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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2020

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**

(State or other jurisdiction of  
incorporation or organization)

**12061 Bluemont Way,**

**Reston, Virginia**

(Address of principal executive offices)

**94-3221585**

(I.R.S. Employer  
Identification No.)

**20190**

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value per share	VRSN	Nasdaq Global Select Market

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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:

<u>Class</u>	<u>Shares Outstanding as of October 16, 2020</u>
Common stock, \$0.001 par value per share	114,109,868

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**PART I—FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents .....	\$ 145,701	\$ 508,196
Marketable securities .....	1,004,658	709,863
Other current assets .....	55,767	60,530
Total current assets .....	<u>1,206,126</u>	<u>1,278,589</u>
Property and equipment, net .....	248,587	250,283
Goodwill .....	52,527	52,527
Deferred tax assets .....	76,903	87,798
Deposits to acquire intangible assets .....	145,000	145,000
Other long-term assets .....	35,163	39,812
Total long-term assets .....	<u>558,180</u>	<u>575,420</u>
Total assets .....	<u>\$ 1,764,306</u>	<u>\$ 1,854,009</u>
<b><u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u></b>		
Current liabilities:		
Accounts payable and accrued liabilities .....	\$ 198,342	\$ 209,988
Deferred revenues .....	779,666	755,178
Total current liabilities .....	<u>978,008</u>	<u>965,166</u>
Long-term deferred revenues .....	281,887	278,702
Senior notes .....	1,789,453	1,787,565
Long-term tax and other liabilities .....	101,206	312,676
Total long-term liabilities .....	<u>2,172,546</u>	<u>2,378,943</u>
Total liabilities .....	<u>3,150,554</u>	<u>3,344,109</u>
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock—par value \$.001 per share; Authorized shares: 5,000; Issued and outstanding shares: none .....	—	—
Common stock and additional paid-in capital—par value \$.001 per share; Authorized shares: 1,000,000; Issued shares: 353,730 at September 30, 2020 and 353,157 at December 31, 2019; Outstanding shares: 114,262 at September 30, 2020 and 116,715 at December 31, 2019 .....	14,436,409	14,990,011
Accumulated deficit .....	(15,819,916)	(16,477,490)
Accumulated other comprehensive loss .....	(2,741)	(2,621)
Total stockholders' deficit .....	<u>(1,386,248)</u>	<u>(1,490,100)</u>
Total liabilities and stockholders' deficit .....	<u>\$ 1,764,306</u>	<u>\$ 1,854,009</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

**VERISIGN, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues.....	\$ 317,879	\$ 308,421	\$ 944,768	\$ 921,118
Costs and expenses:				
Cost of revenues.....	45,024	44,443	134,205	134,013
Sales and marketing.....	8,389	9,857	23,883	32,775
Research and development.....	19,708	14,619	55,268	45,704
General and administrative.....	38,109	33,886	111,719	101,065
Total costs and expenses.....	<u>111,230</u>	<u>102,805</u>	<u>325,075</u>	<u>313,557</u>
Operating income.....	206,649	205,616	619,693	607,561
Interest expense.....	(22,537)	(22,633)	(67,607)	(67,899)
Non-operating income, net.....	775	10,498	15,262	34,137
Income before income taxes.....	184,887	193,481	567,348	573,799
Income tax (expense) benefit.....	(13,908)	(39,568)	90,226	(109,825)
Net income.....	<u>170,979</u>	<u>153,913</u>	<u>657,574</u>	<u>463,974</u>
Other comprehensive (loss) income.....	(383)	308	(120)	392
Comprehensive income.....	<u>\$ 170,596</u>	<u>\$ 154,221</u>	<u>\$ 657,454</u>	<u>\$ 464,366</u>
Earnings per share:				
Basic.....	<u>\$ 1.49</u>	<u>\$ 1.30</u>	<u>\$ 5.70</u>	<u>\$ 3.90</u>
Diluted.....	<u>\$ 1.49</u>	<u>\$ 1.30</u>	<u>\$ 5.68</u>	<u>\$ 3.89</u>
Shares used to compute earnings per share				
Basic.....	<u>114,655</u>	<u>118,194</u>	<u>115,456</u>	<u>118,966</u>
Diluted.....	<u>114,831</u>	<u>118,569</u>	<u>115,699</u>	<u>119,410</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

**VERISIGN, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**  
**(In thousands)**  
**(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Total stockholders' deficit, beginning of period</b> .....	\$ (1,400,324)	\$ (1,425,167)	\$ (1,490,100)	\$ (1,385,474)
<b>Common stock and additional paid-in capital</b>				
Beginning balance .....	14,592,929	15,357,288	14,990,011	15,707,126
Repurchase of common stock .....	(173,879)	(198,953)	(603,705)	(583,485)
Stock-based compensation expense .....	13,078	13,081	37,526	39,522
Issuance of common stock under stock plans .....	4,281	4,899	12,577	13,152
Balance, end of period .....	14,436,409	15,176,315	14,436,409	15,176,315
<b>Accumulated deficit</b>				
Beginning balance .....	(15,990,895)	(16,779,728)	(16,477,490)	(17,089,789)
Net income .....	170,979	153,913	657,574	463,974
Balance, end of period .....	(15,819,916)	(16,625,815)	(15,819,916)	(16,625,815)
<b>Accumulated other comprehensive loss</b>				
Beginning balance .....	(2,358)	(2,727)	(2,621)	(2,811)
Other comprehensive (loss) income .....	(383)	308	(120)	392
Balance, end of period .....	(2,741)	(2,419)	(2,741)	(2,419)
<b>Total stockholders' deficit, end of period</b> .....	<b>\$ (1,386,248)</b>	<b>\$ (1,451,919)</b>	<b>\$ (1,386,248)</b>	<b>\$ (1,451,919)</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Cash flows from operating activities:		
Net income .....	\$ 657,574	\$ 463,974
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment .....	34,463	34,327
Stock-based compensation .....	36,106	38,237
Amortization of discount on investments in debt securities .....	(5,844)	(10,271)
Other, net .....	(2,638)	2,126
Changes in operating assets and liabilities:		
Other assets .....	(11,107)	(12,123)
Accounts payable and accrued liabilities .....	(5,912)	(7,110)
Deferred revenues .....	27,673	24,563
Net deferred income taxes and other long-term tax liabilities .....	(195,353)	26,571
Net cash provided by operating activities .....	534,962	560,294
Cash flows from investing activities:		
Proceeds from maturities and sales of marketable securities .....	1,804,541	1,523,862
Purchases of marketable securities .....	(2,093,437)	(1,721,661)
Purchases of property and equipment .....	(36,933)	(31,498)
Proceeds received (payments made) related to sale of business .....	20,009	(8,530)
Net cash used in investing activities .....	(305,820)	(237,827)
Cash flows from financing activities:		
Repurchases of common stock .....	(603,705)	(583,485)
Proceeds from employee stock purchase plan .....	12,577	13,152
Net cash used in financing activities .....	(591,128)	(570,333)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash .....	(506)	(208)
Net decrease in cash, cash equivalents, and restricted cash .....	(362,492)	(248,074)
Cash, cash equivalents, and restricted cash at beginning of period .....	517,601	366,753
Cash, cash equivalents, and restricted cash at end of period .....	\$ 155,109	\$ 118,679
Supplemental cash flow disclosures:		
Cash paid for interest .....	\$ 56,860	\$ 57,074
Cash paid for income taxes, net of refunds received .....	\$ 105,258	\$ 75,197

See accompanying Notes to Condensed Consolidated Financial Statements.

**VERISIGN, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1. Basis of Presentation**

*Interim Financial Statements*

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by VeriSign, Inc. (“Verisign” or the “Company”) in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and, therefore, do not include all information and notes normally provided in audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for any other interim period or for a full fiscal year. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes contained in Verisign’s Annual Report on Form 10-K for the year ended December 31, 2019 (the “2019 Form 10-K”) filed with the SEC on February 14, 2020.

*Reclassifications*

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

**Note 2. Financial Instruments**

*Cash, Cash Equivalents, and Marketable Securities*

The following table summarizes the Company’s cash, cash equivalents, and marketable securities and the fair value categorization of the financial instruments measured at fair value on a recurring basis:

	September 30, 2020	December 31, 2019
	(In thousands)	
Cash.....	\$ 27,162	\$ 33,238
Time deposits.....	4,078	3,924
Money market funds (Level 1).....	123,869	149,624
Debt securities issued by the U.S. Treasury (Level 1).....	1,004,658	1,040,678
Total.....	\$ 1,159,767	\$ 1,227,464
Cash and cash equivalents.....	\$ 145,701	\$ 508,196
Restricted cash (included in Other long-term assets).....	9,408	9,405
Total Cash, cash equivalents, and restricted cash.....	155,109	517,601
Marketable securities.....	1,004,658	709,863
Total.....	\$ 1,159,767	\$ 1,227,464

The fair value of the debt securities held as of September 30, 2020 was \$1.00 billion, including less than \$0.1 million of gross and net unrealized gains. All of the debt securities held as of September 30, 2020 are scheduled to mature in less than one year.

*Fair Value Measurements*

The fair value of the Company’s investments in money market funds approximates their face value. Such instruments 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. Debt securities purchased with original maturities in excess of three months are included in Marketable securities. The fair value of all of these financial instruments are classified as Level 1 in the fair value hierarchy.

The Company’s other financial instruments include cash, accounts receivable, restricted cash, and accounts payable. As of September 30, 2020, the carrying value of these financial instruments approximated their fair value. The fair values of the senior notes due 2023, 2025, and 2027 were \$757.9 million, \$554.9 million, and \$585.9 million, respectively, as of September 30, 2020. The fair values of these debt instruments are based on available market information from public data sources and are classified as Level 2.

