The Company decided to retain its iDefense business and, accordingly, reclassified goodwill of $7.0 million allocated to iDefense as held and used in 2009.

The Company performs its annual impairment review of goodwill pertaining to its Naming Services, Authentication Services and VeriSign Japan reporting units, during the second quarter. During our 2009 annual impairment test, the Company determined that each of the reporting units had a fair value in excess of its carrying value and no further analysis was required.

Due to a strategic change in the planned use of our indefinite-lived *.name* gTLD intangible asset during the third quarter of 2009, the Company performed an impairment assessment. The Company considered both the market and the income approaches. Based on the income approach using market participant assumptions, which was determined to be the highest and best use of this asset, the Company has concluded that the fair value of the *.name* gTLD intangible asset has been reduced below its carrying value. The estimated fair value of the intangible asset related to the Company s *.name* gTLD intangible asset was computed to be $2.0 million, and as a result the Company recorded an impairment charge of $9.7 million during the quarter ended September 30, 2009. The Company also determined that the intangible asset has a finite life for which amortization costs will be recorded over its estimated useful life on a straight-line basis.

During the second quarter of 2008, the Company recorded a goodwill impairment charge of $45.8 million in discontinued operations relating to its divested Post-Pay reporting unit.

All impairment charges are recorded to Restructuring, impairments and other charges within our condensed consolidated statements of operations.

Note 6. Other Balance Sheet Items

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	September 30, 2009	December 31, 2008
	(In thousands)	
Prepaid expenses	$ 25,068	$ 22,775
Deferred tax assets	70,454	64,482
Non-trade receivables	15,165	13,054
Receivables from buyers	6,233	14,899
Funds held by the Reserve	32,445	150,346
Other	1,638	2,622

Total prepaid expenses and other current assets	$ 151,003	$ 268,178

As of September 30, 2009, the Company had an aggregate of $32.4 million held by The Reserve s Primary Fund (the Primary Fund) and The Reserve International Liquidity Fund, Ltd. (the International Fund), classified as Prepaid expenses and other current assets due to the lack of an active market for these investments. During the nine months ended September 30, 2009, the Company received distributions of $13.9 million and $104.0 million from the Primary Fund and the International Fund, respectively. During October 2009, the Company received a distribution of $2.4 million from the Primary Fund.

As of September 30, 2009, Receivables from buyers consists of receivables related to sale consideration of $2.5 million and receivables for payments made on behalf of buyers under transition services agreements of $3.7 million for certain divested businesses.

Property and Equipment, Net

The following table presents the detail of Property and equipment, net:

	September 30, 2009	December 31, 2008
	(In thousands)	
Land	$ 133,746	$ 133,746
Buildings	130,748	135,242
Computer equipment and software	333,775	342,470
Capital work in progress	16,937	16,595
Office equipment, furniture and fixtures	15,005	15,491
Leasehold improvements	53,296	52,690
Total cost	683,507	696,234
Less: accumulated depreciation and amortization	(311,094)	(310,736)
Total property and equipment, net	$ 372,413	$ 385,498

Other Assets

Other assets consist of the following:

	September 30, 2009	December 31, 2008
	(In thousands)	
Long-term deferred tax assets	$ 4,990	$ 2,562
Long-term investments	6,746	5,996
Debt issuance costs	12,545	13,233
Long-term restricted cash	1,895	1,858
Security deposits and other	11,221	14,469
Total other assets	$ 37,397	$ 38,118

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	September 30, 2009	December 31, 2008

	(In thousands)	
Accounts payable	$ 23,661	$ 30,690
Accrued employee compensation	74,019	109,958
Customer deposits, net	22,314	30,432
Taxes payable and other tax liabilities	51,463	18,173
Other accrued liabilities	75,135	74,282
Total accounts payable and accrued liabilities	$ 246,592	$ 263,535

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Other Long-term Liabilities

Other long-term liabilities consist of the following:

	September 30, 2009	December 31, 2008
	(In thousands)	
Other long-term liabilities	$ 2,277	$ 161
Long-term tax liability	13,831	15,549
Deferred tax liability	70,584	68,833
Total other long-term liabilities	$ 86,692	$ 84,543

Note 7. Stockholders Equity

Comprehensive Income (Loss)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)			
Net income (loss)	$ 54,599	$ (200,275)	$ 155,886	$ (275,619)
Foreign currency translation adjustments	5,820	284	(9,039)	9,401
Change in unrealized (loss) gain on investments, net of tax	(82)	(91)	207	(407)
Comprehensive income (loss)	60,337	(200,082)	147,054	(266,625)
Less: Comprehensive income attributable to noncontrolling interest in subsidiary	3,645	1,225	1,621	6,383
Comprehensive income (loss) attributable to VeriSign Inc. common stockholders	$ 56,692	$ (201,307)	$ 145,433	$ (273,008)

