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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

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 21, 2022</u>
Common stock, \$0.001 par value per share	106,016,456

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	<u>September 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 560.6	\$ 223.5
Marketable securities	419.6	982.3
Other current assets	68.3	62.9
Total current assets	<u>1,048.5</u>	<u>1,268.7</u>
Property and equipment, net	235.2	251.2
Goodwill	52.5	52.5
Deferred tax assets	230.5	230.7
Deposits to acquire intangible assets	145.0	145.0
Other long-term assets	32.7	35.7
Total long-term assets	<u>695.9</u>	<u>715.1</u>
Total assets	<u>\$ 1,744.4</u>	<u>\$ 1,983.8</u>
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 199.0	\$ 226.6
Deferred revenues	896.1	847.4
Total current liabilities	<u>1,095.1</u>	<u>1,074.0</u>
Long-term deferred revenues	339.4	306.0
Senior notes	1,787.4	1,785.7
Long-term tax and other liabilities	64.9	78.6
Total long-term liabilities	<u>2,191.7</u>	<u>2,170.3</u>
Total liabilities	<u>3,286.8</u>	<u>3,244.3</u>
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock—par value \$.001 per share; Authorized shares: 5.0; Issued and outstanding shares: none	—	—
Common stock and additional paid-in capital—par value \$.001 per share; Authorized shares: 1,000.0; Issued shares: 354.5 at September 30, 2022 and 354.2 at December 31, 2021; Outstanding shares: 106.3 at September 30, 2022 and 110.5 at December 31, 2021	12,843.8	13,620.1
Accumulated deficit	(14,383.5)	(14,877.8)
Accumulated other comprehensive loss	(2.7)	(2.8)
Total stockholders' deficit	<u>(1,542.4)</u>	<u>(1,260.5)</u>
Total liabilities and stockholders' deficit	<u>\$ 1,744.4</u>	<u>\$ 1,983.8</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues	\$ 356.9	\$ 334.3	\$ 1,055.7	\$ 987.3
Costs and expenses:				
Cost of revenues	50.0	47.8	150.2	142.6
Research and development	21.0	19.6	64.2	59.7
Selling, general and administrative	49.1	45.6	143.7	140.3
Total costs and expenses	120.1	113.0	358.1	342.6
Operating income	236.8	221.3	697.6	644.7
Interest expense	(18.8)	(18.8)	(56.5)	(64.4)
Non-operating income (loss), net	4.9	0.1	6.8	(1.5)
Income before income taxes	222.9	202.6	647.9	578.8
Income tax expense	(53.4)	(46.0)	(153.6)	(124.1)
Net income	169.5	156.6	494.3	454.7
Other comprehensive income	0.2	0.1	0.1	—
Comprehensive income	\$ 169.7	\$ 156.7	\$ 494.4	\$ 454.7
Earnings per share:				
Basic	\$ 1.58	\$ 1.40	\$ 4.55	\$ 4.05
Diluted	\$ 1.58	\$ 1.40	\$ 4.55	\$ 4.04
Shares used to compute earnings per share				
Basic	107.1	111.7	108.7	112.4
Diluted	107.1	111.8	108.7	112.5

