

VERISIGN INC/CA
Form 10-Q
April 23, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

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.)

12061 Bluemont Way, Reston, Virginia

20190

(Address of principal executive offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES 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 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 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

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

Class

Shares Outstanding April 17, 2015

Common stock, \$.001 par value

116,434,450

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$705,879	\$191,608
Marketable securities	1,165,443	1,233,076
Accounts receivable, net	14,656	13,448
Other current assets	54,006	52,475
Total current assets	1,939,984	1,490,607
Property and equipment, net	311,870	319,028
Goodwill	52,527	52,527
Long-term deferred tax assets	266,508	266,954
Other long-term assets	36,821	25,743
Total long-term assets	667,726	664,252
Total assets	\$2,607,710	\$2,154,859
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	\$150,482	\$190,278
Deferred revenues	648,439	621,307
Subordinated convertible debentures, including contingent interest derivative	635,453	631,190
Deferred tax liabilities	487,817	477,781
Total current liabilities	1,922,191	1,920,556
Long-term deferred revenues	276,497	269,047
Senior notes	1,250,000	750,000
Other long-term tax liabilities	106,899	98,722
Total long-term liabilities	1,633,396	1,117,769
Total liabilities	3,555,587	3,038,325
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock—par value \$.001 per share; Authorized shares: 5,000; Issued and outstanding shares: none	—	—
Common stock—par value \$.001 per share; Authorized shares: 1,000,000; Issued shares: 322,707 at March 31, 2015 and 321,699 at December 31, 2014; Outstanding shares: 116,429 at March 31, 2015 and 118,452 at December 31, 2014	323	322
Additional paid-in capital	17,967,312	18,120,045
Accumulated deficit	(18,912,597)	(19,000,835)
Accumulated other comprehensive loss	(2,915)	(2,998)
Total stockholders' deficit	(947,877)	(883,466)
Total liabilities and stockholders' deficit	\$2,607,710	\$2,154,859

See accompanying Notes to Condensed Consolidated Financial Statements.

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VERISIGN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Revenues	\$258,422	\$248,796
Costs and expenses:		
Cost of revenues	48,353	48,026
Sales and marketing	22,382	20,289
Research and development	17,152	18,439
General and administrative	26,298	22,457
Total costs and expenses	114,185	109,211
Operating income	144,237	139,585
Interest expense	(22,017)	(21,385)
Non-operating (loss) income, net	(5,555)	6,516)
Income before income taxes	116,665	124,716
Income tax expense	(28,427)	(30,293)
Net income	88,238	94,423
Unrealized gain on investments	87	8
Realized (gain) loss on investments, included in net income	(4)	5)
Other comprehensive income	83	13
Comprehensive income	\$88,321	\$94,436
Income per share:		
Basic	\$0.75	\$0.71
Diluted	\$0.66	\$0.64
Shares used to compute net income per share		
Basic	117,139	133,417
Diluted	133,850	148,600
See accompanying Notes to Condensed Consolidated Financial Statements.		

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VERISIGN, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)
 (Unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$88,238	\$94,423
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	15,747	16,008
Stock-based compensation	10,128	9,993
Excess tax benefit associated with stock-based compensation	(5,993))
Unrealized loss (gain) on contingent interest derivative on Subordinated Convertible Debentures	7,019	(5,269)
Payment of contingent interest	(5,225))
Other, net	2,701	1,004
Changes in operating assets and liabilities		
Accounts receivable	(1,282)	) (1,806)
Prepaid expenses and other assets	(3,084)	) 7,925
Accounts payable and accrued liabilities	(28,816)	) (34,579)
Deferred revenues	34,582	30,384
Net deferred income taxes and other long-term tax liabilities	18,654	23,546
Net cash provided by operating activities	132,669	141,629
Cash flows from investing activities:		
Proceeds from maturities and sales of marketable securities	325,399	718,177
Purchases of marketable securities	(257,415)	) (784,090)
Purchases of property and equipment	(13,042)	) (11,262)
Other investing activities	(3,787)	) 34
Net cash provided by (used in) investing activities	51,155	(77,141)
Cash flows from financing activities:		
Proceeds from issuance of common stock from option exercises and employee stock purchase plans	8,776	8,668
Repurchases of common stock	(178,330)	) (145,556)
Proceeds from borrowings, net of issuance costs	493,824	—
Excess tax benefit associated with stock-based compensation	5,993	—
Net cash provided by (used in) financing activities	330,263	(136,888)
Effect of exchange rate changes on cash and cash equivalents	184	230
Net increase (decrease) in cash and cash equivalents	514,271	(72,170)
Cash and cash equivalents at beginning of period	191,608	339,223
Cash and cash equivalents at end of period	\$705,879	\$267,053
Supplemental cash flow disclosures:		
Cash paid for interest, net of capitalized interest	\$25,494	\$20,209
Cash paid for income taxes, net of refunds received	\$12,970	\$7,651
See accompanying Notes to Condensed Consolidated Financial Statements.		

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VERISIGN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

Interim Financial Statements

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by VeriSign, Inc. (“Verisign” or the “Company”) in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and, therefore, do not include all information and notes normally provided in audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for any other interim period or for a full fiscal year. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes contained in Verisign’s fiscal 2014 Annual Report on Form 10-K (the “2014 Form 10-K”) filed with the SEC on February 13, 2015.

Reclassifications

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

Recent Accounting Pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is expected to become effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Note 2. Cash, Cash Equivalents, and Marketable Securities

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

	March 31, 2015	December 31, 2014
	(In thousands)	
Cash	\$108,021	\$110,799
Money market funds	605,413	85,453
Time deposits	4,259	3,384
Debt securities issued by the U.S. Treasury	1,165,235	1,233,076
Equity securities of public companies	209	—
Total	\$1,883,137	\$1,432,712
Included in Cash and cash equivalents	\$705,879	\$191,608
Included in Marketable securities	\$1,165,443	\$1,233,076
Included in Other long-term assets (Restricted cash)	\$11,815	\$8,028

The fair value of the debt securities held as of March 31, 2015 was \$1.2 billion, including less than \$0.1 million of gross and net unrealized losses. All of the debt securities held as of March 31, 2015 are scheduled to mature in less than one year.

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Note 3. Fair Value of Financial Instruments

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014:

	Total Fair Value (In thousands)	Fair Value Measurement Using		
		(Level 1)	(Level 2)	(Level 3)
As of March 31, 2015:				
Assets:				
Investments in money market funds	\$605,413	\$605,413	\$—	\$—
Debt securities issued by the U.S. Treasury	1,165,235	1,165,235	—	—
Equity securities of public companies	209	209	—	—
Foreign currency forward contracts (1)	729	—	729	—
Total	\$1,771,586	\$1,770,857	\$729	\$—
Liabilities:				
Contingent interest derivative on the Subordinated Convertible Debentures	\$28,549	\$—	\$—	\$28,549
Foreign currency forward contracts (2)	112	—	112	—
Total	\$28,661	\$—	\$112	\$28,549
As of December 31, 2014:				
Assets:				
Investments in money market funds	\$85,453	\$85,453	\$—	\$—
Debt securities issued by the U.S. Treasury	1,233,076	1,233,076	—	—
Foreign currency forward contracts (1)	330	—	330	—
Total	\$1,318,859	\$1,318,529	\$330	\$—
Liabilities:				
Contingent interest derivative on the Subordinated Convertible Debentures	\$26,755	\$—	\$—	\$26,755
Foreign currency forward contracts (2)	169	—	169	—
Total	\$26,924	\$—	\$169	\$26,755

(1) Included in Other current assets

(2) Included in Accounts payable and accrued liabilities

The fair value of the Company's investments in money market funds approximates their face value. Such instruments are classified as Level 1 and are included in Cash and cash equivalents.

The fair value of the debt securities consisting of U.S. Treasury bills is based on their quoted market prices and are classified as Level 1. Debt securities purchased with original maturities in excess of three months are included in Marketable securities.

The fair value of the equity securities of public companies is based on quoted market prices and are classified as Level 1. Investments in equity securities of public companies are included in Marketable securities.

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

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The Company utilizes a valuation model to estimate the fair value of the contingent interest derivative on the subordinated convertible debentures due 2037 (“the Subordinated Convertible Debentures”). The inputs to the model include stock price, bond price, risk free interest rates, volatility, and credit spread observations. As several significant inputs are not observable, the overall fair value measurement of the derivative is classified as Level 3. The volatility and credit spread assumptions used in the calculation are the most significant unobservable inputs. As of March 31, 2015, the valuation of the contingent interest derivative assumed a volatility rate of approximately 24%. A hypothetical 5% increase or decrease in the volatility rate would not significantly change the fair value of the contingent interest derivative. The credit spread assumed in the valuation was approximately 4% at March 31, 2015. A hypothetical 1% increase or decrease in the credit spread would not significantly change the fair value of the contingent interest derivative.

The following table summarizes the change in the fair value of the Company’s contingent interest derivative on the Subordinated Convertible Debentures during the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Beginning balance	\$26,755	\$29,004
Payment of contingent interest	(5,225)	—
Unrealized loss (gain)	7,019	(5,269)
Ending balance	\$28,549	\$23,735

On February 15, 2015, the Company paid contingent interest of \$5.2 million in addition to the normal coupon interest to holders of record of the Subordinated Convertible Debentures as of February 1, 2015. In February 2015, the upside trigger on the Subordinated Convertible Debentures was met for the six month interest period from February 15, 2015 through August 15, 2015. The \$5.5 million contingent interest payable in August 2015 is included in the balance of the contingent interest derivative on the Subordinated Convertible Debentures as of March 31, 2015.

Other

The Company’s other financial instruments include cash, accounts receivable, restricted cash, and accounts payable. As of March 31, 2015, the carrying value of these financial instruments approximated their fair value. The fair value of the Company’s Subordinated Convertible Debentures was \$2.5 billion as of March 31, 2015. The fair values of the senior notes due 2023 (the “2023 Senior Notes”) and the senior notes due 2025 (the “2025 Senior Notes”) were \$750.0 million and \$512.5 million, respectively, as of March 31, 2015. The fair values of these debt instruments are based on available market information from public data sources and are classified as Level 2.

Note 4. Other Balance Sheet Items**Other Current Assets**

Other current assets consist of the following:

	March 31, 2015	December 31, 2014
	(In thousands)	
Income tax and other receivables	\$20,839	\$24,821
Prepaid expenses	21,401	16,190
Debt issuance costs	10,534	10,570
Deferred tax assets	252	247
Other	980	647
Total other current assets	\$54,006	\$52,475

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Other Long-Term Assets

Other long-term assets consist of the following:

	March 31, 2015	December 31, 2014
	(In thousands)	
Debt issuance costs	17,631	10,160
Long-term restricted cash	11,815	8,028
Other tax receivable	5,673	5,673
Long-term prepaid expenses and other assets	1,702	1,882
Total other long-term assets	\$36,821	\$25,743

The Company recorded \$6.5 million of debt issuance costs in connection with the offering of the 2025 Senior Notes and \$1.3 million of debt issuance costs related to the new unsecured revolving credit facility during the three months ended March 31, 2015. The 2025 Senior Notes and the new credit facility are discussed in Note 8 “Debt and Interest Expense.”

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	March 31, 2015	December 31, 2014
	(In thousands)	
Accounts payable	\$22,778	\$29,335
Accrued employee compensation	28,193	49,470
Customer deposits	28,654	30,103
Income taxes payable and other tax liabilities	33,792	47,079
Other accrued liabilities	37,065	34,291
Total accounts payable and accrued liabilities	\$150,482	\$190,278

Accrued employee compensation primarily consists of liabilities for employee leave, salaries, payroll taxes, employee contributions to the employee stock purchase plan, and incentive compensation. Accrued employee incentive compensation as of December 31, 2014, was paid during the three months ended March 31, 2015. Income taxes payable and other tax liabilities as of March 31, 2015, reflects payments made during the first quarter of 2015 for income taxes in certain non-U.S. jurisdictions. Other accrued liabilities include miscellaneous vendor payables, coupon interest on the Subordinated Convertible Debentures which is paid semi-annually in arrears on August 15 and February 15, and interest on the 2023 Senior Notes which is paid semi-annually in arrears on May 1 and November 1.

Note 5. Stockholders’ Deficit

On January 30, 2015, the Company’s Board of Directors approved an additional authorization for share repurchases of approximately \$452.9 million of its common stock in addition to the \$547.1 million remaining available for repurchases of its common stock under the previous share buyback program for a total repurchase authorization of up to \$1.0 billion of its common stock. The share buyback program has no expiration date. Purchases made under the program could be effected through open market transactions, block purchases, accelerated share repurchase agreements or other negotiated transactions. During the three months ended March 31, 2015 the Company repurchased 2.7 million shares of its common stock, at an average stock price of \$58.32 for an aggregate cost of \$159.8 million. As of March 31, 2015, \$916.6 million remained available for further repurchases under the share buyback program.

