VERISIGN INC/CA
Form 10-Q
November 07, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008

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)**	**94-3221585** **(I.R.S. Employer** **Identification No.)**
487 East Middlefield Road, Mountain View, CA **(Address of principal executive offices)**	**94043** **(Zip Code)**

Registrant s telephone number, including area code: (650) 961-7500

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 x 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 x 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 x

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 October 31, 2008**
Common stock, $.001 par value	194,036,155

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PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As required under Item 1 Condensed Consolidated Financial Statements (Unaudited) included in this section are as follows:

Financial Statement Description	Page
Condensed Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007	4
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2008 and 2007	5
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2008 and 2007	6
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VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 403,525	$ 1,376,722
Short-term investments	248,794	1,011
Accounts receivable, net of allowance for doubtful accounts of $1,931 and $6,329 at September 30, 2008, and December 31, 2007, respectively	68,189	208,799
Prepaid expenses and other current assets	94,462	163,041
Assets held for sale	692,981	
Total current assets	1,507,951	1,749,573
Property and equipment, net	374,097	621,917
Goodwill	355,057	1,082,420
Other intangible assets, net	29,305	121,792
Restricted cash	2,113	46,936
Other assets	296,342	290,647
Investments in unconsolidated entities	125,307	109,828
Total long-term assets	1,182,221	2,273,540
Total assets	$ 2,690,172	$ 4,023,113
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 264,832	$ 398,124
Accrued restructuring costs	32,942	2,878
Deferred revenues	591,750	552,070
Other liabilities	2,758	2,632
Liabilities related to assets held for sale	76,865	
Total current liabilities	969,147	955,704
Long-term deferred revenues	206,018	186,719
Long-term accrued restructuring costs	1,161	1,473
Convertible debentures	1,263,613	1,265,296
Other long-term liabilities	25,382	41,133
Total long-term liabilities	1,496,174	1,494,621
Total liabilities	2,465,321	2,450,325
Commitments and contingencies		
Minority interest in subsidiaries	59,950	54,485

Stockholders equity:		
Preferred stock par value $.001 per share; Authorized shares: 5,000,000; Issued and outstanding shares: none		
Common stock par value $.001 per share; Authorized shares: 1,000,000,000; Issued and outstanding shares: 193,946,072 excluding 110,010,950 held in treasury, at September 30, 2008, and 222,849,348 excluding 73,720,953 shares held in treasury, at December 31, 2007	303	297
Additional paid-in capital	21,470,824	22,559,045
Accumulated deficit	(21,317,195)	(21,043,014)
Accumulated other comprehensive income	10,969	1,975
Total stockholders equity	164,901	1,518,303
Total liabilities and stockholders equity	$ 2,690,172	$ 4,023,113

See accompanying Notes to Condensed Consolidated Financial Statements.

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VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	$ 246,052	$ 215,744	$ 724,992	$ 636,457
Costs and expenses				
Cost of revenues	55,880	60,523	168,719	185,729
Sales and marketing	41,298	55,407	133,349	180,832
Research and development	22,337	25,263	72,089	78,676
General and administrative	49,896	59,268	154,369	178,663
Restructuring, impairments and other charges (reversals), net	5,973	(1,030)	107,366	33,601
Amortization of other intangible assets	2,865	4,478	8,623	14,641
Total costs and expenses	178,249	203,909	644,515	672,142
Operating income (loss)	67,803	11,835	80,477	(35,685)
Other (loss) income, net	(12,688)	(6,408)	(20,107)	86,109
Income from continuing operations before income taxes, (loss) earnings from unconsolidated entities and minority interest	55,115	5,427	60,370	50,424
Income tax (expense) benefit	(8,071)	7,964	(6,642)	(5,241)
(Loss) earnings from unconsolidated entities, net of tax	(2,509)	216	(3,099)	2,412
Minority interest, net of tax	(815)	(2,054)	(2,710)	(2,541)
Income from continuing operations	43,720	11,553	47,919	45,054
Discontinued operations, net of tax	(243,754)	3,401	(322,100)	26,936
Net (loss) income	$ (200,034)	$ 14,954	$ (274,181)	$ 71,990
Basic (loss) income per share from:				
Continuing operations	$ 0.23	$ 0.05	$ 0.24	$ 0.19
Discontinued operations	(1.26)	0.01	(1.62)	0.11
Net (loss) income	$ (1.03)	$ 0.06	$ (1.38)	$ 0.30
Diluted (loss) income per share from:				
Continuing operations	$ 0.22	$ 0.05	$ 0.24	$ 0.18
Discontinued operations	(1.24)	0.01	(1.59)	0.11
Net (loss) income	$ (1.02)	$ 0.06	$ (1.35)	$ 0.29
Shares used in per share computation:				
Basic	193,853	240,054	198,622	242,570

Diluted	195,930	245,537	202,951	247,752

See accompanying Notes to Condensed Consolidated Financial Statements.

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VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2008	**2007**
Cash flows from operating activities:		
Net (loss) income	$ (274,181)	$ 71,990
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Gain on divestiture of businesses, net of tax	(32,853)	(76,356)
Unrealized gain on joint venture call options		(7,747)
Unrealized (gain) loss on contingent interest derivative on convertible debentures	(1,664)	12,589
Depreciation of property and equipment	85,454	85,195
Amortization of other intangible assets	22,758	90,693
Impairments and other charges	354,558	13,797
Provision for doubtful accounts	1,119	(116)
Stock-based compensation	75,368	66,863
Loss on sale of property and equipment	80,487	
Net loss on sale and other-than-temporary impairment of investments	6,571	3,429
Loss (earnings) from unconsolidated entities, net of tax	3,099	(2,412)
Minority interest, net of tax	2,710	2,541
Excess tax benefit associated with stock options	(7,094)	
Deferred income taxes	(13,380)	16,442
Changes in operating assets and liabilities:		
Accounts receivable	30,548	(113,268)
Prepaid expenses and other current assets	17,044	133,053
Accounts payable and accrued liabilities	(114,394)	(129,133)
Accrued restructuring costs	29,752	2,926
Deferred revenues	93,164	96,719
Net cash provided by operating activities	359,066	267,205
Cash flows from investing activities:		
Proceeds from maturities and sales of investments	1,440	144,849
Purchases of investments		(311)
Reclassification of cash equivalents to short-term investments	(256,571)	
Proceeds from sale of property and equipment	48,843	
Purchases of property and equipment	(79,022)	(97,234)
Proceeds received from divestiture of businesses, net of cash contributed	60,613	165,422
Investments in unconsolidated entities	(15,679)	(17,150)
Proceeds from repayment of promissory note by unconsolidated entities	4,494	
Cash received from trust, previously restricted	45,000	
Proceeds from contingent purchase price adjustment	1,175	
Other assets	3,087	3,639
Net cash (used in) provided by investing activities	(186,620)	199,215
Cash flows from financing activities:		
Proceeds from issuance of common stock from option exercises and employee stock purchase plans	120,469	219,994
Change in net assets of minority interest	134	(436)
Repurchases of common stock	(1,276,683)	(1,154,763)
Proceeds from credit facility	200,000	
Repayment of short-term debt related to credit facility	(200,000)	(199,000)
Proceeds from issuance of convertible debentures, net of issuance costs		1,224,600

Excess tax benefit associated with stock options	7,094	
Dividend paid to minority interest holders in subsidiary	(741)	
Net cash (used in) provided by financing activities	(1,149,727)	90,395
Effect of exchange rate changes on cash and cash equivalents	4,084	2,713
Net (decrease) increase in cash and cash equivalents	(973,197)	559,528
Cash and cash equivalents at beginning of period	1,376,722	501,784
Cash and cash equivalents at end of period	$ 403,525	$ 1,061,312
Supplemental cash flow disclosures:		
Cash paid for interest	$ 40,755	$ 1,945
Amounts payable for purchases of property and equipment	$ 5,960	$

See accompanying Notes to Condensed Consolidated Financial Statements.

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VERISIGN, INC. AND SUBSIDIARIES

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. and its subsidiaries (collectively, 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, 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 2007 Annual Report on Form 10-K (the 2007 Form 10-K) filed with the SEC on February 29, 2008.

Reclassifications and Adjustments

The Condensed Consolidated Statements of Operations have been reclassified for all periods presented to reflect discontinued operations treatment. Unless noted otherwise, discussions in the Notes to Condensed Consolidated Financial Statements pertain to continuing operations.

As a result of a comprehensive review of its business strategy, VeriSign changed its reportable segments in 2008. Previously, the Company had the following two reportable segments: Internet Services Group (ISG) and Communications Services Group (CSG). Beginning in fiscal 2008, the Company s business consists of the following reportable segments: Internet Infrastructure and Identity Services (3IS), which consists of Naming Services, Secure Socket Layer (SSL) Certificate Services, and Identification and Authentication Services (IAS); and Other Services, which represents continuing operations of non-core businesses and legacy products and services. Accordingly, the segment information has been reclassified for all periods presented. See Note 12, Segment Information, for further information regarding the Company s reportable segments.

During the six months ended June 30, 2008, the Company identified that it had not accrued for penalties related to late payment of federal and state payroll taxes for the periods during fiscal 2004 through fiscal 2007 of approximately $9.6 million. The amounts associated with each affected prior period are not material to the consolidated financial statements of such periods. However, as the cumulative amount of unrecorded penalties identified during the first two quarters of 2008 are expected to have a significant impact on the results of operations of fiscal 2008, the Company corrected the prior periods, as presented, by recording the penalties and interest in their respective prior periods, resulting in increased operating expenses and decreased net income (loss) previously reported. As a result, the Company recorded penalties and interest of approximately $4.1 million for the three and nine months ended September 30, 2007.

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The following table presents the effects of the adjustments to the Company s Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2007:

	Three Months Ended September 30, 2007			Nine Months Ended September 30, 2007		
	As Reported	Adjustments (In thousands)	As Adjusted	As Reported	Adjustments (In thousands)	As Adjusted
Revenues	$ 373,587	$	$ 373,587	$ 1,109,853	$	$ 1,109,853
Costs and expenses	345,665	3,986(1)	349,651	1,100,775	3,986(1)	1,104,761
Operating income	27,922	(3,986)(1)	23,936	9,078	(3,986)(1)	5,092
Income from continuing operations before income taxes	19,880	(4,050)(1)	15,830	94,981	(4,050)(1)	90,931
Income tax expense	(3,501)		(3,501)	(23,871)		(23,871)
Discontinued operations, net of tax	2,625		2,625	4,930		4,930
Net income	$ 19,004	$ (4,050)	$ 14,954	$ 76,040	$ (4,050)	$ 71,990
Basic income per share from:						
Continuing operations	$ 0.07		$ 0.05	$ 0.29		$ 0.28
Discontinued operations	0.01		0.01	0.02		0.02
Net income	$ 0.08		$ 0.06	$ 0.31		$ 0.30
Diluted income per share from:						
Continuing operations	$ 0.07		$ 0.05	$ 0.29		$ 0.27
Discontinued operations	0.01		0.01	0.02		0.02
Net income	$ 0.08		$ 0.06	$ 0.31		$ 0.29

(1) Correction of previously unrecorded payroll tax penalties and interest for the three and nine months ended September 30, 2007.
The results of operations for the three and nine months ended September 30, 2007, were further adjusted for classification of disposal groups as discontinued operations, as described in Note 4, Assets Held for Sale and Discontinued Operations.