Repurchase of Common Stock

In 2006, the Board of Directors authorized a stock repurchase program (the 2006 Stock Repurchase Program) with no expiration date to repurchase up to $1.0 billion of its common stock. In January 2008, the Board of Directors authorized additional repurchases of up to $600.0 million of the Company s common stock to be conducted through an accelerated share repurchase agreement and the repurchase of $600.0 million of the Company s common stock was completed in February 2008. In August 2008, the Board of Directors authorized the repurchase of up to an additional $680.0 million of the Company s common stock with no expiration date in addition to the $320.0 million of the Company s common stock available for repurchase under the 2006 Stock Repurchase Program (collectively, the 2008 Share Buyback Program). During the three months ended September 30, 2009, VeriSign repurchased approximately 1.2 million shares of its common stock at an average stock price of $21.54 for an aggregate of $25.0 million under the 2008 Share Buyback Program. During the nine months ended September 30, 2009, VeriSign repurchased approximately 2.0 million shares of its common stock at an average stock price of $22.23 for an aggregate of $45.0 million under the 2008 Stock Buyback Program. As of September 30, 2009, approximately $905.0 million is available under the 2008 Share Buyback Program.

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Note 8. Calculation of Net Income (Loss) Per Share Attributable to VeriSign Common Stockholders

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands, except per share data)			
Income (loss) attributable to VeriSign common stockholders:				
Income from continuing operations, net of tax	$ 47,362	$ 41,523	$ 137,162	$ 43,134
Income (loss) from discontinued operations, net of tax	6,249	(242,613)	16,343	(321,463)
Net income (loss) attributable to VeriSign common stockholders	$ 53,611	$ (201,090)	$ 153,505	$ (278,329)
Weighted-average shares:				
Weighted-average shares of common stock outstanding	192,619	193,853	192,527	198,622
Weighted-average potential shares of common stock outstanding:				
Stock options	266	1,154	269	1,805
Unvested restricted stock awards	587	923	439	1,111
Conversion spread related to Convertible Debentures				1,103
Employee stock purchase plans				310
Shares used to compute diluted net income (loss) per share attributable to VeriSign common stockholders	193,472	195,930	193,235	202,951
Income (loss) per share attributable to VeriSign common stockholders:				
Basic:				
Continuing operations	$ 0.25	$ 0.21	$ 0.71	$ 0.22
Discontinued operations	0.03	(1.25)	0.09	(1.62)
Net income (loss)	$ 0.28	$ (1.04)	$ 0.80	$ (1.40)
Diluted:				
Continuing operations	$ 0.24	$ 0.21	$ 0.71	$ 0.21
Discontinued operations	0.04	(1.24)	0.08	(1.58)
Net income (loss)	$ 0.28	$ (1.03)	$ 0.79	$ (1.37)

Weighted-average potential shares of common stock do not include stock options with an exercise price that exceeded the average fair market value of VeriSign s common stock for the periods presented. The following table sets forth 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 such weighted-average stock options outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands, except per share data)			
Weighted-average stock options outstanding	6,630	4,353	7,398	3,356
Weighted-average exercise price	$ 28.24	$ 33.09	$ 28.25	$ 33.53
Weighted-average restricted stock awards outstanding	307	657	1,302	251
Employee stock purchase plans	338	346	398	115

Note 9. Junior Subordinated Convertible Debentures

In 2007, the Company issued $1.25 billion principal amount of 3.25% convertible debentures due August 15, 2037, to an initial purchaser in a private offering. The Convertible Debentures are subordinated in right of payment to the Company s existing and future senior debt and to the other liabilities of the Company s subsidiaries. The Convertible Debentures are initially convertible, subject to certain conditions, into shares of the Company s common stock at a conversion rate of 29.0968 shares of common stock per $1,000 principal amount of Convertible Debentures, representing an initial effective conversion price of approximately $34.37 per share of common stock. The conversion rate will be subject to adjustment for certain events as outlined in the Indenture governing the Convertible Debentures but will not be adjusted for accrued interest. As of September 30, 2009, the if-converted value of the Convertible Debentures does not exceed its principal amount.

Effective January 1, 2009, the Company retroactively adopted FSP APB 14-1, codified in ASC 470-20, *Debt with Conversion and Other Options*. The standard specifies that issuers of convertible debt instruments should separately account for the liability (debt) and equity (conversion option) components of such instruments in a manner that reflects the borrowing rate for a similar non-convertible debt.

