

VERISIGN INC/CA
Form 10-Q
May 12, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 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)

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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 NO

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): YES NO

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

Class	Shares Outstanding April 30, 2008
Common stock, \$.001 par value	194,705,990

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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
<u>Condensed Consolidated Balance Sheets as of March 31, 2008 and December 31, 2007</u>	4
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VERISIGN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	March 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 483,025	\$ 1,376,722
Short-term investments	1,485	1,011
Accounts receivable, net of allowance for doubtful accounts of \$5,004 and \$6,329 at March 31, 2008 and December 31, 2007, respectively	174,354	208,799
Prepaid expenses and other current assets	157,599	163,041
Assets held for sale	112,956	
Total current assets	929,419	1,749,573
Property and equipment, net	606,669	621,917
Goodwill	1,020,874	1,082,420
Other intangible assets, net	68,296	121,792
Restricted cash	47,204	46,936
Other assets	281,261	290,647
Investments in unconsolidated entities	112,718	109,828
Total long-term assets	2,137,022	2,273,540
Total assets	\$ 3,066,441	\$ 4,023,113
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 314,859	\$ 388,562
Accrued restructuring costs	22,307	2,878
Short-term debt	140,000	
Deferred revenues	566,564	552,070
Other liabilities	2,872	2,632
Liabilities related to assets held for sale	18,842	
Total current liabilities	1,065,444	946,142
Long-term deferred revenues	194,750	186,719
Long-term accrued restructuring costs	1,340	1,473
Convertible debentures	1,263,451	1,265,296
Other long-term liabilities	38,941	41,133
Total long-term liabilities	1,498,482	1,494,621
Total liabilities	2,563,926	2,440,763

Commitments and contingencies

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Minority interest in subsidiaries	62,218	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: 194,428,020 excluding 104,851,276 held in treasury, at March 31, 2008, and 222,849,348 excluding 73,720,953 shares held in treasury, at December 31, 2007	299	297
Additional paid-in capital	21,474,113	22,559,045
Accumulated deficit	(21,052,769)	(21,033,452)
Accumulated other comprehensive income	18,654	1,975
Total stockholders' equity	440,297	1,527,865
Total liabilities and stockholders' equity	\$ 3,066,441	\$ 4,023,113

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(Unaudited)**

	Three Months Ended March 31,	
	2008	2007
Revenues	\$ 354,281	\$ 328,483
Costs and expenses		
Cost of revenues	124,234	116,418
Sales and marketing	59,238	77,215
Research and development	38,351	42,177
General and administrative	71,660	49,281
Restructuring, impairments and other charges, net	21,538	25,594
Amortization of other intangible assets	8,698	27,416
Total costs and expenses	323,719	338,101
Operating income (loss)	30,562	(9,618)
Other (loss) income, net	(1,858)	81,280
Income from continuing operations before income taxes, (loss) earnings from unconsolidated entities and minority interest	28,704	71,662
Income tax expense	(13,399)	(9,246)
(Loss) earnings from unconsolidated entities, net of tax	(2,141)	448
Minority interest, net of tax	(906)	(569)
Income from continuing operations	12,258	62,295
Discontinued operations, net of tax	(30,845)	(542)
Net (loss) income	\$ (18,587)	\$ 61,753
Basic income (loss) per share from:		
Continuing operations	\$ 0.06	\$ 0.25
Discontinued operations	(0.15)	
Net (loss) income	\$ (0.09)	\$ 0.25
Diluted income (loss) per share from:		
Continuing operations	\$ 0.06	\$ 0.25
Discontinued operations	(0.15)	
Net (loss) income	\$ (0.09)	\$ 0.25
Shares used in per share computation:		
Basic	206,550	243,852