During three months ended March 31, 2015, the Company placed 0.3 million shares, at an average stock price of \$63.55, and for an aggregate cost of \$18.5 million, into treasury stock for purposes related to tax withholding upon vesting of Restricted Stock Units (“RSUs”).

Since inception the Company has repurchased 206.3 million shares of its common stock for an aggregate cost of \$7.0 billion, which is presented as a reduction of Additional paid-in capital.

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Note 6. Calculation of Net Income per Share

The following table presents the computation of weighted-average shares used in the calculation of basic and diluted net income per share:

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Weighted-average shares of common stock outstanding	117,139	133,417
Weighted-average potential shares of common stock outstanding:		
Conversion spread related to the Subordinated Convertible Debentures	15,812	14,286
Unvested RSUs	869	817
Stock options	8	37
Employee stock purchase plan	22	43
Shares used to compute diluted net income per share	133,850	148,600

The calculation of diluted weighted average shares outstanding, excludes potentially dilutive securities, the effect of which would have been anti-dilutive, as well as performance based RSUs granted by the Company for which the relevant performance criteria have not been achieved. The number of potential shares excluded from the calculation was not significant in any period presented.

Note 7. Stock-based Compensation

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

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Cost of revenues	\$1,739	\$1,598
Sales and marketing	1,299	1,848
Research and development	1,721	1,872
General and administrative	5,369	4,675
Total stock-based compensation expense	\$10,128	\$9,993

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

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
RSUs	\$8,294	\$7,715
Performance-based RSUs	1,453	1,868
Employee stock purchase plan	1,081	1,040
Capitalization (Included in Property and equipment, net)	(700)	(630)
Total stock-based compensation expense	\$10,128	\$9,993

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Note 8. Debt and Interest Expense

Senior Notes due 2025

On March 27, 2015, the Company issued \$500.0 million principal amount of 5.25% senior unsecured notes due April 1, 2025. The Company intends to use the proceeds for general corporate purposes, including, but not limited to, the repurchase of shares of its common stock under its share buyback program. In connection with the offering the Company incurred \$6.5 million of issuance costs which were deferred and included in Other long-term assets. The issuance costs will be amortized to Interest expense over the 10 year term of the notes. The Company will pay interest on the notes semi-annually on April 1 and October 1, commencing on October 1, 2015.

The Company may redeem the 2025 Senior Notes, in whole or in part, at any time at the Company's option at specified redemption prices. The Company entered into a registration rights agreement (the "Registration Rights Agreement") with the initial purchasers that provides holders of the notes certain rights relating to registration of the notes under the Securities Act of 1933, as amended. If the Company does not complete the registration of the 2025 Senior Notes pursuant to the terms of the Registration Rights Agreement (a "Registration Default"), the annual interest rate of the notes will be increased by 0.25% per annum during the 90-day period immediately following such Registration Default and will increase by 0.25% per annum at the end of each subsequent 90-day period, but in no event shall such increase exceed 1.0% per annum.

2015 Credit Facility

On March 31, 2015, the Company entered into a new credit agreement for a \$200.0 million committed senior unsecured revolving credit facility (the "2015 Credit Facility"). The 2015 Credit Facility replaces the Company's 2011 Credit Facility which was set to expire in November 2016. The terms of the 2015 Credit Facility are substantially similar to the terms of the previous 2011 Credit Facility. The 2015 Credit Facility includes financial covenants requiring that the Company's interest coverage ratio not be less than 3.0 to 1.0 for any period of four consecutive quarters and the Company's leverage ratio not exceed 2.5 to 1.0. As of March 31, 2015, there were no borrowings outstanding under the facility and the Company was in compliance with the financial covenants. The 2015 Credit Facility expires on April 1, 2020 at which time any outstanding borrowings are due.

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

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Contractual interest on the Subordinated Convertible Debentures	\$10,156	\$10,156
Contractual interest on 2023 Senior Notes	8,672	8,672
Contractual interest on 2025 Senior Notes	365	—
Amortization of debt discount on the Subordinated Convertible Debentures	2,477	2,282
Credit facility fees and amortization of debt issuance costs	504	491
Interest capitalized to Property and equipment, net	(157)	(216)
Total interest expense	\$22,017	\$21,385

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

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

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Unrealized (loss) gain on contingent interest derivative on Subordinated Convertible Debentures	\$(7,019)	\$5,269
Interest income	259	316
Other, net	1,205	931
Total non-operating (loss) income, net	\$(5,555)	\$6,516

Unrealized losses and gains on the contingent interest derivative on the Subordinated Convertible Debentures reflect the change in value of the derivative that results primarily from changes in the Company's stock price. Interest income is earned principally from the Company's surplus cash balances and marketable securities.

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Note 10. Income Taxes

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

	Three Months Ended March 31,	
	2015	2014
	(Dollars in thousands)	
Income tax expense	\$28,427	\$30,293
Effective tax rate	24	% 24 %

The effective tax rate for the three months ended March 31, 2015 and 2014 is lower than the statutory federal rate of 35% primarily due to tax benefits from foreign income taxed at lower rates, partially offset by state income taxes and non-deductible stock-based compensation.

Current deferred tax liabilities and Other long-term tax liabilities as of March 31, 2015 reflect the use of a portion of U.S. foreign tax credits during the first quarter of 2015, an increase in the deferred tax liability related to the Subordinated Convertible Debentures, and the reclassification of unrecognized tax benefits.

Note 11. Contingencies

Legal Proceedings

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

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

Indemnifications

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

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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 2015 and our 2014 Form 10-K, which was filed on February 13, 2015, which discuss our business in greater detail. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

Overview

We are a global provider of domain name registry services and Internet security, enabling Internet navigation for many of the world's most recognized domain names and providing protection for websites and enterprises around the world. Our Registry Services ensure the security, stability and resiliency of key Internet infrastructure and services, including the .com and .net domains, two of the Internet's root servers, and operation of the root-zone maintainer functions for the core of the Internet's DNS. Our product suite also includes NIA Services consisting of DDoS Protection Services, Verisign iDefense Services and Managed DNS Services. As of March 31, 2015, we had approximately 133.0 million names in the domain name base for .com and .net, our principal registries. The number of domain names registered is largely driven by continued growth in online advertising, e-commerce, and the number of Internet users, which is partially driven by greater availability of broadband, as well as advertising and promotional activities carried out by us and third-party registrars. Growth in the number of domain names has been hindered by certain factors, including overall economic conditions, the introduction of new gTLDs, and ongoing changes to search algorithms used by Google and other Internet search engines that negatively affect the profitability of certain types of websites, and as a result, reduce demand for new domain name registrations and renewals. Revenues from NIA Services are not significant in relation to our consolidated revenues.

Business Highlights and Trends

• We recorded revenues of \$258.4 million during the three months ended March 31, 2015. This represents an increase of 4% as compared to the same period in 2014.

• We recorded operating income of \$144.2 million during the three months ended March 31, 2015. This represents an increase of 3% as compared to the same period in 2014.

On March 27, 2015, we issued \$500.0 million of 5.25% Senior Notes due April 1, 2025. We intend to use the proceeds for general corporate purposes, including, but not limited to, the repurchase of shares under our share repurchase program.

• On March 31, 2015, we entered into a new, five-year, \$200 million unsecured revolving credit facility that takes the place of the prior unsecured revolving credit facility.

We added 1.5 million net new names during the first quarter, ending with 133.0 million names in the domain name base for .com and .net, which represents a 3% increase over the base at the end of the first quarter in 2014, as calculated including domain names on hold for both periods.

• During the three months ended March 31, 2015, we processed 8.7 million new domain name registrations for .com and .net as compared to 8.6 million for the same period in 2014.

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The final .com and .net renewal rate for the fourth quarter of 2014 was 72.5% compared with 72.2% for the same quarter in 2013. Renewal rates are not fully measurable until 45 days after the end of the quarter.

On January 30, 2015, the Board of Directors authorized the repurchase of approximately \$452.9 million of our common stock, in addition to the \$547.1 million of our common stock remaining available for repurchase under the previous share repurchase program, for a total repurchase authorization of up to \$1.0 billion of our common stock. During the three months ended March 31, 2015, we repurchased 2.7 million shares of our common stock under the share buyback program for \$159.8 million. As of March 31, 2015, \$916.6 million remained available for further repurchases under our share buyback program.

We generated cash flows from operating activities of \$132.7 million during the three months ended March 31, 2015, a decrease from \$141.6 million in the same period last year.

On February 1, 2015, the annual fee for a .net domain name registration increased from \$6.18 to \$6.79, per our agreement with ICANN.

Pursuant to our agreements with ICANN, Verisign makes available on its website (at www.Verisigninc.com/zone) files containing all active domain names registered in the .com and .net registries. At the same website address, Verisign makes available a summary of the active zone count registered in the .com and .net registries and the number of .com and .net domain names in the domain name base. The domain name base is the active zone plus the number of domain names that are registered but not configured for use in the respective top level domain zone file plus the number of domain names that are in a client or server hold status. These files and the related summary data are updated at least once per day. The update times may vary each day. The numbers provided in this Form 10-Q are the numbers as of midnight of the date reported. Information available on, or accessible through, this website is not incorporated herein by reference.

Results of Operations

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

	Three Months Ended March 31,			
	2015		2014	
Revenues	100	%	100	%
Costs and expenses:				
Cost of revenues	19		19	
Sales and marketing	8		8	
Research and development	7		8	
General and administrative	10		9	
Total costs and expenses	44		44	
Operating income	56		56	
Interest expense	(9	)	(9)
Non-operating (loss) income, net	(2	)	3	
Income before income taxes	45		50	
Income tax expense	(12	)	(12)
Net income	33	%	38	%
Revenues				

Revenues related to our Registry Services are primarily derived from registrations for domain names in the .com and .net domain name registries. We also derive revenues from operating domain name registries for several other TLDs which are not significant in relation to our consolidated revenues. For domain names registered with the .com and .net registries we receive a fee from third-party registrars per annual registration that is fixed pursuant to our agreements with ICANN. Individual customers, called registrants, contract directly with third-party registrars or their resellers, and the third-party registrars in turn register the domain names with Verisign. Changes in revenues are driven largely by changes in the number of new domain name registrations and the renewal rate for existing registrations as well as the impact of new and prior price increases, to the extent permitted by ICANN and the DOC. New registrations and

the renewal rate for existing registrations are impacted by

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continued growth in online advertising, e-commerce, and the number of Internet users, which is partially driven by greater availability of broadband, as well as advertising and promotional activities carried out by us and third-party registrars. We increased the annual fee for a .net domain name registration from \$5.62 to \$6.18 on February 1, 2014, and from \$6.18 to \$6.79 on February 1, 2015. We have the contractual right to increase the fees for .net domain name registrations by up to 10% each year during the term of our .net agreement with ICANN through June 30, 2017. The annual fee for a .com domain name registration is fixed at \$7.85 for the duration of the current .com Registry Agreement through November 30, 2018, except that prices may be raised by up to 7% each year due to the imposition of any new Consensus Policy or documented extraordinary expense resulting from an attack or threat of attack on the Security and Stability (each as defined in the .com Registry Agreement) of the DNS, subject to approval of the DOC. We offer promotional marketing programs for our registrars based upon market conditions and the business environment in which the registrars operate. All fees paid to us for .com and .net registrations are in U.S. dollars. Revenues from NIA Services are not significant in relation to our total consolidated revenues. A comparison of revenues is presented below:

	Three Months Ended March 31,		
	2015	% Change	2014
	(Dollars in thousands)		
Revenues	\$258,422	4	% \$248,796
The following table compares domain name base for .com and .net managed by our Registry Services business:			
	March 31, 2015	% Change	March 31, 2014
Domain name base for .com and .net (1)	133.0 million	3	% 129.0 million

The domain name base for .com and .net presented above for each period, includes domain names that are in a client or server hold status. The domain names that are on a hold status were not previously included in the numbers reported in prior filings; however, the prior period amounts reported in this Form 10-Q have been adjusted to include domain names on a hold status to allow for direct comparisons

Revenues increased by \$9.6 million during the three months ended March 31, 2015, as compared to the same period last year, primarily due to an increase in revenues from the operation of the registries for the .com and .net TLDs. The increase was driven by a 3% increase in the number of domain names ending in .com and .net and an increase in the .net domain name registration fees in February 2014 and 2015.

The growth in the domain name base was primarily driven by continued Internet growth and new domain name promotional programs. However, ongoing economic uncertainty and the introduction of new gTLDs has limited the rate of growth of the domain name base in recent years. Further, according to published reports, Google periodically makes changes to its search algorithms, which may decrease traffic to certain websites, and pay-per-click advertising policies, which may provide less compensation for certain types of websites. This could make such websites less profitable and hinder domain name registration growth. We believe these algorithm changes had a negative effect on the first time renewal rate for registrations in recent years.