The Company calculated the carrying value of the liability component at issuance as the present value of its cash flows using a discount rate of 8.5% (borrowing rate for similar non-convertible debt with no contingent payment options), adjusted for the fair value of the contingent interest feature, yielding an effective interest rate of 8.39%. The carrying value of the liability component was determined to be $550.5 million. The excess of the principal amount of the debt over the carrying value of the liability component is also called debt discount or equity component of the Convertible Debentures. The equity component of the Convertible Debentures on the date of issuance was $700.7 million. The debt discount will be amortized using the Company s effective interest rate of 8.39% over the term of the Convertible Debentures as a non-cash charge to interest expense included in Other loss, net. As of September 30, 2009, the remaining term of the Convertible Debentures is 27.9 years.

The table below presents the carrying amounts of the liability and equity components:

	September 30, 2009	December 31, 2008
	(In thousands)	
Carrying amount of equity component (net of issuance costs of $14,449)	$ 686,221	$ 686,221
Principal amount of Convertible Debentures	$ 1,250,000	$ 1,250,000
Unamortized discount of liability component	(687,224)	(691,837)
Carrying amount of liability component	562,776	558,163
Contingent interest derivative	8,750	10,549
Convertible debentures, including contingent interest derivative	$ 571,526	$ 568,712

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The table below presents the interest expense for the contractual interest and the amortization of debt discount:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Dollars in thousands)		(Dollars in thousands)	
Effective interest rate	8.39%	8.39%	8.39%	8.39%
Interest expense contractual interest	$ 10,156	$ 10,156	$ 30,469	$ 30,469
Interest expense amortization of discount on the liability component	$ 1,576	$ 1,452	$ 4,632	$ 4,250

The embedded features related to the contingent interest payments, over-allotment option, and the Company making specific types of distributions (e.g., extraordinary dividends) qualify as derivatives to be accounted for separately. The fair value of the derivatives at the date of issuance of the Convertible Debentures was $11.4 million including $7.8 million for the contingent interest payment features and $3.6 million for the over-allotment option feature, which is accounted for as a discount on the Convertible Debentures. The over-allotment feature was revalued at $12.6 million on the date of exercise at August 28, 2007, which is currently accounted for as a premium on the Convertible Debentures. The debt discount and the debt premium are being accreted to the face value of the Convertible Debentures as net interest expense over 30 years. The balances of the debt discount and debt premium are included in the carrying amount of the liability component.

Note 10. Segment Information

Description of segments

The Company has the following two reportable segments: (1) 3IS and (2) Other Services.

The 3IS segment consists of Naming Services and Authentication Services. Naming Services is the authoritative directory provider of all *.com, .net, .cc, .tv*, *.name* and *.jobs* domain names. Authentication Services is comprised of Business Authentication Services, formerly known as Secure Socket Layer (SSL) Certificate Services; and User Authentication Services, formerly known as Identity and Authentication Services. Business Authentication Services enable enterprises and Internet merchants to implement and operate secure networks and websites that utilize SSL protocol. Business Authentication Services provide customers the means to authenticate themselves to their end users and website visitors and to encrypt communications between client browsers and Web servers. User Authentication Services include identity protection services, fraud detection services, managed public key infrastructure (PKI) services, and unified authentication services. User Authentication Services are intended to help enterprises secure intranets, extranets and other applications and devices, and provide authentication credentials.

The Other Services segment consists of the continuing operations of the Company s non-core business and legacy products and services from divested businesses. The Company is in the process of winding down the operations of its Pre-Pay Services business.

The segments were determined based on how the chief operating decision maker (CODM) views and evaluates VeriSign s operations. VeriSign s Chief Executive Officer has been identified as the CODM. Other factors, including customer base, homogeneity of products, technology and delivery channels, were also considered in determining the reportable segments.

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

	Three months ended September 30, 2009			Three months ended September 30, 2008		
	3IS	Other Services	Total Segments	3IS	Other Services	Total Segments
	(In thousands)			(In thousands)		
Revenues:						
Naming Services	$ 155,480	$	$ 155,480	$ 141,838	$	$ 141,838
Authentication Services	101,428		101,428	99,484		99,484
Other Services		1,087	1,087		4,612	4,612
Total revenues	256,908	1,087	257,995	241,322	4,612	245,934
Cost of revenues	47,574	515	48,089	41,415	2,098	43,513
	$ 209,334	$ 572	$ 209,906	$ 199,907	$ 2,514	$ 202,421