Diluted

210,471

248,357

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net (loss) income	\$ (18,587)	\$ 61,753
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Net gain on divestiture of businesses	(816)	(74,999)
Unrealized gain on contingent interest derivative on convertible debentures	(1,838)	
Depreciation of property and equipment	31,815	28,176
Amortization of other intangible assets	11,957	31,787
Impairment of assets held for sale	25,511	
Provision for doubtful accounts	575	(1,156)
Stock-based compensation and other	22,550	16,725
Restructuring, impairments and other charges, net	26,465	27,012
Impairment of equity investment	327	
Gain on sale of property and equipment	(728)	
Net gain on sale of investments	(382)	(829)
Loss (earnings) from unconsolidated entities, net of tax	2,141	(448)
Minority interest, net of tax	906	569
Deferred income taxes	(4,045)	5,123
Changes in operating assets and liabilities:		
Accounts receivable	(1,025)	(45,859)
Prepaid expenses and other current assets	20,594	75,746
Accounts payable and accrued liabilities	(81,620)	(127,657)
Deferred revenues	40,503	48,034
Net cash provided by operating activities	74,303	43,977
Cash flows from investing activities:		
Purchases of investments		(135,882)
Proceeds from sale of property and equipment	1,286	
Proceeds from maturities and sales of investments	100	191,912
Purchases of property and equipment	(25,939)	(15,125)
Proceeds received on divestiture of majority ownership interest in Jamba, net of cash contributed		152,643
Net proceeds from sale of discontinued operations	14,160	
Other assets	(5,289)	1,138
Net cash (used in) provided by investing activities	(15,682)	194,686
Cash flows from financing activities:		
Proceeds from issuance of common stock from option exercises and employee stock purchase plans	46,195	
Change in net assets of minority interest	62	7
Repurchases of common stock	(1,146,510)	
Proceeds from credit facility	200,000	
Repayment of short-term debt	(60,000)	(199,000)
Dividend paid to minority interest	(341)	
Net cash used in financing activities	(960,594)	(198,993)
Effect of exchange rate changes on cash and cash equivalents	8,276	791

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Net (decrease) increase in cash and cash equivalents	(893,697)	40,461
Cash and cash equivalents at beginning of period	1,376,722	501,784
Cash and cash equivalents at end of period	483,025	542,245
Cash and cash equivalents of Jamba Service at end of period		(19,221)
Cash and cash equivalents of continuing operations at end of period	\$ 483,025	\$ 523,024
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 20,146	\$ 2,649

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 for 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 filed with the SEC (the 2007 Form 10-K) on February 29, 2008.

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 divestiture of a number of non-core businesses in its portfolio, such as communications, billing and commerce, content delivery, messaging and enterprise security services as well as other smaller businesses. By divesting these non-core businesses, additional resources should be available to invest in the core businesses that will remain: Naming Services, Secure Socket Layer (SSL) Certificate Services, and Identity and Authentication Services (IAS). See Note 4, Assets Held for Sale and Discontinued Operations, for further information regarding the classification and presentation of certain non-core businesses as of March 31, 2008.

Reclassifications

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). As of March 31, 2008, the Company's business consists of the following reportable segments: Internet Infrastructure and Identity Services (IIS) 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 three months ended March 31, 2008, the Company recorded approximately \$8.1 million in penalties and interest related to late payment of payroll taxes on employee stock-based awards during fiscal 2004 through the first quarter of fiscal 2008. The charge associated with each affected prior period, totaling \$7.7 million through December 31, 2007, is not material to the consolidated financial statements of such periods.

Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (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

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VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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. 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 applied prospectively. 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 No. 141(R) (SFAS 141R), *Business Combinations*, which will significantly change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. Some of the changes, such as the accounting for contingent consideration, will introduce more volatility into earnings, and may impact a company's acquisition strategy. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008, and will be applied prospectively. The Company is currently evaluating the effect of SFAS 141R, and the impact it will have on its financial position and results of operations.

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. The objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for the Company in the first quarter of 2008. The Company has not elected to report its financial instruments at fair value, other than those already recognized and reported at fair value. Therefore, the adoption of SFAS 159 in the first quarter of 2008 did not impact its financial position, results of operations or cash flows.

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. SFAS 157 is effective for fiscal years beginning after November 15, 2007. 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. Effective January 1, 2008, the Company adopted SFAS 157 for all of its financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis (at least annually). The partial adoption of SFAS 157 did not have a material impact on the Company's financial position, results of operations or cash flows. See Note 15, *Fair Value of Financial Instruments*, for information and related disclosures regarding the Company's fair value measurements. The Company is currently evaluating the impact of SFAS 157 on its 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), and the impact it will have on its financial position and results of operations.

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****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 total stock-based compensation:

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Stock-based compensation:		
Cost of revenues	\$ 4,463	\$ 2,521
Sales and marketing	4,756	4,707
Research and development	3,746	2,849
General and administrative	6,849	5,128
Restructuring, impairments and other charges, net	3,731	2,297
Stock-based compensation for continuing operations	23,545	17,502
Discontinued operations	3,250	1,425
Total stock-based compensation	\$ 26,795	\$ 18,927

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 March 31,	
	2008	2007
Stock options:		
Volatility	37%	34%
Risk-free interest rate	2.46%	4.67%
Expected term	3.12	3.00
Dividend yield	zero	zero
Employee stock purchase plan awards:		
Volatility	31%	n/a
Risk-free interest rate	2.69%	n/a
Expected term	1.25	n/a
Dividend yield	zero	n/a

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

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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.