We expect to see continued growth in the domain name base during the remainder of 2015 as a result of further Internet growth. In addition we expect to see continued growth internationally in the domain name base, resulting from greater broadband availability, Internet adoption, and expanding e-commerce. However, we expect the rate of growth to be limited because of the same factors described above. We expect revenues will continue to increase in fiscal 2015, as a result of continued growth in the aggregate number of active domain names ending in .com and .net and increases in the .net domain name registration fees in February 2014 and 2015.

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Geographic revenues

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

The following table presents a comparison of our geographic revenues:

	Three Months Ended March 31,		
	2015	% Change	2014
	(Dollars in thousands)		
U.S.	\$ 157,508	4	% \$ 151,761
EMEA	47,006	4	% 45,149
APAC	35,046	9	% 32,194
Other	18,862	(4	)% 19,692
Total revenues	\$ 258,422		\$ 248,796

Revenues for our Registry Services business are attributed to the country of domicile and the respective regions in which our registrars are located, however, this may differ from the regions where the registrars operate or where registrants are located. Revenue growth for each region may be impacted by registrars reincorporating, relocating, or from acquisitions or changes in affiliations of resellers. Revenue growth for each region may also be impacted by registrars domiciled in one region, registering domain names in another region.

Cost of revenues

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

A comparison of cost of revenues is presented below:

	Three Months Ended March 31,		
	2015	% Change	2014
	(Dollars in thousands)		
Cost of revenues	\$ 48,353	1	% \$ 48,026

Cost of revenues remained consistent during the three months ended March 31, 2015, as compared to the same periods last year.

We expect cost of revenues as a percentage of revenues to decrease slightly during the remainder of 2015 compared to the three months ended March 31, 2015.

Sales and marketing

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

A comparison of sales and marketing expenses is presented below:

	Three Months Ended March 31,		
	2015	% Change	2014
	(Dollars in thousands)		
Sales and marketing	\$ 22,382	10	% \$ 20,289

Sales and marketing expenses increased slightly during the three months ended March 31, 2015, as compared to the same period last year, primarily due to a \$1.8 million increase in advertising and consulting expenses as we were able to accelerate the launch of our 2015 channel marketing programs for our Registry Services business.

We expect sales and marketing expenses as a percentage of revenues to remain consistent during the remainder of 2015 compared to the three months ended March 31, 2015.

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Research and development

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

A comparison of research and development expenses is presented below:

	Three Months Ended March 31, 2015	% Change	2014
Research and development	\$17,152	(7)%	\$18,439

Research and development expenses decreased slightly during the three months ended March 31, 2015, as compared to the same period last year due to a number of factors, none of which were individually significant.

We expect research and development expenses as a percentage of revenues to remain consistent during the remainder of 2015 compared to the three months ended March 31, 2015.

General and administrative

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

A comparison of general and administrative expenses is presented below:

	Three Months Ended March 31, 2015	% Change	2014
General and administrative	\$26,298	17 %	\$22,457

General and administrative expenses increased during the three months ended March 31, 2015, as compared to the same period last year, primarily due to a \$2.0 million expense for certain non-income taxes, and a \$1.8 million increase in salary and employee benefits expenses, including stock based compensation expense. Salary and employee benefits expenses increased due to annual salary increases and increased payroll tax expenses. Stock based compensation expense increased due to the impact of new RSU grants which had a higher grant date fair value due to the increase in our stock price.

We expect general and administrative expenses as a percentage of revenues to decrease slightly during the remainder of 2015 compared to the three months ended March 31, 2015.

Interest expense

The following table presents the components of Interest expense:

	Three Months Ended March 31,	
	2015	2014
Contractual interest on the Subordinated Convertible Debentures	\$10,156	\$10,156
Contractual interest on 2023 Senior Notes	8,672	8,672
Contractual interest on 2025 Senior Notes	365	—
Amortization of debt discount on the Subordinated Convertible Debentures	2,477	2,282
Credit facility fees and amortization of debt issuance costs	504	491
Interest capitalized to Property and equipment, net	(157)	(216)
Total interest expense	\$22,017	\$21,385

We expect interest expense as a percent of revenue to increase during the remainder of 2015 as compared to the three months ended March 31, 2015 due to the additional interest on the 2025 Senior Notes.

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Non-operating (loss) income, net

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

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Unrealized (loss) gain on contingent interest derivative on Subordinated Convertible Debentures	\$(7,019)	\$5,269
Interest income	259	316
Other, net	1,205	931
Total non-operating (loss) income, net	\$(5,555)	\$6,516

Unrealized losses and gains on the contingent interest derivative on the Subordinated Convertible Debentures reflect the change in value of the derivative that results primarily from changes in our stock price. Interest income is earned principally from our surplus cash balances and marketable securities.

Income tax expense

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

	Three Months Ended March 31,		
	2015	2014	
	(Dollars in thousands)		
Income tax expense	\$28,427	\$30,293	
Effective tax rate	24	% 24	%

The effective tax rate for the three months ended March 31, 2015 and 2014 is lower than the statutory federal rate of 35% primarily due to tax benefits from foreign income taxed at lower rates, partially offset by state income taxes and non-deductible stock-based compensation.

Liquidity and Capital Resources

	March 31, 2015	December 31, 2014
	(In thousands)	
Cash and cash equivalents	\$705,879	\$191,608
Marketable securities	1,165,443	1,233,076
Total	\$1,871,322	\$1,424,684

As of March 31, 2015, our principal source of liquidity was \$705.9 million of cash and cash equivalents and \$1.2 billion of marketable securities. The marketable securities primarily consist of debt securities issued by the U.S. Treasury meeting the criteria of our investment policy, which is focused on the preservation of our capital through investment in investment grade securities. The cash equivalents consist of amounts invested in money market funds. As of March 31, 2015, all of our debt securities have contractual maturities of less than one year. Our cash and cash equivalents are readily accessible. For additional information on our investment portfolio, see Note 2, "Cash, Cash Equivalents, and Marketable Securities," of our Notes to Condensed Consolidated Financial Statements in Part I, Item I of this Quarterly Report on Form 10-Q.

As of March 31, 2015, the amount of cash and cash equivalents and marketable securities held by foreign subsidiaries was \$970.2 million. Our intent remains to indefinitely reinvest these funds outside of the U.S. and accordingly, we have not provided deferred U.S. taxes for these funds. In the event funds from foreign operations are needed to fund operations in the U.S. and if U.S. tax has not already been provided, we would be required to accrue and pay additional U.S. taxes in order to repatriate these funds.

On March 27, 2015, we issued \$500.0 million of 5.25% senior unsecured notes due April 1, 2025. We intend to use the proceeds for general corporate purposes, including, but not limited to, the repurchase of shares under our share repurchase program. On March 31, 2015, we entered into a new \$200.0 million unsecured revolving credit facility. This facility will expire in 2020 and takes the place of our prior unsecured revolving credit facility. As of March 31,

2015, there were no borrowings outstanding under this credit facility.

As of March 31, 2015, we had \$750.0 million principal amount outstanding of the 4.625% senior unsecured notes due 2023.

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As of March 31, 2015, we had \$1.25 billion principal amount outstanding of 3.25% subordinated convertible debentures due 2037. The price of our common stock exceeded the conversion price threshold trigger during the first quarter of 2015. Accordingly, the Subordinated Convertible Debentures are convertible at the option of each holder through June 30, 2015. We do not expect a material amount of the Subordinated Convertible Debentures to be converted in the near term as the trading price of the debentures exceeds the value that is likely to be received upon conversion. However, we cannot provide any assurance that the trading price of the debentures will continue to exceed the value that would be derived upon conversion or that the holders will not elect to convert the Subordinated Convertible Debentures. If a holder elects to convert its Subordinated Convertible Debentures, we are permitted under the Indenture to pursue an exchange in lieu of conversion or to settle the conversion value (as defined in the Indenture) in cash, stock, or a combination thereof. If we choose not to pursue or cannot complete an exchange in lieu of conversion, we currently have the intent and the ability (based on current facts and circumstances) to settle the principal amount of the Subordinated Convertible Debentures in cash. However, if the principal amount of the Subordinated Convertible Debentures that holders actually elect to convert exceeds our cash on hand and cash from operations, we will need to draw cash from existing financing or pursue additional sources of financing to settle the Subordinated Convertible Debentures in cash. We cannot provide any assurances that we will be able to obtain new sources of financing on terms acceptable to us or at all, nor can we assure that we will be able to obtain such financing in time to settle the Subordinated Convertible Debentures that holders elect to convert.

On February 15, 2015, we paid contingent interest of \$5.2 million in addition to the normal coupon interest on our Subordinated Convertible Debentures. On February 14, 2015, the upside trigger on the Subordinated Convertible Debentures was met for the six month interest period from February 15, 2015 through August 14, 2015. On August 15, 2015, we will pay contingent interest of \$5.5 million in addition to the normal coupon interest to holders of record of the Subordinated Convertible Debentures as of August 1, 2015. The upside trigger is met if the Subordinated Convertible Debentures' average trading price is at least 150% of par during the 10 trading days before each semi-annual interest period. The upside trigger is tested semi-annually for the following six months. The semi-annual upside contingent interest payment, for a given period, can be approximated by applying the annual rate of 0.5% to the aggregate market value of all outstanding Subordinated Convertible Debentures and dividing by two for that semi-annual period payment amount.

We derive significant tax savings from the Subordinated Convertible Debentures. During the first quarter of 2015 and 2014, the interest deduction, for income tax purposes, related to our Subordinated Convertible Debentures was \$41.2 million and \$38.7 million, respectively, compared to coupon interest expense of \$10.2 million for each of the same periods. For income tax purposes, we deduct interest expense on the Subordinated Convertible Debentures calculated at 8.5% of the adjusted issue price, subject to adjustment for actual versus projected contingent interest. The adjusted issue price, and consequently the interest deduction for income tax purposes, grows over the term due to the difference between the interest deduction taken using a comparable yield of 8.5% on the adjusted issue price, and the coupon rate of 3.25% on the principal amount, compounded annually. The interest deduction taken is subject to recapture upon settlement to the extent that the amount paid (in cash or stock) to settle the Subordinated Convertible Debentures is less than the adjusted issue price. Interest recognized in accordance with GAAP, which is calculated at 8.39% of the liability component of the Subordinated Convertible Debentures, will also grow over the term, but at a slower rate. This difference will result in a continuing increase in the deferred tax liability on our Condensed Consolidated Balance Sheet.

We believe existing cash, cash equivalents and marketable securities, and funds generated from operations, together with our borrowing capacity under the unsecured revolving credit facility should be sufficient to meet our working capital, capital expenditure requirements, and to service our debt for at least the next 12 months. We regularly assess our cash management approach and activities in view of our current and potential future needs.

In summary, our cash flows for the three months ended March 31, 2015 and 2014 are as follows:

	Three Months Ended March
	31,
	2015
	2014
	(In thousands)

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Net cash provided by operating activities	\$132,669	\$141,629
Net cash provided by (used in) investing activities	51,155	(77,141)
Net cash provided by (used in) financing activities	330,263	(136,888)
Effect of exchange rate changes on cash and cash equivalents	184	230
Net increase (decrease) in cash and cash equivalents	\$514,271	\$(72,170)

Cash flows from operating activities

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

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Net cash provided by operating activities decreased slightly during the three months ended March 31, 2015 primarily due to increases in interest paid as a result of the \$5.2 million contingent interest paid to holders of the Subordinated Convertible Debentures, income tax payments which related primarily to certain non-US jurisdictions, and payments made to employees and vendors, partially offset by an increase in cash received from customers. Cash received from customers increased primarily due to an increase in the number of renewed domain name registrations during the three months ended March 31, 2015, and the increases in the .net domain name registration fees in February 2015 and 2014. Payments to employees and vendors increased primarily due to a slight increase in operating expenses and the timing of payments to vendors.

Cash flows from investing activities

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

The change in cash flows provided by (used in) investing activities was due to \$68.0 million of sales and maturities of marketable securities, net of purchases, during the first quarter of 2015, compared to \$65.9 million of purchases of marketable securities, net of sales and maturities, in the first quarter of 2014, partially offset by an increase in purchases of property and equipment and other investing activities.

Cash flows from financing activities

The changes in cash flows from financing activities primarily relate to share repurchases, proceeds from and repayments of borrowings, stock option exercises, our employee stock purchase plan, and excess tax benefits from stock-based compensation.

The change in cash provided by (used in) financing activities during the three months ended March 31, 2015 was primarily due to the proceeds from the issuance of the 2025 Senior Notes and an increase in excess tax benefits from stock-based compensation, partially offset by an increase in share repurchases.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes in our market risk exposures since December 31, 2014.