	Nine months ended September 30, 2009			Nine months ended September 30, 2008		
	3IS	Other Services	Total Segments	3IS	Other Services	Total Segments
	(In thousands)			(In thousands)		
Revenues:						
Naming Services	$ 457,206	$	$ 457,206	$ 403,034	$	$ 403,034
Authentication Services	307,162		307,162	296,582		296,582
Other Services		5,241	5,241		23,616	23,616
Total revenues	764,368	5,241	769,609	699,616	23,616	723,232
Cost of revenues	140,933	2,753	143,686	119,033	9,294	128,327
	$ 623,435	$ 2,488	$ 625,923	$ 580,583	$ 14,322	$ 594,905

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)			
Total revenues from reportable segments	$ 257,995	$ 245,934	$ 769,609	$ 723,232
Total cost of revenues from reportable segments	48,089	43,513	143,686	128,327
Unallocated operating expenses (1)	134,776	135,248	391,939	516,188
Operating income	75,130	67,173	233,984	78,717
Other loss, net	(8,669)	(13,450)	(23,228)	(22,308)
Income from continuing operations before income taxes and loss from unconsolidated entities	$ 66,461	$ 53,723	$ 210,756	$ 56,409

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

Geographic Information

The Company operates in the U.S.; Australia, Japan and other Asia Pacific countries (APAC); Europe, the Middle East and Africa (EMEA); and certain other countries. The following table presents a comparison of the Company s geographic revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)			
U.S.	$ 147,485	$ 146,732	$ 448,721	$ 427,122
APAC	49,001	44,180	142,969	132,828
EMEA	42,563	38,970	124,468	116,560
Other	18,946	16,052	53,451	46,722
Total revenues	$ 257,995	$ 245,934	$ 769,609	$ 723,232

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

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

	September 30, 2009	December 31, 2008
	(In thousands)	
U.S.	$ 347,769	$ 357,607
APAC	15,301	19,176
EMEA	9,300	8,686
Other	43	29
Total property and equipment, net	$ 372,413	$ 385,498

Assets are not tracked by segment and the CODM does not evaluate segment performance based on asset utilization. The Company s goodwill balance is allocated entirely to its 3IS reportable segment.

Major Customers

One customer accounted for 16% and 15% of the Company s revenues from continuing operations during the three and nine months ended September 30, 2009, respectively. One customer accounted for 14% and 13% of the Company s revenues from continuing operations for the three and nine months ended September 30, 2008. No customer accounted for 10% or more of accounts receivable at September 30, 2009, and December 31, 2008.

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Note 11. Other Loss, Net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)			
Interest income	$ 791	$ 3,981	$ 3,359	$ 15,004
Interest expense	(11,867)	(11,045)	(35,477)	(32,790)
Net gain (loss) on sale and impairment of investments	5	(6,829)	(41)	(6,571)
Net gain on divestiture of businesses			909	1,564
Unrealized gain (loss) on contingent interest derivative on convertible debentures	750	(420)	1,799	1,664
Income from transition services agreements	1,230	1,224	3,069	2,590
Other, net	422	(361)	3,154	(3,769)
Total other loss, net	$ (8,669)	$ (13,450)	$ (23,228)	$ (22,308)

Interest income is earned principally from the investment of VeriSign s surplus cash balances. Interest expense is derived principally from interest on VeriSign s Convertible Debentures. During the nine months ended September 30, 2009, Other, net, primarily consists of $3.3 million received from Certicom Corporation (Certicom) due to the termination of the acquisition agreement entered into with Certicom during the three months ended March 31, 2009. During the nine months ended September 30, 2008, Other, net, primarily consists of net foreign exchange rate losses. During the three months ended September 30, 2009 and 2008, Other, net, primarily consists of net foreign exchange rate gains and losses, respectively.

Note 12. Income Taxes

During the three and nine months ended September 30, 2009, the Company recorded income tax expense for continuing operations of $18.1 million and $71.2 million, respectively. During the three and nine months ended September 30, 2008, the Company recorded income tax expense for continuing operations of $8.9 million and $7.5 million, respectively. On February 20, 2009, the State of California enacted changes in tax laws that are expected to have a beneficial impact on the Company s effective tax rate beginning in 2011. As a result, the Company revalued certain state deferred tax assets and liabilities that are expected to reverse after the effective date of the change, and recognized a discrete income tax benefit adjustment of $4.1 million during the nine months ended September 30, 2009.

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. These deferred tax assets consist primarily of investments with differing book and tax bases and net operating losses related to certain foreign operations.

