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VeriSign Reports Third Quarter 2015 Results

RESTON, VA -- (Marketwired) -- 10/22/15 -- VeriSign, Inc. (NASDAQ: VRSN), a global leader in domain names and Internet security, today reported financial results for the third quarter of 2015.

Third Quarter GAAP Financial Results

VeriSign, Inc. and subsidiaries ("Verisign") reported revenue of \$266 million for the third quarter of 2015, up 4.2 percent from the same quarter in 2014. Verisign reported net income of \$92 million and diluted earnings per share of \$0.70 for the third quarter of 2015, compared to net income of \$95 million and diluted EPS of \$0.69 for the same quarter in 2014. The operating margin was 58.1 percent for the third quarter of 2015 compared to 54.7 percent for the same quarter in 2014.

Third Quarter Non-GAAP Financial Results

Verisign reported, on a non-GAAP basis, net income of \$103 million and diluted EPS of \$0.78 for the third quarter of 2015, compared to net income of \$97 million and diluted EPS of \$0.70 for the same quarter in 2014. The non-GAAP operating margin was 62.7 percent for the third quarter of 2015 compared to 60.6 percent for the same quarter in 2014. A table reconciling the GAAP to the non-GAAP results (which excludes items described below) is appended to this release.

"Our quarterly results demonstrate the ongoing strength of our business and our execution discipline, which continue to produce value for our shareholders," commented Jim Bidzos, Executive Chairman, President and Chief Executive Officer.

Financial Highlights

- Verisign ended the third quarter with cash, cash equivalents and marketable securities of \$1.9 billion, an increase of \$466 million as compared with year-end 2014.
- Cash flow from operations was \$155 million for the third quarter of 2015, compared with \$168 million for the same quarter in 2014.
- Deferred revenues on Sept. 30, 2015, totaled \$940 million, an increase of \$50 million from year-end 2014.
- Capital expenditures were \$7 million in the third quarter of 2015.
- During the third quarter, Verisign repurchased 2.3 million shares of its common stock for \$156 million. At Sept. 30, 2015, \$605 million remained available and authorized under the current share repurchase program which has no expiration.
- For purposes of calculating diluted EPS, the third quarter diluted share count included 18.0 million shares related to subordinated convertible debentures, compared with 13.2 million shares for the same quarter in 2014. These represent diluted shares and not shares that have been issued.

Business Highlights

- Verisign Registry Services added 1.68 million net new names during the third quarter, ending with 135.2 million .com and .net domain names in the domain name base, which represents a 3.4 percent increase over the base at the end of the third quarter in 2014, as calculated including domain names on hold for both periods.
- In the third quarter, Verisign processed 9.2 million new domain name registrations for .com and .net, as compared to 8.7 million for the same quarter in 2014.
- The final .com and .net renewal rate for the second quarter of 2015 was 72.7 percent compared with 71.8 percent for the same quarter in 2014. Renewal rates are not fully measurable until 45 days after the end of the quarter.

Non-GAAP Financial Measures and Adjusted EBITDA

Verisign provides quarterly and annual financial statements that are prepared in accordance with generally accepted accounting principles (GAAP). Along with this information, management typically discloses and discusses certain non-GAAP financial information in quarterly earnings releases, on investor conference calls and during investor conferences and related events. This non-GAAP financial information does not include the following types of financial measures that are included in GAAP: stock-based compensation, unrealized gain/loss on the contingent interest derivative on the subordinated convertible debentures, and non-cash interest expense. Non-GAAP net income is decreased by amounts accrued, if any, during the period for contingent interest payable resulting from upside or downside triggers related to the subordinated convertible debentures

and is adjusted for an income tax rate of 26 percent for 2015 and 28 percent for 2014, both of which differ from the GAAP income tax rate.

On a quarterly basis, Verisign also provides Adjusted EBITDA. Adjusted EBITDA is a non-GAAP financial measure and is calculated in accordance with the terms of the indentures governing Verisign's 4.625% senior notes due 2023 and 5.25% senior notes due 2025. Adjusted EBITDA refers to net income before interest, taxes, depreciation and amortization, stock-based compensation, unrealized loss (gain) on the contingent interest derivative on the subordinated convertible debentures and unrealized loss (gain) on hedging agreements.