Recent Accounting Pronouncements

In October 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. Statement of Financial Accounting Standards (SFAS) 157-3 (FSP SFAS 157-3) *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.* FSP SFAS 157-3 applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with SFAS No. 157 (SFAS 157), *Fair Value Measurements,* and clarifies the application of SFAS 157 in a market that is not active. FSP SFAS 157-3 became effective at the time of issuance and applies to prior periods for which financial statements have not been issued. As described more fully in Note 15, *Fair Value of Financial Instruments,* the Company has applied the guidance provided by FSP SFAS 157-3 in determining the fair value of all of its investments in money market funds classified as Short-term investments.

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In May 2008, the FASB issued FSP No. Accounting Principles Board (APB) 14-1 (FSP APB 14-1), *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).* FSP APB 14-1 specifies that issuers of convertible debt instruments should separately account for the liability (debt) and equity (conversion option) components of such instruments in a manner that reflects the issuer s non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, and will be adopted by the Company in the first quarter of fiscal 2009. FSP APB 14-1 will be applied retrospectively to all periods presented. The Company s adoption of FSP APB 14-1 will affect its 3.25% junior subordinated convertible debentures due 2037 (Convertible Debentures). The Company expects the adoption of FSP APB 14-1 will result in higher interest expense for fiscal 2007 through fiscal 2037, assuming the debentures will be settled upon maturity in 2037, associated with a significant reduction in its Convertible Debentures balance along with a corresponding increase in its stockholders equity as of December 31, 2007 and 2008.

In April 2008, the FASB issued FSP No. SFAS 142-3 (FSP SFAS 142-3), *Determination of the Useful Life of Intangible Assets*. FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142 (SFAS 142), *Goodwill and Other Intangible Assets*. The intent of FSP SFAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) (SFAS 141R), *Business Combinations,* and other United States (U.S.) generally accepted accounting principles (GAAP). FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008, and will be adopted by the Company in the first quarter of fiscal 2009. The Company is currently evaluating the effect of FSP SFAS 142-3 and the impact it will have on its financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133.* SFAS 161 requires enhanced disclosures about an entity s derivative instruments and hedging activities. It requires qualitative disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about the fair value amounts of gains and losses on derivative instruments, and disclosures about how derivative instruments and related hedged items affect a company s financial position, results of operations and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 and will be adopted by the Company in the first quarter of fiscal 2009. The Company is currently evaluating the effect of SFAS 161, and the impact it will have on its financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160 (SFAS 160), *Non-controlling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51,* which requires all entities to report minority interests in subsidiaries as equity in the consolidated financial statements, and requires that transactions between entities and non-controlling interests be treated as equity. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 and will be adopted by the Company in the first quarter of fiscal 2009. The Company is currently evaluating the effect of SFAS 160, and the impact it will have on its financial position and results of operations.

In December 2007, the FASB issued SFAS 141R which will significantly change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008, and will be adopted by the Company in the first quarter of fiscal 2009 to business acquisition transactions occurring thereafter.

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Note 2. Stock-Based Compensation

Stock-based compensation is classified in the Condensed Consolidated Statements of Operations 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,	
	2008	2007	2008	2007
	(In thousands)			
Stock-based compensation:				
Cost of revenues	$ 1,694	$ 2,428	$ 5,988	$ 5,042
Sales and marketing	667	4,316	6,775	11,019
Research and development	1,531	2,294	5,961	5,575
General and administrative	4,568	5,913	21,193	25,974
Restructuring, impairments and other charges, net	3,153		8,314	2,134
Stock-based compensation for continuing operations	11,613	14,951	48,231	49,744
Discontinued operations	7,424	7,712	27,137	17,119
Total stock-based compensation	$ 19,037	$ 22,663	$ 75,368	$ 66,863

VeriSign currently uses the Black-Scholes option pricing model to determine the fair value of stock options and employee stock purchase plan awards. The determination of the fair value of stock-based payment awards using an option-pricing model is affected by the Company s stock price as well as assumptions regarding a number of complex and subjective variables. The following table sets forth the weighted-average assumptions used to estimate the fair value of the stock options and employee stock purchase plan awards:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Stock options:				
Volatility	35%	37%	35%	37%
Risk-free interest rate	2.87%	4.44%	2.77%	4.49%
Expected term	3.41	3.40	3.29	3.32
Dividend yield	Zero	Zero	Zero	Zero
Employee stock purchase plan awards:				
Volatility	36%	27%	36%	33%
Risk-free interest rate	2.28%	4.94%	2.31%	5.20%
Expected term	1.25 years	1.25 years	1.25 years	1.25 years
Dividend yield	Zero	Zero	Zero	Zero

VeriSign s expected volatility is based on the average of the historical volatility over the period commensurate with the expected term of the options and the mean historical implied volatility of traded options. The risk-free interest rates are derived from the average U.S. Treasury constant maturity rates during the respective periods commensurate with the expected term. The expected terms are based on an analysis of the observed and expected time to post-vesting exercise and/or cancellation of options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero. The Company estimates forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option and award forfeitures and records stock-based compensation only for those options and awards that are expected to vest.

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The following table presents the nature of the Company s total stock-based compensation, inclusive of amounts for discontinued operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Stock-based compensation:				
Stock options	$ 3,699	$ 5,628	$ 15,674	$ 26,032
Employee stock purchase plans	4,729	12,120	19,423	16,881
Restricted stock units	5,565	4,418	21,396	11,046
Stock options/awards acceleration	5,808	1,170	20,783	14,428
Capitalization (1)	(764)	(673)	(1,908)	(1,524)
Total stock-based compensation	$ 19,037	$ 22,663	$ 75,368	$ 66,863

(1) The capitalized amount is included in Property and equipment, net.

During the three and nine months ended September 30, 2008, the Company modified certain stock-based awards to accelerate the vesting of twenty-five percent (25%) of unvested in-the-money stock options outstanding and 25% of unvested restricted stock units outstanding on the termination dates of employees affected by divestitures and workforce reductions. The Company remeasured the fair value of these modified awards and recorded the charges over the future service periods, if any. The modification charges are included in restructuring for continuing operations as well as for discontinued operations.

In addition, during the nine months ended September 30, 2008, the Company modified certain stock-based awards outstanding for Mr. William A. Roper, Jr., the former chief executive officer. Pursuant to the settlement agreement with Mr. Roper, the Company accelerated the vesting of Mr. Roper s then unvested shares of sign-on options, unvested shares of sign-on restricted stock unit awards, first-year options outstanding that would otherwise have vested had Mr. Roper remained employed with the Company through August 8, 2008, and one-third of the first-year restricted stock unit awards outstanding. Upon acceleration of vesting of Mr. Roper s stock-based awards, the Company recognized an additional $4.9 million of stock-based compensation during the nine months ended September 30, 2008.

During the nine months ended September 30, 2007, the Company recorded additional stock-based compensation of $11.0 million related to the acceleration of vesting of certain stock-based awards for Mr. Stratton Sclavos. During the nine months ended September 30, 2007, the Company also recorded $1.2 million related to the acceleration of vesting of certain stock-based awards for Ms. Dana Evan, a former chief financial officer, and another employee.

The Company resumed its employee payroll withholdings for the purchase of its common stock under the 1998 Purchase Plan during July 2007. The Company allowed its employees affected by the earlier suspension of the 1998 Purchase Plan to make catch-up payments to their accounts under the 1998 Purchase Plan for the lost payroll contributions attributable to the period when the Company was not current in its reporting obligations under the Securities Exchange Act of 1934, as amended. The Company also allowed employees to increase their contribution withholding percentages from 15% up to a maximum of 25% of their compensation, subject to applicable U.S. Internal Revenue Service (IRS) limits, effective August 1, 2007. The Company accounted for the increases in employee payroll withholdings as modifications. The Company recorded $12.1 million and $16.9 million of stock-based compensation expense for the purchase plans for the three and nine months ended September 30, 2007, respectively.

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Note 3. Joint Ventures

On January 31, 2007, VeriSign entered into two joint venture agreements with Fox Entertainment (Fox), a subsidiary of News Corporation, to provide mobile entertainment to consumers on a global basis. As of September 30, 2008, under the terms of the agreements, Fox owns a 51% interest and VeriSign owns a 49% interest in the joint ventures.

In 2007, the Company provided a working capital loan of $15.0 million under a promissory note to the joint ventures, of which $4.4 million is outstanding as of September 30, 2008, and is included in Other assets.

In connection with the joint ventures, VeriSign and Fox entered into various put and call arrangements related to the Company s ownership interests in the joint ventures, including VeriSign s right to sell all of its interests in the joint ventures to Fox for $150 million and $350 million in fiscal 2010 and 2012, respectively (the put options), and Fox s right to purchase all of VeriSign s interests in the joint ventures for $400 million, the greater of $250 million or fair value, and the greater of $400 million or fair value, in fiscal 2009, 2010 and 2012, respectively (the call options). As of September 30, 2008, the Company determined that the call options did not have a material value. The Company has not recorded the value of the put options separately from its investments in the joint ventures.

In July 2008, the Company invested an additional amount of $15.7 million pursuant to capital calls approved by the board of managers of the joint ventures with Fox, and recorded the amount as investments in unconsolidated entities. The purpose of the capital calls was to fund the ongoing business and working capital needs of the joint ventures.

On October 6, 2008, the Company sold its aggregate remaining 49% interest in the joint ventures to Fox for approximately $200 million. Pursuant to the sale agreement, certain outstanding debts and accrued but unpaid interest owed among the Company and the joint ventures have been repaid, and the parties have agreed to the settlement and discharge of all other payments among them as of the date of the agreement.

Note 4. Assets Held for Sale and Discontinued Operations

During the fourth quarter of 2007, VeriSign announced a change to its business strategy to be more aligned with its core competencies, which are to provide highly scaleable, reliable and secure Internet infrastructure and identity services to customers around the world. The strategy calls for the divesture or winding down of a number of non-core businesses in the Company s portfolio, such as communications, billing and commerce, content delivery, messaging and enterprise security services as well as other smaller businesses. By divesting or winding down these non-core businesses, additional resources should be available to invest in the core businesses that will remain: Naming Services, SSL Certificate Services, and IAS.