**Note 3. Selected Balance Sheet Items**

*Other Current Assets*

Other current assets consist of the following:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	<b>(In thousands)</b>	
Prepaid expenses .....	\$ 22,032	\$ 19,818
Prepaid registry fees .....	22,578	21,717
Accounts receivable, net .....	6,356	1,524
Contingent consideration receivable .....	—	14,721
Other .....	4,801	2,750
Total other current assets .....	<u>\$ 55,767</u>	<u>\$ 60,530</u>

During the nine months ended September 30, 2020, the Company received \$20.4 million of contingent consideration related to its divested security services business. The excess of the proceeds received over the balance of the receivable was recognized as a gain and included in Non-operating income, net.

*Other Long-Term Assets*

Other long-term assets consist of the following:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	<b>(In thousands)</b>	
Operating lease right-of-use asset .....	\$ 11,184	\$ 9,133
Restricted cash .....	9,408	9,405
Long-term prepaid registry fees .....	7,942	7,753
Other tax receivable .....	1,254	6,927
Other .....	5,375	6,594
Total other long-term assets .....	<u>\$ 35,163</u>	<u>\$ 39,812</u>

The current and long-term prepaid registry fees in the tables above relate to the fees the Company pays to ICANN for each annual increment of .com domain name registrations and renewals which are deferred and amortized over the domain name registration term. The amount of prepaid registry fees as of September 30, 2020 reflects amortization of \$9.1 million and \$27.0 million during the three and nine months ended September 30, 2020 which was recorded in Cost of Revenues. Other tax receivables as of December 31, 2019 included indirect benefits related to the previously unrecognized tax benefits that were remeasured during the three months ended September 30, 2020, as discussed in Note 9. Income Taxes.

*Accounts Payable and Accrued Liabilities*

Accounts payable and accrued liabilities consist of the following:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	<b>(In thousands)</b>	
Accounts payable and accrued expenses .....	\$ 10,469	\$ 17,177
Taxes payable and other tax liabilities .....	34,176	33,435
Customer deposits .....	46,890	52,804
Accrued employee compensation .....	44,106	49,869
Interest payable .....	33,021	24,318
Accrued registry fees .....	12,419	11,529
Customer incentives payable .....	10,971	13,547
Other accrued liabilities .....	6,290	7,309
Total accounts payable and accrued liabilities .....	<u>\$ 198,342</u>	<u>\$ 209,988</u>

Taxes payable and other tax liabilities reflect amounts accrued for the income tax provision and payments made during the period. Customer deposits primarily relate to advance payments to cover domain name registration activity by registrars. 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, 2019, was paid during the nine months ended September 30, 2020. Interest payable varies at each period-end based on the payment due dates for each Senior Note issuance. Customer incentives payable includes amounts related to rebates and marketing programs payable to registrars. These amounts may vary from period to period due to the timing of payments.

*Long-term tax and other liabilities*

	September 30, 2020	December 31, 2019
	(In thousands)	
Long-term tax liabilities.....	\$ 96,190	\$ 308,112
Long-term operating lease liability.....	5,016	4,564
Long-term tax and other liabilities.....	<u>\$ 101,206</u>	<u>\$ 312,676</u>

During the nine months ended September 30, 2020, the Company remeasured certain previously unrecognized income tax benefits, including those relating to the worthless stock deduction taken in 2013. These remeasurements resulted in the recognition of \$191.8 million of income tax benefits in the nine months ended September 30, 2020, as discussed in Note 9. Income Taxes.

**Note 4. Stockholders' Deficit**

Effective February 6, 2020, the Company's Board of Directors authorized the repurchase of its common stock in the amount of \$743.0 million, in addition to the \$257.0 million that remained available for repurchases under the share repurchase program, for a total repurchase authorization of up to \$1.00 billion under the program. The 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 and nine months ended September 30, 2020, the Company repurchased 0.8 million and 2.8 million shares of its common stock, respectively, at an average stock price of \$206.61 and \$198.84, respectively. The aggregate cost of the repurchases in the three and nine months ended September 30, 2020 was \$170.0 million and \$564.9 million, respectively. As of September 30, 2020, there was approximately \$505.6 million remaining available for future share repurchases under the share repurchase program.

During the nine months ended September 30, 2020, the Company placed 0.2 million shares, at an average stock price of \$209.90, and for an aggregate cost of \$38.8 million, into treasury stock for purposes related to tax withholding upon vesting of Restricted Stock Units ("RSUs").

Since inception, the Company has repurchased 239.5 million shares of its common stock for an aggregate cost of \$10.81 billion, which is presented as a reduction of Additional paid-in capital.

**Note 5. Calculation of Earnings per Share**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Weighted-average shares of common stock outstanding.....	114,655	118,194	115,456	118,966
Weighted-average potential shares of common stock outstanding:				
Unvested RSUs and ESPP.....	176	375	243	444
Shares used to compute diluted earnings per share.....	<u>114,831</u>	<u>118,569</u>	<u>115,699</u>	<u>119,410</u>

The calculation of diluted weighted average shares outstanding excludes 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 6. Revenues**

The Company generates revenues in the U.S.; Europe, the Middle East and Africa (“EMEA”); China; and certain other countries, including Canada, Australia, and Japan.

The following table presents our revenues disaggregated by geography, based on the billing addresses of our customers:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
U.S.....	\$ 202,934	\$ 193,392	\$ 599,845	\$ 577,395
EMEA.....	54,034	51,480	159,103	155,221
China.....	27,463	30,647	86,676	88,337
Other.....	33,448	32,902	99,144	100,165
Total revenues.....	<u>\$ 317,879</u>	<u>\$ 308,421</u>	<u>\$ 944,768</u>	<u>\$ 921,118</u>

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

*Deferred Revenues*

As payment for domain name registrations and renewals are due in advance of our performance, we record these amounts as deferred revenues. The increase in the deferred revenues balance for the nine months ended September 30, 2020 was primarily driven by amounts billed in the first nine months of 2020 for domain name registrations and renewals to be recognized as revenues in future periods, offset by refunds for domain name renewals deleted during the 45-day grace period, and \$644.0 million of revenues recognized that were included in the deferred revenues balance at the beginning of the period. The balance of deferred revenues as of September 30, 2020 represents our aggregate remaining performance obligations. Amounts included in current deferred revenues are all expected to be recognized in revenues within 12 months, except for a portion of deferred revenues that relates to domain name renewals that are deleted in the 45-day grace period following the transaction. The long-term deferred revenues amounts will be recognized in revenues over several years and in some cases up to 10 years.

**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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Cost of revenues.....	\$ 1,558	\$ 1,725	\$ 4,761	\$ 5,064
Sales and marketing.....	830	864	2,558	2,866
Research and development.....	1,810	1,513	5,266	4,744
General and administrative.....	8,480	8,518	23,521	25,563
Total stock-based compensation expense.....	<u>\$ 12,678</u>	<u>\$ 12,620</u>	<u>\$ 36,106</u>	<u>\$ 38,237</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
RSUs.....	\$ 10,871	\$ 10,650	\$ 29,060	\$ 28,318
Performance-based RSUs.....	1,102	1,222	5,146	7,554
ESPP.....	1,105	1,209	3,320	3,650
Capitalization (included in Property and equipment, net).....	(400)	(461)	(1,420)	(1,285)
Total stock-based compensation expense.....	<u>\$ 12,678</u>	<u>\$ 12,620</u>	<u>\$ 36,106</u>	<u>\$ 38,237</u>

**Note 8. Non-operating Income, Net**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Interest income.....	\$ 805	\$ 6,457	\$ 7,500	\$ 21,045
Transition services income.....	—	3,750	2,100	11,850
Gain on sale of business.....	(9)	64	5,602	817
Other, net.....	(21)	227	\$ 60	\$ 425
Total non-operating income, net.....	<u>\$ 775</u>	<u>\$ 10,498</u>	<u>\$ 15,262</u>	<u>\$ 34,137</u>

The lower interest income during the three and nine months ended September 30, 2020 reflects a decline in interest rates on our investments in debt securities. The transition services income relates to the divested security services business. The transition services agreement ended in February 2020. The gain on sale of business in 2020 represents the excess of the contingent consideration received related to the divested security services business compared to the estimated receivable.

**Note 9. Income Taxes**

The following table presents Income tax expense (benefit) and the effective tax rate:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Income tax expense (benefit).....	\$ 13,908	\$ 39,568	\$ (90,226)	\$ 109,825
Effective tax rate.....	8 %	20 %	(16)%	19 %

The effective tax rate for each of the periods in the table above differed from the statutory federal rate of 21% due to a lower foreign effective tax rate and excess tax benefits related to stock-based compensation, offset by state income taxes and U.S. taxes on foreign earnings, net of foreign tax credits.

Additionally, the Company remeasured certain previously unrecognized income tax benefits, which resulted in the recognition of \$24.0 million and \$191.8 million of income tax benefits in the three and nine months ended September 30, 2020, respectively. The most significant portion of these tax benefits related to the worthless stock deduction taken in 2013, which resulted in the recognition of a \$167.8 million benefit in the first quarter of 2020. These remeasurements were based on written confirmations from Internal Revenue Service (“IRS”), received in the first and third quarters of 2020, indicating no examination adjustments would be proposed related to the worthless stock deduction or certain other matters reviewed as part of the audit of the Company’s federal income tax returns for 2010 through 2014. Notwithstanding these written confirmations, the Company’s U.S. federal income tax returns for those years remain under examination by the IRS.