ITEM 4. CONTROLS AND PROCEDURES

Based on our management's evaluation, with the participation of our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer), as of March 31, 2015, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations of Disclosure Controls and Internal Control over Financial Reporting

Because of their inherent limitations, our disclosure controls and procedures and our internal control over financial reporting may not prevent material errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to risks, including that the control may become inadequate because of changes in conditions or that the degree of compliance with our policies or procedures may deteriorate.

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PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under “Legal Proceedings” in Note 11, “Contingencies,” of our Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

ITEM 1A. RISK FACTORS

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

Risks relating to our business

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

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

- deterioration of global economic and financial conditions as well as their impact on e-commerce, financial services, and the communications and Internet industries;
- volume of new domain name registrations and renewals;
- our success in direct marketing and promotional campaigns and the impact of such campaigns on new registrations and renewal rates;
- any changes to the scope and success of marketing efforts by third-party registrars or their resellers in the case of our Registry Services business, and by our sales channels, including resellers, referrers and OEMs, in the case of our NIA Services business;
- market acceptance of our services by our existing customers and by new customers;
 - customer renewal rates and turnover of customers of our services, and in the case of our Registry Services business, the customers of the distributors of our services;
- continued development of our distribution channels for our products and services, both in the U.S. and abroad;
- the impact of price changes in our products and services or our competitors’ products and services;
- the impact of decisions by distributors to offer competing or replacement products, including ccTLDs and new gTLDs, or modify or cease their marketing practices, including with respect to new gTLDs;
- the impact of ICANN’s Registry Agreement for new gTLDs (the “New gTLD Registry Agreement”), which requires the distribution of new gTLDs only through registrars who have executed the 2013 Registrar Accreditation Agreement (the “2013 RAA”) as well as accepting a unilateral right of ICANN to amend the New gTLD Registry Agreement;
- the availability of alternatives to our products;
- seasonal fluctuations in business activity;
- the introduction of new gTLDs, which could cause security, stability and resiliency problems that could possibly harm the industry and could substantially and permanently harm our business;
- in the case of our NIA Services business, the long sales cycles for some of our services and the timing and execution of individual customer contracts;
- potential attacks, including hacktivism, by nefarious actors, which could threaten the reliability or the perceived reliability of our products and services;
- potential attacks on the service offerings of our distributors, such as DDoS attacks, which could limit the availability of their service offerings and their ability to offer our products and services;
- changes in policies regarding Internet administration imposed by governments or governmental authorities inside or outside the U.S.;

potential disruptions in regional registration behaviors due to catastrophic natural events or armed conflict; changes in the level of spending for information technology-related products and services by our customers; and the uncertainties, costs and risks as a result of the sale of our Authentication Services business, including costs related to any retained liability related to existing and future claims.

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

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Any or all of the above factors could impact our revenues and operating results. Therefore, we believe that period-to-period comparisons of our operating results may not necessarily be meaningful. Also, operating results may fall below our expectations and the expectations of securities analysts or investors in one or more future periods. If this were to occur, the market price of our common stock would likely decline.

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

An unstable global economic, social and political environment, including hostilities and conflicts in various regions outside the U.S., natural disasters, currency fluctuations, country specific operating regulations, and potential fallout from the disclosures related to the U.S. Internet and communications surveillance, may have a negative impact on demand for our services, our business and our foreign operations. For example, recently the ongoing challenging economic conditions in Europe have possibly limited the rate of growth of the domain name base and may continue to do so in the future. More generally, the economic, social and political environment has or may negatively impact, among other things:

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

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

The successful operation of our business depends on numerous factors.

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

- the use of the Internet and other IP networks, and the extent to which domain names and the DNS are used for e-commerce and communications;
- changes in Internet user behavior, Internet platforms, social networks, mobile devices and web-browsing patterns;
- growth in demand for our services;
- the competition for any of our services;
- the perceived security of e-commerce and communications over the Internet;
 - the perceived security of our services, technology, infrastructure and practices;
- the loss of customers through industry consolidation or customer decisions to deploy in-house or competitor technology and services;
- our continued ability to maintain our current, and enter into additional, strategic relationships;
- our ability to successfully market our services to new and existing distributors and customers;
- our ability to develop new products, services or other offerings;
- our success in attracting, integrating, training, retaining and motivating qualified personnel;
- our response to competitive developments;
- the successful introduction, and acceptance by our current or new customers, of new products and services;
-

potential disruptions in regional registration behaviors due to catastrophic natural events, armed conflict and currency fluctuations;

- seasonal fluctuations in business activity;
- our ability to implement remedial actions in response to any attacks by nefarious actors;
- the successful introduction of enhancements to our services to address new technologies and standards, alternatives to our products and services and changing market conditions; and
- the successful introduction and compliance with Consensus Policies as they pertain to thick WHOIS and privacy issues for personally identifiable information of .com and .net registrants.

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Substantially all of our revenue is derived from our Registry Services business. Limitations on our ability to raise prices on domain name registrations and any failure to renew key agreements could materially and adversely affect our business, results of operations, financial condition and cash flows.

Our Registry Services business, which derives most of its revenues from registration fees for domain names, generates substantially all of our revenue. If there is a disruption in the Registry Services business, including any disruption from changes in the domain name industry, changes in or challenges to our agreements with ICANN, including any changes resulting from legal challenges to these agreements, changes in our customers' or Internet users' preferences, a downturn in the economy or changes in technology related to the use of domain names, there may be a material adverse effect on our business, results of operations, financial condition and cash flows. In addition, a failure of the DOC to approve the renewal of the .com Registry Agreement prior to the expiration of its current term on November 30, 2018 could have a material adverse effect on our business.

Under the terms of the Cooperative Agreement, the Company has the right to petition for potential relief from the .com Registry Agreement's pricing restrictions. However, there is uncertainty whether the DOC will approve any exercise by the Company of its right to increase the price per .com domain name registration under certain circumstances and whether the Company will be able to successfully demonstrate to the DOC that market conditions warrant removal of the pricing restrictions on .com domain name registrations, each of which could materially and adversely affect our business and results of operations.

There is also uncertainty of future revenue and profitability and potential fluctuations in quarterly operating results due to the potential increase in expenses and costs coupled with such factors as restrictions on increasing prices due to market conditions, under the .com Registry Agreement and the Cooperative Agreement, or otherwise, or any other changes to pricing terms in these agreements upon renewal.

Issues arising from our agreements with ICANN, the DOC and the GSA could harm our Registry Services business. We are parties to agreements (i) with the DOC with respect to certain aspects of the DNS, (ii) with ICANN and the DOC as the exclusive registry of domain names within the .com gTLD and (iii) with ICANN with respect to being the exclusive registry for the .net and .name gTLDs.

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

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

ICANN has adopted registry agreements for new gTLDs that include the right for ICANN to amend the agreement without a registry operator's consent, which could impose unfavorable contract obligations on us that could impact our plans and competitive positions with respect to new gTLDs. ICANN might seek to impose this same unilateral right to amend other registry agreements with us under certain conditions. ICANN has also included new mandatory obligations on registry operators that may increase the risks and potential liabilities associated with providing new gTLDs and ICANN might seek to impose these new mandatory obligations in our registry agreements under certain conditions;

under certain circumstances, ICANN could terminate one or more of our agreements to be the registry for the .com, .net or .name gTLDs and the DOC could refuse to grant its approval to the renewal of the .com Registry Agreement on similar terms, or at all, and if any of the foregoing events occur, in the case of the .com and .net Registry Agreements, it would have a material adverse impact on our business;

if we seek a price increase with respect to .com domain names during the term of the .com Registry Agreement or at the time of the renewal of the .com Registry Agreement, the DOC could refuse to approve price increases with respect to .com domain names;

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

under certain circumstances, the GSA could terminate, or we could not seek to renew, our agreement to be the registry for the .gov gTLD, which could have a material adverse impact on how the Registry Services business is perceived; and

contracts within our Registry Services business have faced, and could continue to face, challenges, including possible legal challenges resulting from our activities or the activities of ICANN, registrars, registrants and others, and any

adverse outcome from such challenges could have a material adverse effect on our business.

In addition, under the .com, .net and .name Registry Agreements with ICANN, as well as the Cooperative Agreement with the DOC, we are not permitted to acquire, directly or indirectly, control of, or a greater than 15% ownership interest in, any ICANN-accredited registrar. Historically, all gTLD registry operators were subject to this vertical integration prohibition. However, ICANN has established a process whereby these registry operators may seek ICANN's approval to remove this restriction, and ICANN has approved such removal in some instances. Additionally, ICANN's registry agreement for new gTLDs generally permits such vertical integration, with certain limitations including ICANN's right, but not the obligation, to

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refer such vertical integration activities to competition authorities. Furthermore, unless prohibited by ICANN as noted above, such vertical integration restrictions do not generally apply to ccTLD operators.

The impact of these changes to the distribution channel is uncertain but could have a material adverse effect on our business if operators of new or existing gTLDs are able to obtain competitive advantages through such vertical integration. If Verisign were to seek removal of the vertical integration restrictions contained in our agreements with respect to existing gTLDs, or in the future with respect to new gTLDs, it is uncertain whether ICANN and/or the DOC approval would be obtained.

Challenges to Internet administration or changes to our pricing terms could harm our Registry Services business. Risks we face from challenges by third parties, including governmental authorities in the U.S. and other countries, to our role in the ongoing operation of the Internet include:

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

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

- ICANN could fail to maintain its role, or seek to change its role, potentially resulting in changes to Internet governance that could pose a risk to our business, including instability in DNS administration;

- ICANN is mandated by the Affirmation of Commitments (the "AOC") by the DOC and ICANN to uphold a private sector led multi-stakeholder approach to Internet governance for the public benefit. We believe recent actions by ICANN have signaled a willingness to abandon this model on certain important issues that impact our business and the Internet community. If ICANN fails to uphold or significantly redefines the multi-stakeholder model, by expanding the role of governments in the Governmental Advisory Committee for example, it could harm our business and our relationship with ICANN;

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

- the AOC could be terminated or replaced with a different agreement between ICANN and some other authority which may establish other review panels or review procedures that may be unfavorable to us; and

- some governments are now questioning the ability of ICANN to be accountable with respect to Internet governance and, as a result, may seek a multilateral oversight body as a replacement.

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

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

As of March 31, 2015, we had 123, or 12% of our employees outside the U.S. Doing business in international markets has required and will continue to require significant management attention and resources. We may also need to tailor some of our services for a particular market and to enter into international distribution and operating relationships. We have limited experience in localizing our services and in developing international distribution or operating relationships. We may fail to maintain our ability to conduct business, including potentially material business operations in some international locations or we may not succeed in expanding our services into new international markets or expand our presence in existing markets. Failure to do so could harm our business. Moreover, local laws and customs in many countries differ significantly from those in the U.S. In many foreign countries, particularly in those with developing economies, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or U.S. law or regulations applicable to us. There can be no assurance that all of our employees, contractors and agents will not take actions in violation of such policies, procedures, laws and/or regulations. Violations of laws, regulations or internal policies and procedures by our employees, contractors or agents

could result in financial reporting problems, investigations, fines, penalties, or prohibition on the importation or exportation of our products and services and could have a material adverse effect on our business. In addition, we face risks inherent in doing business on an international basis, including, among others:

- competition with foreign companies or other domestic companies entering the foreign markets in which we operate, as well as foreign governments actively promoting ccTLDs which we do not operate;

- differing and uncertain regulatory requirements;

- legal uncertainty regarding liability, enforcing our contracts and compliance with foreign laws;

- tariffs and other trade barriers and restrictions;

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• difficulties in staffing and managing foreign operations;

• longer sales and payment cycles;

• currency fluctuations, as a small portion of our international revenues are not always denominated in U.S. dollars and some of our costs are denominated in foreign currencies;

- high costs associated with repatriating profits to the U.S., which could impact us due to the large percentage of our cash, cash equivalents and marketable securities currently held by us outside the U.S. (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources”);

• potential problems associated with adapting our services to technical conditions existing in different countries;

• difficulty of verifying customer information;

• political instability;

• failure of foreign laws to protect our U.S. proprietary rights adequately;

• more stringent privacy policies in some foreign countries;

• additional vulnerability from terrorist groups targeting U.S. interests abroad;

• seasonal reductions in business activity;

• potentially conflicting or adverse tax consequences;

• reliance on third parties in foreign markets in which we only recently started doing business; and

• potential concerns of international customers and prospects regarding doing business with U.S. technology companies due to alleged U.S. government data collection policies.

Governmental regulation and the application of new and existing laws in the U.S. and overseas may slow business growth, increase our costs of doing business, create potential liability and have an adverse effect on our business. Application of new and existing laws and regulations in the U.S. or overseas to the Internet and communications industry can be unclear. The costs of complying or failing to comply with these laws and regulations could limit our ability to operate in our current markets, expose us to compliance costs and substantial liability and result in costly and time-consuming litigation.