As of September 30, 2009, and December 31, 2008, the Company had gross unrecognized tax benefits for income taxes associated with uncertain tax positions of $28.2 million and $31.9 million, respectively. During the three and nine months ended September 30, 2009, the Company recorded a reduction in unrecognized tax benefits of $5.3 million and $3.7 million, respectively. Of the decrease of $5.3 million for the three months ended September 30, 2009, $3.0 million was related to lapses in the applicable statute of limitations, $2.0 million was related to tax positions taken during a prior period, and $0.3 million was related to current period activities. Of the decrease of $3.7 million for the nine months ended September 30, 2009, $3.0 million was related to lapses in the applicable statute of limitations, $2.0 million was related to tax positions taken during a prior period, and an increase of $1.3 million was related to tax positions taken during the current year. As of September 30, 2009 and December 31, 2008, $28.8 million and $31.7 million, respectively, of unrecognized tax benefits, including penalties and interest, would affect the Company s effective tax rate if realized.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of Income tax expense. During the three and nine months ended September 30, 2009, the Company expensed

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$0.1 million and $0.7 million, respectively, for interest and penalties related to income tax liabilities through Income tax expense. During the three and nine months ended September 30, 2008, the Company expensed $0.4 million and $1.3 million, respectively, for interest and penalties related to income tax liabilities through Income tax expense.

The Company s major taxing jurisdictions are the Internal Revenue Service, the California Franchise Tax Board, the Japan National Tax Agency and the State of Virginia Department of Revenue. The Company is not currently under examination by the Internal Revenue Service or the Virginia Department of Revenue. The Company is currently under examination by the California Franchise Tax Board for the years ended December 31, 2004 and December 31, 2005. Because the Company uses historic net operating loss carryforwards and other tax attributes to offset its taxable income in current and future years income tax returns for U.S. Federal, California and Virginia, such attributes can be adjusted by these taxing authorities until the statute closes on the year in which such attribute was utilized. The Company is not currently under examination by the Japan National Tax Agency. The years which remain subject to examination by the Japan National Tax Agency are those ended on December 31, 2007 and December 31, 2008. The balance of the gross unrecognized tax benefits is not expected to materially change in the next 12 months.

Note 13. 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, 2009:

		Fair Value Measurement Using		
	Total Fair Value as of September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Assets:				
Investments in money market funds and time deposits	$ 1,342,689	$ 1,342,689	$	$
Equity investments	338	338		
Foreign currency forward contracts	19		19	
Total	$ 1,343,046	$ 1,343,027	$ 19	$
Liabilities:				
Contingent interest derivative on Convertible Debentures	8,750	$	$	8,750
Total	$ 8,750	$	$	$ 8,750

The fair value of the Company s investments in certain money market funds and time deposits 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 foreign currency forward contracts is based on foreign currency rates quoted by banks or foreign currency dealers and other public data sources. The Company recorded unrealized gains and losses related to changes in the fair value of its foreign currency forward contracts in Other loss, net. The Company recorded an unrealized gain of $0.5 million and an unrealized loss of $0.3 million during the three months ended September 30, 2009 and 2008, respectively, related to changes in the fair value of its foreign currency forward contracts. The Company recorded an unrealized gain of $1.2 million and an unrealized loss of $1.7 million during the nine months ended September 30, 2009 and 2008, respectively, related to changes in the fair value of its foreign currency forward contracts.

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Equity investments relate to the Company s investments in the securities of other public companies. The fair value of these investments is based on the quoted market prices of the underlying shares. Such investments are included in Prepaid expenses and other current assets.

The Company s Convertible Debentures have contingent interest payments that are considered to be an embedded derivative. The Company accounts for the embedded derivative separately from the Convertible Debentures at fair value, with gains and losses reported in Other loss, net. The Company has utilized a valuation model based on simulations of stock prices, interest rates, credit ratings and bond prices to estimate the value of the embedded derivative. The inputs to the model include risk adjusted interest rates, volatility and average yield curve observations and stock price. As several significant inputs are not observable, the overall fair value measurement of the embedded derivative is classified as Level 3.

The following table summarizes the change in the fair value of the Company s Level 3 contingent interest derivative on Convertible Debentures during the nine months ended September 30, 2009 (in thousands):

Fair value at December 31, 2008	$ 10,549
Unrealized gain on contingent interest derivative on Convertible Debentures (1)	(1,799)
Fair value at September 30, 2009	$ 8,750

(1) Included in Other loss, net.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

The Company measures its disposal groups held for sale at the lower of their carrying amount or fair value less cost to sell. The following table summarizes the Company s net assets of those disposal groups held for sale which are measured at fair value as of September 30, 2009:

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)	Total gain for the three months ended September 30, 2009	Total gain for the nine months ended September 30, 2009
		(In thousands)	
Net assets of disposal groups held for sale	$ 198,576	$ 21,629 (1)	$ 33,293 (1)

(1) Included in income (loss) from discontinued operations, net of tax.