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

*You should read the following discussion in conjunction with the 2019 Form 10-K and the interim unaudited Condensed Consolidated Financial Statements and related notes included in Part I, Item I of this Quarterly Report on Form 10-Q.*

*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 are based on current expectations and assumptions and involve risks and uncertainties, including, among other things, statements regarding our expectations about (i) the impact from the effects of the COVID-19 pandemic, (ii) the rate of growth in revenues for the remainder of 2020, (iii) Cost of revenues, Sales and marketing expenses, Research and development expenses, General and administrative expenses, Interest expense, and Non-operating income, net, for the remainder of 2020, (iv) the impact of new legislation and IRS guidance issued in response to the COVID-19 pandemic, and (v) our annual effective tax rate for 2020. 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 2020 and the 2019 Form 10-K, 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 update publicly or revise such statements, whether as a result of new information, future events, or otherwise, except as required by law.*

*For purposes of this Quarterly Report on Form 10-Q, the terms "Verisign," "the Company," "we," "us," and "our" refer to VeriSign, Inc. and its consolidated subsidiaries.*

### Overview

We are a global provider of domain name registry services and internet infrastructure, enabling internet navigation for many of the world's most recognized domain names. We enable the security, stability, and resiliency of key internet infrastructure and services, including providing root zone maintainer services, operating two of the 13 global internet root servers, and providing registration services and authoritative resolution for the .com and .net top-level domains ("TLDs"), which support the majority of global e-commerce.

As of September 30, 2020, we had 163.7 million .com and .net registrations in the domain name base. 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 internet access, as well as marketing activities carried out by us and our registrars. Growth in the number of domain name registrations under our management may be hindered by certain factors, including overall economic conditions, competition from country code top-level domains ("ccTLDs"), competition from, and the continued introduction of, new generic top-level domains ("gTLDs"), and ongoing changes in the internet practices and behaviors of consumers and businesses. Factors such as the evolving practices and preferences of internet users, and how they navigate the internet, as well as the motivation of domain name registrants and how they will manage their investment in domain names, can negatively impact our business and the demand for new domain name registrations and renewals.

### **Business Highlights and Trends**

- We recorded revenues of \$317.9 million and \$944.8 million during the three and nine months ended September 30, 2020, an increase of 3% compared to the same periods in 2019.
- We recorded operating income of \$206.6 million and \$619.7 million during the three and nine months ended September 30, 2020, an increase of 1% and 2%, respectively, compared to the same periods in 2019.
- As of September 30, 2020, we had 163.7 million .com and .net registrations in the domain name base, which represents a 4% increase from September 30, 2019, and a net increase of 1.7 million domain name registrations from June 30, 2020.
- During the three months ended September 30, 2020, we processed 10.9 million new domain name registrations for .com and .net compared to 9.9 million for the same period in 2019.
- The final .com and .net renewal rate for the second quarter of 2020 was 72.8% compared to 74.2% for the second quarter of 2019. Renewal rates are not fully measurable until 45 days after the end of the quarter.

- During the three months ended September 30, 2020, we repurchased 0.8 million shares of our common stock for an aggregate cost of \$170.0 million. As of September 30, 2020, there was approximately \$505.6 million remaining available for future share repurchases under our share repurchase program.
- We generated cash flows from operating activities of \$535.0 million during the nine months ended September 30, 2020, compared to \$560.3 million for the same period in 2019.
- During the three months ended September 30, 2020, we remeasured certain previously unrecognized income tax benefits which resulted in the recognition of a \$24.0 million benefit in the quarter.

Pursuant to our agreements with ICANN, we make available on our website (at <https://www.Verisign.com/zone>) files containing all active domain names registered in the *.com* and *.net* registries. At the same website address, we make available a summary of the active zone count registered in the *.com* and *.net* registries and the number of *.com* and *.net* domain name registrations in the domain name base. The domain name base is the active zone plus the number of domain name registrations that are registered but not configured for use in the respective TLD zone file plus the number of domain name registrations 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 number of domain name registrations provided in this Quarterly Report on Form 10-Q are as of midnight of the date reported. Information available on, or accessible through, our website is not incorporated herein by reference.

### **COVID-19 Update**

The United States and the global community we serve are facing unprecedented challenges posed by the COVID-19 pandemic. In response to the pandemic, we have established a task force to monitor the pandemic and have taken a number of actions to protect our employees, including restricting travel, modifying our sick leave policy to encourage quarantine and isolation when warranted, and directing most of our employees to work from home. We have implemented our readiness plans, which include the ability to maintain critical internet infrastructure with most employees working remotely. We believe that the effects of the pandemic to date have led to an increase in the demand for domain names, particularly as businesses and entrepreneurs have been seeking to establish or expand their presence online in response to the pandemic. Our revenues increased during the first three quarters of 2020 compared to the same periods last year primarily driven by an increase in the domain name base for the *.com* TLD; however, the situation remains uncertain and hard to predict. The broader implications of the pandemic on our business and operations and our financial results, including the extent to which the effects of the pandemic will impact future growth in the domain name base, remain uncertain. The duration and severity of the economic disruptions from the pandemic may ultimately result in negative impacts on our business and operations, results of operations, financial condition, cash flows, liquidity and capital and financial resources. Because fees for domain name registrations and renewals are generally due at the time of registration or renewal and revenues from such registrations and renewals are recognized ratably over their terms, the effects of the pandemic may not be fully reflected in our results of operations until future periods. For further discussion, see “Risk Factors – The effects of the COVID-19 pandemic could adversely affect our business, operations, financial condition and results of operations, and the extent to which the effects of the pandemic will impact our business, operations, financial condition and results of operations remains uncertain” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

## Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues.....	100.0 %	100.0 %	100.0 %	100.0 %
Costs and expenses:				
Cost of revenues.....	14.2	14.4	14.2	14.5
Sales and marketing.....	2.6	3.2	2.5	3.5
Research and development.....	6.2	4.7	5.9	5.0
General and administrative.....	12.0	11.0	11.8	11.0
Total costs and expenses.....	35.0	33.3	34.4	34.0
Operating income.....	65.0	66.7	65.6	66.0
Interest expense.....	(7.1)	(7.4)	(7.2)	(7.4)
Non-operating income, net.....	0.3	3.4	1.6	3.7
Income before income taxes.....	58.2	62.7	60.0	62.3
Income tax (expense) benefit.....	(4.4)	(12.8)	9.6	(11.9)
Net income.....	53.8 %	49.9 %	69.6 %	50.4 %

### Revenues

Our revenues 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 and from providing back-end registry services to a number of TLD registry operators, all of which are not significant in relation to our consolidated revenues. For domain names registered in the *.com* and *.net* registries we receive a fee from registrars per annual registration that is fixed pursuant to our agreements with ICANN. Individual customers, called registrants, contract directly with registrars or their resellers, and the 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 Department of Commerce (“DOC”). New registrations and the renewal rate for existing registrations are impacted by continued growth in online advertising, e-commerce, and the number of internet users, as well as marketing activities carried out by us and our registrars. The annual fee for a *.com* domain name registration has been fixed at \$7.85 since 2012. On October 26, 2018, we entered into an agreement with the DOC to amend the Cooperative Agreement. The amendment extends the term of the Cooperative Agreement until November 30, 2024 and permits the price of a *.com* domain name to be increased without further DOC approval by up to 7% in each of the final four years of each six-year period beginning on October 26, 2018. On March 27, 2020, Verisign and ICANN entered into an agreement to amend the *.com* Registry Agreement (“Third *.com* Amendment”) that incorporates these changes to the pricing terms. 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 agreement with ICANN, through June 30, 2023. As part of our response to the COVID-19 crisis, we announced on March 25, 2020 that we will freeze registry prices for domain name registrations and renewals for all of our TLDs, including *.com* and *.net*, through the end of 2020. On July 23, 2020, we announced that we will extend the freeze on registry prices for all of our TLDs, including *.com* and *.net*, through March 31, 2021. Within the current six-year period under the Third *.com* Amendment, the first year in which we may increase the price for *.com* domain names ends on October 25, 2021, and we expect to effectuate a *.com* price increase by that date. 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.

A comparison of revenues is presented below:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	% Change	2019	2020	% Change	2019
(Dollars in thousands)						
Revenues.....	\$ 317,879	3 %	\$ 308,421	\$ 944,768	3 %	\$ 921,118

The following table compares the .com and .net domain name registrations in the domain name base:

	<u>September 30, 2020</u>	<u>% Change</u>	<u>September 30, 2019</u>
.com and .net domain name registrations in the domain name base .....	163.7 million	4 %	157.4 million

Revenues increased by \$9.5 million and \$23.7 million during the three and nine months ended September 30, 2020, respectively, as compared to the same periods last year, primarily due to an increase in revenues from the operation of the registry for the .com TLD, partially offset by the elimination of revenues from our divested security services business. The increase in revenues from the .com TLD was driven by a 4% increase in the domain name base for .com.

Growth in the domain name base has been primarily driven by continued internet growth and marketing activities carried out by us and our registrars. However, competitive pressure from ccTLDs, the continued introduction of new gTLDs, ongoing changes in internet practices and behaviors of consumers and business, as well as the motivation of existing domain name registrants managing their investment in domain names, and historical global economic uncertainty, has limited the rate of growth of the domain name base in recent years and may continue to do so in the remainder of 2020 and beyond.

We expect the rate of growth in revenues will remain consistent during the remainder of 2020 compared to the nine months ended September 30, 2020, as a result of continued growth in the aggregate number of .com domain names.

### **Geographic revenues**

We generate revenues in the U.S.; Europe, the Middle East and Africa (“EMEA”); China; and certain other countries, including Canada, Australia, and Japan.

The following table presents a comparison of our geographic revenues:

	<u>Three Months Ended September 30,</u>			<u>Nine Months Ended September 30,</u>		
	<u>2020</u>	<u>% Change</u>	<u>2019</u>	<u>2020</u>	<u>% Change</u>	<u>2019</u>
	(Dollars in thousands)					
U.S.....	\$ 202,934	5 %	\$ 193,392	\$ 599,845	4 %	\$ 577,395
EMEA.....	54,034	5 %	51,480	159,103	3 %	155,221
China.....	27,463	(10)%	30,647	86,676	(2)%	88,337
Other.....	33,448	2 %	32,902	99,144	(1)%	100,165
Total revenues.....	<u>\$ 317,879</u>		<u>\$ 308,421</u>	<u>\$ 944,768</u>		<u>\$ 921,118</u>

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. During the three and nine months ended September 30, 2020, the majority of our revenue growth has come from increased sales to registrars based in the U.S. and EMEA. Revenues from registrars based in China have declined during 2020 as a result of lower new registrations and renewal rates in the 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:

	<u>Three Months Ended September 30,</u>			<u>Nine Months Ended September 30,</u>		
	<u>2020</u>	<u>% Change</u>	<u>2019</u>	<u>2020</u>	<u>% Change</u>	<u>2019</u>
	(Dollars in thousands)					
Cost of revenues.....	\$ 45,024	1 %	\$ 44,443	\$ 134,205	— %	\$ 134,013

Cost of revenues remained consistent during the three and nine months ended September 30, 2020, compared to the same periods last year as decreases in salary and employee benefits expenses resulting from a functional realignment of some headcount to research and development were offset by other individually insignificant items.