Foreign, federal or state laws could have an adverse impact on our business, financial condition, results of operations and cash flows, and our ability to conduct business in certain foreign countries. For example, laws designed to restrict who can register and who can distribute domain names, the online distribution of certain materials deemed harmful to children, online gambling (especially as we consider providing NIA Services and Registry Services to this sector), counterfeit goods, and cybersquatting; laws designed to require registrants to provide additional documentation or information in connection with domain name registrations; and laws designed to promote cyber security may impose significant additional costs on our business or subject us to additional liabilities. We have contracts pursuant to which we provide services to the U.S. government and even though these contracts are immaterial, they impose compliance costs, including compliance with the Federal Acquisition Regulation, which could be significant to the Company. Due to the nature of the Internet, it is possible that state or foreign governments might attempt to regulate Internet transmissions or prosecute us for violations of their laws. We might unintentionally violate such laws, such laws may be modified and new laws may be enacted in the future. Any such developments could increase the costs of regulatory compliance for us, affect our reputation, force us to change our business practices or otherwise materially harm our business. In addition, any such new laws could impede growth of or result in a decline in domain name registrations, as well as impact the demand for our services.

We operate two root zone servers and are contracted to perform the Root Zone Maintainer function. Under ICANN’s new gTLD program, we face increased risk from these operations.

We administer and operate two of the 13 root zone servers. Root zone servers are name servers that contain authoritative data for the very top of the DNS hierarchy. These servers have the software and DNS configuration data necessary to locate name servers that contain authoritative data for the TLDs. These root zone servers are critical to the functioning of the Internet. Under the Cooperative Agreement with the National Telecommunications and Information Administration (“NTIA”) of the DOC, we play a key operational role in support of the Internet Assigned Numbers Authority (“IANA”) function as the Root Zone Maintainer. In this role, we provision and publish the authoritative data for the root zone itself multiple times daily and distribute it to all root server operators.

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Under its new gTLD program, ICANN intends to recommend for delegation into the root zone over 1,300 new gTLDs potentially within a compressed timeframe. On October 23, 2013, NTIA began to authorize, and Verisign began effectuating, the delegation of the new gTLDs. In view of our role as the Root Zone Maintainer, and as a root operator, we face increased risks should ICANN's delegation of these new gTLDs cause security and stability problems within the DNS and/or for parties who rely on the DNS. Such risks include potential instability of the DNS including potential fragmentation of the DNS should ICANN's delegations create sufficient instability, and potential claims based on our role in the root zone provisioning and delegation process. These risks, alone or in the aggregate, have the potential to cause serious harm to our Registry Services business. Further, our business could also be harmed through security, stability and resiliency degradation if the delegation of new gTLDs into the root zone causes problems to certain components of the DNS ecosystem or other aspects of the global DNS, or other relying parties are negatively impacted as a result of domain name collisions, such as exposure or other leakage of private or sensitive information.

Additionally, DNS Security Extensions ("DNSSEC") enabled in the root zone and at other levels of the DNS require new preventative maintenance functions and operational practices that did not exist prior to the introduction of DNSSEC. Any failure by Verisign or the IANA functions operator to comply with stated practices, such as those outlined in relevant DNSSEC Practice Statements, introduces risk to DNSSEC relying parties and other Internet users and consumers of the DNS, which could have a material adverse impact on our business.

On March 14, 2014, the National Telecommunications and Information Administration announced its intent to transition key Internet domain name functions potentially impacting our Root Zone Maintainer function.

On March 14, 2014, NTIA announced its intent to transition its oversight of the IANA function to the global multi-stakeholder community. NTIA asked ICANN to convene global stakeholders to develop a proposal to transition the current role played by NTIA in the coordination of the DNS. The NTIA is also coordinating a related and parallel transition of related root zone management functions. These related root zone management functions involve our role as Root Zone Maintainer under the Cooperative Agreement. We have performed the Root Zone Maintainer functions as a community service spanning three decades without compensation at the request of the Department of Commerce under the Cooperative Agreement. It is uncertain how the transition of oversight of the IANA function and related root zone management functions will affect our role as Root Zone Maintainer. Although our Root Zone Maintainer function is separate from our Registry Services business, and the NTIA announcement does not affect Verisign's operation of the .com, .net and .name registries, there can be no assurance that the transition of the IANA function or the transition of the related root zone management functions will not negatively impact our business.

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

Currently, Internet users often navigate to a website either by directly typing its domain name into a web browser or through the use of a search engine. If (i) web browser or Internet search technologies were to change significantly; (ii) Internet search engines were to change the value of their algorithms on the use of a domain for finding a website; (iii) Internet users' preferences or practices continue to shift away from directly typing in web addresses; (iv) Internet users were to significantly decrease the use of web browsers in favor of applications to locate and access content; or (v) Internet users were to increasingly use third level domains or alternate identifiers, such as social networking and microblogging sites, in each case the demand for domain names could decrease.

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

Some domain name registrars and registrants seek to generate revenue through advertising on their websites; changes in the way these registrars and registrants are compensated (including changes in methodologies and metrics) by advertisers and advertisement placement networks, such as Google, Yahoo!, Baidu and Bing, have, and may continue to, adversely affect the market for those domain names favored by such registrars and registrants which has resulted in, and may continue to result in, a decrease in demand and/or the renewal rate for those domain names. For example, according to published reports, Google has in the past changed (and may change in the future) its search algorithm, which may decrease site traffic to certain websites, and pay-per-click advertising policies to provide less compensation for advertising on certain types of websites. This has made such websites less profitable which has

resulted in, and may continue to result in, fewer domain registrations and renewals. In addition, as a result of the general economic environment, spending on online advertising and marketing may not increase or may be reduced, which in turn, may result in a further decline in the demand for those domain names.

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

Many Internet merchants are not currently required to collect sales taxes in respect of shipments of goods into states where they lack physical presence. However, state tax laws and regulations may change in the future and one or more states may seek to impose sales tax collection obligations on out-of-state companies that engage in online commerce.

Several states have enacted “affiliate nexus” laws which require online retailers without a physical presence in the state to begin collecting sales taxes if a significant number of local sales are generated by brick and mortar affiliates operating in the state. In addition, it is possible that national legislation may be enacted requiring online retailers with greater than \$1 million in sales in a state, but without any physical presence in the state, to begin collecting sales taxes for that state. Legislation called the Marketplace Fairness Act of 2013 (S. 743), which would have done this, passed the Senate in 2013, but no action was taken by the House of Representatives prior to the 2013-2014 congressional term. A new version of the Marketplace Fairness Act, known as the Digital Goods and Services Tax Fairness Act of 2015 has been introduced in both the House and Senate, but it is unclear if this new version will have any greater chance of passage than its predecessor. The enactment of any such state or federal laws may impair the growth of e-commerce and discourage the registration or renewal of domain names for e-commerce.

Reduced marketing efforts or other operational changes among registrars or their resellers as a result of consolidation or changes in ownership, management, or strategy could harm our Registry Services business.

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

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

Services as complex as those we offer or develop could contain undetected defects or errors. Despite testing, defects or errors may occur in our existing or new services, which could result in compromised customer data, loss of or delay in revenues, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to our reputation, tort or contract claims, increased insurance costs or increased service costs, any of which could harm our business. The performance of our services could have unforeseen or unknown adverse effects on the networks over which they are delivered as well as, more broadly, on Internet users and consumers, and third-party applications and services that utilize our services, which could result in legal claims against us, harming our business. Our failure or inability to meet customer expectations in a timely manner could also result in loss of or delay in revenues, loss of market share, failure to achieve market acceptance, injury to our reputation and increased costs.

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

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

- power loss, transmission cable cuts and other telecommunications failures;
- damage or interruption caused by fire, earthquake, and other natural disasters;
- attacks, including hacktivism, by miscreants or other nefarious actors;
- computer viruses or software defects;
- physical or electronic break-ins, sabotage, intentional acts of vandalism, terrorist attacks and other events beyond our control;
- risks inherent in or arising from the terms and conditions of our agreements with service providers to operate our networks and data centers;
- State suppression of Internet operations; and

any failure to implement effective and timely remedial actions in response to any damage or interruption. Most of the computing infrastructure for our Shared Registration System is located at, and most of our customer information is stored in, our facilities in New Castle, Delaware; Dulles, Virginia; and Fribourg, Switzerland. To the extent we are unable to partially or completely switch over to our primary alternate or tertiary sites, any damage or failure that causes interruptions in any of these facilities or our other computer and communications systems could materially harm our business. Although we carry insurance for property damage, we do not carry insurance or financial reserves for such interruptions, or for potential losses arising from terrorism.

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In addition, our Registry Services business and certain of our other services depend on the efficient operation of the Internet connections from customers to our Shared Registration System residing in our secure data centers. These connections depend upon the efficient operation of Internet service providers and Internet backbone service providers, all of which have had periodic operational problems or experienced outages in the past beyond our scope of control. In addition, if these service providers present inconsistent data regarding the DNS, our business could be harmed.

A failure in the operation of our TLD name servers, the domain name root zone servers, or other events could result in a DNS resolution or other service outage or in the deletion of one or more domain names from the Internet for a period of time or a misdirection of a domain name to a different server. A failure in the operation of our Shared Registration System could result in the inability of one or more registrars to register and maintain domain names for a period of time. In the event that a registrar has not implemented back-up services recommended by us in conformance with industry best practices, the failure could result in permanent loss of transactions at the registrar during that period. A failure in the operation or update of the root zone file or the supporting cryptographic and other operational infrastructure that we maintain could also result in the deletion of one or more TLDs from the Internet and the discontinuation of second-level domain names in those TLDs for a period of time or a misdirection of a domain name to a different server. Any of these problems or outages could create potential liability and could decrease customer satisfaction, harming our business or resulting in adverse publicity that could adversely affect the market's perception of the security of e-commerce and communications over the Internet as well as of the security or reliability of our services.

In addition, a failure in our NIA Services could have a negative impact on our reputation and our business could suffer.

If we experience security breaches, we could be exposed to liability and our reputation and business could suffer. We retain certain customer and employee information in our secure data centers and various domain name registration systems. It is critical to our business strategy that our facilities and infrastructure remain secure and are perceived by the marketplace to be secure. The Company, as an operator of critical Internet infrastructure, is frequently targeted and experiences a high rate of attacks. These include the most sophisticated forms of attacks, such as advanced persistent threat ("APT") attacks and zero-hour threats, which means that the threat is not compiled or has been previously unobserved within our observation and threat indicators space until the moment it is launched, and may well target specific unidentified or unresolved vulnerabilities that exist only within the target's operating environment, making these attacks virtually impossible to anticipate and difficult to defend against. The Shared Registration System, the root zone servers, the root zone files, TLD name servers and TLD zone files that we operate are critical hardware and software to our Registry Services operations. We expend significant time and money on the security of our facilities and infrastructure. Despite our security measures, we have been subject to a security breach, as disclosed in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, and our infrastructure may in the future be vulnerable to physical break-ins, outages resulting from destructive malware, computer viruses, attacks by hackers or nefarious actors or similar disruptive problems, including hacktivism. It is possible that we may have to expend additional financial and other resources to address such problems. Any physical or electronic break-in or other security breach or compromise of the information stored at our secure data centers or domain name registration systems may cause an outage of or jeopardize the security of information stored on our premises or in the computer systems and networks of our customers. In such an event, we could face significant liability, customers could be reluctant to use our services and we could be at risk for loss of various security and standards-based compliance certifications needed for certain of our businesses, all or any of which could adversely affect our reputation and harm our business. Such an occurrence could also result in adverse publicity and therefore adversely affect the market's perception of the security of e-commerce and communications over the Internet as well as of the security or reliability of our services.

We are frequently subject to large-scale DDoS attacks.

Our networks have been and likely will continue to be subject to DDoS attacks of increasing size and sophistication. We have adopted mitigation techniques, procedures and strategies to defend against such attacks but there can be no assurance that we will be able to defend against every attack especially as the attacks increase in size and sophistication. Any successful attack, or partially successful attack, could disrupt our networks, increase response

time, and generally hamper our ability to provide reliable service to our Registry Services customers and the broader Internet community. Further, we sell DDoS protection services to NIA Services customers. Although our contracts with these customers provide that we may prioritize all or part of these services at no liability to us in order to preserve our operational stability, the provision of such services might expose our critical DNS services to temporary degradations or outages caused by very large-scale DDoS attacks against those customers, in addition to any directed specifically against us and our networks.