Management believes that this non-GAAP financial data supplements the GAAP financial data by providing investors with additional information that allows them to have a clearer picture of Verisign's operations. The presentation of this additional information is not meant to be considered in isolation nor as a substitute for results prepared in accordance with GAAP. Management believes that the non-GAAP information enhances investors' overall understanding of Verisign's financial performance and the comparability of Verisign's operating results from period to period.

The tables appended to this release include a reconciliation of the non-GAAP financial information to the comparable financial information reported in accordance with GAAP for the given periods.

Today's Conference Call

Verisign will host a live conference call today at 4:30 p.m. (EDT) to review the third quarter 2015 results. The call will be accessible by direct dial at (888) 676-VRSN (U.S.) or (913) 312-1460 (international), conference ID: Verisign. A listen-only live web cast of the conference call and accompanying slide presentation will also be available at <https://investor.verisign.com>. An audio archive of the call will be available at <https://investor.verisign.com/events.cfm>. This news release and the financial information discussed on today's conference call are available at <https://investor.verisign.com>.

About Verisign

Verisign, a global leader in domain names and Internet security, enables Internet navigation for many of the world's most recognized domain names and provides protection for websites and enterprises around the world. Verisign ensures the security, stability and resiliency of key Internet infrastructure and services, including the .com and .net domains and two of the Internet's root servers, as well as performs the root-zone maintainer functions for the core of the Internet's Domain Name System (DNS). Verisign's Security Services include intelligence-driven Distributed Denial of Service Protection, iDefense Security Intelligence and Managed DNS. To learn more about what it means to be Powered by Verisign, please visit Verisign.com.

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Statements in this announcement other than historical data and information constitute 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. These statements involve risks and uncertainties that could cause our actual results to differ materially from those stated or implied by such forward-looking statements. The potential risks and uncertainties include, among others, the uncertainty of the impact of the U.S. government's transition of key Internet domain name functions (the Internet Assigned Numbers Authority ("IANA") function) and related root zone management functions, whether the U.S. Department of Commerce will approve any exercise by us of our right to increase the price per .com domain name, under certain circumstances, the uncertainty of whether we will be able to demonstrate to the U.S. Department of Commerce that market conditions warrant removal of the pricing restrictions on .com domain names and the uncertainty of whether we will experience other negative changes to our pricing terms; the failure to renew key agreements on similar terms, or at all; the uncertainty of future revenue and profitability and potential fluctuations in quarterly operating results due to such factors as restrictions on increasing prices under the .com Registry Agreement, changes in marketing and advertising practices, including those of third-party registrars, increasing competition, and pricing pressure from competing services offered at prices below our prices; changes in search engine algorithms and advertising payment practices; the uncertainty of whether we will successfully develop and market new products and services or pursue strategic initiatives, the uncertainty of whether our new products and services, including our new gTLDs, will achieve market acceptance or result in any revenues; challenging global economic conditions; challenges of ongoing changes to Internet governance and administration; the outcome of legal or other challenges resulting from our activities or the activities of registrars or registrants, or litigation generally; the uncertainty regarding what the ultimate outcome or amount of benefit we receive, if any, from the worthless stock deduction will be; new or existing governmental laws and regulations in the U.S. or other applicable foreign jurisdictions; changes in customer behavior, Internet platforms and web-browsing patterns; system interruptions; security breaches; attacks on the Internet by hackers, viruses, or intentional acts of vandalism; whether we will be able to continue to expand our infrastructure to meet demand; the uncertainty of the expense and timing of requests for indemnification, if any, relating to completed divestitures; and the impact of the continuing introduction of new gTLDs, the impact of ICANN's Registry Agreement for new gTLDs, and whether our new gTLDs or the new gTLDs for which we have contracted to provide back-end registry services will be successful; and the uncertainty regarding the impact, if any, of the current and future delegation into the root zone of a large number of new gTLDs. More information about

potential factors that could affect our business and financial results is included in our filings with the SEC, including in our Annual Report on Form 10-K for the year ended Dec. 31, 2014, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Verisign undertakes no obligation to update any of the forward-looking statements after the date of this announcement.