The Company has classified the net assets of its disposal groups held for sale as Level 3 due to the lack of observable inputs to determine the fair values of such net assets. The fair value of net assets of disposal groups held for sale is determined considering active bids from potential buyers.

During the three months ended September 30, 2009, net assets of the disposal groups held for sale which are measured at fair value as of September 30, 2009, with a carrying amount of $177.0 million, were written up to their fair value of $198.6 million less costs to sell of $2.2 million (or $196.4 million), resulting in a net reversal of estimated losses previously reported of $21.6 million.

During the nine months ended September 30, 2009, the Company recorded a net gain of $33.3 million related to net reversals of estimated losses on the disposal groups which are measured at fair value as of September 30, 2009.

Other

The fair value of other financial instruments including accounts receivable, restricted cash and investments, and accounts payable, approximates their carrying amount, which is the amount for which the instrument could be exchanged in a current transaction between willing parties. The fair value of the Company s Convertible Debentures at September 30, 2009, is $1.1 billion, and is based on quoted market prices.

Note 14. Contingencies

Legal Proceedings

On September 7, 2001, NetMoneyIN, an Arizona corporation, filed a complaint alleging patent infringement against VeriSign and several other previously-named defendants in the U.S. District Court for the District of Arizona asserting infringement of certain patents. The complaint alleged that VeriSign s Payflow payment products and services directly infringe certain claims of NetMoneyIN s three patents and requested the Court to enter judgment in favor of NetMoneyIN, a permanent injunction against the defendants alleged infringing activities, an order requiring defendants to provide an accounting for NetMoneyIN s damages, to pay NetMoneyIN such damages and three times that amount for any willful infringers, and an order awarding NetMoneyIN attorney fees and costs. NetMoneyIN has withdrawn its allegations of infringement of one of the patents and the Court has dismissed with prejudice all claims of infringement of such patent. In its ruling on the claim construction issues, the Court found some of the claims asserted against VeriSign to be valid. NetMoneyIN may file an appeal after a final judgment seeking to overturn this ruling. Only one claim remains in the case. On July 13, 2007, the Court issued an order granting summary judgment in favor of VeriSign based on the Court s finding that such claim is invalid, and denying all other pending dispositive motions. On August 29, 2007, plaintiff filed a Notice of Appeal. On September 19, 2007, the U.S. Court of Appeals for the Federal Circuit docketed the appeal. On October 20, 2008, the appellate court issued a decision that affirmed in part and reversed in part the summary judgment order and remanded the case for further proceedings in the trial court. VeriSign and NetMoney entered into a settlement agreement in July 2009. The case against VeriSign has been dismissed.

On July 6, 2006, a stockholder derivative complaint (Parnes v. Bidzos, et al., and VeriSign) was filed against VeriSign in the U.S. District Court for the Northern District of California, as a nominal defendant, and certain of its current and former directors and executive officers related to certain historical stock option grants. The complaint seeks unspecified damages on behalf of VeriSign, constructive trust and other equitable relief. Two other derivative actions were filed, one in the U.S. District Court for the Northern District of California (Port Authority v. Bidzos, et al., and VeriSign), and one in the Superior Court of the State of California, Santa Clara County (Port Authority v. Bidzos, et al., and VeriSign) on August 14, 2006. The state court derivative action is stayed pending resolution of the federal actions. The current directors and officers named in this state action are D. James Bidzos, William L. Chenevich, Roger H. Moore and Louis A. Simpson. The Company is named as a nominal defendant in these actions. The federal actions have been consolidated and plaintiffs filed a consolidated complaint on November 20, 2006. The current directors and officers named in this consolidated federal action are D. James Bidzos, William L. Chenevich, Roger H. Moore, Louis A. Simpson and Timothy Tomlinson. Motions to dismiss the consolidated federal court complaint were heard on May 23, 2007. Those motions were granted on September 14, 2007. On November 16, 2007, a second amended shareholder derivative complaint was filed in the federal action wherein the Company was again named as a nominal defendant. By stipulation and Court order, defendants obligation to respond to the second amended shareholder derivative complaint has been continued pending informal efforts by the parties to resolve the action.