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

Our success depends in part on our internally developed technologies and intellectual property. Despite our precautions, it may be possible for a third party to copy or otherwise obtain and use our trade secrets or other forms of our intellectual property without authorization. Furthermore, the laws of foreign countries may not protect our proprietary rights in those countries to the same extent U.S. law protects these rights in the U.S. In addition, it is possible that others may independently develop substantially equivalent intellectual property. If we do not effectively protect our intellectual property, our business could suffer. Additionally, we have filed patent applications with respect to certain of our technology in the U.S. Patent and Trademark Office and patent offices outside the U.S. Patents may not be awarded with respect to these applications and even if such patents are awarded, third parties may seek to oppose or otherwise challenge our patents, and such patents' scope may differ significantly from what was requested in the patent applications and may not provide us with sufficient protection of our intellectual property. In the future, we may have to resort to litigation to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This type of litigation is inherently unpredictable and, regardless of its outcome, could result in substantial costs and diversion of management attention and technical resources. Some of the software and protocols used in our business are based on standards set by standards setting organizations such as the Internet Engineering Task Force. To the extent any of our patents are considered "standards essential patents," we may be required to license such patents to our competitors on reasonable and non-discriminatory terms.

We also license third-party technology that is used in our products and services to perform key functions. These third-party technology licenses may not continue to be available to us on commercially reasonable terms or at all. The loss of or our inability to obtain or maintain any of these technology licenses could hinder or increase the cost of our launching new products and services, entering into new markets and/or otherwise harm our business. Some of the software and protocols used in our Registry Services business are in the public domain or may otherwise become publicly available, which means that such software and protocols are equally available to our competitors.

We rely on the strength of our Verisign brand to help differentiate ourselves in the marketing of our products. Dilution of the strength of our brand could harm our business. We are at risk that we will be unable to fully register, build equity in, or enforce the Verisign logo in all markets where Verisign products and services are sold.

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

We cannot be certain that we do not and will not infringe the intellectual property rights of others. Claims relating to infringement of intellectual property of others or other similar claims have been made against us and could be made against us in the future. It is possible that we could become subject to additional claims for infringement of the intellectual property of third parties. The international use of our logo could present additional potential risks for third party claims of infringement. Any claims, with or without merit, could be time consuming, result in costly litigation and diversion of technical and management personnel attention, cause delays in our business activities generally, or require us to develop a non-infringing logo or technology or enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may not be available on acceptable terms or at all. If a successful claim of infringement were made against us, we could be required to pay damages or have portions of our business enjoined. If we could not identify and adopt an alternative non-infringing logo, develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis, our business could be harmed.

A third party could claim that the technology we license from other parties infringes a patent or other proprietary right. Litigation between the licensor and a third party or between us and a third party could lead to royalty obligations for which we are not indemnified or for which indemnification is insufficient, or we may not be able to obtain any additional license on commercially reasonable terms or at all.

In addition, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights in Internet-related businesses, including patents related to software and business methods, are uncertain and still evolving. Because of the growth of the Internet and Internet-related businesses, patent applications are continuously

being filed in connection with Internet-related technology. There are a significant number of U.S. and foreign patents and patent applications in our areas of interest, and we believe that there has been, and is likely to continue to be, significant litigation in the industry regarding patent and other intellectual property rights.

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We could become involved in claims, lawsuits or investigations that may result in adverse outcomes. In addition to possible intellectual property litigation and infringement claims, we are, and may in the future, become involved in other claims, lawsuits and investigations. Such proceedings may initially be viewed as immaterial but could prove to be material. Litigation is inherently unpredictable, and excessive verdicts do occur. Adverse outcomes in lawsuits and investigations could result in significant monetary damages, including indemnification payments, or injunctive relief that could adversely affect our ability to conduct our business and may have a material adverse effect on our financial condition, results of operations and cash flows. Given the inherent uncertainties in litigation, even when we are able to reasonably estimate the amount of possible loss or range of loss and therefore record an aggregate litigation accrual for probable and reasonably estimable loss contingencies, the accrual may change in the future due to new developments or changes in approach. In addition, such investigations, claims and lawsuits could involve significant expense and diversion of management's attention and resources from other matters. See Note 11, "Contingencies" Legal Proceedings, of our Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

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

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

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

Furthermore, any changes by our distributors to their existing marketing strategies could have a material adverse effect on our business. Similarly, if one or more of our distributors were to encounter financial difficulties, or if there were a significant reduction in marketing expenditures by our distributors (including registrars or their resellers), as a result of industry consolidation or otherwise, it could have a material adverse effect on our business, including a decrease in domain name registrations and renewals. Failure of one or more of our strategic, channel or other relationships to result in the development and maintenance of a market for our services could harm our business. If we are unable to maintain our existing relationships or to enter into additional relationships, this could harm our business. With the introduction of new gTLDs, many of our registrars, based upon their perception of market opportunity, may choose to focus their short or long-term marketing efforts on these new offerings and/or reduce the prominence or visibility of our products and services on their e-commerce platforms, and if we are unable to maintain their focus on our products and services or move through them to engage the same registrants, this could harm our business.

New entrants may disrupt the registrar industry, which could have adverse effects on our business. This could include, but is not limited to, potential harm to the business models of existing registrars, impairing their ability to engage in promotional activities beneficial to the sale of domain name registrations in the TLDs operated by us.

We continue to explore new strategic initiatives, the pursuit of any of which may pose significant risks and could have a material adverse effect on our business, financial condition and results of operations.

We are exploring a variety of possible strategic initiatives which may include, among other things, the pursuit of new revenue streams, services or products, changes to our offerings or initiatives to leverage our patent portfolio.

Any such strategic initiative may involve a number of risks, including: the diversion of our management's attention from our existing business to develop the initiative, related operations and any requisite personnel; possible material adverse effects on our results of operations during and after the development process; and our possible inability to achieve the intended objectives of the initiative. Such initiatives may result in a reduction of cash or increased costs. We may not be able to successfully or profitably develop, integrate, operate, maintain and manage any such initiative and the related operations or employees in a timely manner or at all. Furthermore, under our agreements with ICANN, we are subject to certain restrictions in the operation of .com, .net and .name, including required ICANN approval of new registry services for such TLDs. If any new initiative requires ICANN review, we cannot predict whether this

process will prevent us from implementing the initiative in a timely manner or at all. Any strategic initiative to leverage our patent portfolio will likely increase litigation risks from potential licensees and we may have to resort to litigation to enforce our intellectual property rights. Litigation is inherently unpredictable and, regardless of its outcome, could result in substantial costs and diversion of management attention and technical resources.

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

We are investing in our NIA Services, and the future growth of these services depends, in part, on the commercial success, acceptance, and reliability of our NIA Services. We continually evaluate and evolve the terms and conditions upon which these services are sold. These services may not experience success or acceptance as a result of changes to the terms and conditions. Also, these services will suffer if our target customers do not adopt or use these services. We are not certain that our target customers will choose our NIA Services or continue to use these services even after adoption.

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

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

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

Our Registry Services and NIA Services businesses are developing services in emerging markets, including services that involve naming and directory services other than registry and related infrastructure services. These emerging markets are rapidly evolving, may never gain wide acceptance and may not grow. Even if these markets grow, our services may not be widely accepted. Accordingly, the demand for our services in these markets is very uncertain. The factors that may affect market acceptance of our services in these markets include the following:

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

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

We depend on key employees to manage our business effectively, and we may face difficulty attracting and retaining qualified leaders.

We depend on the performance of our senior management team and other key employees, and we have experienced changes in our management team during the last few years. If we are unable to attract, integrate, retain and motivate these individuals and additional highly skilled technical and sales and marketing employees, and implement succession plans for these personnel, our business may suffer.

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

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

- our stockholders may take action only at a duly called meeting and not by written consent;
- special meetings of our stockholders may be called only by the chairman of the board of directors, the president, our Board, or the secretary (acting as a representative of the stockholders) whenever a stockholder or group of stockholders owning at least thirty-five percent (35%) in the aggregate of the capital stock issued, outstanding and entitled to vote, and who held that amount in a net long position continuously for at least one year, so request in writing;
- our Board must be given advance notice regarding stockholder-sponsored proposals for consideration at annual meetings and for stockholder nominations for the election of directors;
- vacancies on our Board can be filled until the next annual meeting of stockholders by majority vote of the members of the Corporate Governance and Nominating Committee, or a majority of directors then in office if no such committee exists, or a sole remaining director; and
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our Board has the ability to designate the terms of and issue new series of preferred stock without stockholder approval.

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

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

We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are subject to audit by various tax authorities. In accordance with U.S. GAAP, we recognize income tax benefits, net of required valuation allowances and accrual for uncertain tax positions. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. Should additional taxes be assessed as a result of an audit or litigation, an adverse effect on our income tax provision and net income in the period or periods for which that determination is made could result. A significant portion of our foreign earnings for the current fiscal year was earned by our Swiss subsidiaries. Our effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates.

As described further in “Note 12, Income Taxes, of our Notes to Consolidated Financial Statements in Part IV, Item 15 of our 2014 Form 10-K, we claimed a worthless stock deduction on our 2013 federal income tax return and recorded, during the fourth quarter of 2013, an income tax benefit of \$375.3 million, net of valuation allowances and accrual for uncertain tax positions recorded as required under U.S. GAAP. This worthless stock deduction may be subject to audit and adjustment by the IRS, which could result in the reversal of all, part or none of the income tax benefit, or could result in a benefit higher than the net amount recorded. If the IRS rejects or reduces the amount of the income tax benefit related to the worthless stock deduction, we may have to pay additional cash income taxes, which could adversely affect our results of operations, financial condition and cash flows. We cannot guarantee what the ultimate outcome or amount of the benefit we receive, if any, will be.

Various legislative proposals that would reform U.S. corporate tax laws have been proposed by the Obama administration as well as members of Congress, including proposals that would significantly impact how U.S. multinational corporations are taxed on foreign earnings. We are unable to predict whether these or other proposals will be implemented. Although we cannot predict whether or in what form any proposed legislation may pass, if enacted, such legislation could have a material adverse impact on our tax expense or cash flow.

Our inability to indefinitely reinvest our foreign earnings could materially adversely affect our results of operations, financial condition and cash flows.

We consider the following matters, among others, in evaluating our plans for indefinite reinvestment: the forecasts, budgets and financial requirements of the parent and subsidiaries for both the long and short term; the projected available distributable capital reserves under applicable foreign statutes, the tax consequences of a decision to reinvest; and any U.S. and foreign government programs designed to influence remittances. If these factors change and as a result we are unable to indefinitely reinvest the foreign earnings, the income tax expense and payments may differ significantly from the current period and could materially adversely affect our results of operations, financial condition and cash flows. Deferred income taxes are not provided for any funds remaining in the foreign subsidiaries because these earnings are intended to be indefinitely reinvested.

We are exposed to risks faced by financial institutions.

The hedging transactions we have entered into expose us to credit risk in the event of default by one of our counterparties. Despite the risk control measures we have in place, a default by one of our counterparties, or liquidity

problems in the financial services industry in general, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

As of March 31, 2015, we had \$1.9 billion in cash, cash equivalents, marketable securities and restricted cash, of which \$1.2 billion was invested in marketable securities. The marketable securities consist primarily of debt securities issued by the U.S. Treasury meeting the criteria of our investment policy, which is focused on the preservation of our capital through the investment in investment grade securities. We currently do not use derivative financial instruments to adjust our investment portfolio risk or income profile.

These investments, as well as any cash deposited in bank accounts, are subject to general credit, liquidity, market and interest rate risks, which may be exacerbated by unusual events, such as the U.S. debt ceiling crisis and the eurozone crisis, which affected various sectors of the financial markets and led to global credit and liquidity issues. During the 2008 financial crisis, the volatility and disruption in the global credit market reached unprecedented levels. If the global credit market deteriorates again or other events negatively impact the market for U.S. Treasury securities, our investment portfolio may be impacted and we could determine that some of our investments have experienced an other-than-temporary decline in fair value, requiring an impairment charge which could adversely impact our financial results, results of operations and cash flows.

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

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

We are subject to the risks of owning real property.

We own the land and building in Reston, Virginia, which constitutes our headquarters facility. Ownership of this property, as well as our data centers in Dulles, Virginia and New Castle, Delaware, may subject us to risks, including: adverse changes in the value of the properties, due to interest rate changes, changes in the commercial property markets, or other factors;

ongoing maintenance expenses and costs of improvements;

the possible need for structural improvements in order to comply with environmental, health and safety, zoning, seismic, disability law, or other requirements;

the possibility of environmental contamination or notices of violation from federal or state environmental agencies,

and the costs associated with fixing any environmental problems or addressing notices of violation; and

possible disputes with neighboring owners, tenants, service providers or others.