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Total stockholders' deficit, beginning of period	\$ (1,455.0)	\$ (1,417.9)	\$ (1,260.5)	\$ (1,390.2)
Common stock and additional paid-in capital				
Beginning balance	13,100.9	13,949.5	13,620.1	14,275.2
Repurchase of common stock	(277.9)	(175.6)	(834.0)	(536.8)
Stock-based compensation	16.7	14.9	45.4	42.3
Issuance of common stock under stock plans	4.1	4.3	12.3	12.4
Balance, end of period	<u>12,843.8</u>	<u>13,793.1</u>	<u>12,843.8</u>	<u>13,793.1</u>
Accumulated deficit				
Beginning balance	(14,553.0)	(15,364.5)	(14,877.8)	(15,662.6)
Net income	169.5	156.6	494.3	454.7
Balance, end of period	<u>(14,383.5)</u>	<u>(15,207.9)</u>	<u>(14,383.5)</u>	<u>(15,207.9)</u>
Accumulated other comprehensive loss				
Beginning balance	(2.9)	(2.9)	(2.8)	(2.8)
Other comprehensive income	0.2	0.1	0.1	—
Balance, end of period	<u>(2.7)</u>	<u>(2.8)</u>	<u>(2.7)</u>	<u>(2.8)</u>
Total stockholders' deficit, end of period	<u>\$ (1,542.4)</u>	<u>\$ (1,417.6)</u>	<u>\$ (1,542.4)</u>	<u>\$ (1,417.6)</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net income	\$ 494.3	\$ 454.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	35.2	35.6
Stock-based compensation expense	44.2	41.0
Other, net	0.7	5.4
Changes in operating assets and liabilities:		
Other assets	(2.5)	(19.7)
Accounts payable and accrued liabilities	(26.8)	(5.5)
Deferred revenues	82.1	94.9
Net deferred income taxes and other long-term tax liabilities	(13.0)	(5.5)
Net cash provided by operating activities	<u>614.2</u>	<u>600.9</u>
Cash flows from investing activities:		
Proceeds from maturities and sales of marketable securities	1,475.0	2,246.1
Purchases of marketable securities	(909.3)	(2,421.7)
Purchases of property and equipment	(19.7)	(39.5)
Net cash provided by (used in) investing activities	<u>546.0</u>	<u>(215.1)</u>
Cash flows from financing activities:		
Repurchases of common stock	(834.0)	(536.8)
Proceeds from employee stock purchase plan	12.3	12.4
Repayment of borrowings	—	(750.0)
Proceeds from senior note issuance, net of issuance costs	—	741.1
Net cash used in financing activities	<u>(821.7)</u>	<u>(533.3)</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	<u>(1.4)</u>	<u>(0.6)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	337.1	(148.1)
Cash, cash equivalents, and restricted cash at beginning of period	228.8	410.6
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 565.9</u>	<u>\$ 262.5</u>
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 49.6	\$ 61.8
Cash paid for income taxes, net of refunds received	<u>\$ 159.6</u>	<u>\$ 132.2</u>

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, 2021 (the “2021 Form 10-K”) filed with the SEC on February 18, 2022.

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, 2022	December 31, 2021
	(In millions)	
Cash	\$ 24.0	\$ 25.8
Time deposits	3.9	3.7
Money market funds (Level 1)	330.9	165.6
Debt securities issued by the U.S. Treasury (Level 1)	626.7	1,016.0
Total	<u>\$ 985.5</u>	<u>\$ 1,211.1</u>
Cash and cash equivalents	\$ 560.6	\$ 223.5
Restricted cash (included in Other long-term assets)	5.3	5.3
Total Cash, cash equivalents, and restricted cash	<u>565.9</u>	<u>228.8</u>
Marketable securities	419.6	982.3
Total	<u>\$ 985.5</u>	<u>\$ 1,211.1</u>

The gross and net unrealized gains and losses included in the fair value of the debt securities were not significant for the periods presented. All of the debt securities held as of September 30, 2022 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, 2022, the carrying value of these financial instruments approximated their fair value. The aggregate fair value of the Company’s senior notes is \$1.62 billion and \$1.88 billion as of September 30, 2022 and December 31, 2021, respectively. 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:

	September 30, 2022	December 31, 2021
	(In millions)	
Prepaid expenses	\$ 30.2	\$ 24.8
Prepaid registry fees	24.7	24.2
Taxes receivable	7.7	7.7
Accounts receivable, net	5.2	5.3
Other	0.5	0.9
Total other current assets	<u>\$ 68.3</u>	<u>\$ 62.9</u>

Other Long-Term Assets

Other long-term assets consist of the following:

	September 30, 2022	December 31, 2021
	(In millions)	
Long-term prepaid registry fees	\$ 9.5	\$ 8.7
Operating lease right-of-use asset	8.5	8.4
Long-term prepaid expenses	7.3	11.0
Restricted cash	5.3	5.3
Other	2.1	2.3
Total other long-term assets	<u>\$ 32.7</u>	<u>\$ 35.7</u>