On May 15, 2007, a putative class action (Mykityshyn v. Bidzos, et al., and VeriSign) was filed in Superior Court for the State of California, Santa Clara County, naming the Company and certain current and former officers and directors, alleging false representations and disclosure failures regarding certain historical stock option grants. The plaintiff purports to represent all individuals who owned the Company s common stock between April 3, 2002, and August 9, 2006. The complaint seeks rescission of amendments to the 1998 and 2006 Option Plans and the cancellation of shares added to the 1998 Option Plan. The complaint also seeks to enjoin the Company from granting any stock options and from allowing the exercise of any currently outstanding options granted under the 1998 and 2006 Option Plans. The complaint seeks an unspecified amount of compensatory damages, costs and attorneys fees. The identical case was filed in the Superior Court for the State of California, Santa Clara County under a separate name (Pace. v. Bidzos, et al., and VeriSign) on June 19, 2007, and on October 3, 2007 (Mehdian v. Bidzos, et al.). On December 3, 2007, a consolidated complaint was filed in Superior Court for the State of California, Santa Clara County. The current directors and officers named in this consolidated class action are D. James Bidzos, William L. Chenevich, Roger H. Moore, Louis A. Simpson and

Timothy Tomlinson. VeriSign and the individual defendants dispute all of these claims. Defendants collective pleading challenges to the putative consolidated class action complaint were granted with leave to amend in August 2008. By stipulation and Court order, plaintiff s obligation to file an amended consolidated class action complaint has been continued pending informal efforts by the parties to resolve the action.

On November 7, 2006, a judgment was entered against VeriSign by a trial court in Terni, Italy, in the matter of Penco v. VeriSign, Inc. in the amount of Euro 5.8 million plus fees arising from a lawsuit brought by a former consultant who claimed to be owed commissions. The Company was granted a stay on execution of the judgment and the Company filed an appeal. On July 9, 2008, the appellate court rejected all of plaintiff s claims. On or about April 2, 2009, plaintiff filed an appeal in the Supreme Court of Cassation, Rome, Italy. VeriSign filed a Writ of Reply on May 5, 2009. While the Company cannot predict the outcome of these proceedings, it believes the allegations against it are without merit.

On May 31, 2007, plaintiffs Karen Herbert, et al., on behalf of themselves and a nationwide class of consumers (*Herbert*), filed a complaint against VeriSign, m-Qube, Inc., and other defendants alleging that defendants collectively operate an illegal lottery under the laws of multiple states by allowing viewers of the NBC television show Deal or No Deal to incur premium text message charges in order to participate in an interactive television promotion called Lucky Case Game. The lawsuit is pending in the U.S. District Court for the Central District of California, Western Division. On June 5, 2007, plaintiffs Cheryl Bentley, et al., on behalf of themselves and a nationwide class of consumers (*Bentley*), filed a complaint against VeriSign, m-Qube, Inc., and other defendants alleging that defendants collectively operate an illegal lottery under the laws of multiple states by allowing viewers of the NBC television show The Apprentice to incur premium text message charges in order to participate in an interactive television promotion called Get Rich With Trump. The Bentley matter is currently stayed. A motion to dismiss the ruling in Herbert is on appeal in the U.S. Court of Appeals for the Ninth Circuit. While the Company cannot predict the outcome of any of these matters, it believes that the allegations in each of them are without merit and intends to vigorously defend against them.

On September 12, 2008, Leon Stambler filed a declaratory judgment complaint against VeriSign in the U.S. District Court for the Eastern District of Texas. The complaint seeks an order permitting Stambler to proceed with patent infringement actions against VeriSign SSL certificate customers in actions in which VeriSign is not a party in view of Stambler s prior unsuccessful action in 2003 against VeriSign on the same patents in which a verdict was returned against Stambler and a judgment was entered thereon. VeriSign has received requests to indemnify certain SSL certificate customers in the patent infringement actions brought by Stambler. VeriSign and Stambler entered into a confidential settlement agreement on June 1, 2009. Certain indemnity requests from customers are still pending. The declaratory judgment complaint against VeriSign was dismissed on June 8, 2009.

On June 5, 2009, the U.S. Court of Appeals for the Ninth Circuit reversed and remanded a district court order dismissing a second amended complaint filed by plaintiff Coalition for ICANN Transparency, Inc. (CFIT). CFIT filed its initial complaint and an application for a temporary restraining order against VeriSign and Internet Corporation for Assigned Names and Numbers (ICANN) in the U.S. District Court for the Northern District of California on November 28, 2005, asserting claims under Sections 1 and 2 of the Sherman Antitrust Act (the Sherman Act), the Cartwright Act, and Cal. Bus. & Prof. Code § 17200. The district court denied CFIT s application for a temporary restraining order on November 30, 2005. Shortly after the action was initiated and CFIT s application was denied, the district court granted defendants Motion for Judgment on the Pleadings on February 28, 2006, with leave to amend. CFIT filed a First Amended Complaint on March 14, 2006. The Court granted defendants Motion to Dismiss the First Amended Complaint, with leave to amend, on December 8, 2006. CFIT filed a Second Amended Complaint on December 28, 2006; ICANN was not included as a defendant in the Second Amended Complaint. The Second Amended Complaint, which VeriSign has not yet answered, asserted claims, among others, under Sections 1 and 2 of the Sherman Act against VeriSign, challenging in part VeriSign s conduct in entering into, and the pricing, renewal and certain other terms of, the *.com* and *.net* registry agreements with ICANN. The same renewal and pricing terms in the *.com* registry