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

During the three months ended March 31, 2007, the Company was precluded from selling shares under its employee stock purchase plan due to not being current in its SEC filings. In February 2007, the Company refunded employee payroll withholdings for the purchase period ended January 31, 2007, as no shares were issued. The Company suspended its employee payroll withholdings for the purchase of its common stock under the employee stock purchase plan until July 16, 2007, when it became current in its SEC filings.

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

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Stock-based compensation:		
Stock options	\$ 6,623	\$ 11,553
Employee stock purchase plans	8,527	2,449
Restricted stock units	7,968	2,877
Stock options/awards acceleration	4,245	2,297
Capitalization (1)	(568)	(249)
Total stock-based compensation	\$ 26,795	\$ 18,927

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

During the three months ended March 31, 2008, the Company modified certain stock-based awards to accelerate the vesting of twenty-five percent (25%) of unvested in-the-money stock options and 25% of unvested restricted stock units outstanding on the termination dates of employees affected by divestitures. During the three months ended March 31, 2007, the Company modified certain stock-based awards to accelerate the vesting of certain stock options and awards outstanding on the termination dates of certain employees affected by workforce reduction resulting from the 2007 restructuring plan. The Company remeasured the fair value of these modified awards and recorded the charge over the future service period, if any. The modification charge is included in Restructuring, impairments and other charges, net.

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. 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 \$8.9 million is outstanding as of March 31, 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 March 31, 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.

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 4. Assets Held for Sale and Discontinued Operations**

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.

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.

Completed Divestitures

On March 31, 2008, the Company sold its Self-Care and Analytics (SC&A) business, which provided online analysis applications for mobile communications customers and online customer self-service with a single view of billing across multiple systems, for net cash proceeds of \$14.2 million and recorded a net gain on sale of \$1.5 million. The SC&A business was part of the former CSG segment. The historical operations of SC&A have been classified as discontinued operations for all periods presented in the Company's Condensed Consolidated Statements of Operations.

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 net gain on sale of \$1.8 million through March 31, 2008. Jamba Service was part of the former CSG segment.

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 March 31, 2008. For the three months ended March 31, 2008, the Company recorded an estimated loss on disposal of \$25.5 million, which is included in Restructuring, impairments and other charges, net. Gains on disposal are recorded on the date the sale of the disposal group is consummated.

	March 31, 2008
	(In thousands)
Assets:	
Accounts receivable	\$ 33,954
Long-lived assets, including goodwill	79,002
 Total assets held for sale	 \$ 112,956
Liabilities:	
Deferred revenues	\$ 18,842
 Total liabilities related to assets held for sale	 \$ 18,842

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VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As of March 31, 2008, businesses classified as held for sale and presented as discontinued operations included the following. As the Company executes its divestiture strategy, additional businesses are likely to be classified as held for sale.

Digital Brand Management Services

The Company's Digital Brand Management Services (DBMS) business offers 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. These services include domain name management, global brand expansion services and digital brand monitoring solutions.

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 and the iDefense Security Intelligence services 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.

International Clearing

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

Content Delivery Network

The Company's Content Delivery Network (CDN) offers broadband content services which enable the delivery of high-quality video and other rich media securely and efficiently at a very large scale.

The current and historical operations, 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. For a period of time, the Company will continue to generate cash flows and will report income statement activity in discontinued operations that are associated with these disposal groups. 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.

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

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

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Revenues	\$ 41,166	\$ 48,963
Loss before income taxes	(39,102)	(255)
Income tax benefit (expense)	6,315	(287)
Loss from discontinued operations	(32,787)	(542)
Loss on sale of discontinued operations, before income taxes	(470)	
Income tax benefit on sale of discontinued operations	2,412	
Gain on sale of discontinued operations	1,942	
Total loss from discontinued operations	\$ (30,845)	\$ (542)

Note 5. Restructuring, Impairments and Other Charges, Net

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

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
2008 restructuring plan charges	\$ 21,222	\$
2007 restructuring plan charges	271	23,348
2003 and 2002 restructuring plan charges	45	94
Total restructuring charges for continuing operations	21,538	23,442
Impairments and other charges for continuing operations		2,152
Total restructuring, impairments and other charges, net, for continuing operations	21,538	25,594
2008 restructuring plan charges for discontinued operations	4,927	
2007 restructuring plan charges for discontinued operations		1,333
Impairments and other charges for discontinued operations	25,511	85

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Total restructuring, impairments and other charges, net, for discontinued operations	30,438	1,418
Total restructuring, impairments and other charges, net	\$ 51,976	\$ 27,012

2008 Restructuring Plan

In late 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 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 and other exit costs primarily related to the consulting and professional fees incurred for initiating the divestiture strategy. As of March 31, 2008, VeriSign recorded a total of \$26.1 million in restructuring charges, inclusive of amounts for discontinued operations, under its 2008 restructuring plan.