The current and long-term prepaid registry fees in the tables above relate to the fees the Company pays to Internet Corporation for Assigned Names and Numbers (“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, 2022 reflects amortization of \$9.9 million and \$29.6 million during the three and nine months ended September 30, 2022 which was recorded in Cost of Revenues.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	September 30, 2022	December 31, 2021
	(In millions)	
Accounts payable and accrued expenses	\$ 7.9	\$ 9.0
Customer deposits	55.6	77.3
Accrued employee compensation	47.9	58.5
Taxes payable	32.9	26.8
Interest payable	24.6	19.5
Accrued registry fees	14.9	12.9
Customer incentives payable	6.2	13.3
Other accrued liabilities	9.0	9.3
Total accounts payable and accrued liabilities	<u>\$ 199.0</u>	<u>\$ 226.6</u>

The balance of Customer deposits varies from period to period due to the timing of payments from certain large customers. 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, 2021 was paid during the nine months ended September 30, 2022. Customer incentives payable includes amounts related to rebates payable to registrars. These amounts may vary from period to period due to the timing of payments and the amount of rebates earned.

Long-term Tax and Other Liabilities

Long-term tax and other liabilities consist of the following:

	September 30, 2022	December 31, 2021
	(In millions)	
Long-term tax liabilities	\$ 62.9	\$ 76.1
Long-term operating lease liabilities	2.0	2.5
Long-term tax and other liabilities	<u>\$ 64.9</u>	<u>\$ 78.6</u>

Long-term tax liabilities as of September 30, 2022 reflects a \$14.5 million reclassification from long-term to current of the next installment of the transition tax liability on accumulated foreign earnings resulting from the 2017 Tax Cuts and Jobs Act.

Note 4. Stockholders' Deficit

Effective February 10, 2022, the Company's Board of Directors authorized the repurchase of its common stock in the amount of \$705.4 million, in addition to the \$294.6 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, 2022, the Company repurchased 1.5 million shares and 4.4 million shares of its common stock, respectively, at an average stock price of \$180.59 and \$186.46, respectively. The aggregate cost of the repurchases in the three and nine months ended September 30, 2022 was \$275.5 million and \$820.4 million, respectively. As of September 30, 2022, there was \$267.6 million remaining available for future share repurchases under the share repurchase program. Effective October 27, 2022, the Company's Board of Directors authorized the repurchase of its common stock in the amount of \$803.0 million, in addition to the \$197.0 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.

During the nine months ended September 30, 2022, the Company placed less than 0.1 million shares, at an average stock price of \$203.57, and for an aggregate cost of \$13.6 million, into treasury stock for purposes related to tax withholding upon vesting of Restricted Stock Units ("RSUs").

Since inception, the Company has repurchased 248.1 million shares of its common stock for an aggregate cost of \$12.54 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,	
	2022	2021	2022	2021
	(In millions)			
Weighted-average shares of common stock outstanding	107.1	111.7	108.7	112.4
Weighted-average potential shares of common stock outstanding:				
Unvested RSUs and ESPP	—	0.1	—	0.1
Shares used to compute diluted earnings per share	<u>107.1</u>	<u>111.8</u>	<u>108.7</u>	<u>112.5</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 and any awards that are antidilutive. 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,	
	2022	2021	2022	2021
	(In millions)			
U.S.	\$ 236.3	\$ 214.3	\$ 691.8	\$ 632.4
EMEA	55.0	58.6	170.0	172.7
China	26.8	25.2	79.3	76.3
Other	38.8	36.2	114.6	105.9
Total revenues	<u>\$ 356.9</u>	<u>\$ 334.3</u>	<u>\$ 1,055.7</u>	<u>\$ 987.3</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 payments 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, 2022 was primarily driven by amounts billed in the nine months ended September 30, 2022 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 \$719.6 million of revenues recognized that were included in the deferred revenues balance at the beginning of the period. The higher deferred revenue balance as of September 30, 2022 also reflects an increase in the volume of early renewal transactions that occurred before the .com price increase became effective on September 1, 2022. The balance of deferred revenues as of September 30, 2022 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,	
	2022	2021	2022	2021
	(In millions)			
Cost of revenues	\$ 1.8	\$ 1.6	\$ 5.3	\$ 4.9
Research and development	2.5	2.2	7.2	6.1
Selling, general and administrative	12.0	10.6	31.7	30.0
Stock-based compensation expense	16.3	14.4	44.2	41.0
Capitalization (included in Property and equipment, net)	0.4	0.5	1.2	1.3
Total stock-based compensation	<u>\$ 16.7</u>	<u>\$ 14.9</u>	<u>\$ 45.4</u>	<u>\$ 42.3</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,	
	2022	2021	2022	2021
	(In millions)			
RSUs	\$ 12.3	\$ 11.9	\$ 33.2	\$ 31.8
Performance-based RSUs	3.3	1.9	9.0	7.3
ESPP	1.1	1.1	3.2	3.2
Total stock-based compensation	<u>\$ 16.7</u>	<u>\$ 14.9</u>	<u>\$ 45.4</u>	<u>\$ 42.3</u>