We expect Cost of revenues as a percentage of revenues to remain consistent during the remainder of 2020 compared to the nine months ended September 30, 2020.

***Sales and marketing***

Sales and marketing expenses consist primarily of salaries 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 September 30,			Nine Months Ended September 30,		
	2020	% Change	2019	2020	% Change	2019
	(Dollars in thousands)			(Dollars in thousands)		
Sales and marketing .....	\$ 8,389	(15)%	\$ 9,857	\$ 23,883	(27)%	\$ 32,775

Sales and marketing expenses decreased slightly in the three months ended September 30, 2020 compared to the same period last year. Sales and marketing expenses decreased by \$8.9 million during the nine months ended September 30, 2020 compared to the same period last year, primarily due to decreases in advertising and marketing expenses of \$6.4 million, as a result of decreases in marketing programs in various regions.

We expect Sales and marketing expenses as a percentage of revenues to increase during the remainder of 2020, compared to the nine months ended September 30, 2020, as we execute more advertising and marketing campaigns.

***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 September 30,			Nine Months Ended September 30,		
	2020	% Change	2019	2020	% Change	2019
	(Dollars in thousands)			(Dollars in thousands)		
Research and development .....	\$ 19,708	35 %	\$ 14,619	\$ 55,268	21 %	\$ 45,704

Research and development expenses increased by \$5.1 million and \$9.6 million during the three and nine months ended September 30, 2020, respectively, compared to the same periods last year, primarily due to increases in salary and employee benefits expenses of \$3.5 million and \$7.2 million, respectively. These increases in salary and employee benefits expenses were due to several factors, including a functional realignment of some headcount from cost of revenues, additional headcount increases throughout the year, and an increase in expenses for other employee benefits including expanded paid time off benefits provided to employees in response to the COVID-19 pandemic. During the nine months ended September 30, 2020, allocated overhead expenses increased by \$2.8 million due to higher average headcount relative to other cost types.

We expect Research and development expenses as a percentage of revenues to remain consistent during the remainder of 2020 compared to the nine months ended September 30, 2020.

***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, and certain tax and license fees, 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 September 30,			Nine Months Ended September 30,		
	2020	% Change	2019	2020	% Change	2019
	(Dollars in thousands)					
General and administrative	\$ 38,109	12 %	\$ 33,886	\$ 111,719	11 %	\$ 101,065

General and administrative expenses increased by \$4.2 million during the three months ended September 30, 2020, compared to the same period last year, due to a \$2.4 million increase in salary and employee benefits expenses resulting from an increase in average headcount as well as an increase in expenses for other employee benefits.

General and administrative expenses increased by \$10.7 million during the nine months ended September 30, 2020, compared to the same period last year, due to increases in salary and employee benefits expenses, charitable contributions, software license expenses and legal expenses, partially offset by a decrease in stock-based compensation expenses and an increase in overhead costs allocated to other cost types. Salary and employee benefits expenses increased by \$6.4 million as a result of an increase in average headcount as well as an increase in expenses for other employee benefits. Charitable contributions increased by \$3.1 million to support the response to the COVID-19 pandemic and to promote equal justice. Software license expenses increased by \$2.2 million due to expenses related to network security and other software services. Legal expenses increased by \$1.8 million due to an increase in external legal costs on various projects. Stock-based compensation expense decreased by \$2.0 million as a result of a decrease in the projected achievement levels on certain performance-based RSU grants. Overhead costs allocated to other cost types increased by \$1.8 million due to an increase in total allocable expenses.

We expect General and administrative expenses as a percentage of revenues to remain consistent during the remainder of 2020 compared to the nine months ended September 30, 2020.

#### **Interest expense**

Interest expense remained consistent in the three and nine months ended September 30, 2020 as compared to the same period last year. We expect quarterly Interest expense to remain consistent during the remainder of 2020 compared to the nine months ended September 30, 2020.

#### **Non-operating income, net**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Interest income	\$ 805	\$ 6,457	\$ 7,500	\$ 21,045
Transition services income	—	3,750	2,100	11,850
Gain on sale of business	(9)	64	5,602	817
Other, net	(21)	227	60	425
Total non-operating income, net	\$ 775	\$ 10,498	\$ 15,262	\$ 34,137

Interest income decreased in the three and nine months ended September 30, 2020 due to a decline in interest rates on our investments in debt securities. Transition services income related to our divested security services business decreased in the three and nine months ended September 30, 2020 due to the expiration of the transition services agreement in February 2020. Gain on sale of business increased in the nine months ended September 30, 2020 as the result of contingent consideration received related to our divested security services business in excess of the estimated receivable.

We expect Non-operating income, net to decrease as a percentage of revenues during the remainder of 2020 compared to the nine months ended September 30, 2020 due to the impact of the decline in interest rates on our investments in debt securities and the expiration of the transition services agreement.

**Income tax expense (benefit)**

The following table presents Income tax expense (benefit) and the effective tax rate:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Income tax expense (benefit).....	\$ 13,908	\$ 39,568	\$ (90,226)	\$ 109,825
Effective tax rate.....	8 %	20 %	(16)%	19 %

The effective tax rate for each of the periods in the table above differed from the statutory federal rate of 21% due to a lower foreign effective tax rate and excess tax benefits related to stock-based compensation, offset by state income taxes and U.S. taxes on foreign earnings, net of foreign tax credits.

Additionally, we remeasured certain previously unrecognized income tax benefits, which resulted in the recognition of \$24.0 million and \$191.8 million of income tax benefits in the three and nine months ended September 30, 2020, respectively. The most significant portion of these tax benefits related to the worthless stock deduction taken in 2013, which resulted in the recognition of a \$167.8 million benefit in the first quarter of 2020. These remeasurements were based on written confirmations from Internal Revenue Service (“IRS”), received in the first and third quarters of 2020, indicating no examination adjustments would be proposed related to the worthless stock deduction or certain other matters reviewed as part of the audit of our federal income tax returns for 2010 through 2014. Notwithstanding these written confirmations, our U.S. federal income tax returns for those years remain under examination by the IRS.

We expect our annual effective tax rate for 2020 to be a net benefit of between 6% and 9%, which reflects the income tax benefit from \$191.8 million of previously unrecognized tax benefits recognized in the nine months ended September 30, 2020.

**Liquidity and Capital Resources**

	September 30,	December 31,
	2020	2019
	(In thousands)	
Cash and cash equivalents.....	\$ 145,701	\$ 508,196
Marketable securities.....	1,004,658	709,863
Total.....	<u>\$ 1,150,359</u>	<u>\$ 1,218,059</u>

As of September 30, 2020, our principal sources of liquidity were \$145.7 million of cash and cash equivalents and \$1,004.7 million 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, time deposits and U.S. Treasury bills purchased with original maturities of less than 90 days. As of September 30, 2020, 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, “Financial Instruments,” of our Notes to Condensed Consolidated Financial Statements in Part I, Item I of this Quarterly Report on Form 10-Q.

During the three months ended September 30, 2020, we repurchased 0.8 million shares of our common stock for an aggregate cost of \$170.0 million. As of September 30, 2020, there was approximately \$505.6 million remaining available for future share repurchases under the share repurchase program which has no expiration date.

As of September 30, 2020, we had \$550.0 million principal amount outstanding of 4.75% senior unsecured notes due 2027, \$500.0 million principal amount outstanding of 5.25% senior unsecured notes due 2025, and \$750.0 million principal amount outstanding of 4.625% senior unsecured notes due 2023. As of September 30, 2020, there were no borrowings outstanding under our \$200.0 million credit facility that will expire in 2024.

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 nine months ended September 30, 2020 and 2019 were as follows:

	Nine Months Ended September 30,	
	2020	2019
	(In thousands)	
Net cash provided by operating activities.....	\$ 534,962	\$ 560,294
Net cash used in investing activities.....	(305,820)	(237,827)
Net cash used in financing activities.....	(591,128)	(570,333)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash.....	(506)	(208)
Net decrease in cash, cash equivalents, and restricted cash.....	<u>\$ (362,492)</u>	<u>\$ (248,074)</u>

*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.

Net cash provided by operating activities decreased during the nine months ended September 30, 2020, compared to the same period last year, primarily due to an increase in cash paid for income taxes and decreases in cash received from interest on investments and from transition services, partially offset by a decrease in cash paid to vendors and an increase in cash received from customers. Cash paid for income taxes increased as we used the majority of our net operating loss carryforwards and tax credit carryforwards by the end of 2019. Cash received from interest on investments decreased due to a decline in interest rates. Cash received from transition services decreased due to the expiration of the transition services agreement related to our divested security services business in February 2020. Cash received from customers increased primarily due to higher domain name registrations and renewals. Cash paid to vendors decreased primarily due to the timing of payments.

*Cash flows from investing activities*

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

Net cash used in investing activities increased during the nine months ended September 30, 2020, compared to the same period last year, primarily due to an increase in purchases of marketable securities and investments, net of proceeds from maturities and sales of marketable securities and investments and an increase in purchases of equipment, partially offset by contingent consideration received in the first half of 2020 related to our divested security services business.