Assets classified as held for sale are recorded at the lower of their carrying amount or fair value less costs to sell and are not depreciated or amortized. Classification of the Company s disposal groups as held for sale occurs when sufficient authority to sell the disposal group has been obtained, the disposal group is available for immediate sale, an active program to sell the disposal group has been initiated and its sale is probable within one year. If at any time these criteria are no longer met, the disposal group would be reclassified as held and used. The Company evaluates the held for sale classifications during each reporting period.

The results of operations of disposal groups held for sale or disposed of are presented as discontinued operations when the underlying operations and cash flows of the disposal group will be or have been eliminated from the Company s continuing operations and the Company no longer has the ability to influence the operating and/or financial policies of the disposal group. This assessment is made at the time the disposal group is classified as held for sale and for a one-year period after the sale of the disposal group.

Completed Divestitures

On April 30, 2008, the Company sold its Digital Brand Management Services (DBMS) business, which offered a range of corporate domain name and brand protection services that help enterprises, legal professionals, information technology professionals and brand marketers monitor, protect and build digital brand equity, for net cash proceeds of $50.4 million and recorded a gain on sale of $30.6 million. The net cash proceeds include $5.0 million that was placed in an escrow account to cover any contingent claims made by the buyer against VeriSign through April 30, 2009. If no claims are made, the amount in escrow will be released to VeriSign during the second quarter of fiscal 2009. The DBMS business was part of the former ISG segment. The historical results of operations of the DBMS business have been classified as discontinued operations for all periods presented.

On April 30, 2008, the Company sold its Content Delivery Network (CDN) business, which offered broadband content services that enable the delivery of high-quality video and other rich media securely and efficiently at a very large scale, for net cash proceeds of $1.0 million and recorded a gain on sale of $2.0 million**.** The Company has retained an equity ownership in the CDN business and has accounted for its investment in the CDN business on an equity method basis. As a result of the Company s continuing involvement in the CDN business, the historical results of operations of the CDN business have not been classified as discontinued operations. The CDN business was part of the former CSG segment.

On March 31, 2008, the Company sold its Self-Care and Analytics (SC&A) business, which provided on-line analysis applications for mobile communications customers and on-line customer self-service with a single view of billing across multiple systems, for net cash proceeds of $14.2 million and recorded a gain on sale of $1.0 million. The SC&A business was part of the former CSG segment. The historical results of operations of the SC&A business have been classified as discontinued operations for all periods presented.

On September 1, 2007, the Company sold its wholly-owned Jamba Service GmbH subsidiary (Jamba Service), which marketed insurance and extended service warranties to consumers for mobile electronic equipment and products, for net cash proceeds of $12.8 million and recorded a gain on sale of $1.8 million. Jamba Service was part of the former CSG segment. The historical results of operations of Jamba Service have been classified as discontinued operations for all periods presented.

Assets Held for Sale

The Company did not have any assets held for sale as of December 31, 2007. The following table presents the carrying amounts of major classes of assets and liabilities related to assets held for sale as of September 30, 2008. During the three and nine months ended September 30, 2008, the Company recorded losses on disposals, including estimated losses on disposal of $237.4 million and $308.8 million, respectively, which are included in discontinued operations. Gains on disposal are recorded on the date the sale of the disposal group is consummated.

	September 30, 2008 (In thousands)
Assets:	
Accounts receivable	$ 104,173
Other current assets	53,329
Goodwill	379,986
Other long-lived assets	155,493
Total assets held for sale	$ 692,981
Liabilities:	
Accounts payable and accrued liabilities	$ 54,136
Deferred revenues	22,729
Total liabilities related to assets held for sale	$ 76,865

As of September 30, 2008, businesses classified as held for sale and presented as discontinued operations are the following:

Messaging Services

Messaging and Mobile Media

The Company s Messaging and Mobile Media (MMM) business is an industry leading global provider of short-messaging, multimedia messaging, and mobile content application services. MMM enables messages and multimedia content to be sent globally across any wireless operator and mobile device. MMM offers the global connectivity, network reliability, and scalability necessary to capitalize on the fast growing global messaging and media content markets.

Content Portal Services

The Company s Content Portal Services (CPS) business enables a seamless end-to-end solutions business focused on providing best-in-class digital content storefront services. CPS can be used as a content delivery platform for games, ringtones, and other content services. CPS provides its services to mobile carriers and media companies primarily located in Canada.

EMEA Mobile Media

The Company s EMEA Mobile Media (EMM) business offers mobile application services which includes interactive messaging applications, content portal services, and messaging gateway services. EMM provides its services to mobile carriers and media companies primarily located in Europe.

Post-pay

The Company s Post-pay business enables advanced billing and customer care services to wireless telecommunications carriers.

Communications Services

The Company s Communications Services business provides communications services, such as connectivity and interoperability services, intelligent database services and clearing and settlement services. The Company s Connectivity and interoperability services primarily include its Signaling System 7 (SS7) Connectivity and Voice and Data Roaming services. The Company s intelligent database services primarily include its Number Portability, Caller Name Identification, Toll-free Database and TeleBlock Do Not Call Services. The Company s clearing and settlement services primarily include its Clearinghouse services which serve as a distribution and collection point for billing information and payment collection for services provided by one carrier to customers billed by another.

Communications Consulting

The Company s Communications Consulting business offers a full range of strategy and technology consulting, business planning, sourcing, and implementation services to help telecommunications operators and equipment manufacturers drive profitable new business and technology strategies.

Enterprise Security Services

The Company s Enterprise Security Services business includes the Managed Security Services (MSS) business, the iDefense Security Intelligence services business, and the Security Consulting business. The Company s MSS business enables enterprises to effectively monitor and manage their network security infrastructure 24 hours per day, 365 days per year while reducing the associated time, expense, and personnel commitments by relying on VeriSign s security platform and experienced security staff. The Company s iDefense Security Intelligence services business delivers comprehensive, actionable intelligence to help companies decide how to respond to threats and manage risk on networks. The Security Consulting business provides services that assist companies in understanding corporate security requirements, navigating the maze of diverse regulations, identifying security vulnerabilities, defending against and responding to attacks, reducing risk, and meeting the security compliance requirements of their business and industry.

International Clearing

The Company s International Clearing business enables financial settlement and call data settlement for wireless and wireline carriers.

The current and historical operations, gains and losses upon disposition, including estimated losses upon disposition, of these disposal groups are presented as discontinued operations for all periods presented in the Company s Condensed Consolidated Statements of Operations. The amounts presented represent direct operating costs of the disposal groups. The Company has determined direct costs consistent with the manner in which the disposal groups were structured and managed during the respective periods. Allocations of indirect costs such as corporate overheads have not been made.

For a period of time, the Company will continue to generate cash flows and will report income statement activity in continuing operations that are associated with these disposal groups and certain of the completed divestitures. The activities that will give rise to these impacts are transitional in nature and generally result from agreements that ensure and facilitate the orderly transfer of business operations. The nature, magnitude and duration of the agreements will vary depending on the specific circumstances of the service, location and/or business need. The agreements can include the following: logistics, customer service, support of financial processes, procurement, human resources, facilities management, data collection and information services. Existing agreements extend for periods less than 12 months.

The following table presents the revenues and the components of discontinued operations, net of tax:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Revenues	$ 143,075	$ 160,908	$ 451,885	$ 485,265
Income (loss) before income taxes	$ 11,862	$ 14,314	$ (37,526)	$ 46,483
Income tax expense	(18,097)	(12,270)	(10,999)	(20,904)
(Loss) income from discontinued operations	(6,235)	2,044	(48,525)	25,579
(Loss) gain on sale of discontinued operations and assets held for sale, before income taxes	(237,519)	1,357	(276,539)	1,357
Income tax benefit			2,964	
(Loss) gain on sale of discontinued operations and assets held for sale	(237,519)	1,357	(273,575)	1,357
Total discontinued operations, net of tax	$ (243,754)	$ 3,401	$ (322,100)	$ 26,936

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Note 5. Restructuring, Impairments and Other Charges (Reversals), Net

A comparison of restructuring, impairments and other charges (reversals), net, is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
2008 restructuring plan charges	$ 5,959	$	$ 27,854	$
2007 restructuring plan (reversals) charges		(1,329)	369	20,573
2003 and 2002 restructuring plan (reversals) charges		(51)	60	91
Total restructuring charges (reversals) for continuing operations	5,959	(1,380)	28,283	20,664
Impairments and other charges for continuing operations	14	350	79,083	12,937
Total restructuring, impairments and other charges (reversals), net, for continuing operations	5,973	(1,030)	107,366	33,601
2008 restructuring plan charges for discontinued operations	6,996		30,350	
2007 restructuring plan charges for discontinued operations		2,906		9,736
Impairments and other charges for discontinued operations	237,350	130	354,558	860
Total restructuring, impairments and other charges, net, for discontinued operations	244,346	3,036	384,908	10,596
Total restructuring, impairments and other charges, net	$ 250,319	$ 2,006	$ 492,274	$ 44,197

2008 Restructuring Plan

In the fourth quarter of 2007, VeriSign announced a change in its business strategy to be more aligned with its core competencies, which are providing highly scaleable, reliable and secure Internet infrastructure and identity services to customers around the world. The strategy calls for divestiture or winding down of a number of non-core businesses in its portfolio. As part of this divestiture strategy, the Company initiated a restructuring plan in the first quarter of 2008, which includes workforce reductions, excess facilities and other exit costs primarily related to the consulting and professional fees incurred for initiating and executing the divestiture strategy. As of September 30, 2008, VeriSign recorded a total of $58.2 million in restructuring charges, inclusive of amounts for discontinued operations, under its 2008 restructuring plan.

2007 Restructuring Plan

In January 2007, VeriSign initiated a restructuring plan to execute a company-wide reorganization replacing the previous business unit structure with a combined worldwide sales and services team, and an integrated development and products organization. The restructuring plan included workforce reductions, abandonment of excess facilities, and other exit costs.

2003 and 2002 Restructuring Plans

In November 2003, VeriSign announced a restructuring initiative related to the sale of its Network Solutions business and the realignment of other business units. The restructuring plan resulted in reductions in workforce, abandonment of excess facilities, disposals of property and equipment and other charges.

In April 2002, VeriSign announced plans to restructure its operations to rationalize, integrate and align resources. This restructuring plan included workforce reductions, abandonment of excess facilities, write-off of abandoned property and equipment and other charges.