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)***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.

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

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Workforce reduction	\$ 25,637	\$ 22,115
Excess facilities	14	1,154
Other exit costs	814	1,506
 Total restructuring charges	 \$ 26,465	 \$ 24,775

Of the total consolidated restructuring charges, \$4.9 million and \$1.2 million relate to workforce reduction for discontinued operations for the three months ended March 31, 2008, and March 31, 2007, respectively.

For the three months ended March 31, 2008, and March 31, 2007, \$3.7 million and \$2.3 million, respectively, of the workforce reduction charges relate to stock-based compensation for certain severed employees.

As of March 31, 2008, the consolidated accrued restructuring costs associated with all restructuring plans were \$23.6 million and consist of the following:

Accrued Restructuring Costs at December 31, 2007	Restructuring Charges	Cash Payments (In thousands)	Non-cash Charges	Accrued Restructuring Costs at March 31, 2008
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Workforce reduction	\$ 493	\$ 25,637	\$ (1,702)	\$ (3,970)	\$ 20,458
Excess facilities	3,702	14	(1,045)	14	2,685
Other exit costs	156	814	(302)	(164)	504
Total accrued restructuring costs	\$ 4,351	\$ 26,465	\$ (3,049)	\$ (4,120)	\$ 23,647
Included in current portion of accrued restructuring costs					\$ 22,307
Included in long-term portion of accrued restructuring costs					\$ 1,340

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Cash payments totaling approximately \$5.1 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 2011. 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 9 months)	\$ 1,564	\$ (354)	\$ 1,210
2009	1,172	(645)	527
2010	1,212	(677)	535
2011	908	(495)	413
	\$ 4,856	\$ (2,171)	\$ 2,685

Impairments and Other Charges

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

	Three Months Ended March 31, 2008 2007 (In thousands)	
Impairment of assets held for sale	\$ 25,511	\$
Other charges		2,237
Total impairments and other charges	\$ 25,511	\$ 2,237

Of the total consolidated impairments and other charges, \$0.1 million relates to discontinued operations for the three months ended March 31, 2007.

Impairment of assets held for sale

During the three months ended March 31, 2008, the Company recorded a charge of \$25.5 million for impairment of assets held for sale and included it in discontinued operations.

Other charges

During the three months ended March 31, 2007, VeriSign recorded a charge of \$2.2 million for excess and obsolete property and equipment.

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****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 three months ended March 31, 2008:

	Internet Infrastructure and Identity Services	Other Services (In thousands)	Total
Balance at December 31, 2007	\$ 364,751	\$ 717,669	\$ 1,082,420
Divestiture of business		(7,026)	(7,026)
Reclassification to assets held for sale		(59,700)	(59,700)
Other adjustments (1)	5,609	(429)	5,180
Balance at March 31, 2008	\$ 370,360	\$ 650,514	\$ 1,020,874

(1) VeriSign makes certain goodwill adjustments after the initial purchase of acquired companies for income tax adjustments, foreign exchange fluctuations and other additions or reductions that were determined after the initial purchase.

In connection with the Company's planned divestiture of certain business units, the Company performed a goodwill impairment test for all of its retained reporting units which are Naming Services, SSL Certificate Services, IAS and VeriSign Japan; and the Commerce and Communications Services and Content Services reporting units related to the Company's non-core businesses which will be divested in the future. Goodwill was allocated to the Company's reporting units based on their respective relative fair values.

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 estimated fair value of each reporting unit was computed using the combination of the income and market valuation approach. Under the income approach, the fair value of the reporting unit is based on the present value of the estimated future cash flows that 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. There were no impairment charges resulting from this analysis.