*Cash flows from financing activities*

The changes in cash flows from financing activities primarily relate to share repurchases and our employee stock purchase plan.

Net cash used in financing activities increased during the nine months ended September 30, 2020, compared to the same period last year, primarily due to an increase in share repurchases.

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

There have been no significant changes in our market risk exposures since December 31, 2019.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure 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 September 30, 2020, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended September 30, 2020 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.

## PART II—OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are involved in various investigations, claims and lawsuits arising in the normal conduct of our business, none of which, in our opinion, will have a material adverse effect on our financial condition, results of operations, or cash flows. We cannot assure you that we will prevail in any litigation. Regardless of the outcome, any litigation may require us to incur significant litigation expense and may result in significant diversion of management attention.

### ITEM 1A. RISK FACTORS

*In addition to other information in this Quarterly Report on 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, prospects, operating results or financial condition. Actual results could differ materially from those projected in the forward-looking statements contained in this Quarterly Report on Form 10-Q as a result of the risk factors discussed below and elsewhere in this Quarterly Report on Form 10-Q and in other filings we make with the SEC. Additional or unforeseen effects from the COVID-19 pandemic and the global economic climate may give rise to or amplify many of the risks discussed below.*

**The effects of the COVID-19 pandemic could adversely affect our business, operations, financial condition and results of operations, and the extent to which the effects of the pandemic will impact our business, operations, financial condition and results of operations remains uncertain.**

The United States and the global community we serve are facing unprecedented challenges posed by the COVID-19 pandemic. The pandemic, and the preventative measures taken in response (including “shelter-in-place” or “stay-at-home” and similar orders issued by international, federal, state or local authorities and the subsequent relaxation of such orders), have resulted in, and are expected to continue to result in, significant volatility, business and economic disruptions and uncertainty. We have taken steps to protect our employees and we continue to operate all of our services, including our registry services for .com and .net and our root operations, but the extent to which the effects of the pandemic will impact our business, operations, financial condition and results of operations is uncertain and will depend on numerous evolving factors that we may not be able to control or predict, including:

- the duration and scope of the pandemic;
- the extent and effectiveness of responsive actions, including the relaxation of orders by authorities, and the impact of these and other factors on our employees, customers and vendors;
- the impact of the pandemic on our key personnel and other employees (including the impact of work-from-home arrangements on employee productivity and morale);
- the extent to which we are able to maintain and replace critical internet infrastructure components when necessary;
- our continued ability to execute on business continuity plans for the maintenance of our critical internet infrastructure, while most of our employees continue to work remotely; and
- any negative impact on the demand for new and renewal domain name registrations resulting from the economic disruption caused by the pandemic and responses thereto.

Further, the impact of COVID-19 and the volatile regional and global economic conditions stemming from the pandemic may also precipitate or exacerbate other risks discussed in these Risk Factors, any of which could have a material effect on us. As of the date of this Quarterly Report on Form 10-Q, our financial condition and results of operations have not been adversely impacted by the COVID-19 pandemic. Regardless, this situation is uncertain and additional effects may arise that we are not presently aware of or that we currently do not consider to present significant risks to our operations. If we are unable to successfully respond to and manage the impact of the pandemic, and the resulting responses to it, our business, operations, financial condition and results of operations could be adversely impacted, and the impact could be material.

**Risks arising from our agreements governing our business could limit our ability to maintain or grow our business.**

We are parties to (i) a Cooperative Agreement, as amended, with the DOC with respect to the .com TLD and (ii) Registry Agreements with ICANN with respect to the .com, .net, .name, and other gTLDs including our IDN gTLDs. As substantially all of our revenues are derived from the operation of these gTLDs, limitations and obligations in, or changes or challenges to, these agreements, particularly the agreements that involve .com and .net, could have a material adverse impact on our business. Certain competing registries, such as the ccTLDs, are not subject to the same limitations or obligations that we are subject to in our agreements. Verisign and the DOC entered into Amendment 35 to the Cooperative Agreement on October 26, 2018, which, among other things, extends the term of the Cooperative Agreement through November 30, 2024. As amended by Amendment

35, the Cooperative Agreement will automatically renew on the same terms for successive six-year terms unless the DOC provides written notice of non-renewal within 120 days prior to the end of the then-current term. Further changes to the Cooperative Agreement require the mutual agreement of the DOC and the Company.

*Modifications or Amendments.* In October 2016, the Company and ICANN entered into an amendment to extend the term of the .com Registry Agreement to November 30, 2024 (“First .com Amendment”). As part of the First .com Amendment, the Company and ICANN agreed to negotiate in good faith to amend the terms of the .com Registry Agreement: (i) to preserve and enhance the security and stability of the internet or the .com TLD, and (ii) as may be necessary for consistency with changes to, or the termination or expiration of, the Cooperative Agreement. On March 27, 2020, the Company and ICANN entered into an amendment to the .com Registry Agreement (“Third .com Amendment”) and a binding Letter of Intent (“LOI”). Together these agreements satisfied the requirements in the First .com Amendment noted above. The Third .com Amendment allows the Company to increase the Maximum Price (as defined in the .com Registry Agreement) of .com domain name registrations by up to 7% over the previous year in each of the final four years of each six-year period. The first such six-year period began on October 26, 2018. The Third .com Amendment also clarified that the restrictions in the .com Registry Agreement relating to vertical integration apply solely to the .com TLD. The LOI sets forth a new framework for the Company and ICANN to work together on initiatives to preserve and enhance the security, stability and resiliency of the DNS.

Under the Cooperative Agreement, as amended by Amendment 35, no further DOC approval of the Third .com Amendment was required. Standard renewals of the .com Registry Agreement also do not require further DOC approval, although the prior written approval of the DOC is required upon the removal of, or any changes to the pricing section (other than as approved in Amendment 35), changes to the vertical integration provisions (other than the clarification approved in Amendment 35), changes to the security, stability and resiliency posture as reflected in the functional or performance specifications (including the SLAs), changes to the conditions for renewal or termination, or changes to the Whois service (other than such changes mandated by ICANN through temporary specifications or policies (“Temporary Policies”) and specifications or policies adopted by ICANN pursuant to the procedures set forth in its bylaws and due process (“Consensus Policies”)), as set forth in Amendment 35. We can provide no assurances that DOC approval would be provided upon our request for any of these changes.

In addition, our Registry Agreements for new gTLDs, including the Registry Agreements for our IDN gTLDs, include ICANN’s right to amend the agreements without our consent, which could impose unfavorable contract obligations on us that could impact our plans and competitive positions with respect to new gTLDs. At the time of renewal of our .com or .net Registry Agreements, ICANN might also attempt to impose this same unilateral right to amend these Registry Agreements under certain conditions. ICANN has also included new mandatory obligations on new gTLD registry operators, including us, that may increase the risks and potential liabilities associated with operating new gTLDs. ICANN might seek to impose these new mandatory obligations in our other Registry Agreements under certain conditions. We can provide no assurance that any changes to our Registry Agreements as a result of the above obligations will not have a material adverse impact on our business, operating results, financial condition, and cash flows.

*Pricing.* Under the terms of the Third .com Amendment, the Company may increase the Maximum Price (as defined in the .com Registry Agreement) of .com domain name registrations by up to 7% over the previous year in each of the final four years of each six-year period.

In addition to the contractual right described above, we are entitled to increase the price up to 7% due to the imposition of any new Consensus Policies or documented extraordinary expense resulting from an attack or threat of attack on the security and stability of the DNS (“Extraordinary Expense”). The Third .com Amendment clarifies that the Company’s ability to increase prices due to a Consensus Policy or Extraordinary Expense may occur only in years where the Company does not take a price increase as described in the above paragraph. It is uncertain whether circumstances would arise that would permit a price increase due to a Consensus Policy or Extraordinary Expense, or if they do, whether we would seek to increase the price for .com domain name registrations for this reason.

We also have the right under the Cooperative Agreement to seek the removal of these pricing restrictions if we demonstrate to the DOC that market conditions no longer warrant such restrictions. However, it is uncertain whether we will seek the removal of such restrictions, or whether the DOC would approve the removal of such restrictions. In comparison, under the terms of the .net and .name Registry Agreements with ICANN, we are permitted to increase the price of domain name registrations and renewals in these TLDs up to 10% per year. Additionally, ICANN’s registry agreements for new gTLDs do not contain such pricing restrictions.

*Vertical Integration.* Under the Third .com Amendment, the parties clarified that the restrictions in the .com Registry Agreement relating to vertical integration apply solely to the .com TLD. As to the .com TLD, we are not permitted to acquire, directly or indirectly, control of, or a greater than 15% ownership interest in, any ICANN-accredited registrar that sells .com domain name registrations. Historically, all gTLD registry operators were subject to a vertical integration prohibition; however, ICANN has established a process whereby registry operators may seek ICANN’s approval to remove this restriction, and

ICANN has approved such removal for certain other registry operators. 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. If we seek to become vertically integrated, it is uncertain whether approval to do so would be obtained under ICANN’s processes. Furthermore, even if we obtain such approval, we can provide no assurances that we will enter the domain name retail market, or that we will be successful if we choose to do so. If registry operators of other TLDs, including ccTLDs, are able to obtain competitive advantages through vertical integration, and we are not, it could materially harm our business.

*Renewal and Termination.* Our *.com*, *.net*, and *.name* Registry Agreements with ICANN contain “presumptive” rights of renewal upon the expiration of their current terms on November 30, 2024, June 30, 2023 and August 15, 2024, respectively. The Registry Agreements for our new gTLDs including our IDN gTLDs are subject to a 10-year term and contain similar “presumptive” renewal rights. If certain terms in our *.com* and *.net* Registry Agreements are not similar to such terms generally in effect in the registry agreements of the five largest gTLDs, then a renewal of these agreements shall be upon terms reasonably necessary to render such terms similar to the registry agreements for those other gTLDs. There can be no assurance that such terms, if they apply, will not have a material adverse impact on our business. A failure by ICANN to approve the renewal of the *.com* Registry Agreement prior to the expiration of its current term on November 30, 2024 or to approve the renewal of the *.net* Registry Agreement prior to or upon the expiration of its current term on June 30, 2023, would have, absent an extension, a material adverse effect on our business. ICANN could terminate or refuse to renew our *.com* or *.net* Registry Agreements if, upon proper notice, (i) we fail to cure a fundamental and material breach of certain specified obligations, and (ii) we fail to timely comply with a final decision of an arbitrator or court. ICANN’s termination or refusal to renew either the *.com* or *.net* Registry Agreement would have a material adverse effect on our business.