Risks relating to the competitive environment in which we operate

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

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

Competition in Registry Services: We face competition in the domain name registry space from other gTLD and ccTLD registries that are competing for the business of entities and individuals that are seeking to obtain a domain name registration and/or establish a Web presence. In addition to the three gTLDs we operate (.com, .net and .name),

and the 18 other operational gTLDs delegated before October 23, 2013, there are over 250 Latin script ccTLD registries and more than 40 IDN ccTLD registries. Under our agreements with ICANN, we are subject to certain restrictions in the operation of .com, .net and .name on pricing, bundling, marketing, methods of distribution, the introduction of new registry services and use of registrars that do not apply to ccTLDs and therefore may create a competitive disadvantage. If other registries launch marketing campaigns for new or existing TLDs, including forms of marketing campaigns that we are prohibited from running under the terms of our agreements

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with ICANN, which result in registrars or their resellers giving other TLDs greater prominence on their websites, advertising or marketing materials, we could be at a competitive disadvantage and our business could suffer. In addition, on October 23, 2013, the DOC began to authorize, and Verisign began effectuating, the delegation of the new gTLDs. ICANN is executing registry agreements with new gTLD applicants, awarding over 1,300 new gTLDs in an initial round under its new gTLD program, and plans on offering a second round of new gTLDs after the completion of the initial round, the timing of which is uncertain. For additional information about the potential risks presented by these new gTLDs, see “We may face additional competition, operational and other risks from the introduction of new gTLDs by ICANN, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.”

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

U.S. and most other countries’ trademark laws do not permit the registration of TLDs such as .com and .net as trademarks. Accordingly, Verisign’s ability to prevent other registries from using the .com and .net brand in their marketing materials may be limited.

Competition in NIA Services: Several of our current and potential competitors have longer operating histories and/or significantly greater financial, technical, marketing and other resources than we do and therefore may be able to respond more quickly than we can to new or changing opportunities, technologies, standards and customer requirements. Many of these competitors also have broader and more established distribution channels that may be used to deliver competing products or services directly to customers through bundling or other means. If such competitors were to bundle competing products or services for their customers, we may experience difficulty establishing or increasing demand for our products and services or distributing our products successfully. In addition, it may be difficult to compete against consolidation and partnerships among our competitors which create integrated product suites.

We face competition in the network intelligence and availability services industry from companies or services such as iSight Partners, IBM X-Force, Secunia ApS, Dell SecureWorks, McAfee, Inc., Akamai Technologies Inc. (including their acquisition of Prolexic Technologies, Inc.), AT&T Inc., Verizon Communications, Inc., Dyn, Inc., Neustar, Inc., OpenDNS, BlueCat Networks, Inc., Infoblox Inc., Nominum, Inc. and Afilias Limited.

We may face additional competition, operational and other risks from the introduction of new TLDs by ICANN, which could have a material adverse effect on our business, results of operations, financial condition and cash flows. Additional competition to our business may arise from the introduction of new TLDs by ICANN. On October 30, 2009, ICANN approved a fast track process for the awarding of new IDN ccTLDs requested by country code managers, resulting in the ongoing delegation of new IDN ccTLDs to the DNS root zone. Additionally, on June 13, 2012, ICANN announced it received 1,930 applications to operate over 1,400 unique new gTLDs. ICANN has begun executing registry agreements with these new gTLD applicants in connection with this initial round of gTLD applications and intends to continue recommending over 1,300 new gTLDs for delegation into the root zone. On October 23, 2013, the DOC began to authorize, and Verisign began effectuating, the delegation of the new gTLDs. ICANN plans on offering a second round of new gTLDs after the completion of the initial round, the timing of which is uncertain. Increased competition from these new TLDs could have a material effect on our business, results of operations, financial condition and cash flows. As set forth in the Verisign Labs Technical Report #1130007 version 2.2: New gTLD Security and Stability Considerations released on March 28, 2013, and reiterated in our further publications since then, we continue to believe there are issues regarding the deployment of the new gTLDs that should have been addressed before any new gTLDs were delegated, and despite our and others’ efforts, some of these issues have not been addressed by ICANN sufficiently, if at all. For example, there has been an increase in domain

name collisions in 2014 which have resulted in network interruptions for enterprises as well as confusion and usability issues that have led to phishing attacks. We do not yet know the impact, if any, that these new gTLDs may have on our business, including if or how the introduction of these new gTLDs will affect registrations for .com and .net and therefore have a material adverse effect on our business, results of operations, financial condition and cash flows.

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Applicants for new gTLDs include companies which may have greater financial, marketing and other resources than we do, including companies that are existing competitors, domain name registrars and new entrants into the domain name industry. In addition, under the .com, .net and .name Registry Agreements with ICANN, as well as the Cooperative Agreement with the DOC, we are not permitted to acquire, directly or indirectly, control of, or a greater than 15% ownership interest in, any ICANN-accredited registrar. Historically, all gTLD registry operators were subject to this vertical integration prohibition. However, ICANN has established a process whereby these registry operators may seek ICANN's approval to remove this restriction, and ICANN has approved such removal in some instances. Additionally, ICANN's registry agreement for new gTLDs generally permits such vertical integration, with certain limitations including ICANN's right, but not the obligation, to refer such vertical integration activities to competition authorities. Furthermore, unless prohibited by ICANN as noted above, such vertical integration restrictions do not generally apply to other ccTLD operators if at all.

If Verisign were to seek removal of the vertical integration restrictions contained in our agreements with respect to existing gTLDs, or in the future with respect to new gTLDs, it is uncertain whether ICANN and/or the DOC approval would be obtained; without such changes, we may be at a competitive disadvantage.

We applied for 14 new gTLDs, including 12 IDN gTLDs, which are transliterations of ".com" or ".net" in various languages. We executed registry agreements to become the registry operator for 12 of these new gTLDs, including 11 IDNs as well as .comsec. The remaining IDN application was for a transliteration of ".com" in Traditional Chinese script, which was a variant of a string we applied for in another IDN application ("com" in Simplified Chinese), and has been withdrawn at the request of ICANN, because ICANN had not yet developed a policy to address such variants. We may continue with this application, or a new one for the same string, once ICANN develops and implements a policy to address variant strings. The deadline to execute the registry agreement for our .verisign application is July 29, 2015. There is no certainty that we will enter into the registry agreement for .verisign or ultimately operate any of these new gTLDs.

ICANN has stated that it will need to limit the maximum number of new gTLDs that may be delegated in a year to 1,000, which could delay the activation of some approved new gTLDs. Even though IDN gTLDs have been given priority, other factors related to the application process could delay or disrupt an application and the timing of revenue generation, if any, from these gTLDs. Further, there is no guarantee that such new gTLDs will be any more successful than the new gTLDs obtained by our competitors. For example, some of the new gTLDs including our new gTLD strings, may face additional universal acceptability and usability challenges in that current desktop and mobile device software does not ubiquitously recognize these new gTLDs and may be slow to adopt standards or support these gTLDs, even if demand for such products is strong. This is particularly true for IDN gTLDs, but applies to conventional gTLDs as well.

Similarly, while we originally entered into agreements to provide back-end registry services to other applicants for approximately 220 new gTLDs, and applicants for approximately 170 new gTLDs currently continue to contract with us to provide back-end registry services, there is no guarantee that such applicants with which we have entered into agreements will be successful in obtaining one or more of these new gTLDs or that such new gTLDs will be successful due to some or all of the factors discussed above in connection with our new gTLDs. We also cannot guarantee that we will ultimately provide back-end registry services for all of these new gTLDs. ICANN's Registry Agreement for new gTLDs requires the distribution of new gTLDs only through registrars who have executed the 2013 RAA. If registrars do not execute the 2013 RAA, our ability to provide back-end registry services would be reduced, negatively impacting the sale of our back-end registry services for new gTLDs. Even if we are able to provide such services, the timing of revenue may also be dependent on how diligently our customers proceed to delegation and launch following the completion of the application process and our customers' respective launch plans for the new gTLDs. In addition, we may face risks regarding ICANN requirements for mitigating name collisions in the new gTLDs which we operate or for which we provide back-end registry services.

Our agreements to provide back-end registry services directly to other applicants and indirectly through reseller relationships expose us to operational and other risks. For example, the increase in the number of gTLDs for which we provide registry services on a standalone basis or as a back-end service provider could further increase costs or

increase the frequency or scope of targeted attacks from nefarious actors.

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

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

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

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

Under the agreement reached with Symantec for the sale of our Authentication Services business (the "Symantec Agreement"), we agreed to several terms that may pose risks to us, including the potential for confusion by the public with respect to Symantec's right to use certain of our trademarks, brands and domain names, as well as the risk that current or potential investors in or customers of the Company may incorrectly attribute to the Company problems with Symantec products or services that currently use the VERISIGN brand pursuant to a license granted by the Company to Symantec. Any such confusion may have a negative impact on our reputation, our brand and the market for our products and services. In addition, we may determine that certain assets transferred to Symantec could have been useful in our Naming Services businesses or in other future endeavors, requiring us to forego future opportunities or design or purchase alternatives which could be costly and less effective than the transferred assets.

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

We continue to be responsible for certain liabilities following the divestiture of certain businesses.

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

Risks related to our securities

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

As of March 31, 2015, we had one billion authorized common shares, of which 116.4 million shares were outstanding. In addition, of our authorized common shares, 14.0 million common shares were reserved for issuance pursuant to outstanding equity and employee stock purchase plans ("Equity Plans"), and 36.4 million shares were reserved for issuance upon conversion of the Subordinated Convertible Debentures. As a result, we keep substantial amounts of our common stock available for issuance upon exercise or settlement of equity awards outstanding under our Equity Plans and/or the conversion of Subordinated Convertible Debentures into our common stock. Issuance of all or a large portion of such shares would be dilutive to existing security holders, could adversely affect the prevailing market price of our common stock and could impair our ability to raise additional capital through the sale of equity securities.

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

As a result of the sale of the Subordinated Convertible Debentures, our 2023 Senior Notes and our 2025 Senior Notes (collectively, the “Senior Notes”), we have a substantial amount of long-term debt outstanding. In addition to the Subordinated Convertible Debentures and the Senior Notes, we have an unsecured credit facility with a borrowing capacity of \$200.0 million (the “Unsecured Credit Facility”) and the ability to request from time to time that the lenders thereunder agree on a discretionary basis to increase the aggregate commitments amount by up to \$150.0 million. As of March 31, 2015, we had no borrowings under the Unsecured Credit Facility.

It is possible that we may need to incur additional indebtedness in the future in the ordinary course of business. The terms of our Unsecured Credit Facility, the Indenture governing the 2023 Senior Notes and the Indenture governing the 2025 Senior Notes allow us to incur additional debt subject to certain limitations and will not prevent us from incurring obligations that do not constitute indebtedness under those agreements. If new debt is added to current debt levels, the risks and limitations related to our level of indebtedness could intensify. Specifically, a high level of indebtedness could have adverse effects on our flexibility to take advantage of corporate opportunities, including the following:

- making it more difficult for us to satisfy our debt obligations;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements, or requiring us to make non-strategic divestitures, particularly when the availability of financing in the capital markets is limited;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- having to repatriate cash held by foreign subsidiaries which would require us to accrue and pay additional U.S. taxes;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our flexibility in planning for and reacting to changes in our businesses and the markets in which we compete;
- placing us at a possible competitive disadvantage compared to other, less leveraged competitors and competitors that may have better access to capital resources; and
- increasing our cost of borrowing.

In addition, the Indenture that governs the 2023 Senior Notes, the Indenture that governs the 2025 Senior Notes and the credit agreement that governs our Unsecured Credit Facility contain restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of our debt.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. Moreover, in the event funds from foreign operations are needed to repay our debt obligations and U.S. tax has not already been provided, we would be required to accrue and pay additional U.S. taxes in order to repatriate these funds. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations.

Our Unsecured Credit Facility restricts our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

In addition, we conduct a significant portion of our operations through our subsidiaries, which are not guarantors of the Senior Notes or our other indebtedness. Repayment of our indebtedness is substantially dependent on the generation of cash flow by VeriSign, Inc. Our non-guarantor subsidiaries do not have any obligation to pay amounts due on our indebtedness or to

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make funds available for that purpose. Future guarantor subsidiaries, if any, may not be able to, or may not be permitted to, on commercially reasonable terms, or at all, make distributions to enable us to make payments in respect of our indebtedness. Such subsidiaries are distinct legal entities, and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries on commercially reasonable terms, or at all. While our Unsecured Credit Facility limits the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to us, these limitations are subject to qualifications and exceptions. If we cannot service our debt obligations with our cash flows and domestic cash on hand, we may be required to repatriate cash from our foreign subsidiaries, which would be subject to U.S. federal income tax, or may otherwise be unable to make required principal and interest payments on our indebtedness.

Our inability to generate sufficient cash flows to satisfy our debt obligations or to refinance our indebtedness on commercially reasonable terms or at all, would materially and adversely affect our financial condition and results of operations and our ability to satisfy our debt obligations. If we cannot make scheduled payments on our debt, we will be in default and holders of the Senior Notes could declare all outstanding principal and interest to be due and payable, the lenders under our Unsecured Credit Facility could terminate their commitments to loan money, certain holders of our Subordinated Convertible Debentures could declare all outstanding principal and interest to be due and payable and we could be forced into bankruptcy or liquidation.