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agreement are incorporated by reference in the Cooperative Agreement between VeriSign and the U.S. Department of Commerce, which approved the *.com* Registry Agreement as in the public interest. The Court granted VeriSign s Motion to Dismiss the Second Amended Complaint on May 14, 2007, without leave to amend, and entered judgment for VeriSign. CFIT filed a Notice of Appeal to the U.S. Court of Appeals for the Ninth Circuit on June 13, 2007. After briefing, the appeal was argued on December 8, 2008. The Ninth Circuit filed its Opinion reversing and remanding the dismissal of the Second Amended Complaint on June 5, 2009. VeriSign filed a motion for rehearing in the Ninth Circuit on July 2, 2009. While the Company cannot predict the outcome of these proceedings, it believes the allegations against it are without merit and intends to vigorously defend against them.

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

Note 15. Subsequent Events

On October 1, 2009, the Company sold its GSC business for cash consideration of $4.9M subject to certain adjustments related to employees compensation.

On October 23, 2009, the Company sold its MMM Services business, for cash consideration of $174.5 million after preliminary adjustments to reflect the parties estimate of working capital. The divestiture transaction will be subject to a final adjustment to reflect the actual working capital balance as of the closing date.

During October 2009, the Company received a distribution of $2.4 million from the Primary Fund.

During October 2009, the Company decided to wind down the operations of the CPS business after termination of active negotiations with a potential buyer. The Company expects the wind-down to be completed no later than the end of 2010.

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

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements involve risks and uncertainties, including, among other things, statements regarding our anticipated costs and expenses and revenue mix. Forward-looking statements include, among others, those statements including the words expects, anticipates, intends, believes and similar language. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section titled Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q. You should also carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q or Current Reports on Form 8-K that we file in 2009 and our 2008 Form 10-K, which was filed on March 3, 2009, 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 the trusted provider of Internet infrastructure services for the networked world. We offer a comprehensive spectrum of products and services that help a growing number of organizations and individuals to communicate and conduct commerce with confidence.

We have the following two reportable segments: (1) Internet Infrastructure and Identity Services (3IS) which consists of Naming Services and Authentication Services. Authentication Services is comprised of Business Authentication Services, formerly known as Secure Socket Layer (SSL) Certificate Services; and User Authentication Services, formerly known as Identity and Authentication Services; and (2) Other Services, which consists of the continuing operations of non-core businesses and legacy products and services from divested businesses. See Note 10, Segment Information, of our Notes to Condensed Consolidated Financial Statements for further information regarding our reportable segments. In our 2008 Form 10-K, we presented VeriSign Japan as a separate component of our 3IS segment. Beginning in the first quarter of 2009, we have reclassified the results of operations of VeriSign Japan into the results of operations of our Authentication Services which is also a component of our 3IS segment, as VeriSign Japan is a majority-owned subsidiary whose operations primarily consist of Business and User Authentication Services.

Naming Services is the authoritative directory provider of all *.com, .net, .cc, .tv*, *.name* and *.jobs* domain names. Business Authentication Services enable enterprises and Internet merchants to implement and operate secure networks and websites that utilize SSL protocol. Business Authentication Services provide customers the means to authenticate themselves to their end users and website visitors and to encrypt communications between client browsers and Web servers. User Authentication Services includes identity protection services, fraud detection services, managed public key infrastructure (PKI) services, and unified authentication services. User Authentication Services are intended to help enterprises secure intranets, extranets and other applications and devices, and provide authentication credentials. The Other Services segment consists of the continuing operations of our non-core business and legacy products and services from divested businesses. We are in the process of winding down the operations of our Pre-Pay billing and payment (Pre-Pay) Services business.

During the fourth quarter of 2007, we announced a change to our business strategy to allow management to focus its attention on our core competencies and to make additional resources available to invest in our core

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businesses. The strategy called for a divestiture or winding down of all the non-core businesses. These businesses, except th