Note 8. Income Taxes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Income tax expense	\$ 53.4	\$ 46.0	\$ 153.6	\$ 124.1
Effective tax rate	24 %	23 %	24 %	21 %

The effective tax rate for each of the periods in the table above differed from the statutory federal rate of 21%, due to state income taxes and U.S. taxes on foreign earnings, net of foreign tax credits, offset by a lower foreign effective tax rate. The effective tax rate in the three and nine months ended September 30, 2022 reflects an increased foreign effective tax rate primarily as a result of the transfer of intellectual property between certain non-U.S. subsidiaries that took place in the fourth quarter of 2021.

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

You should read the following discussion in conjunction with the 2021 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 the impact from the effects of the COVID-19 pandemic and the sufficiency of our existing cash, cash equivalents and marketable securities, and funds generated from operations, together with our borrowing capacity under the unsecured revolving credit facility. 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 I, Item 1A of the 2021 Form 10-K. 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 2022. 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, 2022, we had 174.2 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"), other generic top-level domains ("gTLDs"), services that offer alternatives for an online presence, such as social media, 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 \$356.9 million and \$1,055.7 million during the three and nine months ended September 30, 2022, an increase of 7% compared to the same periods in 2021.
- We recorded operating income of \$236.8 million and \$697.6 million during the three and nine months ended September 30, 2022, an increase of 7% and 8%, respectively, compared to the same periods in 2021.
- As of September 30, 2022, we had 174.2 million .com and .net registrations in the domain name base, which represents a 1% increase from September 30, 2021, and a net decrease of 0.2 million domain name registrations from June 30, 2022. The net decrease in the domain name base from June 30, 2022, was driven primarily by decreased demand for domain name registrations compared with the higher demand observed during the first 12 to 18 months of the COVID-19 pandemic, recent global economic uncertainty, and reduced demand, primarily in China, for new domain name registrations and renewals.
- During the three months ended September 30, 2022, we processed 9.9 million new domain name registrations for .com and .net compared to 10.7 million for the same period in 2021.
- The final .com and .net renewal rate for the second quarter of 2022 was 73.8% compared to 75.4% for the second quarter of 2021. Renewal rates are not fully measurable until 45 days after the end of the quarter.

- During the three months ended September 30, 2022, we repurchased 1.5 million shares of our common stock for an aggregate cost of \$275.5 million. As of September 30, 2022, there was approximately \$267.6 million remaining available for future share repurchases under our share repurchase program.
- Effective October 27, 2022, our Board of Directors authorized the repurchase of our common stock in the amount of \$803.0 million, in addition to the \$197.0 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.
- We generated cash flows from operating activities of \$614.2 million during the nine months ended September 30, 2022, compared to \$600.9 million for the same period in 2021.
- On July 28, 2022, we announced that we will increase the annual registry-level wholesale fee for each new and renewal .net domain name registration from \$9.02 to \$9.92, effective February 1, 2023.