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VeriSign's other intangible assets are comprised of:

	Gross Carrying Value	March 31, 2008 Accumulated Amortization (In thousands)	Net Carrying Value
Customer relationships	\$ 46,658	\$ (21,143)	\$ 25,515
Technology in place	76,724	(51,104)	25,620
Carrier relationships	36,300	(27,306)	8,994
Non-compete agreement	14,001	(12,335)	1,666
Trade name	5,996	(1,730)	4,266
Other	9,000	(6,765)	2,235
Total other intangible assets	\$ 188,679	\$ (120,383)	\$ 68,296

	Gross Carrying Value	December 31, 2007 Accumulated Amortization (In thousands)	Net Carrying Value
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 agreement	30,154	(19,089)	11,065
Trade name	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. The net carrying amount of other intangible assets at December 31, 2007, of \$45.6 million, is classified as assets held for sale at March 31, 2008. Estimated future amortization expense related to other intangible assets at March 31, 2008, is as follows:

	(In thousands)
2008 (remaining 9 months)	\$ 16,203
2009	19,662
2010	15,013
2011	9,342
2012	5,059
Thereafter	3,017
	\$ 68,296

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 7. Other Balance Sheet Items***Prepaid Expenses and Other Current Assets*

Prepaid expenses and other current assets consist of the following:

	March 31, 2008	December 31, 2007
	(In thousands)	
Prepaid expenses	\$ 28,207	\$ 25,344
Other current assets	129,392	137,697
Total prepaid expenses and other current assets	\$ 157,599	\$ 163,041

Other current assets primarily consist 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; non-trade receivables, which primarily consist of income tax receivables and value added tax receivables; and deferred tax assets.

Property and Equipment, Net

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

	March 31, 2008	December 31, 2007
	(In thousands)	
Land	\$ 222,268	\$ 222,750
Buildings	118,215	118,220
Computer equipment and software	731,318	738,549
Capital work in progress	69,278	69,298
Office equipment, furniture and fixtures	34,074	33,408
Leasehold improvements	48,583	47,510
Total cost	1,223,736	1,229,735
Less: accumulated depreciation and amortization	(617,067)	(607,818)
Total property and equipment, net	\$ 606,669	\$ 621,917

During the first quarter of 2008, the Company reclassified certain leasehold improvements, with a cost of \$29.2 million, to buildings as the Company determined this is a more appropriate categorization of these assets. The amounts presented at December 31, 2007, have also been reclassified accordingly.

Other Assets

Other assets consist of the following:

	March 31, 2008	December 31, 2007
	(In thousands)	
Long-term deferred tax assets	\$ 226,313	\$ 230,695
Long-term note receivable	8,857	15,000
Long-term investments	5,985	6,385
Debt issuance costs	28,100	28,411
Security deposits and other	12,006	10,156
 Total other assets	 \$ 281,261	 \$ 290,647

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Long-term note receivable as of March 31, 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 prepaid by the borrower at any time before maturity. 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:

	March 31, 2008	December 31, 2007
	(In thousands)	
Accounts payable	\$ 12,243	\$ 9,075
Accrued employee compensation	88,262	127,330
Customer deposits	89,651	115,014
Taxes payable and other tax liabilities	27,595	25,847
Other accrued liabilities	97,108	111,296
Total accounts payable and accrued liabilities	\$ 314,859	\$ 388,562

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 March 31,	
	2008	2007
	(In thousands)	
Net (loss) income	\$ (18,587)	\$ 61,753
Change in unrealized gain on investments, net of tax	197	1,645
Foreign currency translation adjustments	16,482	1,619
Comprehensive (loss) income	\$ (1,908)	\$ 65,017

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. As of March 31, 2008, the Company had \$140.0 million in outstanding borrowings under the Facility and the Company had utilized \$1.4 million for outstanding letters of credit. The outstanding balance under the Facility is included in Short-term debt. At March 31, 2008, the interest rate on the outstanding balance of the Facility was 3.54%. The Company's Credit Agreement contains negative covenants that limit its ability to sell

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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 March 31, 2008, the Company was in compliance with all covenants under the Facility.

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****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 (loss) 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 March 31,	
	2008	2007
	(In thousands, except per share data)	
Income (loss):		
Income from continuing operations	\$ 12,258	\$ 62,295
Discontinued operations, net of tax	(30,845)	(542)
Net (loss) income	\$ (18,587)	\$ 61,753
Weighted-average shares:		
Weighted-average common shares outstanding	206,550	243,852
Weighted-average potential common shares outstanding:		
Stock options	2,191	3,767
Unvested restricted stock awards	1,133	436
Conversion spread related to convertible debentures	256	
Employee stock purchase plans and other	341	302
Shares used to compute diluted net (loss) income per share	210,471	248,357
Income (loss) per share:		
Basic:		
Continuing operations	\$ 0.06	\$ 0.25
Discontinued operations	(0.15)	
Net (loss) income	\$ (0.09)	\$ 0.25
Diluted:		
Continuing operations	\$ 0.06	\$ 0.25
Discontinued operations	(0.15)	
Net (loss) income	\$ (0.09)	\$ 0.25

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 stock options outstanding that were excluded from the above calculation because the effect was anti-dilutive and the respective weighted-average exercise prices:

	Three Months Ended March 31,	
	2008	2007
	(In thousands, except per share data)	
Weighted-average stock options outstanding	4,141	18,901
Weighted-average exercise price	\$ 32.43	\$ 40.27
Weighted-average restricted stock awards outstanding	68	100

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VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 final number of shares that the Company may repurchase pursuant to the ASR will not be known until conclusion of the transaction, which is expected to occur no later than the Company's third quarter of 2008, but the number of shares will not be less than the 15.1 million shares delivered to date. The price per share to be paid by the Company will be determined by reference to the volume weighted average price per share during the repurchase period, subject to a cap. The ASR agreement includes the option to settle the contract in cash or shares of the Company's common stock and, accordingly, the contract is classified in Stockholders' equity.

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. During the three months ended March 31, 2008, the Company repurchased approximately 15.9 million shares of its common stock for an aggregate cost of \$544.7 million under the 2006 Stock Repurchase Program. As of March 31, 2008, approximately \$440.0 million is available under the 2006 Stock Repurchase Program.

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 operating segments: Internet Services Group (ISG) and Communications Services Group (CSG). As of March 31, 2008, the Company's business consists of the following reportable segments: Internet Infrastructure and Identity Services (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 web sites that utilize SSL protocol. These services provide customers the means to authenticate themselves to their end users and web site visitors and to encrypt communications between client browsers and web servers. IAS includes Managed PKI services, Unified Authentication services, and VeriSign Identity Protection services. VeriSign Japan is a majority-owned subsidiary and its operations primarily consist of SSL Certificate Services and IAS.

The Other Services segment consists of continuing operations of non-core businesses and legacy products and services. The non-core businesses that the Company plans to divest primarily include communications, billing and commerce, content delivery and messaging 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.

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

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 March 31, 2008:			
Revenues	\$ 223,085	\$ 131,196	\$ 354,281
Cost of revenues	37,802	70,347	108,149
	\$ 185,283	\$ 60,849	\$ 246,132

	Internet Infrastructure and Identity Services	Other Services	Total Segments
	(In thousands)		
Three months ended March 31, 2007:			
Revenues	\$ 180,902	\$ 147,581	\$ 328,483
Cost of revenues	25,284	73,429	98,713
	\$ 155,618	\$ 74,152	\$ 229,770

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 March 31,	
	2008	2007
	(In thousands)	
Total revenues from reportable segments	\$ 354,281	\$ 328,483
Total cost of revenues from reportable segments	108,149	98,713
Unallocated operating expenses (1)	215,570	239,388
Operating income (loss)	30,562	(9,618)
Other (loss) income, net	(1,858)	81,280
Income from continuing operations before income taxes, (loss) earnings from unconsolidated entities and minority interest	\$ 28,704	\$ 71,662

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

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)***Revenues by Geographic Region*

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

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Americas:		
United States	\$ 271,644	\$ 269,857
Other (1)	5,151	7,636
Total Americas	276,795	277,493
EMEA (2)	52,623	31,002
APAC (3)	24,863	19,988
Total revenues	\$ 354,281	\$ 328,483

(1) Canada and Latin America

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

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

VeriSign operates in North America, Europe, Japan, Australia, Latin America, South Africa and India. In general, revenues are attributed to the country in which the contract originated.

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

	March 31,	December 31,
	2008	2007
	(In thousands)	
Americas:		
United States	\$ 576,862	\$ 592,554
Other	369	1,130
Total Americas	577,231	593,684
EMEA	9,225	10,005
APAC	20,213	18,228
Total property and equipment, net	\$ 606,669	\$ 621,917

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 13. Other (Loss) Income, Net**

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

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Interest income	\$ 8,345	\$ 8,530
Interest expense	(9,875)	(2,229)
Net gain on sale of investments	382	829
Net (loss) gain on divestiture of majority ownership interest in Jamba	(1,126)	74,999
Impairment of equity investment	(327)	
Unrealized gain on contingent interest derivative on convertible debentures	1,838	
Other, net	(1,095)	(849)
 Total other (loss) income, net	 \$ (1,858)	 \$ 81,280

Interest income is earned principally from the investment of VeriSign's surplus cash balances. Interest expense is derived principally from interest on VeriSign's short-term debt and convertible debentures. Other, net, primarily consists of foreign exchange rate gains and losses.

Note 14. Income Taxes

For the three months ended March 31, 2008 and March 31, 2007, the Company recorded an income tax expense for continuing operations of \$13.4 million and \$9.2 million, respectively. The increase in income tax expense was primarily attributable to the favorable tax regime in which the majority ownership interest in its Jamba subsidiary was sold during the three months ended March 31, 2007.