*Consensus Policies.* Our Registry Agreements with ICANN require us to implement Consensus Policies and Temporary Policies. ICANN could adopt Consensus Policies or Temporary Policies that are unfavorable to us as the registry operator of *.com*, *.net* and our other gTLDs, that are inconsistent with our current or future plans, that impose substantial costs on our business, that subject the Company to additional legal risks, or that affect our competitive position. Such Consensus Policies or Temporary Policies could have a material adverse effect on our business. As an example, ICANN has adopted a Consensus Policy that would require Verisign to receive and display Thick Whois data for *.com* and *.net*, although that Policy is scheduled to be reviewed by ICANN. In addition, ICANN has adopted an interim Consensus Policy that establishes temporary requirements for registry operators and registrars regarding the collection, display and disclosure of Thick Whois data pending ICANN’s establishment of a permanent Consensus Policy. The costs of complying or failing to comply with these policies as well as laws and regulations, such as General Data Protection Regulation (“GDPR”), regarding personal information and data privacy, such as domestic and various foreign privacy regimes, could expose us to compliance costs and substantial liability, and result in costly and time-consuming investigations or litigation.

*Technical Standards and ICANN Processes.* Our Registry Agreements with ICANN require Verisign to implement and comply with various technical standards and specifications published by the Internet Engineering Task Force (“IETF”). ICANN could impose requirements on us through changes to these IETF standards that are inconsistent with our current or future plans, that impose substantial costs on our business, that subject the Company to additional legal risks, or that affect our competitive position. Any such changes to the IETF standards could have a material adverse effect on our business. In addition, under Amendment 35, we have agreed to continue to operate the *.com* TLD in a content-neutral manner and to work within ICANN processes to promote the development of content-neutral policies for the operation of the DNS and under the LOI, we have agreed to work with the ICANN community to develop certain best practices and other commitments for the security, stability and resiliency of the DNS and the internet. Such policies and processes could expose us to compliance costs and substantial liability and result in costly and time-consuming investigations or litigation.

*Legal Challenges.* Our Registry Agreements have faced, and could face in the future, challenges, including possible legal challenges, or challenges under ICANN’s accountability mechanisms, 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.

**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. For example, the government of China has indicated that it will issue, and has issued, new regulations, and has begun to enforce existing regulations, that impose additional costs on, and risks to, our provision of registry services in China and could impact the growth or renewal rates of domain name registrations in China. In addition to registry operators, registrars are also required by some of these regulations to obtain a government-issued license for each TLD whose domain name registrations they intend

to sell directly to registrants. Any failure to obtain the required licenses, or to comply with any license requirements or any updates thereto, by us or our registrars could impact our current and future business in China.

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, online gambling, counterfeit goods, and intellectual property violations such as cybersquatting; laws designed to require registrants to provide additional documentation or information in connection with domain name registrations; and laws designed to promote cybersecurity may impose significant additional costs on our business or subject us to additional liabilities.

To conduct our operations, we regularly move data across national borders and receive data originating from different jurisdictions, and consequently are subject to a variety of continuously evolving and developing laws and regulations in the United States and abroad regarding privacy, data protection and data security. The scope of the laws that may be applicable to us is often uncertain and may be conflicting, particularly with respect to foreign laws. For example, the European Union's GDPR, which greatly increases the jurisdictional reach of European Union law and adds a broad array of requirements for handling personal data, including the public disclosure of significant data breaches, and significant penalties, became effective in May 2018. Other countries and other states have enacted or are enacting data localization laws regulating or limiting data collection, storage and transfer as well as granting new rights to data subjects. All of these evolving compliance and operational requirements can impose significant costs for us that are likely to increase over time.

Due to the nature of the internet, it is possible that federal, state or foreign governments might attempt to regulate internet transmissions or prosecute us for violations of laws. We might unintentionally violate such laws, such laws may be modified or enforced using new or novel legal theories, and new laws may be enacted in the future. In addition, as we continue to launch and market our IDN gTLDs and increase our marketing efforts of our other TLDs in foreign countries, we may raise our profile in certain foreign countries thereby increasing the regulatory and other scrutiny of our operations. Any such developments could increase the costs of regulatory compliance for us, affect our reputation, expose us to liability, penalties or fines, force us to change our business practices or otherwise materially harm our business. In addition, any such laws could impede growth of, or result in a decline in, domain name registrations.

**Undetected or unknown defects in our systems or services, security breaches including from vulnerabilities, defects in the technologies, components, and services in our supply chain, and Distributed Denial of Service (“DDoS”) attacks could expose us to liability and materially harm our business and reputation.**

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 service outages or disruptions, compromised customer data, including DNS data, 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. 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 on third-party applications and services that utilize our services, which could result in legal claims against us, harming our business. Our failure to identify, remediate and mitigate security vulnerabilities and breaches or our inability to meet customer expectations in a timely manner could also result in loss of or delay in revenues, failure to meet contracted service level obligations, loss of market share, failure to achieve market acceptance, injury to our reputation and increased costs.

In addition to undetected defects or errors, we are also subject to cyber-attacks and attempted security breaches. We retain certain customer and employee information in our data centers and various domain name registration systems. It is critical to our business strategy, as well as fulfilling our obligations as the registry operator for *.com* and *.net*, that our facilities and infrastructure remain secure, that we continue to meet our service level agreements, and that we maintain the public's trust in the internet services that we provide. 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 attacks and zero-hour threats. These forms of attacks involve situations where the threat is not compiled or has been previously unobserved within our observation and threat indicators space until the moment it is launched. In addition, these forms of attacks may target specific unidentified or unresolved vulnerabilities that exist only within the target's supply chain or operating environment, making these attacks virtually impossible to anticipate and difficult to defend against. In addition to external threats, we may be subject to insider threats, including those from third-party suppliers, such as consultants and advisors, SaaS providers, hardware, software, and network systems manufacturers, regional internet registries, and other outside vendors, or from current or former contractors or employees; these threats can be realized from intentional or unintentional actions. The Shared Registration System, the root zone servers, the root zone file, the Root Zone Maintainer System, the TLD name servers and the TLD zone files that we operate are critical to our operations. Therefore, attacks against third-party suppliers that provide products or services supporting these critical elements of our operations could also impact our infrastructure. Despite the significant time and money expended on our security measures, we have been subject to a security breach, that was previously 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, disruptions resulting from destructive malware, hardware or enabling software defects, 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 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, fail to meet contracted service level obligations, or be at risk for loss of various security and standards-based compliance certifications needed for operation of our businesses, and customers could be reluctant to use our services, all or any of which could adversely affect our reputation and harm our business or cause financial losses that are either not insured against or not fully covered through any insurance that we maintain. 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.

Many internet service providers are beginning to adopt and apply internet reachability policies based on a system known as the Resource Public Key Infrastructure ("RPKI"), operated by the regional internet registries who allocate internet number resources, such as internet protocol addresses, to network operators. If the availability, integrity, or confidentiality of any of the information in the RPKI system is impacted or compromised in any of the regional internet registries, or the operations or ingestion of data from the RPKI system are otherwise impacted by a known or unknown vulnerability, our services may be negatively impacted.

We use externally developed technology, systems and services, including both hardware and software, for a variety of purposes, including, without limitation, compute, storage, encryption and authentication, back-office support, and other functions. While we have developed operational policies and procedures to reduce the impact of security vulnerabilities in system components, as well as at any vendors where Company data is stored or processed, such measures cannot provide absolute security. While we strive to remediate known vulnerabilities on a timely basis, such vulnerabilities could be exploited before our remediation is effective and if so, could cause systems and service interruptions, data loss and other damages, any of which could be materially harmful to our business. Vulnerabilities in, and exploits leading to, breaches of our or our vendors' technology, systems or services could expose us or our customers to a risk of outages and loss or misuse of Company data, including but not limited to, sensitive personal information.

Additionally, our networks have been, and likely will continue to be, subject to DDoS attacks. Recent attacks have demonstrated that DDoS attacks continue to grow in size and sophistication and have the ability to widely disrupt internet services. Particularly since 2016, the size of DDoS attacks has grown rapidly, and we have successfully mitigated DDoS attacks during this time frame that are significantly larger than those we have historically experienced. While we have adopted mitigation techniques, procedures and strategies to defend against such attacks, 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 attack, even if only partially successful, could disrupt our networks, increase response time, negatively impact our ability to meet our service level obligations, and generally impede our ability to provide reliable service to our customers and the broader internet community. We have historically incurred, and will continue to incur, significant costs to enable our infrastructure to process levels of attack traffic that are significant multiples of our normal transaction volume. Any new technologies or services used to replace or enhance existing or future DDoS and other attack mitigation capabilities may introduce risk that may not exist today in those environments. If security incidents occur associated with such new technologies or services, they could disrupt our networks, increase response time, negatively impact our ability to meet our contracted service level obligations, and generally impede our ability to provide reliable service to our customers and the broader internet community.

### **Changes to the multi-stakeholder model of internet governance could materially and adversely impact our business.**

The internet is governed under a multi-stakeholder model comprising civil society, the private sector, including for-profit and not-for-profit organizations such as ICANN, governments, including the U.S. government, academia, non-governmental organizations and international organizations.