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

| | <u>September 30,</u> <u>2015</u> | <u>December 31,</u> <u>2014</u> |
|--|-------------------------------------|------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 177,871 | \$ 191,608 |
| Marketable securities | 1,713,087 | 1,233,076 |
| Accounts receivable, net | 14,714 | 13,448 |
| Other current assets | 35,468 | 41,905 |
| Total current assets | 1,941,140 | 1,480,037 |
| Property and equipment, net | 297,299 | 319,028 |
| Goodwill | 52,527 | 52,527 |
| Long-term deferred tax assets | 262,243 | 266,954 |
| Other long-term assets | 24,096 | 15,918 |
| Total long-term assets | 636,165 | 654,427 |
| Total assets | \$ 2,577,305 | \$ 2,134,464 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 180,106 | \$ 190,278 |
| Deferred revenues | 660,417 | 621,307 |
| Subordinated convertible debentures, including contingent interest derivative | 626,590 | 620,620 |
| Deferred tax liabilities | 512,779 | 477,781 |
| Total current liabilities | 1,979,892 | 1,909,986 |
| Long-term deferred revenues | 279,724 | 269,047 |
| Senior notes | 1,234,890 | 740,175 |
| Other long-term tax liabilities | 114,209 | 98,722 |
| Total long-term liabilities | 1,628,823 | 1,107,944 |
| Total liabilities | 3,608,715 | 3,017,930 |
| Commitments and contingencies | | |
| Stockholders' deficit: | | |
| Preferred stock-par value \$.001 per share; Authorized shares: 5,000; Issued and outstanding shares: none | - | - |
| Common stock-par value \$.001 per share; Authorized shares: 1,000,000; Issued shares: 322,968 at September 30, 2015 and 321,699 at December 31, 2014; Outstanding shares: 111,891 at September 30, 2015 and 118,452 at December 31, 2014 | 323 | 322 |
| Additional paid-in capital | 17,697,985 | 18,120,045 |
| Accumulated deficit | (18,727,129) | (19,000,835) |
| Accumulated other comprehensive loss | (2,589) | (2,998) |
| Total stockholders' deficit | (1,031,410) | (883,466) |
| Total liabilities and stockholders' deficit | \$ 2,577,305 | \$ 2,134,464 |

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

| | <i>Three Months Ended September</i> | | <i>Nine Months Ended September</i> | |
|---|-------------------------------------|------------------|------------------------------------|-------------------|
| | <i>30,</i> | <i>30,</i> | <i>30,</i> | <i>30,</i> |
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Revenues | \$ 265,780 | \$ 255,022 | \$ 786,741 | \$ 754,200 |
| Costs and expenses: | | | | |
| Cost of revenues | 47,218 | 46,933 | 143,792 | 140,948 |
| Sales and marketing | 20,966 | 24,304 | 67,677 | 68,244 |
| Research and development | 15,019 | 16,320 | 48,518 | 50,453 |
| General and administrative | 28,115 | 27,965 | 79,090 | 72,349 |
| Total costs and expenses | <u>111,318</u> | <u>115,522</u> | <u>339,077</u> | <u>331,994</u> |
| Operating income | 154,462 | 139,500 | 447,664 | 422,206 |
| Interest expense | (28,544) | (21,533) | (79,064) | (64,408) |
| Non-operating (loss) income, net | <u>(3,975)</u> | <u>(6,473)</u> | <u>(6,329)</u> | <u>5,037</u> |
| Income before income taxes | 121,943 | 111,494 | 362,271 | 362,835 |
| Income tax expense | <u>(29,486)</u> | <u>(16,305)</u> | <u>(88,565)</u> | <u>(73,047)</u> |
| Net income | <u>92,457</u> | <u>95,189</u> | <u>273,706</u> | <u>289,788</u> |
| Realized foreign currency translation adjustments, included in net income | - | - | (291) | - |
| Unrealized gain on investments | 565 | 59 | 799 | 34 |
| Realized (gain) loss on investments, included in net income | <u>(26)</u> | <u>(1)</u> | <u>(99)</u> | <u>2</u> |
| Other comprehensive income | 539 | 58 | 409 | 36 |
| Comprehensive income | <u>\$ 92,996</u> | <u>\$ 95,247</u> | <u>\$ 274,115</u> | <u>\$ 289,824</u> |
| Income per share: | | | | |
| Basic | <u>\$ 0.82</u> | <u>\$ 0.77</u> | <u>\$ 2.38</u> | <u>\$ 2.25</u> |
| Diluted | <u>\$ 0.70</u> | <u>\$ 0.69</u> | <u>\$ 2.06</u> | <u>\$ 2.03</u> |
| Shares used to compute net income per share: | | | | |
| Basic | <u>112,955</u> | <u>124,109</u> | <u>115,235</u> | <u>128,924</u> |
| Diluted | <u>131,721</u> | <u>138,112</u> | <u>132,925</u> | <u>142,584</u> |

