

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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 000-23593

VERISIGN, INC.

(Exact name of registrant as specified in its charter)

Delaware

94-3221585

(State or other jurisdiction of
incorporation or organization)

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

12061 Bluemont Way, Reston, Virginia

20190

(Address of principal executive offices)

(Zip Code)

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

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

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

Class

Shares Outstanding April 17, 2015

Common stock, \$.001 par value

116,434,450

TABLE OF CONTENTS

	Page
<u>PART I—FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>44</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>22</u>
<u>Item 4. Controls and Procedures</u>	<u>22</u>
<u>PART II—OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>23</u>
<u>Item 1A. Risk Factors</u>	<u>23</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
<u>Item 6. Exhibits</u>	<u>44</u>
<u>Signatures</u>	<u>45</u>

Table of Contents

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

As required under Item 1—Financial Statements included in this section are as follows:

Financial Statement Description	Page
<u>Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>

Table of Contents

VERISIGN, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

VERISIGN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

(Unaudited)

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

Table of Contents

VERISIGN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

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

Table of Contents

VERISIGN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

Interim Financial Statements

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

Reclassifications

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

Recent Accounting Pronouncements

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

Note 2. Cash, Cash Equivalents, and Marketable Securities

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

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

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

Table of Contents

Note 3. Fair Value of Financial Instruments

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

(1) Included in Other current assets

(2) Included in Accounts payable and accrued liabilities

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

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

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

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

Table of Contents

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

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

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

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

Other

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

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

Other current assets consist of the following:

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

Table of Contents

Other Long-Term Assets

Other long-term assets consist of the following:

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

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

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

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

Accrued employee compensation primarily consists of liabilities for employee leave, salaries, payroll taxes, employee contributions to the employee stock purchase plan, and incentive compensation. Accrued employee incentive compensation as of December 31, 2014, was paid during the three months ended March 31, 2015. Income taxes payable and other tax liabilities as of March 31, 2015, reflects payments made during the first quarter of 2015 for income taxes in certain non-U.S. jurisdictions. Other accrued liabilities include miscellaneous vendor payables, coupon interest on the Subordinated Convertible Debentures which is paid semi-annually in arrears on August 15 and February 15, and interest on the 2023 Senior Notes which is paid semi-annually in arrears on May 1 and November 1. Note 5. Stockholders’ Deficit

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

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

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

Table of Contents

Note 6. Calculation of Net Income per Share

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

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Weighted-average shares of common stock outstanding	117,139	133,417
Weighted-average potential shares of common stock outstanding:		
Conversion spread related to the Subordinated Convertible Debentures	15,812	14,286
Unvested RSUs	869	817
Stock options	8	37
Employee stock purchase plan	22	43
Shares used to compute diluted net income per share	133,850	148,600
The calculation of diluted weighted average shares outstanding, excludes potentially dilutive securities, the effect of which would have been anti-dilutive, as well as performance based RSUs granted by the Company for which the relevant performance criteria have not been achieved. The number of potential shares excluded from the calculation was not significant in any period presented.		

Note 7. Stock-based Compensation

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

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

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

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

Table of Contents

Note 8. Debt and Interest Expense

Senior Notes due 2025

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

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

2015 Credit Facility

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

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

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

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

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

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

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

Table of Contents

Note 10. Income Taxes

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

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

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

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

Note 11. Contingencies

Legal Proceedings

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

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

Indemnifications

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

Table of Contents

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

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements involve risks and uncertainties, including, among other things, statements regarding our anticipated costs and expenses and revenue mix. Forward-looking statements include, among others, those statements including the words "expects," "anticipates," "intends," "believes" and similar language. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q. You should also carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q or Current Reports on Form 8-K that we file in 2015 and our 2014 Form 10-K, which was filed on February 13, 2015, which discuss our business in greater detail. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

Overview

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

Business Highlights and Trends

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

Results of Operations

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

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

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

the renewal rate for existing registrations are impacted by

15

Table of Contents

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

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

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

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

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

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

Table of Contents

Geographic revenues

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

The following table presents a comparison of our geographic revenues:

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

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

Cost of revenues

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

A comparison of cost of revenues is presented below:

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

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

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

Sales and marketing

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

A comparison of sales and marketing expenses is presented below:

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

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

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

Table of Contents

Research and development

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

A comparison of research and development expenses is presented below:

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

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

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

General and administrative

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

A comparison of general and administrative expenses is presented below:

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

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

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

Interest expense

The following table presents the components of Interest expense:

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

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

Table of Contents

Non-operating (loss) income, net

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

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

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

Income tax expense

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Cash flows from operating activities

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

Table of Contents

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

Cash flows from investing activities

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

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

Cash flows from financing activities

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

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

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

Changes in Internal Control over Financial Reporting

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

Inherent Limitations of Disclosure Controls and Internal Control over Financial Reporting

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

Table of Contents

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

Risks relating to our business

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

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

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

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

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

Table of Contents

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

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

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

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

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

The successful operation of our business depends on numerous factors.

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

the DOC's or ICANN's interpretation of provisions of our agreements with either of them could differ from ours; under certain circumstances, the GSA could terminate, or we could not seek to renew, our agreement to be the registry for the .gov gTLD, which could have a material adverse impact on how the Registry Services business is perceived; and

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- differing and uncertain regulatory requirements;

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

- tariffs and other trade barriers and restrictions;

Table of Contents

difficulties in staffing and managing foreign operations;
 longer sales and payment cycles;
 currency fluctuations, as a small portion of our international revenues are not always denominated in U.S. dollars and some of our costs are denominated in foreign currencies;
 high costs associated with repatriating profits to the U.S., which could impact us due to the large percentage of our cash, cash equivalents and marketable securities currently held by us outside the U.S. (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources”);
 potential problems associated with adapting our services to technical conditions existing in different countries;
 difficulty of verifying customer information;
 political instability;
 failure of foreign laws to protect our U.S. proprietary rights adequately;
 more stringent privacy policies in some foreign countries;
 additional vulnerability from terrorist groups targeting U.S. interests abroad;
 seasonal reductions in business activity;
 potentially conflicting or adverse tax consequences;
 reliance on third parties in foreign markets in which we only recently started doing business; and
 potential concerns of international customers and prospects regarding doing business with U.S. technology companies due to alleged U.S. government data collection policies.

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

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

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

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

Table of Contents

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

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

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

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

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

Currently, Internet users often navigate to a website either by directly typing its domain name into a web browser or through the use of a search engine. If (i) web browser or Internet search technologies were to change significantly; (ii) Internet search engines were to change the value of their algorithms on the use of a domain for finding a website; (iii) Internet users' preferences or practices continue to shift away from directly typing in web addresses; (iv) Internet users were to significantly decrease the use of web browsers in favor of a