The terms of our Unsecured Credit Facility, the indenture governing the 2023 Senior Notes and the indenture governing the 2025 Senior Notes restrict our current and future operations, particularly our ability to respond to changes or to take certain actions and create the risk of default on such indebtedness.

The credit agreement that governs our Unsecured Credit Facility, the Indenture governing the 2023 Senior Notes and the Indenture governing the 2025 Senior Notes contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including, subject to certain exceptions, restrictions on our ability to:

- permit our subsidiaries to incur or guarantee indebtedness;
- pay dividends or other distributions or repurchase or redeem our capital stock;
- prepay, redeem or repurchase certain debt;
- issue certain preferred stock or similar equity securities;
- make loans and investments;
- sell assets;
- incur liens;
- enter into transactions with affiliates;
- alter the businesses we conduct;
- enter into agreements restricting our subsidiaries' ability to pay dividends;
- consolidate, merge or sell all or substantially all of our assets; and
- engage in certain sale/leaseback transactions.

In addition, the restrictive covenants in our Unsecured Credit Facility require us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we may be unable to meet them.

A breach of the covenants or restrictions under our Unsecured Credit Facility, the Indenture governing the 2023 Senior Notes or the Indenture governing the 2025 Senior Notes could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under our Unsecured Credit Facility would permit the lenders under our Unsecured Credit Facility to terminate all commitments to extend further credit under that agreement. In the event our lenders or noteholders accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may affect our ability to grow in accordance with our strategy. In addition, our financial results, our substantial indebtedness and our credit ratings could adversely affect the availability and terms of our financing.

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Some of the cash, cash equivalents and marketable securities that appear on our consolidated balance sheet may not be available for use in our business or to meet our debt obligations without adverse income tax consequences.

As of March 31, 2015, the amount of cash, cash equivalents and marketable securities held by our foreign subsidiaries that are not guarantors of the Senior Notes or our other indebtedness, was \$970.2 million. For any funds held by the foreign subsidiaries that have not been previously taxed in the U.S., our intent is to indefinitely reinvest those funds outside of the U.S.

In the event that funds from our foreign operations are needed to fund operations in the United States or to meet our debt obligations, and if U.S. tax has not already been provided, we would be required to accrue and pay additional U.S. taxes in order to repatriate those funds. In light of the foregoing, the amount of cash, cash equivalents and marketable securities that appear on our balance sheet may overstate the amount of liquidity we have available to meet our business or debt obligations, including obligations under the Senior Notes.

We may not be able to repurchase the Senior Notes upon a change of control.

Upon the occurrence of specific kinds of change of control events and if the Senior Notes fail to meet a minimum rating threshold (in the case of the 2023 Senior Notes, if such notes are rated below investment grade by both rating agencies that rate the 2023 Senior Notes and in the case of the 2025 Senior Notes, if such notes are not rated investment grade by at least two of the rating agencies that rate the 2025 Senior Notes), we will be required to offer to repurchase all outstanding Senior Notes failing to meet such minimum rating threshold, in each case at 101% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date. Additionally, under our Unsecured Credit Facility, a change of control (as defined therein) constitutes an event of default that permits the lenders to accelerate the maturity of borrowings under the Unsecured Credit Facility and the commitments to lend would terminate. The source of funds for any repurchase of the Senior Notes and repayment of borrowings under our Unsecured Credit Facility would be our available cash or cash generated from our subsidiaries' operations or other sources, including borrowings, sales of assets or sales of equity. We may not be able to repurchase the Senior Notes upon a change of control because we may not have sufficient financial resources to purchase all of the debt securities that are tendered upon a change of control and repay our other indebtedness that will become due. If we fail to repurchase the Senior Notes in that circumstance, we will be in default under the Indenture that governs the 2023 Senior Notes and the Indenture that governs the 2025 Senior Notes. We may require additional financing from third parties to fund any such repurchases, and we may be unable to obtain financing on satisfactory terms or at all. Further, our ability to repurchase the Senior Notes may be limited by law. In order to avoid the obligation to repurchase the Senior Notes and events of default and potential breaches of our Unsecured Credit Facility, we may have to avoid certain change of control transactions that would otherwise be beneficial to us.

In addition, certain important corporate events, such as leveraged recapitalizations, may not, under the Indenture that governs the 2023 Senior Notes or the Indenture that governs the 2025 Senior Notes, constitute a "change of control" that would require us to repurchase the Senior Notes, even though those corporate events could increase the level of our indebtedness or otherwise adversely affect our capital structure, credit ratings or the value of the Senior Notes.

Additionally, holders may not be able to require us to purchase their Senior Notes in certain circumstances involving a significant change in the composition of our board of directors, including a proxy contest where our board of directors approves for purposes of the change of control provisions of the Indenture, but does not endorse, a dissident slate of directors. In this regard, decisions of the Delaware Chancery Court (not involving us or our securities) considered a change of control redemption provision contained in an indenture governing publicly traded debt securities that was substantially similar to the change of control redemption provision in the Indenture that governs the 2023 Senior Notes and the Indenture that governs the 2025 Senior Notes with respect to "continuing directors." In these cases, the court noted that the board of directors may "approve" a dissident shareholder's nominees solely to avoid triggering the change of control redemption provision of the indenture without supporting their election if the board determines in good faith that the election of the dissident nominees would not be materially adverse to the interests of the corporation or its stockholders (without taking into consideration the interests of the holders of debt securities in making this determination). Further, according to these decisions, the directors' duty of loyalty to shareholders under Delaware law may, in certain circumstances, require them to give such approval.

Furthermore, the exercise by the holders of Senior Notes of their right to require us to repurchase the Senior Notes pursuant to a change of control offer could cause a default under the agreements governing our other indebtedness, including future agreements, even if the change of control itself does not, due to the financial effect of such repurchases on us. In the event a change of control offer is required to be made at a time when we are prohibited from purchasing Senior Notes, we could attempt to refinance the borrowings that contain such prohibitions. If we do not obtain a consent or repay those borrowings, we will remain prohibited from purchasing Senior Notes. In that case, our failure to purchase tendered Senior Notes would constitute an event of default under the Indenture that governs the 2023 Senior Notes and the Indenture that governs the 2025 Senior Notes which could, in turn, constitute a default under our other indebtedness. Finally, our ability to pay cash to the holders of Senior Notes upon a repurchase pursuant to a change of control offer may be limited by our then existing financial resources.

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A lowering or withdrawal of the ratings assigned to our debt securities by rating agencies may increase our future borrowing costs and reduce our access to capital.

Any rating assigned to our debt securities could be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, future circumstances relating to the basis of the rating, such as adverse changes, so warrant. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Any lowering of our rating likely would make it more difficult or more expensive for us to obtain additional debt financing in the future.

We may not have the ability to repurchase the Subordinated Convertible Debentures in cash upon the occurrence of a fundamental change, or to pay cash upon the conversion of Subordinated Convertible Debentures; occurrence of certain events related to our Subordinated Convertible Debentures might have significant adverse accounting, disclosure, tax, and liquidity implications.

As a result of the sale of the Subordinated Convertible Debentures, we have a substantial amount of debt outstanding. Holders of our outstanding Subordinated Convertible Debentures will have the right to require us to repurchase the Subordinated Convertible Debentures upon the occurrence of a fundamental change as defined in the indenture governing the Subordinated Convertible Debentures dated as of August 20, 2007 between the Company and U.S. Bank National Association, as Trustee (the "2007 Indenture"). Although, in certain situations, the 2007 Indenture requires us to pay this repurchase price in cash, we may not have sufficient funds to repurchase the Subordinated Convertible Debentures in cash or have the ability to arrange necessary financing on acceptable terms or at all. The Subordinated Convertible Debentures continue to be convertible due to our stock price exceeding the conversion price threshold trigger, and, if holders elect to convert their Subordinated Convertible Debentures, we are permitted under the 2007 Indenture to pursue an exchange in lieu of conversion or to settle the Settlement Amount (as defined in the 2007 Indenture) in cash, stock, or a combination thereof. If we choose not to pursue or cannot complete an exchange in lieu of a conversion, we currently have the intent and the ability (based on current facts and circumstances) to settle the principal amount of the Subordinated Convertible Debentures in cash. However, if the principal amount of the Subordinated Convertible Debentures due to holders as a result of rights to convert or require repurchase exceeds our cash on hand and cash from operations, we will need to draw cash from existing financing or pursue additional sources of financing to settle the Subordinated Convertible Debentures in cash. We cannot provide any assurances that we will be able to obtain new sources of financing on terms acceptable to us or at all, nor can we assure that we will be able to obtain such financing in time to settle the Subordinated Convertible Debentures that holders elect to convert or require the Company to repurchase.

If we do not have adequate cash available, either from cash on hand, funds generated from operations or existing financing arrangements, or cannot obtain additional financing arrangements, we will not be able to settle the principal amount of the Subordinated Convertible Debentures in cash and, in the case of settlement of conversion elections, will be required to settle the principal amount of the Subordinated Convertible Debentures in stock. If we settle any portion of the principal amount of the Subordinated Convertible Debentures in stock, it will result in immediate dilution to the interests of existing security holders and the dilution could be material to such security holders.

If our intent to settle the principal amount in cash changes, or if we conclude that we no longer have the ability, in the future, we will be required to change our accounting policy for earnings per share from the treasury stock method to the if-converted method. Earnings per share will most likely be lower under the if-converted method as compared to the treasury stock method.

If the amount paid (in cash or stock) to settle the Subordinated Convertible Debentures (i.e., the Settlement Amount) is less than the adjusted issue price, under the Internal Revenue Code and the regulations thereunder, the difference is included in taxable income as recapture of previous interest deductions. The adjusted issue price grows over the term of the Subordinated Convertible Debentures due to the difference between the interest deduction for tax, using a comparable yield rate of 8.5%, and the coupon rate of 3.25%, compounded annually. The settlement amount will vary based on the stock price at settlement date. Depending on the Settlement Amount for the Subordinated Convertible Debentures at the settlement date, the amount included in taxable income as a result of this recapture could be substantial, which could adversely impact our cash flow.

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

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

The following table presents the share repurchase activity during the three months ended March 31, 2015:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)	
	(Shares in thousands)				
January 1 – 31, 2015	1,353	\$56.45	1,353	\$1.0	billion
February 1 – 28, 2015	922	\$58.31	922	\$946.2	million
March 1 – 31, 2015	465	\$63.79	465	\$916.6	million
	2,740		2,740		

(1) Effective January 30, 2015, our Board of Directors authorized the repurchase of approximately \$452.9 million of our common stock, in addition to the \$547.1 million of our common stock remaining available for repurchase under the previous share buyback program, for a total repurchase authorization of up to \$1.0 billion of our common stock. The share buyback program has no expiration date. Purchases made under the program could be effected through open market transactions, block purchases, accelerated share repurchase agreements or other negotiated transactions.

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ITEM 6. EXHIBITS

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

Exhibit Number	Exhibit Description
4.01	Indenture, dated as of March 27, 2015, between VeriSign, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to exhibit 4.1 to Current Report on Form 8-K filed on March 30, 2015).
4.02	Form of Note (included in Exhibit 4.1).
10.01	Registration Rights Agreement dated as of March 27, 2015 among VeriSign, Inc. and J.P. Morgan Securities LLC, for itself and on behalf of Merrill Lynch, Pierce, Fenner & Smith Incorporated, U.S. Bancorp Investments, Inc. and BB&T Capital Markets, a division of BB&T Securities, LLC (incorporated by reference to exhibit 10.1 to Current Report on Form 8-K filed on March 30, 2015).
10.02	Credit Agreement dated as of March 31, 2015 among VeriSign, Inc., any of its borrowing subsidiaries made a party thereto, JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Europe Limited, as London agent, and the lenders party thereto (incorporated by reference to exhibit 10.1 to Current Report on Form 8-K filed on April 1, 2015).
10.03	VeriSign, Inc. 2006 Equity Incentive Plan Performance-Based Restricted Stock Unit Agreement. +
10.04	Employment Offer Letter between the Registrant and Todd B. Strubbe dated March 4, 2015. +
31.01	Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a).
31.02	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a).
32.01	Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350). *
32.02	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350). *
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* As contemplated by SEC Release No. 33-8212, these exhibits are furnished with this Quarterly Report on Form 10-Q and are not deemed filed with the SEC and are not incorporated by reference in any filing of VeriSign, Inc.

under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in such filings.

+ Indicates a management contract or compensatory plan or arrangement.

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SIGNATURES

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

Date: April 23, 2015

By: /S/ D. JAMES BIDZOS
D. James Bidzos
Chief Executive Officer

Date: April 23, 2015

By: /S/ GEORGE E. KILGUSS, III
George E. Kilguss, III
Chief Financial Officer