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

| | <i>Nine Months Ended September 30,</i> | |
|---|--|----------------|
| | <u>2015</u> | <u>2014</u> |
| Cash flows from operating activities: | | |
| Net income | \$ 273,706 | \$ 289,788 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property and equipment | 46,554 | 47,924 |
| Stock-based compensation | 34,351 | 34,281 |
| Excess tax benefit associated with stock-based compensation | (19,420) | (8,566) |
| Unrealized loss (gain) on contingent interest derivative on Subordinated Convertible Debentures | 9,058 | (3,953) |
| Payment of Contingent interest | (10,759) | - |
| Other, net | 8,161 | 7,470 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (1,319) | (2,550) |
| Prepaid expenses and other assets | 2,967 | 31,349 |
| Accounts payable and accrued liabilities | 14,658 | (2,540) |
| Deferred revenues | 49,787 | 37,237 |
| Net deferred income taxes and other long-term tax liabilities | 55,203 | 36 |
| Net cash provided by operating activities | <u>462,947</u> | <u>430,476</u> |
| Cash flows from investing activities: | | |
| Proceeds from maturities and sales of marketable securities | 1,965,767 | 2,425,259 |
| Purchases of marketable securities | (2,443,865) | (2,281,523) |
| Purchases of property and equipment | (28,659) | (30,058) |

| | | |
|--|------------|------------|
| Other investing activities | (3,666) | 351 |
| Net cash (used in) provided by investing activities | (510,423) | 114,029 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock from option exercises and employee stock purchase plans | 14,690 | 15,816 |
| Repurchases of common stock | (492,575) | (673,540) |
| Proceeds from borrowings, net of issuance costs | 492,237 | - |
| Excess tax benefit associated with stock-based compensation | 19,420 | 8,566 |
| Net cash provided by (used in) financing activities | 33,772 | (649,158) |
| Effect of exchange rate changes on cash and cash equivalents | (33) | (621) |
| Net decrease in cash and cash equivalents | (13,737) | (105,274) |
| Cash and cash equivalents at beginning of period | 191,608 | 339,223 |
| Cash and cash equivalents at end of period | \$ 177,871 | \$ 233,949 |
| Supplemental cash flow disclosures: | | |
| Cash paid for interest, net of capitalized interest | \$ 68,678 | \$ 57,767 |
| Cash paid for income taxes, net of refunds received | \$ 13,289 | \$ 34,937 |

VERISIGN, INC.
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended September 30, | | | |
|--|---|-------------------|-----------------------------|-------------------|
| | 2015 | | 2014 | |
| | Operating Income | Net Income | Operating Income | Net Income |
| GAAP as reported | \$ 154,462 | \$ 92,457 | \$ 139,500 | \$ 95,189 |
| Adjustments: | | | | |
| Stock-based compensation | 12,222 | 12,222 | 14,916 | 14,916 |
| Unrealized loss on contingent interest derivative on the subordinated convertible debentures | | 4,747 | | 6,562 |
| Non-cash interest expense | | 2,994 | | 2,588 |
| Contingent interest payable on subordinated convertible debentures | | (3,020) | | (1,306) |
| Tax adjustment | | (6,625) | | (21,285) |
| Non-GAAP | <u>\$ 166,684</u> | <u>\$ 102,775</u> | <u>\$ 154,416</u> | <u>\$ 96,664</u> |
| Revenues | \$ 265,780 | | \$ 255,022 | |
| Non-GAAP operating margin | <u>62.7%</u> | | <u>60.6%</u> | |
| Diluted shares | | 131,721 | | 138,112 |
| Per diluted share, non-GAAP | | <u>\$ 0.78</u> | | <u>\$ 0.70</u> |