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The following table presents the consolidated restructuring charges, inclusive of amounts for discontinued operations, associated with all the restructuring plans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Workforce reduction	$ 12,228	$ (2,274)	$ 55,907	$ 21,023
Excess facilities	980	2,656	1,267	5,283
Other exit costs	(253)	1,144	1,459	4,094
Total restructuring charges	$ 12,955	$ 1,526	$ 58,633	$ 30,400

Of the total consolidated restructuring charges, $7.0 million and $30.4 million relate to workforce reduction for discontinued operations for the three and nine months ended September 30, 2008, respectively. Of the total consolidated restructuring charges, $0.1 million and $4.9 million relate to workforce reduction for discontinued operations for the three and nine months ended September 30, 2007, respectively.

For the three and nine months ended September 30, 2008, $7.2 million and $16.0 million, respectively, of the consolidated workforce reduction charges relate to stock-based compensation for certain severed employees, of which $3.4 million and $7.7 million, respectively, are recorded in discontinued operations. For the nine months ended September 30, 2007, $2.3 million of the consolidated workforce reduction charges relate to stock-based compensation for certain severed employees, of which $0.2 million is recorded in discontinued operations. For the three months ended September 30, 2007, there were no workforce reduction charges related to stock-based compensation for severed employees.

As of September 30, 2008, the consolidated accrued restructuring costs associated with all restructuring plans are $34.1 million and consist of the following:

	Accrued Restructuring Costs at December 31, 2007	Restructuring Charges	Cash Payments	Non-cash Charges	Accrued Restructuring Costs at September 30, 2008
			(In thousands)		
Workforce reduction	$ 493	$ 55,907	$ (9,470)	$ (16,244)	$ 30,686
Excess facilities	3,702	1,267	(2,019)	35	2,985
Other exit costs	156	1,459	(1,171)	(12)	432
Total accrued restructuring costs	$ 4,351	$ 58,633	$ (12,660)	$ (16,221)	$ 34,103
Included in current portion of accrued restructuring costs					$ 32,942
Included in long-term portion of accrued restructuring costs					$ 1,161

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Cash payments totaling approximately $7.4 million related to the abandonment of excess facilities under all restructuring plans will be paid over the respective lease terms, the longest of which extends through 2016. The present value of future cash payments related to lease terminations due to the abandonment of excess facilities is expected to be as follows:

	Contractual Lease Payments	Anticipated Sublease Income (In thousands)	Net
2008 (remaining 3 months)	$ 471	$	$ 471
2009	1,872	(398)	1,474
2010	1,564	(988)	576
2011	1,275	(811)	464
2012	394	(394)	
Thereafter	1,272	(1,272)	
	$ 6,848	$ (3,863)	$ 2,985

Impairments and Other Charges

The following table presents the consolidated impairments and other charges, inclusive of amounts for discontinued operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Estimated losses on assets held for sale	$ 237,350	$	$ 308,765	$
Impairment of goodwill and other intangible assets			45,793	4,849
Other charges	14	480	79,083	8,948
Total impairments and other charges	$ 237,364	$ 480	$ 433,641	$ 13,797

Estimated losses on assets held for sale

During the three and nine months ended September 30, 2008, the Company recorded a charge of $237.4 million and $308.8 million, respectively, for estimated losses on assets held for sale, all of which is classified as discontinued operations.

Impairment of goodwill and other intangible assets

During the nine months ended September 30, 2008, the Company recorded a charge of $45.8 million for an impairment of goodwill related to its Post-pay business, which is classified as discontinued operations. See Note 6, Goodwill and Other Intangible Assets, for further information regarding the impairment of goodwill related to the Post-pay business. During the nine months ended September 30, 2007, the Company wrote off approximately $4.8 million of other intangible assets specifically related to abandoned technology acquired for a specific customer, all of which relates to continuing operations.

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Other charges

During the nine months ended September 30, 2008, the Company recorded a loss of $79.1 million in continuing operations as a result of the sale of a portion of its Mountain View facilities, as described in Note 7, Other Balance Sheet Items. The sale of Mountain View facilities was consummated during the second quarter of 2008 as a result of the 2008 restructuring plan to divest or wind down the non-core businesses. During the three and nine months ended September 30, 2007, the Company recorded a charge of $0.5 million and $8.9 million, respectively, for excess and obsolete property and equipment. Of the total consolidated other charges, $0.1 million and $0.9 million relates to discontinued operations for the three and nine months ended September 30, 2007, respectively.

Note 6. Goodwill and Other Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill as allocated to the Company s reportable segments during the nine months ended September 30, 2008:

	Internet Infrastructure and Identity Services	Other Services	Total
		(In thousands)	
Balance at December 31, 2007	$ 352,833	$ 729,587	$ 1,082,420
Divestiture of businesses		(19,726)	(19,726)
Impairment		(45,793)	(45,793)
Reclassification to assets held for sale		(664,068)	(664,068)
Other adjustments (1)	2,224		2,224
Balance at September 30, 2008	$ 355,057	$	$ 355,057

(1) Other adjustments consist of foreign exchange fluctuations.

VeriSign performed its annual impairment tests during the second quarter of 2008 and 2007. The fair value of VeriSign s reporting units is determined using either the income or the market valuation approach or a combination thereof. Under the income approach, the fair value of the reporting unit is based on the present value of estimated future cash flows the reporting unit is expected to generate over its remaining life. Under the market approach, the value of the reporting unit is based on an analysis that compares the value of the reporting unit to values of publicly traded companies in similar lines of business. In the application of the income and market valuation approaches, VeriSign is required to make estimates of future operating trends and judgments on discount rates and other variables. Actual future results related to assumed variables could differ from these estimates. The Company did not record any impairment for goodwill from the annual impairment test conducted during the second quarter of 2007.

During the second quarter of 2008, the Company performed an impairment review of its Naming Services, SSL Certificate Services, IAS and VeriSign Japan reporting units related to its core businesses; and the Post-pay and Messaging Services reporting units related to its non-core businesses. In accordance with SFAS 142, the Company tested goodwill for each of these reporting units for impairment by comparing the fair value of the reporting unit to its carrying value. The comparison of fair value to carrying value represents Step 1 of the two-step approach required by SFAS 142. The estimated fair value of each reporting unit was computed using the combination of the income and market valuation approach. Each of the reporting units reviewed for impairment, except for the Post-pay reporting unit, had a fair value in excess of its carrying value and no further analysis was required. The Post-pay reporting unit had a fair value less than its carrying value and the Company concluded that the goodwill in its Post-pay reporting unit was impaired and that further analysis was required to determine the amount by which the carrying value of the goodwill of this reporting unit exceeded its implied fair value.

A Step 2 analysis required the Company to allocate the fair value of the Post-pay reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a current business combination and the fair value of the reporting unit was the price paid to acquire it. Prior to this allocation of the assets to the reporting unit, the Company assessed the long-lived assets, other than goodwill, of that unit for impairment, and determined they were not impaired. Based on this allocation, the excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities resulted in a goodwill impairment of $45.8 million relating to the Post-pay reporting unit, which is classified as a discontinued operation for the nine months ended September 30, 2008.

VeriSign s other intangible assets are comprised of:

	September 30, 2008		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
		(In thousands)	
Customer relationships	$ 29,294	$ (13,185)	$ 16,109
Technology in place	18,605	(10,560)	8,045
Non-compete agreements	3,383	(2,435)	948
Trade name	5,800	(2,014)	3,786
Other	1,000	(583)	417
Total other intangible assets	$ 58,082	$ (28,777)	$ 29,305

	December 31, 2007		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
		(In thousands)	
Customer relationships	$ 212,978	$ (152,844)	$ 60,134
Technology in place	212,377	(179,144)	33,233
Carrier relationships	36,300	(26,864)	9,436
Non-compete agreements	30,154	(19,089)	11,065
Trade names	12,968	(7,425)	5,543
Other	9,000	(6,619)	2,381
Total other intangible assets	$ 513,777	$ (391,985)	$ 121,792

Fully amortized other intangible assets are not included in the above tables. At September 30, 2008, the net carrying value of other intangible assets included in the 3IS segment totaled $25.5 million. At December 31, 2007, the net carrying value of other intangible assets which relate to businesses that have been divested or classified as disposal groups held for sale as of September 30, 2008, totaled $84.3 million. Estimated future amortization expense related to other intangible assets at September 30, 2008, is as follows:

	(In thousands)
2008 (remaining 3 months)	$ 2,848
2009	10,524
2010	7,567
2011	4,409
2012	2,262
Thereafter	1,695
	$ 29,305

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Note 7. Other Balance Sheet Items

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	September 30, 2008	December 31, 2007
	(In thousands)	
Prepaid expenses	$ 29,135	$ 25,344
Deferred tax assets	43,324	46,080
Non-trade receivables	20,700	19,763
Other	1,303	71,854
Total prepaid expenses and other current assets	$ 94,462	$ 163,041

Non-trade receivables primarily consist of income tax receivables and value added tax receivables. Other, at December 31, 2007, primarily consists of pass-through receivables, which are amounts that the Company collects from its customers that are due to third-party vendors as part of a revenue sharing agreement. As of September 30, 2008, pass-through receivables are included in assets held for sale.

Property and Equipment, Net

The following table presents the detail of Property and equipment, net:

	September 30, 2008	December 31, 2007
	(In thousands)	
Land	$ 133,746	$ 222,750
Buildings	127,866	118,220
Computer equipment and software	286,953	738,549
Capital work in progress	19,430	69,298
Office equipment, furniture and fixtures	14,923	33,408
Leasehold improvements	47,190	47,510
Total cost	630,108	1,229,735
Less: accumulated depreciation and amortization	(256,011)	(607,818)
Total property and equipment, net	$ 374,097	$ 621,917

During the second quarter of 2008, the Company sold certain property and equipment in its Mountain View, California, location for net cash proceeds of $47.6 million. The sale primarily included land with a total cost of $88.1 million and buildings with a total cost of $50.1 million. The accumulated depreciation of the Mountain View property which was sold was $12.5 million.

Restricted Cash

In September 2008, the trust established during 2004 for the Company s director and officer liability self-insurance coverage was terminated, and as a result $45.0 million was released from the trust. As of September 30, 2008, the amount is recorded as Cash and cash equivalents as the Company s ability to use it is no longer restricted.

As of September 30, 2008, the Company has $2.1 million classified as restricted cash, of which $0.5 million is pledged as collateral for standby letters of credit that guarantee certain of its contractual obligations relating to its real estate lease agreements, and $1.6 million represents

employee payroll withholdings, net of claims, paid related to the short-term disability program under the State of California Employment Development Department s Voluntary Plan Fund guidelines.