*Role of the U.S. Government.* In the fourth quarter of 2016, the U.S. government completed a transition to the multi-stakeholder community of the historical role played by the National Telecommunications and Information Administration ("NTIA") in the coordination of the DNS. Changes arising from this transition to the multi-stakeholder model of internet governance could materially and adversely impact our business. For example, ICANN has adopted bylaws that are designed, in part, to enhance accountability through a new organization called the Empowered Community, which is comprised of a cross section of stakeholders. ICANN or the Empowered Community may assert positions that could negatively impact our strategy or our business.

By completing the transition discussed above, the U.S. government through the NTIA has ended its coordination and management of important aspects of the DNS including the IANA functions and the root zone. There can be no assurance that the removal of the U.S. government oversight of these key functions will not negatively impact our business.

*Role of ICANN.* ICANN plays a central coordination role in the multi-stakeholder system. ICANN is mandated through its bylaws to uphold a private sector-led multi-stakeholder approach to internet governance for the public benefit. If ICANN or the Empowered Community fails to uphold or significantly redefines the multi-stakeholder model, it could harm our business. Additionally, the Empowered Community could adversely impact ICANN, which could negatively impact its ability to coordinate the multi-stakeholder system of governance, or negatively affect our interests. Also, legal, regulatory or other challenges could be brought challenging the legal authority underlying the roles and actions of ICANN, the Empowered Community or us.

*Role of Foreign Governments.* Some governments and members of the multi-stakeholder community have questioned ICANN's role with respect to internet governance and, as a result, could seek a multilateral oversight body as a replacement. Additionally, the role of ICANN's Governmental Advisory Committee, which is comprised of representatives of national governments, could change, and give governments more control of certain aspects of internet governance. 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. Changes to the roles that foreign governments play in internet governance could materially and adversely impact our business.

### **We face risks from our operation of two root zone servers and performance of the Root Zone Maintainer functions under the RZMA.**

We 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 that enables DNS resolvers to locate name servers that contain authoritative data for the TLDs. These root zone servers are critical to the functioning of the internet. We also have an important operational role in support of a key Internet Assigned Numbers Authority ("IANA") function as the Root Zone Maintainer. In this role, we provision and publish the authoritative root zone data and make it available to all root server operators under an agreement with ICANN, the Root Zone Maintainer Service Agreement ("RZMA").

As we perform the Root Zone Maintainer Services under the RZMA, we may be subject to significant claims challenging the agreement or our performance under the agreement, and we may not have immunity from, or sufficient indemnification or insurance for, such claims.

Additionally, over 1,200 new gTLDs have already been delegated into the root zone since 2012. ICANN plans on offering a subsequent round of new gTLDs, the timing of which remains uncertain. We believe there are potential security and stability issues that could involve the root zone and at other levels of the DNS from 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, domain name collisions have been reported to ICANN, which have resulted in various network interruptions for enterprises as well as confusion and usability issues that have led to phishing and other cyber-attacks. It is anticipated that as additional new gTLDs are delegated now, or in subsequent rounds, more domain name collisions and associated security issues will occur.

### **The evolution of internet practices and behaviors, the adoption of substitute technologies, or price increases may impact the demand for domain names.**

Domain names and the domain name system have been used by consumers and businesses to access or disseminate information, conduct e-commerce, and develop an online identity for many years. The growth of technologies such as social media, mobile devices, apps and the dominance of search engines has evolved and changed the internet practices and behaviors of consumers and businesses alike. These changes can impact the demand for domain names by those who purchase domain names for personal, commercial, and investment reasons. Factors such as the evolving practices and preferences of internet users and how they navigate the internet, as well as the motivation of domain name registrants and how they will monetize their investment in domain names, can negatively impact our business. Some domain name registrars and registrants seek to purchase and resell domain names at an increased price. Adverse changes in the resale value of domain names, changes in the business models for such domain name registrars and registrants, or other factors, including regulations limiting the resale of domain names, could result in a decrease in the demand and/or renewal rates for domain names in our TLDs. Such a resulting decrease in demand and/or renewal rates could negatively impact the volume of new domain name registrations, our renewal rates, and our associated revenue growth.

Some domain name registrants use a domain name to access or disseminate information, conduct e-commerce, and develop an online identity. Currently, internet users often navigate to a website either by directly typing its domain name into a web browser, the use of an app on their smart phone or mobile device, the use of a voice recognition technology such as Alexa, Cortana, Google Assistant, or Siri, or through the use of a search engine. If (i) web browser or internet search technologies were to change significantly; (ii) internet users' preferences or practices shift away from recognizing and relying on web addresses for navigation through the use of new and existing technologies; (iii) internet users were to significantly decrease the use of web browsers in favor of applications to locate and access content; (iv) internet users were to significantly decrease the use of

domain names to develop and protect their online identity; or (v) internet users were to increasingly use third-level domains or alternate identifiers, such as identifiers from social networking and microblogging sites, in each case the demand for domain names in our TLDs could decrease. This may trigger current or prospective customers and parties in our target markets to reevaluate their need for registration or renewal of domain names.

In addition, alternative TLDs that are operated outside the root zone have been, and continue to be proposed, for example, as part of certain blockchain namespace systems. To the extent that web browsers, applications, registrars and DNS resolvers recognize and support such TLDs, and that internet users are able to perform online operations with such TLDs, demand for TLDs in the root zone, including our TLDs, could be negatively impacted.

Some domain name registrars and registrants seek to generate revenues 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 adversely affected, 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 provide less pay-per-click compensation for certain types of websites. This has reportedly 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.

If any of the above factors negatively impact the renewal of domain names or the demand for new domain names, we may experience material adverse impacts on our business, operating results, financial condition and cash flows.

**Many of our 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 or our prospects could be harmed.**

We seek to serve many new, developing and emerging markets in foreign countries to grow our business. These locations are rapidly evolving and may not grow. Even if these markets grow, our services may not be widely used or accepted. Accordingly, the demand for our services in these locations is very uncertain. The factors that may affect acceptance or adoption of our services in these locations include the following:

- regional internet infrastructure development, expansion, penetration and adoption;
- acceptance and adoption of substitute products and services that enable online presence without a domain, including social media, e-commerce platforms, website builders and mobile applications;
- 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, and in particular, the use of mobile applications as the primary engagement mechanism for navigating the internet;
- increasing cyber threats;
- government regulations affecting internet access and availability, domain name registrations or the provision of registry services, data security or data localization, or e-commerce and telecommunications over the internet;
- the maturity and depth of the sales channels within developing and emerging markets and their ability and motivation to establish and support sales for domain names;
- preference for the use of ccTLDs as a substitute or alternative to our TLDs; and
- increased acceptance and use of new gTLDs as substitutes for established gTLDs.

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

**The business environment is highly competitive and, if we do not compete effectively, we may suffer lower demand for our products, reduced gross margins and loss of market share.**

The internet and communications network services industries are characterized by rapid technological change and frequent new product and service announcements which require us to continually 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 position, 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 potentially launch entirely new products and services such as new gTLDs in anticipation of, or in response to, market trends. 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 industry is 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.

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 an online presence. We have been designated as the registry operator for certain new gTLDs, including certain IDN gTLDs; however, there is no guarantee that such new gTLDs will be as or more successful than the new gTLDs obtained by our competitors. For example, some of the new gTLDs, including our new gTLDs, may face additional universal acceptance and usability challenges in that current desktop and mobile device software does not ubiquitously recognize these new gTLDs and developers of desktop and mobile device software 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. As a result of these challenges, it is possible that resolution of domain names within some of these new gTLDs may be blocked within certain state or organizational environments, challenging universal resolvability of these strings and their general acceptance and usability on the internet.

See the “Competition” section in Part I, Item 1 of the 2019 Form 10-K for further information.

**We must establish and maintain strong relationships with registrars and their resellers to maintain their focus on marketing our products and services; otherwise, our business could be harmed.**

All of our domain name registrations occur through registrars. Registrars and their resellers utilize substantial marketing efforts to increase the demand and/or renewal rates for domain names as well as their own associated offerings. 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.

With the introduction of new gTLDs, many of our registrars and resellers have chosen to, and may continue to 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. Our registrars and resellers sell domain name registrations of other competing registries, including other new gTLDs, and some also sell and support their own services for websites such as email, website hosting, as well as other services. Therefore, our registrars and resellers may be more motivated to sell to registrants to whom they can also market their own services. To the extent that registrars and resellers focus more on selling and supporting their services and less on the registration and renewal of domain names in our TLDs, our revenues could be adversely impacted. Our ability to successfully market our services to, and build and maintain strong relationships with, new and existing registrars or resellers is a factor upon which successful operation of our business is dependent. If we are unable to keep a significant portion of their marketing efforts focused on selling registrations of domain names in our TLDs, as opposed to other competing TLDs, including the new gTLDs, or their own services, our business could be harmed.

**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, software defects, or hardware defects, both in our systems and those of our service providers and suppliers;
- any potential failure to timely replace or upgrade network equipment;
- physical or electronic break-ins, sabotage, intentional acts of vandalism, terrorist attacks, unintentional mistakes or errors, 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;
- interconnection and internet routing system vulnerabilities;

- state suppression of internet operations; and
- any failure to implement effective and timely remedial actions in response to any vulnerability, 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 owned data centers. In 2019, we began transitioning some of our data center operations to a leased data center facility. We are also updating our network architecture in several of our new and existing data centers. To the extent our data center facilities or the updated network architecture do not operate as expected, we could experience service interruptions or outages, which could harm our business. Also, 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.

In addition, our services depend on the secure and efficient operation of the internet connections to and from customers to our Shared Registration System residing in our secure data centers. These connections depend upon the secure and efficient operation of internet service providers, internet exchange point operators, and internet backbone service providers. Such providers have had periodic operational problems or experienced outages in the past beyond our scope of control and may continue to encounter problems and outages, or may choose to discontinue their service. In addition, if the providers that our connections depend upon do not protect, maintain, improve, and reinvest in their networks or present inconsistent data regarding the DNS through their networks, our business could be harmed.