Pursuant to our agreements with the Internet Corporation for Assigned Names and Numbers (“ICANN”), we make available files containing all active domain names registered in the .com and .net registries. Further, we also 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 zone counts and information on how to obtain access to the zone files can be found at <https://www.Verisign.com/zone>. The domain name base is the active zone plus the number of domain names that are registered but not configured for use in the respective top-level domain zone file plus the number of domain names that are in a client or server hold status. The domain name base may also reflect compensated or uncompensated judicial or administrative actions to add or remove from the active zone an immaterial number of domain names. These files and the related summary data are updated daily. The update times may vary each day. The number of domain names provided in this Form 10-Q are as of midnight of the date reported.

COVID-19 Update

As discussed in prior periods, we believe that the effects of the COVID-19 pandemic initially led to an incremental increase in the demand for domain names, particularly as businesses and entrepreneurs sought to establish or expand their presence online in the beginning of the pandemic. This incremental increased demand appears to have subsided. For further discussion, see “Risk Factors – The effects of the COVID-19 pandemic have impacted how we operate our business, 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 I, Item 1A of the 2021 Form 10-K.

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,	
	2022	2021	2022	2021
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Costs and expenses:				
Cost of revenues	14.0	14.3	14.2	14.4
Research and development	5.9	5.9	6.1	6.0
Selling, general and administrative	13.8	13.6	13.6	14.3
Total costs and expenses	33.7	33.8	33.9	34.7
Operating income	66.3	66.2	66.1	65.3
Interest expense	(5.3)	(5.6)	(5.4)	(6.5)
Non-operating income (loss), net	1.5	—	0.7	(0.2)
Income before income taxes	62.5	60.6	61.4	58.6
Income tax expense	(15.0)	(13.7)	(14.6)	(12.5)
Net income	47.5 %	46.9 %	46.8 %	46.1 %

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 and technical systems for several other TLDs, 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 determined pursuant to our agreements with ICANN. Individual customers, called registrants, contract directly with registrars or their resellers, and the registrars, who are our direct customers, 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. We also offer promotional incentive-based discount programs to registrars based upon market conditions and the business environment in which the registrars operate.

Under the .com Registry Agreement, we are permitted to increase the price of a .com domain name by up to 7% in each of the final four years of each six-year period beginning on October 26, 2018. We increased the annual registry-level wholesale fee for each new and renewal .com domain name registration from \$7.85 to \$8.39 effective September 1, 2021, and from \$8.39 to \$8.97 effective September 1, 2022. 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. On July 28, 2022, we announced that we will increase the annual registry-level wholesale fee for each new and renewal .net domain name registration from \$9.02 to \$9.92, effective February 1, 2023. 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,		
	2022	% Change	2021	2022	% Change	2021
	(Dollars in millions)					
Revenues	\$ 356.9	7%	\$ 334.3	\$ 1,055.7	7%	\$ 987.3

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

	September 30, 2022	% Change	September 30, 2021
.com and .net domain name registrations in the domain name base	174.2 million	1%	172.1 million

Revenues increased by \$22.6 million and \$68.4 million during the three and nine months ended September 30, 2022, 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 driven by the price increase that became effective September 1, 2021, and to a lesser extent, an increase in the domain name base for .com.

Demand for domain names has been primarily driven by continued internet growth and marketing activities carried out by us and our registrars. However, competitive pressure from ccTLDs, other gTLDs, services that offer alternatives for an online presence, such as social media, 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, such as for resale at increased prices or for revenue generation through website advertising, and global economic uncertainty, has limited the demand for domain names and may do so in the remainder of 2022 and beyond.

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:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	% Change	2021	2022	% Change	2021
	(Dollars in millions)					
U.S.	\$ 236.3	10%	\$ 214.3	691.8	9%	\$ 632.4
EMEA	55.0	(6)%	58.6	170.0	(2)%	172.7
China	26.8	6%	25.2	79.3	4%	76.3
Other	38.8	7%	36.2	114.6	8%	105.9
Total revenues	<u>\$ 356.9</u>		<u>\$ 334.3</u>	<u>\$ 1,055.7</u>		<u>\$ 987.3</u>

Revenues in the table above 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. Revenues in the U.S. benefited from several such changes during 2022, while revenues in EMEA were negatively impacted. Revenue growth for each region may also be impacted by registrars domiciled in one region, registering domain names in another region. Revenues increased in all regions for the periods presented except EMEA which declined in the three and nine months ended September 30, 2022 due to the factors described above.