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Other Assets

Other assets consist of the following:

	September 30, 2008	December 31, 2007
	(In thousands)	
Long-term deferred tax assets	$ 245,768	$ 230,695
Long-term note receivable	4,363	15,000
Long-term investments	5,994	6,385
Debt issuance costs	27,428	28,411
Security deposits and other	12,789	10,156
Total other assets	$ 296,342	$ 290,647

Long-term note receivable as of September 30, 2008, included a working capital loan provided under a promissory note to the joint ventures described in Note 3, Joint Ventures. The promissory note bears an interest rate of 6% per annum and is receivable in December 2011. The promissory note may be optionally repaid by the borrower at any time before maturity. In October 2008, the Company sold its remaining 49% interest in the joint ventures to Fox, and the outstanding balance of the promissory note was settled pursuant to the sale agreement with Fox. Debt issuance costs represent costs incurred upon the issuance of the Convertible Debentures and credit facility which are being amortized over their respective terms.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	September 30, 2008	December 31, 2007
	(In thousands)	
Accounts payable	$ 12,062	$ 9,075
Accrued employee compensation	100,645	136,891
Customer deposits	21,923	115,014
Taxes payable and other tax liabilities	51,383	25,847
Other accrued liabilities	78,819	111,297
Total accounts payable and accrued liabilities	$ 264,832	$ 398,124

Customer deposits, at December 31, 2007, primarily consist of payables related to pass-through receivables as part of a revenue sharing agreement. As of September 30, 2008, customer deposits relating to the pass-through receivables are included in assets held for sale.

Note 8. Comprehensive (Loss) Income

Comprehensive (loss) income consists of net (loss) income adjusted for unrealized gains and losses on marketable securities classified as available-for-sale and foreign currency translation adjustments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			

Net (loss) income	$ (200,034)	$ 14,954	$ (274,181)	$ 71,990
Change in unrealized (loss) gain on investments, net of tax	(91)	(493)	(406)	2,389
Foreign currency translation adjustments	284	7,210	9,400	5,739
Comprehensive (loss) income	$ (199,841)	$ 21,671	$ (265,187)	$ 80,118

Note 9. Credit Facility

VeriSign has a credit agreement (the Credit Agreement) with a syndicate of banks and other financial institutions related to a $500.0 million senior unsecured revolving credit facility (the Facility), under which VeriSign, or certain designated subsidiaries may be borrowers. The Facility is available for cash borrowings up to $500.0 million and for the issuance of letters of credit up to a maximum limit of $50.0 million. During the first quarter of 2008, the Company borrowed $200.0 million and repaid $60.0 million under the Facility. During the second quarter of 2008, the Company repaid the previously outstanding loan balance of $140.0 million under the Facility. As of September 30, 2008, the Company did not have any outstanding borrowings under the Facility and the Company had utilized $1.4 million for outstanding letters of credit. The Company s Credit Agreement contains negative covenants that limit its ability to sell assets and freely deploy the proceeds it receives from such sales, subject to exceptions based on the size and timing of the sales. As of September 30, 2008, the Company was in compliance with all covenants under the Facility.

Note 10. Calculation of Net (Loss) Income Per Share

The Company computes basic net (loss) income per share by dividing net (loss) income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share gives effect to dilutive potential common equivalent shares, including unvested stock options, unvested restricted stock units, employee stock purchases, warrants and the conversion spread relating to the Convertible Debentures using the treasury stock method.

The following table presents the computation of basic and diluted net (loss) income per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands, except per share data)			
Income:				
Income from continuing operations	$ 43,720	$ 11,553	$ 47,919	$ 45,054
Discontinued operations, net of tax	(243,754)	3,401	(322,100)	26,936
Net (loss) income	$ (200,034)	$ 14,954	$ (274,181)	$ 71,990
Weighted-average shares:				
Weighted-average common shares outstanding	193,853	240,054	198,622	242,570
Weighted-average potential common shares outstanding:				
Stock options	1,154	4,533	1,805	4,425
Unvested restricted stock awards	923	739	1,111	586
Conversion spread related to convertible debentures			1,103	
Employee stock purchase plans		211	310	171
Shares used to compute diluted net income per share	195,930	245,537	202,951	247,752
Income per share:				
Basic:				
Continuing operations	$ 0.23	$ 0.05	$ 0.24	$ 0.19
Discontinued operations	(1.26)	0.01	(1.62)	0.11
Net (loss) income	$ (1.03)	$ 0.06	$ (1.38)	$ 0.30
Diluted:				
Continuing operations	$ 0.22	$ 0.05	$ 0.24	$ 0.18
Discontinued operations	(1.24)	0.01	(1.59)	0.11
Net (loss) income	$ (1.02)	$ 0.06	$ (1.35)	$ 0.29

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Weighted-average potential common shares do not include stock options with an exercise price that exceeded the average fair market value of VeriSign s common stock for the periods presented. The following table sets forth the weighted-average potential common shares that were excluded from the above calculation because their effect was anti-dilutive, and the respective weighted-average exercise prices of the weighted-average stock options outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands, except per share data)			
Weighted-average stock options outstanding	4,353	5,842	4,100	8,022
Weighted-average exercise price	$ 33.09	$ 46.27	$ 32.87	$ 53.68
Weighted-average restricted stock awards outstanding	657	75	38	573
Employee stock purchase plans	346			

Note 11. Repurchase of Common Stock

On January 31, 2008, the Board of Directors of VeriSign authorized a stock repurchase program (2008 Stock Repurchase Program) having an aggregate purchase price of up to $600.0 million of its common stock. On February 8, 2008, the Company entered into an Accelerated Share Repurchase (ASR) agreement to repurchase $600.0 million of its common stock under the 2008 Stock Repurchase Program. The Company paid $600.0 million to a financial institution in exchange for an initial purchase of 15.1 million shares. The ASR agreement was completed on July 10, 2008, when the Company received an additional 1.4 million shares for an aggregate of 16.5 million shares under the terms of the ASR agreement. The average price per share paid by the Company on the ASR agreement was $36.33. On August 5, 2008, the Company s Board of Directors authorized additional stock repurchases under its 2008 Stock Repurchase Program having an aggregate purchase price of up to $680.0 million of the Company s common stock. As of September 30, 2008, $680.0 million remained available for further repurchases under the 2008 Stock Repurchase Program.

In 2006, the Board of Directors authorized a stock repurchase program (2006 Stock Repurchase Program) with no expiration date to repurchase up to $1.0 billion of its common stock. In July 2008, the Company repurchased approximately 3.5 million shares of its common stock at an average stock price of $34.38 per share for an aggregate cost of $120.0 million under the 2006 Stock Repurchase Program. During the first quarter of 2008, the Company repurchased approximately 15.9 million shares of its common stock at an average stock price of $33.85 per share for an aggregate cost of $544.7 million under the 2006 Stock Repurchase Program. Since inception of the 2006 Stock Repurchase Program, the Company has repurchased approximately 20.1 million shares at an average stock price of $33.79 per share for an aggregate cost of $680.0 million. As of September 30, 2008, $320.0 million remained available for further repurchases under the 2006 Stock Repurchase Program.

In aggregate, as of November 7, 2008, $1.0 billion is available for repurchase of the Company s common stock under the Company s stock repurchase programs.

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Note 12. Segment Information

Description of segments

As a result of a comprehensive review of its business strategy, VeriSign changed its reportable segments in 2008. Previously, the Company had the following two reportable segments: ISG and CSG. As of September 30, 2008, the Company s business consists of the following reportable segments: 3IS, and Other Services. The 3IS segment is comprised of Naming Services, SSL Certificate Services, IAS and VeriSign Japan. The Naming Services business is the authoritative directory provider of all *.com, .net, .cc,* and *.tv* domain names. SSL Certificate Services enable enterprises and Internet merchants to implement and operate secure networks and websites that utilize SSL protocol. These services provide customers the means to authenticate themselves to their end users and website visitors and to encrypt communications between client browsers and web servers. IAS includes managed public key infrastructure (PKI) services, unified authentication services, and identity protection services. VeriSign Japan is a majority-owned subsidiary and its operations primarily consist of resale of SSL Certificate Services and IAS.

The Other Services segment consists of the continuing operations of non-core businesses as well as legacy products and services. The non-core businesses that the Company plans to divest or wind down primarily include its pre-pay billing and payment services and real-time publishing services.

The segments were determined based on how the chief operating decision maker (CODM) views and evaluates VeriSign s operations. VeriSign s Chief Executive Officer has been identified as the CODM. Other factors, including customer base, homogeneity of products, technology and delivery channels, were also considered in determining the reportable segments.

The following table presents the results of VeriSign s reportable segments:

	Internet Infrastructure and Identity Services	Other Services	Total Segments
		(In thousands)	
Three months ended September 30, 2008:			
Revenues	$ 239,728	$ 6,324	$ 246,052
Cost of revenues	39,785	2,353	42,138
	$ 199,943	$ 3,971	$ 203,914

	Internet Infrastructure and Identity Services	Other Services	Total Segments
		(In thousands)	
Three months ended September 30, 2007:			
Revenues	$ 202,916	$ 12,828	$ 215,744
Cost of revenues	31,142	6,269	37,411
	$ 171,774	$ 6,559	$ 178,333

	Internet Infrastructure and Identity Services	Other Services	Total Segments
		(In thousands)	
Nine months ended September 30, 2008:			

Revenues	$ 695,776	$ 29,216	$ 724,992
Cost of revenues	114,320	10,238	124,558
	$ 581,456	$ 18,978	$ 600,434

	Internet Infrastructure and Identity Services	**Other Services (In thousands)**	**Total Segments**
Nine months ended September 30, 2007:			
Revenues	$ 577,079	$ 59,378	$ 636,457
Cost of revenues	84,397	33,540	117,937
	$ 492,682	$ 25,838	$ 518,520

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A reconciliation of the totals reported for the reportable segments to the applicable line items in the Condensed Consolidated Statements of Operations is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Total revenues from reportable segments	$ 246,052	$ 215,744	$ 724,992	$ 636,457
Total cost of revenues from reportable segments	42,138	37,411	124,558	117,937
Unallocated operating expenses (1)	136,111	166,498	519,957	554,205
Operating income (loss)	67,803	11,835	80,477	(35,685)
Other (loss) income, net	(12,688)	(6,408)	(20,107)	86,109
Income from continuing operations before income taxes, (loss) earnings from unconsolidated entities and minority interest	$ 55,115	$ 5,427	$ 60,370	$ 50,424

(1) Unallocated operating expenses include unallocated cost of revenues, sales and marketing, research and development, general and administrative, restructuring, impairments and other charges (reversals), net, and amortization of other intangible assets.