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

As of March 31, 2008, the Company had an unrecognized tax benefit for income taxes associated with uncertain tax positions of \$41.8 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. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. At March 31, 2008, the Company had \$10.5 million of accrued interest and penalties relating to uncertain tax positions. For the three months ended March 31, 2008, and March 31, 2007, the Company expensed \$0.4 million and \$1.1 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.

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VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 15. Fair Value of Financial Instruments

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.

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:

	March 31, 2008			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Investments in money market funds	\$ 380,204	\$	\$	\$ 380,204
Foreign currency forward contracts		66		66
Equity investments	1,485			1,485
Total	\$ 381,689	\$ 66	\$	\$ 381,755
Liabilities:				
Contingent interest derivative on convertible debentures	\$	\$	\$ 12,326	\$ 12,326
Total	\$	\$	\$ 12,326	\$ 12,326

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

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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 Prepaid expenses and other current assets. The Company recorded an unrealized gain of \$0.1 million and an unrealized loss of \$0.8 million for the three months ended March 31, 2008, and March 31, 2007, respectively, in Other (loss) income, net, 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 and in Other assets.

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table summarizes the change in the fair value of the Company's Level 3 contingent interest derivative on convertible debentures:

	Three months Ended March 31, 2008 (In thousands)
Balance at December 31, 2007	\$ 14,164
Unrealized gain (1)	(1,838)
Balance at March 31, 2008	\$ 12,326

(1) The unrealized gain is included in Other (loss) income, net.

The Company's junior subordinated 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 that combines a discounted cash flow analysis and a Black Scholes option pricing model to estimate the value of the embedded derivative. The inputs to the model include risk adjusted interest rates, volatility and risk free interest rates. As several significant inputs are not observable, the overall fair value measurement is classified as Level 3.

Note 16. Contingencies*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 United States 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. 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 certificate 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 Court has granted preliminary approval of the settlement.

Table of Contents**VERISIGN, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

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 Markman 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 Markman 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 United States 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. VeriSign 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. Those motions were granted on September 14, 2007. Motions to stay the state court action are pending. 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.

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. VeriSign was granted a stay on execution of the judgment. The Company has appealed the lower court's ruling on the merits and the hearing on the appeal is scheduled in May 2008. The Company believes the claims are without merit.

On November 30, 2006, Freedom Wireless, Inc. filed a complaint against VeriSign and other defendants alleging that the Company infringed certain patents by making, using, selling or supplying products, methods or services relating to supplying prepaid wireless telephone services to telecommunications companies. VeriSign filed an answer to the complaint on January 25, 2007. The lawsuit is pending in the United States District Court for the Eastern District of Texas. While the Company cannot predict the outcome of this matter, it believes that the allegations are without merit.

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VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

On May 31, 2007, plaintiffs Karen Herbert, et al., on behalf of themselves and a nationwide class of consumers, 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 United States 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, 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. The lawsuit is pending in the United States District Court for the Central District of California, Western Division. On June 7, 2007, plaintiffs Michael and Michele Hardin, on behalf of themselves and a nationwide class of consumers, filed a complaint against VeriSign, Inc. and other defendants alleging that defendants collectively operate various gambling games in violation of Georgia state law. Plaintiffs allege that interactive television promotions contained in various broadcasts, including NBC's Deal or No Deal, wrongly permit participants to incur premium text message charges in order to participate in the promotions to win a prize. The lawsuit is pending in the United States District Court for the Northern District of Georgia, Gainesville Division. 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 United States 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. 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 the Company's 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 April 30, 2008, the Company completed the divestiture of its DBMS business for a total consideration of \$50.0 million in cash, subject to a purchase price adjustment for working capital, to be determined no later than 60 days after the date of the close.

On April 30, 2008, the Company completed the divestiture of its CDN business for a total consideration of \$1.0 million in cash and an equity interest in the purchaser's newly formed company.

Subsequent to March 31, 2008, the Company repaid the outstanding balance of \$140.0 million under the Facility.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

*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 and Section 21E of the Securities Exchange Act of 1934. 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. As part of our strategy to be more aligned with our core competencies, we expect to divest all business lines in the Internet Services Group (ISG) except the following: Naming Services, SSL Certificate Services, and Identity and Authentication Services (IAS). We also expect to divest all business lines in the former Communications Services Group (CSG).