| | Nine Months Ended September 30, | | | |
|---|--|-------------------|-----------------------------|-------------------|
| | 2015 | | 2014 | |
| | Operating Income | Net Income | Operating Income | Net Income |
| GAAP as reported | \$ 447,664 | \$ 273,706 | \$ 422,206 | \$ 289,788 |
| Adjustments: | | | | |
| Stock-based compensation | 34,351 | 34,351 | 34,281 | 34,281 |
| Unrealized loss (gain) on contingent interest derivative on the subordinated convertible debentures | | 9,058 | | (3,953) |
| Non-cash interest expense | | 8,656 | | 7,581 |
| Contingent interest payable on subordinated convertible debentures | | (8,477) | | (1,306) |
| Tax adjustment | | (16,959) | | (38,796) |
| Non-GAAP | <u>\$ 482,015</u> | <u>\$ 300,335</u> | <u>\$ 456,487</u> | <u>\$ 287,595</u> |

| | | | | |
|------------------------------------|----|--------------|---------|--------------|
| Revenues | \$ | 786,741 | \$ | 754,200 |
| Non-GAAP operating margin | | <u>61.3%</u> | | <u>60.5%</u> |
| Diluted shares | | | 132,925 | 142,584 |
| Per diluted share, non-GAAP | \$ | <u>2.26</u> | \$ | <u>2.02</u> |

VERISIGN, INC.
RECONCILIATION OF NON-GAAP ADJUSTED EBITDA
(In thousands)
(Unaudited)

The following table reconciles GAAP net income to non-GAAP Adjusted EBITDA for the periods shown below (in thousands):

| | Three Months Ended September 30, | |
|--|---|-------------------|
| | 2015 | 2014 |
| Net Income | \$ 92,457 | \$ 95,189 |
| Interest expense | 28,544 | 21,533 |
| Income tax expense | 29,486 | 16,305 |
| Depreciation and amortization | 14,934 | 15,809 |
| Stock-based compensation | 12,222 | 14,916 |
| Unrealized loss on contingent interest derivative on the subordinated convertible debentures | 4,747 | 6,562 |
| Unrealized (gain) loss on hedging agreements | (479) | 128 |
| Non-GAAP Adjusted EBITDA | <u>\$ 181,911</u> | <u>\$ 170,442</u> |

| | Four Quarters Ended September 30, 2015 | |
|--|---|---------|
| | Net income | 339,179 |
| Interest expense | 100,651 | |
| Income tax expense | 143,569 | |
| Depreciation and amortization | 62,322 | |
| Stock-based compensation | 44,047 | |
| Unrealized loss on contingent interest derivative on the subordinated convertible debentures | 10,761 | |
| Unrealized gain on hedging agreements | (256) | |
| Non-GAAP Adjusted EBITDA | <u>\$ 700,273</u> | |

STOCK-BASED COMPENSATION CLASSIFICATION
(In thousands)
(Unaudited)

The following table presents the classification of stock-based compensation:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|------------------|--|------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Cost of revenues | \$ 1,722 | \$ 1,618 | \$ 5,202 | \$ 4,748 |
| Sales and marketing | 1,683 | 2,234 | 4,800 | 5,902 |
| Research and development | 1,478 | 1,678 | 4,890 | 5,189 |
| General and administrative | 7,339 | 9,386 | 19,459 | 18,442 |
| Total stock-based compensation expense | <u>\$ 12,222</u> | <u>\$ 14,916</u> | <u>\$ 34,351</u> | <u>\$ 34,281</u> |

Source: VeriSign, Inc.

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