Geographic Revenues

The following table presents a comparison of the Company s geographic revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
United States	$ 163,689	$ 156,592	$ 489,341	$ 482,352
Switzerland	58,145	34,215	155,948	63,315
Japan	18,322	17,450	57,893	51,691
Other	5,896	7,487	21,810	39,099
Total revenues	$ 246,052	$ 215,744	$ 724,992	$ 636,457

VeriSign operates in North America, Europe, Australia, Latin America, South Africa, Japan and certain other countries in the Asia Pacific region. Revenues are generally attributed to the respective countries in which the VeriSign contracting entities are located, which does not necessarily reflect the location of the Company s customers.

The following table presents a comparison of property and equipment, net of accumulated depreciation, by geographic region:

	September 30, 2008	December 31, 2007
	(In thousands)	
Americas:		
United States	$ 347,619	$ 592,554
CALA (1)	33	1,130

Total Americas	347,652	593,684
EMEA (2)	7,898	10,005
APAC (3)	18,547	18,228
Total property and equipment, net	$ 374,097	$ 621,917

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(1) Canada and Latin America (CALA)

(2) Europe, the Middle East and Africa (EMEA)

(3) Australia, Japan and Asia Pacific (APAC)

Note 13. Other (Loss) Income, Net

The following table presents the components of other (loss) income, net:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Interest income	$ 3,981	$ 11,308	$ 15,004	$ 28,039
Interest expense	(10,278)	(5,061)	(30,578)	(7,644)
Net loss on sale and impairment of investments	(6,829)	(4,314)	(6,571)	(3,429)
Net gain on divestiture of businesses			1,611	74,999
Unrealized gain on joint venture call options		3,992		7,747
Unrealized (loss) gain on contingent interest derivative on convertible debentures	(420)	(12,589)	1,664	(12,589)
Income from transition services agreements	1,224		2,590	
Other, net	(366)	256	(3,827)	(1,014)
Total other (loss) income, net	$ (12,688)	$ (6,408)	$ (20,107)	$ 86,109

Interest income is earned principally from the investment of VeriSign s surplus cash balances. Interest expense is derived principally from interest on VeriSign s Convertible Debentures. Income from transition services agreements includes income generated from services provided to the purchasers of the divested businesses for a certain period of time to ensure and facilitate the transfer of business operations for those businesses. Other, net, primarily consists of foreign exchange rate gains and losses.

Note 14. Income Taxes

For the three and nine months ended September 30, 2008, the Company recorded income tax expense for continuing operations of $8.1 million and $6.6 million, respectively. For the three and nine months ended September 30, 2007, the Company recorded income tax benefit for continuing operations of $8.0 million and income tax expense of $5.2 million, respectively. The increase in income tax expense for continuing operations was primarily attributable to the increase in income from continuing operations before income taxes.

The Company applies a valuation allowance to certain deferred tax assets when management does not believe that it is more likely than not that they will be realized. These deferred tax assets consist primarily of investments with differing book and tax bases, capital loss carryforwards, and net operating losses related to certain foreign operations.

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As of September 30, 2008, the Company had an unrecognized tax benefit for income taxes associated with uncertain tax positions of $25.4 million. If the liabilities associated with these uncertain tax positions are recognized in the future, the entire amount of unrecognized tax benefits would affect the effective tax rate. During the three and nine months ended September 30, 2008, the Company recorded a decrease in unrecognized tax benefits associated with uncertain tax positions of $16.0 million and $15.9 million, respectively, as a result of a lapse of a statute of limitation. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. At September 30, 2008, the Company had $11.4 million of accrued interest and penalties relating to uncertain tax positions. For the three and nine months ended September 30, 2008, the Company expensed $0.4 million and $1.3 million, respectively, for interest and penalties related to income tax liabilities through income tax expense. For the three and nine months ended September 30, 2007, the Company expensed $0.7 million and $2.5 million, respectively, for interest and penalties related to income tax liabilities through income tax expense.

The Company is currently under examination by the Internal Revenue Service (IRS) and the California Franchise Tax Board for the years ended December 31, 2004, and December 31, 2005. The Company is also under examination by numerous state taxing jurisdictions. Because the Company may utilize net operating losses and other tax attributes to offset its taxable income in years subsequent to their origination, such attributes can be adjusted by the IRS and other taxing authorities until the statute closes on the year in which such attribute was utilized. The Company is not currently under examination by significant international taxing jurisdictions. The statutes of limitations for these jurisdictions are generally 5 years.

Note 15. Fair Value of Financial Instruments

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), *The Fair Value Option for Financial Assets or Financial Liabilities,* which provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Company has not elected to report its financial instruments at fair value, other than those already recognized and reported at fair value.

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurements,* which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. On February 12, 2008, the FASB issued FSP SFAS 157-2, *Effective Date of FASB Statement No. 157,* which defers the effective date for adoption of fair value measurements for nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination.

The Company adopted SFAS 157 effective January 1, 2008, for all of its financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis (at least annually). To increase consistency and comparability in fair value measurements, SFAS 157 establishes a fair value hierarchy based on the inputs used in valuation techniques. There are three levels to the fair value hierarchy of inputs to fair value, as follows:

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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Level 3: Unobservable inputs reflecting the Company s own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

The Company measures and reports certain financial assets and liabilities at fair value on a recurring basis, including its investments in money market funds, foreign currency forward contracts, equity investments in other public companies and a contingent interest derivative associated with its Convertible Debentures.

The following table summarizes the Company s financial assets and liabilities measured at fair value on a recurring basis, by level within the fair value hierarchy:

	September 30, 2008			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Investments in money market funds	$ 228,662	$	$ 248,403	$ 477,065
Equity investments	391			391
Total	$ 229,053	$	$ 248,403	$ 477,456
Liabilities:				
Foreign currency forward contracts	$	$ 1,675	$	$ 1,675
Contingent interest derivative on convertible debentures			12,500	12,500
Total	$	$ 1,675	$ 12,500	$ 14,175

The fair value of the Company s investments in certain money market funds approximates their face value. Such instruments are classified as Level 1 and are included in Cash and cash equivalents. In September 2008, there was a major disruption in the global credit markets due to the rising concerns about possible financial institution defaults, the bankruptcy filing of Lehman Brothers Holdings Inc. and the potential for a deep economic recession. Following these disruptions, certain money market funds managed by The Reserve made various announcements that their underlying portfolios had experienced a loss of principal, the redemption rights of all holders were suspended indefinitely and the funds would be liquidated. As of September 30, 2008, the Company had $256.6 million invested in The Reserve s Primary Fund (Primary Fund) and The Reserve International Liquidity Fund, Ltd. (International Fund) which it had previously classified as Cash and cash equivalents and has now classified as Short-term investments. Due to the lack of an active market for most corporate and bank debt securities, the Company assessed the fair value of the underlying securities within the Primary Fund and the International Fund based on a review of investment ratings of the underlying securities within the money-market funds coupled with an evaluation of the expected maturity value and the current performance of the securities within the funds in meeting scheduled payments of principal and interest. The Company based its estimates on historical experience and various other assumptions that it believes to be reasonable, the results of which form the basis for making judgments about the carrying values of its investments in the Primary Fund and the International Fund. The Company believes its investments in the Primary Fund and the International Fund have experienced a decline in fair value that is other-than-temporary and has, therefore, recognized an impairment loss of $8.2 million in Other (loss) income, net. This impairment is primarily related to the underlying securities of Lehman Brothers Holdings Inc. held in the Primary Fund and the International Fund. As there is a lack of an active market and as the Company has utilized its own assumptions to assess the fair value of its investments in the Primary Fund and the International Fund, the overall fair value measurement of such investments has been transferred from Level 1 into Level 3.

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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. Such instruments are included in Accounts payable and accrued liabilities. The Company recorded unrealized losses related to changes in the fair value of its foreign currency forward contracts in Other (loss) income, net. The Company recorded unrealized losses of $0.3 million and $1.7 million for the three and nine months ended September 30, 2008, respectively, and unrealized losses of $0.1 million and $0.8 million for the three and nine months ended September 30, 2007, respectively, related to changes in the fair value of its foreign currency forward contracts.

Equity investments relate to the Company s investments in the securities of other public companies. The fair value of these investments is based on the quoted market prices of the underlying shares. Such investments are included in Short-term investments.

The Company s Convertible Debentures have contingent interest payments that are considered to be an embedded derivative. The Company accounts for the embedded derivative separately from the Convertible Debentures at fair value, with gains and losses reported in Other (loss) income, net. The Company has utilized a valuation model based on simulations of stock prices, interest rates, credit ratings and bond prices to estimate the value of the embedded derivative. The inputs to the model include risk adjusted interest rates, volatility and average yield curve observations and stock price. As several significant inputs are not observable, the overall fair value measurement of the embedded derivative is classified as Level 3.

The following table summarizes the changes in the fair value of the Company s Level 3 assets and liabilities:

	Nine Months Ended September 30, 2008	
	Investments in money market funds	Contingent interest derivative on convertible debentures
	(In thousands)	
Balance at December 31, 2007	$	$ 14,164
Transfers in from Level 1	256,571	
Realized loss on other-than-temporary impairment of investment (1)	(8,168)	
Unrealized gain on contingent interest derivative on convertible debentures (1)		(1,664)
Balance at September 30, 2008	$ 248,403	$ 12,500

(1) Included in Other (loss) income, net.

Note 16. Commitments and Contingencies

Lease Commitments

On June 19, 2008, the Company entered into a lease agreement with the purchaser of its Mountain View property. Under the terms of the lease agreement, the Company will lease the property for an initial term of 30 months, which will expire on December 31, 2010, with an option to extend the lease for five years from the date of expiration of the initial term. The Company s lease obligations under the initial term will be approximately $3.1 million, $5.6 million and $5.4 million in 2008, 2009 and 2010, respectively.

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Legal Proceedings

On September 7, 2001, NetMoneyIN, an Arizona corporation, filed a complaint alleging patent infringement against VeriSign and several other previously-named defendants in the U.S. District Court for the District of Arizona asserting infringement of certain patents. The complaint alleged that VeriSign s Payflow payment products and services directly infringe certain claims of NetMoneyIN s three patents and requested the Court to enter judgment in favor of NetMoneyIN, a permanent injunction against the defendants alleged infringing activities, an order requiring defendants to provide an accounting for NetMoneyIN s damages, to pay NetMoneyIN such damages and three times that amount for any willful infringers, and an order awarding NetMoneyIN attorney fees and costs. NetMoneyIN has withdrawn its allegations of infringement of one of the patents and the Court has dismissed with prejudice all claims of infringement of such patent. In its ruling on the claim construction issues, the Court found some of the claims asserted against VeriSign to be valid. NetMoneyIN may file an appeal after a final judgment seeking to overturn this ruling. Only one claim remains in the case. On July 13, 2007, the Court issued an order granting summary judgment in favor of VeriSign based on the Court s finding that such claim is invalid, and denying all other pending dispositive motions. On August 29, 2007, plaintiff filed a Notice of Appeal. On September 19, 2007, the U.S. Court of Appeals for the Federal Circuit docketed the appeal. On October 20, 2008, the appellate court issued a decision that affirmed in part and reversed in part the summary judgment order and remanded the case for further proceedings in the trial court. While the Company cannot predict the outcome of this lawsuit, it believes that the allegations are without merit.