A failure in the operation or update of the root zone servers, the root zone file, the Root Zone Management System, the TLD name servers, or the TLD zone files that we operate, including, for example, our operation of the .gov registry, or other network functions, could result in a DNS resolution or other service outage or degradation; the deletion of one or more TLDs from the internet; the deletion of one or more second-level 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 or update of the supporting cryptographic and other operational infrastructure that we maintain could result in similar consequences. A failure in the operation of our Shared Registration System could result in the inability of one or more registrars to register or maintain domain names for a period of time. In the event that a registrar has not implemented back-up services in conformance with industry best practices, the failure could result in permanent loss of transactions at the registrar during that period. Any of these problems or outages could create potential liability and exposure, including from a failure to meet our service level agreements in our Registry Agreements, and could decrease customer satisfaction, harming our business, or resulting in adverse publicity and damage to our reputation that could adversely affect the market's perception of the security of e-commerce and communications over the internet, as well as, the reliability of our services, or call into question our ability to preserve the security and stability of the internet.

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

An unfavorable global market, economic, social, public health, and political environment has impacted or may negatively impact, among other things:

- our customers' or end-users' continued growth and development of their businesses, or their ability to maintain their businesses and continue as going concerns, which could affect demand for our products and services;
- current and future demand for our services, including 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 and our associated ability to execute on any share repurchase plans; and
- our ability to service our debt, to obtain financing or assume new debt obligations.

In addition, to the extent that any of the above conditions impacts specific industry and geographic sectors in which many end-users of our products and services are concentrated, we may experience a disproportionate negative impact on our business.

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

A significant portion of our revenues is derived from customers outside the U.S. Our business operations in international locations 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 location and to enter into international distribution and 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 locations or expand our presence in existing

locations. Failure to do so could materially 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 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 internationally, 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 that we do not operate;
- legal uncertainty regarding liability, enforcing our contracts, and compliance with foreign laws;
- political and economic tensions between governments and changes in international trade policies and/or the economic and trade sanctions programs administered by the Office of Foreign Assets Control (“OFAC”) of the U.S. Department of the Treasury;
- tariffs and other trade barriers and restrictions;
- difficulties in staffing and managing foreign operations;
- currency exchange rate fluctuations;
- potential problems associated with adapting our services to technical conditions existing in different countries;
- difficulty of verifying end-user information, including for the purposes of complying with the verification requirements of certain countries and with the economic and trade sanctions programs administered by OFAC;
- more stringent privacy and data localization policies in some foreign countries;
- additional vulnerability from terrorist groups targeting U.S. interests abroad;
- 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.

Escalating political tensions between the United States and China in particular may pose additional risks for companies doing business in China. Since 2018, the United States and China have imposed tariffs on certain of each other’s exports. In 2019, the U.S. government announced restrictions on trading with certain Chinese companies. The Chinese government subsequently announced actions that, if implemented, could impose additional restrictions on the Chinese operations of non-Chinese companies. If we or our business become subject to these or any future government actions, our management’s attention could be diverted, our reputation could be damaged, or our business in China could be adversely affected.

**We rely on our intellectual property rights to protect our proprietary assets, 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 related intellectual property. Despite our precautions, it may be possible for an external party to copy or otherwise obtain and use 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 some 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 and protect 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 IETF. To the extent any of our patents are considered “standards essential patents,” in some cases we may be required to license such patents to our competitors on reasonable and non-discriminatory terms or otherwise be limited in our ability to assert such patents.

We also license externally developed technology that is used in some of our products and services to perform key functions. These externally developed 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 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 Verisign 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. In addition, in the U.S. and most other countries, word marks solely for TLDs have currently not been successfully registered as trademarks. Accordingly, we may not be able to fully realize or maintain the value of these intellectual property assets.

**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 in the past and could be made against us in the future. It is possible that we could become subject to additional claims for infringement of the intellectual property of other parties. The international use of our logo could present additional potential risks for external 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.

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

**We could become involved in claims, lawsuits, audits 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, audits and investigations. Litigation is inherently unpredictable, and unexpected judgments or excessive verdicts do occur. In addition, such proceedings may initially be viewed as immaterial but could prove to be material. Adverse outcomes in lawsuits, audits and investigations could result in significant monetary damages, including indemnification payments, or injunctive relief that could adversely affect our ability to conduct our business, such as our ability to operate the *.web* gTLD, 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 claims, lawsuits, audits and investigations could involve significant expense and diversion of management's attention and resources from other matters.

**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 explore possible strategic initiatives which may include, among other things, the investment in, and the pursuit of, new revenue streams, services or products, changes to our offerings, initiatives to leverage our patent portfolio, back-end registry services and IDN gTLDs. In addition, we have evaluated and are pursuing and will continue to evaluate and pursue acquisitions of TLDs that are currently in operation and those that have not yet been awarded or delegated, as long as they support our growth strategy.

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 regulatory scrutiny or third-party claims; possible material adverse effects on our results of operations during and after the development process; our possible inability to achieve the intended objectives of the initiative; as well as damage to our reputation if we are unsuccessful in pursuing a strategic 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, .name and other TLDs, including required ICANN approval of new registry services for such TLDs. If any new initiative requires ICANN review or ICANN determines that such a review is required, 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.

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

We operate in a unique, competitive and highly regulated environment, and we depend on the knowledge, experience, and performance of our senior management team and other key employees in this regard and otherwise. We periodically experience changes in our management team. If we are unable to attract, integrate, retain and motivate these key individuals as well as other highly skilled employees, and implement succession plans for these personnel, our business may suffer. For example, our service products are highly technical and require individuals skilled and knowledgeable in unique platforms, operating systems and software development tools.

**Changes in, or interpretations of, tax rules and regulations or our tax positions may adversely affect our income taxes.**

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. Our effective tax rates may fluctuate significantly on a quarterly basis because of a variety of factors, including changes in the mix of earnings and losses in countries with differing statutory tax rates, changes in our business or structure, changes in tax laws that could adversely impact our income or non-income taxes or the expiration of or disputes about certain tax agreements in a particular country. 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 results of operations, financial condition and cash flows in the period or periods for which that determination is made could result.

The Organization for Economic Cooperation and Development ("OECD") plans to issue a final report that will provide a long-term, multilateral proposal on the taxation of the digital economy. If this proposal is ultimately agreed to and implemented by the OECD's member states, there could be significant modifications in the way multinational corporations are taxed. In addition, some international tax jurisdictions, independently of the OECD, have enacted or may enact new tax regimes aimed at income resulting from digital services. Although we cannot predict the nature or outcome of such changes or the likelihood of such proposals being adopted legislatively throughout the world and tax treaties being modified accordingly, any or all of these changes in tax policy for the digital economy could increase our taxes and adversely impact our financial condition, results of operations and cash flow.

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

As of September 30, 2020, we had \$1.16 billion in cash, cash equivalents, marketable securities and restricted cash, of which \$1.00 billion was invested in marketable securities. The cash equivalents and marketable securities consist primarily of debt securities issued by the U.S. Treasury. 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 financial market credit and liquidity events. If the global credit or liquidity market deteriorates 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 results of operations and cash flows.

**We are subject to the risks of owning real property.**

We own the land and building in Reston, Virginia that 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, easements or other encumbrances, a government exercising its right of eminent domain, or other factors;
- ongoing maintenance expenses and costs of improvements or repairs;
- 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
- possible disputes with neighboring owners, tenants, service providers or others.

**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 an outside 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 25% 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;
- vacancies and newly created directorships on our Board can be filled until the next annual meeting of stockholders by a majority of directors then in office; and
- our Board has the ability to designate the terms of and issue new series of preferred stock without stockholder approval.

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, which generally means a person who, 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.

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

We have a significant amount of outstanding debt, and we periodically reassess our capital structure and may incur additional indebtedness in the future. Our substantial indebtedness, including any future indebtedness, requires us to dedicate a significant portion of our cash flow from operations or to arrange alternative liquidity sources to make principal and interest payments, when due, or to repurchase or settle our debt, if triggered, by certain corporate events, or certain events of default. It could also limit our flexibility in planning for or reacting to changes in our business and our industry, or make required capital expenditures and investments in our business; make it difficult or more expensive to refinance our debt or obtain new debt; trigger an event of default; and increase our vulnerability to adverse changes in general economic and industry conditions. Some of our debt contains covenants which may limit our operating flexibility, including restrictions on share repurchases, dividends, prepayment or repurchase of debt, acquisitions, disposing of assets, if we do not continue to meet certain financial ratios. Any rating assigned to our debt securities could be lowered or withdrawn by a rating agency, which could make it more difficult or more expensive for us to obtain additional debt financing in the future. The occurrence of any of the foregoing factors could have a material adverse effect on our business, cash flows, results of operations and financial condition.

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

The following table presents the share repurchase activity during the three months ended September 30, 2020:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)
	(Shares in thousands)			
July 1 - 31, 2020.....	289	\$ 207.00	289	\$ 615.8 million
August 1 - 31, 2020.....	264	\$ 208.39	264	\$ 560.7 million
September 1 - 30, 2020.....	270	\$ 204.45	270	\$ 505.6 million
	<u>823</u>		<u>823</u>	

(1) Effective February 6, 2020, our Board authorized the repurchase of our common stock in the amount of \$743.0 million, in addition to the \$257.0 million that remained available for repurchases under the share repurchase program, for a total repurchase authorization of up to \$1.00 billion under the program. The share repurchase 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.

**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	Incor		Number	Filed Herewith
		porat Form	Date		
10.01	<a href="#">First Amendment to the .net Registry Agreement between VeriSign, Inc. and the Internet Corporation for Assigned Names and Numbers, entered into on April 27, 2020.</a>				X
31.01	<a href="#">Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a).</a>				X
31.02	<a href="#">Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a).</a>				X
32.01	<a href="#">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). *</a>				X
32.02	<a href="#">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). *</a>				X
101	Interactive Data File. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).				X

\* 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.