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, costs of facilities and computer equipment used in these activities, telecommunications expense and allocations of indirect costs such as corporate overhead.

A comparison of Cost of revenues is presented below:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	% Change	2021	2022	% Change	2021
(Dollars in millions)						
Cost of revenues	\$ 50.0	5%	\$ 47.8	\$ 150.2	5%	\$ 142.6

Cost of revenues increased by \$2.2 million and \$7.6 million during the three and nine months ended September 30, 2022, respectively, compared to the same periods last year, due to a combination of individually insignificant factors.

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,		
	2022	% Change	2021	2022	% Change	2021
(Dollars in millions)						
Research and development	\$ 21.0	7%	\$ 19.6	\$ 64.2	8%	\$ 59.7

Research and development expenses increased by \$1.4 million and \$4.5 million during the three and nine months ended September 30, 2022, respectively, compared to the same periods last year, due to a combination of individually insignificant factors.

Selling, general and administrative

Selling, general and administrative expenses consist primarily of salaries and other personnel-related expenses for our executive, administrative, legal, finance, information technology, human resources, sales, and marketing personnel, travel and related expenses, trade shows, costs of computer and communications equipment and support services, consulting and professional service fees, costs of marketing programs, costs of facilities, management information systems, support services, 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 Selling, general and administrative expenses is presented below:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	% Change	2021	2022	% Change	2021
(Dollars in millions)						
Selling, general and administrative	\$ 49.1	8%	\$ 45.6	\$ 143.7	2%	\$ 140.3

Selling, general and administrative expenses increased by \$3.5 million during the three months ended September 30, 2022, compared to the same period last year, due to a combination of individually insignificant factors.

Selling, general and administrative expenses increased by \$3.4 million during the nine months ended September 30, 2022, compared to the same period last year, primarily due to increases in equipment and software expenses and several other individually insignificant factors. Equipment and software expenses increased by \$2.6 million due to expenses related to network security and other software services.

Interest expense

Interest expense remained consistent during the three months ended September 30, 2022. Interest expense decreased by \$7.9 million in the nine months ended September 30, 2022, compared to the same period last year, due to the lower interest rate on our 2031 Notes compared to the 2023 Notes which were refinanced in the second quarter of 2021.

Non-operating income (loss), net

Non-operating income (loss), net increased by \$4.8 million and \$8.3 million in the three and nine months ended September 30, 2022, respectively, compared to the same periods last year, primarily due to an increase in interest income driven by higher interest rates on our investments in debt securities and the \$2.1 million loss on extinguishment of debt recognized in the second quarter of 2021.

Income tax expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Income tax expense	\$ 53.4	\$ 46.0	\$ 153.6	\$ 124.1
Effective tax rate	24 %	23 %	24 %	21 %

The effective tax rate for each of the periods in the table above differed from the statutory federal rate of 21%, due to state income taxes and U.S. taxes on foreign earnings, net of foreign tax credits, offset by a lower foreign effective tax rate. The foreign effective tax rate increased in the three and nine months ended September 30, 2022 compared to the same periods of the prior year, primarily as a result of the transfer of intellectual property between certain non-U.S. subsidiaries that took place in the fourth quarter of 2021.

Liquidity and Capital Resources

The following table presents our principal sources of liquidity:

	September 30,	December 31,
	2022	2021
	(In millions)	
Cash and cash equivalents	\$ 560.6	\$ 223.5
Marketable securities	419.6	982.3
Total	\$ 980.2	\$ 1,205.8

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 three months or less. As of September 30, 2022, 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, 2022, we repurchased 1.5 million shares of our common stock for an aggregate cost of \$275.5 million. As of September 30, 2022, there was approximately \$267.6 million remaining available for future share repurchases under the share repurchase program which has no expiration date. Effective October 27, 2022, our Board of Directors authorized the repurchase of our common stock in the amount of \$803.0 million, in addition to the \$197.0 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.