On February 14, 2005, Southeast Texas Medical Associates, LLP filed a putative class action lawsuit in the Superior Court of California, alleging violations of the unfair competition laws, breach of express warranty and unjust enrichment relating to VeriSign s Secure Site Pro SSL certificates. The complaint is brought on behalf of a class of persons who purchased the Secure Site Pro SSL certificates from February 2001 to present. On April 17, 2006, the class was certified and class notice was issued on May 21, 2007. VeriSign disputes these claims. In March 2008, the parties entered into a settlement agreement to resolve this matter. The settlement became final on July 15, 2008.

On April 11, 2005, Prism Technologies, LLC filed a complaint against VeriSign in the U.S. District Court for the District of Delaware alleging that VeriSign s Go Secure suite of applications and related hardware and software products and its unified authentication solution and related hardware and software products, including the VeriSign Identity Protection (VIP) product infringe U.S. Patent No. 6,516,416, entitled Subscription Access System for Use With an Untrusted Network. Prism Technologies seeks judgment in favor of Prism Technologies, a permanent injunction from infringement, damages in an amount not less than a reasonable royalty, attorneys fees and costs. On April 2, 2007, the Court issued a ruling from the claim construction hearing. On April 13, 2007, the Court granted Defendants Motion for Leave to File Amended Answers and Counterclaims to add an inequitable conduct defense. On April 23, 2007, on the basis of the claim construction ruling, the Court entered a stipulated Final Judgment of Non-Infringement, dismissing all claims and counterclaims in the case. On April 27, 2007, Plaintiff filed a Notice of Appeal. On February 5, 2008, the U.S. Court of Appeals for the Federal Circuit affirmed the district court s claim construction ruling and dismissal in VeriSign s favor.

On July 6, 2006, a stockholder derivative complaint (Parnes v. Bidzos, et al., and VeriSign) was filed against the Company, as a nominal defendant, and certain of its current and former directors and executive officers related to certain historical stock option grants. The complaint seeks unspecified damages on behalf of VeriSign, constructive trust and other equitable relief. Two other derivative actions were filed, one in U.S. District Court for the Northern District of California (Port Authority v. Bidzos, et al., and VeriSign), and one in state court (Port Authority v. Bidzos, et al., and VeriSign) on August 14, 2006. The state court derivative actions are stayed pending resolution of the federal action. The Company is named as a nominal defendant in these actions. The federal actions have been consolidated and plaintiffs filed a consolidated complaint on November 20, 2006. Motions to dismiss the consolidated federal court complaint were heard on May 23, 2007.

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Those motions were granted on September 14, 2007. On November 16, 2007, a second amended shareholder derivative complaint was filed wherein the Company was again named as a nominal defendant. By stipulation and Court order, defendants obligation to respond to the second amended shareholder derivative complaint has been continued pending informal efforts by the parties to resolve the action. On May 15, 2007, a putative class action (Mykityshyn v. Bidzos, et al., and VeriSign) was filed in Superior Court for the State of California, Santa Clara County, naming the Company and certain current and former officers and directors, alleging false representations and disclosure failures regarding certain historical stock option grants. The plaintiff purports to represent all individuals who owned VeriSign s common stock between April 3, 2002, and August 9, 2006. The complaint seeks rescission of amendments to the 1998 and 2006 Option Plans and the cancellation of shares added to the 1998 Option Plan. The complaint also seeks to enjoin defendants from granting any stock options and from allowing the exercise of any currently outstanding options granted under the 1998 and 2006 Option Plans. The complaint seeks an unspecified amount of compensatory damages, costs and attorneys fees. The identical case was filed in state court under a separate name (Pace. v. Bidzos, et al., and VeriSign) on June 19, 2007, and on October 3, 2007 (Mehdian v. Bidzos, et al.). On December 3, 2007, a consolidated complaint was filed in Superior Court for the State of California, Santa Clara County. VeriSign and the individual defendants dispute all of these claims. Defendants collective pleading challenges to the putative consolidated class action complaint were granted with leave to amend in August 2008.

On November 7, 2006, a judgment was entered against VeriSign by an Italian trial court in the matter of Penco v. VeriSign, Inc. for Euro 5.8 million plus fees arising from a lawsuit brought by a former consultant who claimed to be owed commissions. The Company was granted a stay on execution of the judgment and the company filed an appeal. On July 9, 2008, the appellate court rejected all of plaintiff s claims.

On May 31, 2007, plaintiffs Karen Herbert, et al., on behalf of themselves and a nationwide class of consumers (*Herbert*), filed a complaint against VeriSign, Inc., m-Qube, Inc., and other defendants alleging that defendants collectively operate an illegal lottery under the laws of multiple states by allowing viewers of the NBC television show Deal or No Deal to incur premium text message charges in order to participate in an interactive television promotion called Lucky Case Game. The lawsuit is pending in the U.S. District Court for the Central District of California, Western Division. On June 5, 2007, plaintiffs Cheryl Bentley, et al., on behalf of themselves and a nationwide class of consumers (*Bentley*), filed a complaint against VeriSign, Inc., m-Qube, Inc., and other defendants alleging that defendants collectively operate an illegal lottery under the laws of multiple states by allowing viewers of the NBC television show The Apprentice to incur premium text message charges in order to participate in an interactive television promotion called Get Rich With Trump. Both *Herbert* and *Bentley* are currently pending in the U.S. Court of Appeals for the Ninth Circuit awaiting resolution of defendants petition for interlocutory appeal of the District Court s denial of a motion to dismiss. While the Company cannot predict the outcome of any of these matters, it believes that the allegations in each of them are without merit and intends to vigorously defend against them.

On October 9, 2007, the Associated Press filed a complaint in the U.S. District Court for the Southern District of New York against Moreover Technologies, Inc. and VeriSign, Inc. for copyright and trademark infringement and other claims arising from the Real Time Publishing business. The complaint seeks unspecified compensatory, punitive and treble damages and a permanent injunction. The parties resolved this dispute and the case was dismissed on August 15, 2008.

On April 30, 2008, Prism Technologies LLC filed a complaint against VeriSign in the U.S. District Court for the District of Nebraska alleging that VeriSign s manufacture, sale and use of security certificates infringes a U.S. patent. While the Company cannot predict the outcome of this matter, it intends to vigorously defend against the claims.

VeriSign is involved in various other investigations, claims and lawsuits arising in the normal conduct of its business, none of which, in its opinion will have a material effect on its business. 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.

Note 17. Subsequent Events

On October 6, 2008, VeriSign sold its aggregate remaining 49% interest in the joint ventures described in Note 3, Joint Ventures, to Fox for approximately $200 million. Pursuant to the sale agreement, certain outstanding debts and accrued but unpaid interest owed among the Company and the joint ventures have been repaid, and the parties have agreed to the settlement and discharge of all other payments among them as of the date of the agreement.

On October 1, 2008, VeriSign completed its acquisition of Global Name Registry, Ltd., a United Kingdom based company that manages and operates the *.name* top level domain. VeriSign paid approximately $10.7 million in cash for the acquisition, which included approximately $0.6 million to cover certain transaction costs.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the Act), which includes the Tax Extenders and Alternative Minimum Tax Relief Act of 2008, was enacted. Under the Act, the research credit was retroactively extended for amounts paid or incurred after December 31, 2007, and before January 1, 2010. The impact of the change in the tax law will be recognized in the Company s fourth quarter, which is the quarter in which the Act was enacted. The Company currently estimates the income tax benefit resulting from the change in the tax law to range between $4.5 million and $6.0 million.

On October 31, 2008, VeriSign sold its Communications Consulting business in a management buyout transaction.

On October 31, 2008, VeriSign received a distribution of approximately $63 million from the Primary Fund. This represents approximately 50% of the Company s total investment in the Primary Fund. As of November 7, 2008, the Company has not received any distribution from the International Fund.

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.

Except for historical information, 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. 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. You should 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 2008 and our 2007 Form 10-K, which was filed on February 29, 2008, 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 operate intelligent infrastructure services that enable and protect billions of interactions every day across the world s voice and data networks and provide enterprises, governmental entities, and individuals with highly scaleable, reliable and secure Internet infrastructure and identity services.

Our business consists of the following reportable segments: Internet Infrastructure and Identity Services (3IS), and Other Services. Our 3IS segment, comprising the retained core businesses from our former ISG segment, consists of our Naming Services, Secure Socket Layer (SSL) Certificate Services, Identity and Authentication Services (IAS) businesses and VeriSign Japan.

The Naming Services business is the exclusive registry of all *.com, .net, .cc* and *.tv* domain names and maintains a shared registration system that allows registrars to enter new names in the master directory and to submit modifications, transfers, re-registrations and deletions for their domain names. The SSL Certificate Services business enables our on-line customers, such as enterprises or Internet merchants, to authenticate themselves to their end users and encrypt Internet communications through use of public key infrastructure (PKI) and SSL protocol. The IAS business includes managed PKI services, unified authentication services, and identity protection services, all of which provide services intended to help enterprises secure intranets, extranets and other applications and devices and provide authentication credentials. VeriSign Japan is a majority-owned subsidiary and its operations primarily consist of resale of SSL Certificate Services and IAS.

The Other Services segment consists of the continuing operations of non-core businesses as well as legacy products and services. The businesses included in the Other Services segment provide pre-pay billing and payment services and real-time publishing services.

During the fourth quarter of 2007, we announced a change to our business strategy to allow management to focus its attention on our core competencies and to make additional resources available to invest in our core businesses. The strategy calls for a divestiture or winding down of all the business lines in our former Communications Services Group (CSG), and all business lines in our former Internet Services Group (ISG) except for our core businesses. The business lines that we expect to divest, including those that have been sold since the fourth quarter of 2007, accounted for approximately 50% of our overall revenues in fiscal 2007. The continued execution of our divestiture plan is subject to the availability of financing, identification of buyers, and general market conditions, including further developments in the current economic crisis and potential continued deterioration of the credit markets. While we are executing our divestiture plan, we will experience additional risks, including, but not limited to the disruption of our business and the potential loss of key employees; difficulties separating operations, services, products and personnel; the potential damage to relationships with our existing customers; and the delay in completion of transition services. For example, our divestiture plan will require a substantial amount of management, administrative and operational resources. Once our divestiture plan is completed, the scale and scope of our operations will decrease in absolute terms, which we expect will allow our remaining core businesses to benefit from a more efficient and streamlined operational structure. However, we cannot assure you that we will be able to achieve the full strategic and financial benefits we expect from the divestiture of our non-core businesses and there is no guarantee that the planned divestitures will occur or will not be significantly delayed.

Our Core Businesses

Our core businesses consist of our Naming Services, SSL Certificate Services, and IAS businesses.

Naming Services

As of September 30, 2008, we had approximately 89.4 million domain names registered under the *.com* and *.net* registries. The number of domain names registered is largely driven by Internet usage and broadband penetration rates. Although growth in absolute number of registrations remains greatest in mature markets such as the U.S. and Western Europe, growth on an annual percentage basis is expected to be greatest in markets outside of the U.S. and Europe where Internet penetration has demonstrated the greatest potential for growth. We are largely insulated from the risk posed by fluctuations in exchange rates due to the fact that all revenues paid to us for *.com* and *.net* registrations are in U.S. dollars.

SSL Certificate Services

As of September 30, 2008, we had an installed base of SSL certificates of approximately 1.1 million. We currently offer the following SSL Certificate Services: VeriSign®, GeoTrust®, and thawte® branded certificates. The major factors impacting the growth and performance of our SSL Certificate Services business are the penetration and adoption of the Internet, especially through broadband services, the spread of e-commerce, the utilization of electronic means for executing financial transactions (such as credit card payments), and the extent to which advertising through search engines encourages consumers to engage in e-commerce. As a result of the growing impact of the Internet on global commercial transactions, we expect continued revenue growth in our business, primarily in markets outside of the U.S. where e-commerce has the largest growth potential.

IAS

As with our SSL Certificate Services business, the major factors impacting the growth and performance of our IAS business are the penetration and adoption of the Internet, especially through broadband services, the spread of e-commerce, the utilization of electronic means for executing financial transactions (such as credit card payments), and the extent to which advertising through search engines encourages consumers to engage in e-commerce.

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Business Highlights and Trends Three and nine months ended September 30, 2008

Our 3IS segment recorded revenues of $239.7 million and $695.8 million during the three and nine months ended September 30, 2008, respectively, experiencing an increase of 18% and 21%, respectively, from the same periods last year. For the three and nine months ended September 30, 2008, domestically and internationally, we experienced revenue growth in all of the businesses in the 3IS segment, with the largest growth coming from our Naming Services business. Our increased revenues are primarily related to the continued Internet growth and adoption which has, in turn, resulted in an increase in active domain names ending in *.com* and *.net*, an increase in the installed base of SSL certificates and an increase in demand for our identity and authentication services.

Our Other Services segment recorded revenues of $6.3 million and $29.2 million during the three and nine months ended September 30, 2008. We expect revenues for our Other Services segment to decrease in absolute dollars as we divest or wind down non-core businesses.

We recorded a net loss of $200.0 million and $274.2 million during the three and nine months ended September 30, 2008, respectively, as compared to a net income of $15.0 million and $72.0 million during the three and nine months ended September 30, 2007, respectively. Our net loss during the three and nine months ended September 30, 2008, is primarily a result of the estimated losses on our assets held for sale of $237.4 million and $308.8 million, respectively, classified as discontinued operations, offset by the net income from continuing operations for those periods.

In the third quarter of 2008, we classified our Messaging and Post-pay businesses as assets held for sale. The current and historical operations, including estimated losses on these disposal groups are presented as discontinued operations for all periods presented.

In September 2008, there was a major disruption in the global credit markets due to the rising concerns about possible financial institution defaults, the bankruptcy filing of Lehman Brothers Holdings Inc. and the potential for a deep economic recession. Following these disruptions, certain money market funds managed by The Reserve made various announcements that their underlying portfolios had experienced a loss of principal, the redemption rights of all holders were suspended indefinitely and the funds would be liquidated. As of September 30, 2008, we had $256.6 million invested in the Primary Fund and the International Fund which we had previously classified as Cash and cash equivalents and have now classified as Short-term investments. Due to the lack of an active market for most corporate and bank debt securities, we assessed the fair value of the underlying securities within the Primary Fund and the International Fund based on a review of investment ratings of the underlying securities within the money-market funds coupled with an evaluation of the expected maturity value and the current performance of the securities within the funds in meeting scheduled payments of principal and interest. We based our estimates on historical experience and various other assumptions that we believe to be reasonable, the results of which form the basis for making judgments about the carrying values of our investments in the Primary Fund and the International Fund. We believe our investments in the Primary Fund and the International Fund have experienced a decline in fair value that is other-than-temporary and have, therefore, recognized an impairment loss of $8.2 million in Other (loss) income, net. This impairment is primarily related to the underlying securities of Lehman Brothers Holdings Inc. held in the Primary Fund and the International Fund. On October 31, 2008, we received a distribution of approximately $63 million from the Primary Fund. This represents approximately 50% of our total investment in the Primary Fund. As of November 7, 2008, we have not received any distribution from the International Fund.

In September 2008, the trust established during 2004 for our director and officer liability self-insurance coverage was terminated, and as a result $45.0 million was released from the trust. As of September 30, 2008, the amount is recorded as Cash and cash equivalents as our ability to use it is no longer restricted.

In July 2008, we repurchased approximately 3.5 million shares of our common stock at an average stock price of $34.38 per share for an aggregate cost of $120.0 million under the 2006 Stock Repurchase Program. In July, the ASR agreement that was entered into in February 2008 was completed and we received an additional 1.4 million shares for an aggregate of 16.5 million shares under the terms of the ASR agreement. On August 5, 2008, our Board of Directors authorized additional stock repurchases under our 2008 Stock Repurchase Program having an aggregate purchase price of up to $680.0 million of the Company s common stock.

In July 2008, we invested an additional amount of $15.7 million pursuant to capital calls approved by the board of managers of the joint ventures with Fox, and recorded the amount as investments in unconsolidated entities. The purpose of the capital calls was to fund the ongoing business and working capital needs of the joint ventures. In October 2008, we sold our aggregate remaining 49% interest in the joint ventures to Fox for approximately $200 million.

In June 2008, we sold certain land and buildings located in Mountain View, California, for net cash proceeds of $47.6 million. At the time of closing, we entered into a separate lease agreement with the purchaser of the Mountain View property. We leased the property from the purchaser for an initial term of 30 months, expiring December 31, 2010, with an option to extend the lease for five years from the date of initial term expiration. Our lease obligations under the initial term are $14.1 million. As a result of the sale, we recorded a loss of approximately $79.1 million.

On April 30, 2008, we sold our Digital Brand Management Services (DBMS) business which offered a range of corporate domain name and brand protection services that help enterprises, legal professionals, information technology professionals and brand marketers monitor, protect and build digital brand equity for net cash proceeds of $50.4 million and recorded a gain on sale of $30.6 million. The net cash proceeds include $5.0 million that was placed in an escrow account to cover any contingent claims made by the buyer against us through April 30, 2009. If no claims are made, the amount in escrow will be released to us during the second quarter of fiscal 2009. The DBMS business was part of our former ISG segment. The historical results of operations of the DBMS business have been classified as discontinued operations for all periods presented.

On April 30, 2008, we sold our Content Delivery Network (CDN) business which offered broadband content services that enable the delivery of high-quality video and other rich media securely and efficiently at a very large scale, for net cash proceeds of $1.0 million and recorded a gain on sale of $2.0 million. We have retained an equity ownership in the CDN business and have accounted for our investment in the CDN business on an equity method basis. As a result of our continuing involvement in the CDN business, the historical results of operations of the CDN business have not been classified as discontinued operations. The CDN business was part of our former CSG segment.

On March 31, 2008, we sold our Self-Care and Analytics (SC&A) business unit, which provided on-line analysis applications for mobile communications customers and on-line customer self-service with a single view of billing across multiple systems, for net cash proceeds of $14.2 million and recorded a gain on sale of $1.0 million. The SC&A business was part of our former CSG segment. The historical results of operations of the SC&A business have been classified as discontinued operations for all periods presented.

Our 2008 restructuring plan, was announced in late 2007 to complement our divestiture plan. We recorded $58.2 million in restructuring charges related to the 2008 restructuring plan as of September 30, 2008, of which expenses related to severance and benefit costs for terminated employees, inclusive of amounts for discontinued operations, totaled $55.9 million. Since announcing the 2008 restructuring plan, we have reduced our headcount in businesses targeted for divestiture, either through sale of businesses, employee terminations or voluntary resignations.

Recent Accounting Pronouncements

Recent accounting pronouncements are detailed in Note 1, Basis of Presentation, of the Notes to Condensed Consolidated Financial Statements.

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Subsequent Events

On October 6, 2008, we sold our aggregate remaining 49% interest in the joint ventures to Fox for approximately $200 million. Pursuant to the sale agreement, certain outstanding debts and accrued but unpaid interest owed among us and the joint ventures have been repaid, and we have agreed to the settlement and discharge of all other payments among us and the joint ventures as of the date of the agreement.

On October 1, 2008, we completed our acquisition of Global Name Registry, Ltd., a United Kingdom based company that manages and operates the *.name* top level domain. We paid approximately $10.7 million in cash for the acquisition, which included approximately $0.6 million to cover certain transaction costs.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the Act), which includes the Tax Extenders and Alternative Minimum Tax Relief Act of 2008, was enacted. Under the Act, the research credit was retroactively extended for amounts paid or incurred after December 31, 2007, and before January 1, 2010. The impact of the change in the tax law will be recognized in the Company s fourth quarter, which is the quarter in which the Act was enacted. We currently estimate the income tax benefit resulting from the change in the tax law to range between $4.5 million and $6.0 million.

On October 31, 2008, we sold our Communications Consulting business in a management buyout transaction.

On October 31, 2008, we received a distribution of approximately $63 million from the Primary Fund. This represents approximately 50% of our total investment in the Primary Fund. As of November 7, 2008, we have not received any distribution from the International Fund.

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,	
	2008	**2007**	**2008**	**2007**
Revenues	100%	100%	100%	100%
Costs and expenses				
Cost of revenues	23	28	23	29
Sales and marketing	17	26	18	29
Research and development	9	12	10	12
General and administrative	20	27	21	28
Restructuring, impairments and other charges, net	2		15	5
Amortization of other intangible assets	1	2	1	2
Total costs and expenses	72	95	88	105
Operating income (loss)	28	5	12	(5)
Other (loss) income, net	(5)	(3)	(3)	13

Income from continuing operations before income taxes, (loss) earnings from unconsolida