As of September 30, 2022, we had \$750.0 million of 2.70% senior unsecured notes due 2031, \$550.0 million principal amount outstanding of 4.75% senior unsecured notes due 2027, and \$500.0 million principal amount outstanding of 5.25% senior unsecured notes due 2025. As of September 30, 2022, 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 ability to arrange for additional financing should be sufficient to meet our working capital, capital expenditure requirements, and to service our debt for the next 12 months and beyond. We regularly assess our cash management approach and activities in view of our current and potential future needs. Our cash requirements have not changed materially since the 2021 Form 10-K.

In summary, our cash flows for the nine months ended September 30, 2022 and 2021 were as follows:

	Nine Months Ended September 30,	
	2022	2021
	(In millions)	
Net cash provided by operating activities.....	\$ 614.2	\$ 600.9
Net cash provided by (used in) investing activities.....	546.0	(215.1)
Net cash used in financing activities.....	(821.7)	(533.3)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash.....	(1.4)	(0.6)
Net increase (decrease) in cash, cash equivalents, and restricted cash.....	<u>\$ 337.1</u>	<u>\$ (148.1)</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 increased during the nine months ended September 30, 2022, compared to the same period last year, primarily due to increases in cash received from customers and cash received from interest on investments and decreases in cash paid for interest and cash paid to employees and vendors, partially offset by an increase in cash paid for income taxes. Cash received from customers increased primarily due to the impact of the .com price increases that were effective on each of September 1, 2021 and September 1, 2022. Cash received from interest on investments increased due to higher interest rates on our investments in debt securities. Cash paid for interest decreased due to the lower interest rate on our 2031 Notes compared to the 2023 Notes which were refinanced in the second quarter of 2021. Cash paid to employees and vendors decreased primarily due to the timing of payments. Cash paid for income taxes increased primarily due to comparatively higher U.S. federal, state, and foreign income taxes.

Cash flows from investing activities

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

We had net cash inflows from investing activities in the nine months ended September 30, 2022, compared to net cash outflows during the same period last year, primarily due to an increase in proceeds from maturities and sales of marketable securities, net of purchases of marketable securities, and a decrease in purchases of property and equipment.

Cash flows from financing activities

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

Net cash used in financing activities increased during the nine months ended September 30, 2022, compared to the same period last year, primarily due an increase in share repurchases, partially offset by the net impact of the redemption of our 2023 Senior Notes and the issuance of the 2031 Senior Notes during 2021.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes in our market risk exposures since December 31, 2021.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer), evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, as of September 30, 2022, 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, 2022 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

Our business, operating results, financial condition, reputation, cash flows or prospects can be materially adversely affected by a number of factors including but not limited to those described in Part I, Item 1A of the 2021 Form 10-K under the heading “Risk Factors.” In such case, the trading price of our common stock could decline and you could lose part or all of your investment. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also materially adversely affect our business, operating results, financial condition, reputation, cash flows and prospects. Actual results could differ materially from those projected in the forward-looking statements contained in this Form 10-Q as a result of the risk factors described in Part I, Item 1A of the 2021 Form 10-K and in other filings we make with the SEC. There have been no material changes to the Company’s risk factors since the 2021 Form 10-K.

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, 2022:

	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) (2)
	(Shares in thousands)			
July 1 - 31, 2022	607	\$ 174.02	607	\$ 437.4 million
August 1 - 31, 2022	358	\$ 195.84	358	\$ 367.3 million
September 1 - 30, 2022	560	\$ 177.97	560	\$ 267.6 million
	1,525		1,525	

- (1) Effective February 10, 2022, our Board of Directors authorized the repurchase of our common stock in the amount of \$705.4 million, in addition to the \$294.6 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.
- (2) Effective October 27, 2022, our Board of Directors authorized the repurchase of our common stock in the amount of \$803.0 million, in addition to the \$197.0 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	Incorporated by Reference			
		Form	Date	Number	Filed Herewith
31.01	Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a).				X
31.02	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a).				X
32.01	Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350). *				X
32.02	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350). *				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.