As of March 31, 2008, our business consists of the following reportable segments: Internet Infrastructure and Identity Services (3IS), and Other Services. The 3IS segment is comprised of the retained core businesses from the former ISG segment reported in fiscal 2007. The 3IS segment consists 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 web sites that utilize SSL protocol. These services provide customers the means to authenticate themselves to their end users and web site visitors and to encrypt communications between client browsers and web servers. The IAS business includes Managed PKI services, Unified Authentication services, and VeriSign Identity Protection services. VeriSign Japan is a majority-owned subsidiary and its operations primarily consist of SSL Certificate Services and IAS.

The Other Services segment consists of continuing operations of non-core businesses and legacy products and services. The non-core businesses that we plan to divest primarily include communications, billing and commerce, content delivery and messaging services.

Business Highlights

The 3IS segment recorded revenues of \$223.1 million during the three months ended March 31, 2008, a 23% increase from the same period last year. During the first quarter of 2008, we experienced continued growth in our Naming Services business primarily due to a 22% increase in active domain names ending in *.com* and *.net* from the same period last year. SSL Certificate Services revenues increased primarily due to a 16% increase in the installed base of SSL certificates from the same period last year.

The Other Services segment recorded revenues of \$131.2 million during the first quarter of 2008, down 11% from the same period last year. The decrease was primarily related to the divestiture of our majority ownership

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interest in our Jamba GmbH subsidiary during the first quarter of 2007, partially offset by increases from our mobile content and messaging services business.

On March 31, 2008, we sold our Self-Care and Analytics (SC&A) business unit, which provided online analysis applications for mobile communications customers and online customer self-service with a single view of billing across multiple systems, for net cash proceeds of \$14.2 million and recorded a net gain on sale of \$1.5 million. The SC&A business was part of our former CSG segment. The historical operations of SC&A have been classified as discontinued operations for all periods presented in our Condensed Consolidated Statements of Operations.

Recent Accounting Pronouncements

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

Subsequent Events

On April 30, 2008, we completed the divestiture of our DBMS business for a total consideration of \$50.0 million in cash, subject to a purchase price adjustment for working capital, to be determined no later than 60 days after the date of the close.

On April 30, 2008, we completed the divestiture of our CDN business for a total consideration of \$1.0 million in cash and an equity interest in the purchaser's newly formed company.

Subsequent to March 31, 2008, we repaid the outstanding balance of \$140.0 million under the Facility.

Results of Operations

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

	Three Months Ended March 31,	
	2008	2007
Revenues	100%	100%
Costs and expenses		
Cost of revenues	35	35
Sales and marketing	17	24
Research and development	11	13
General and administrative	20	15
Restructuring, impairments and other charges, net	6	8
Amortization of other intangible assets	2	8
Total costs and expenses	91	103
Operating income (loss)	9	(3)
Other (loss) income, net	(1)	25
Income from continuing operations before income taxes, (loss) earnings from unconsolidated entities and minority interest	8	22
Income tax expense	(4)	(3)
(Loss) earnings from unconsolidated entities, net of tax		
Minority interest, net of tax		
Income from continuing operations	4	19
Discontinued operations, net of tax	(9)	

Net (loss) income

(5%)

19%

30

Table of Contents**Revenues**

We have two reportable segments: Internet Infrastructure and Identity Services and Other Services. A comparison of revenues is presented below:

	Three Months Ended March 31,		% Change
	2008	2007	
	(Dollars in thousands)		
Internet Infrastructure and Identity Services	\$ 223,085	\$ 180,902	23%
Other Services	131,196	147,581	(11%)
Total revenues	\$ 354,281	\$ 328,483	8%

Internet Infrastructure and Identity Services

3IS segment revenues increased \$42.2 million during the three months ended March 31, 2008, as compared to the same period last year. Our Naming Services revenues increased \$24.4 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to a 22% increase in active domain names ending in *.com* and *.net*. SSL Certificate Services revenues increased \$12.6 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to a 16% increase in the installed base of SSL certificates, the continued customer up-sell from one and two year certificates to three year certificates, and an increase in sales of our extended validation certificates. Our IAS revenues increased \$4.8 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to increased demand for our enterprise authentication and identity protection services.

The following table compares active domain names ending in *.com* and *.net* managed by our Naming Services business and the approximate installed base of SSL certificates in our SSL Certificate Services business as of March 31, 2008 and 2007:

	March 31,		% Change
	2008	2007	
Active domain names ending in <i>.com</i> and <i>.net</i>	84.4 million	69.2 million	22%
Installed base of SSL certificates	1,024,000	886,000	16%

Other Services

Other Services segment revenues decreased \$16.4 million during the three months ended March 31, 2008, as compared to the same period last year. The decrease was primarily due to the divestiture of our majority ownership interest in our Jamba subsidiary on January 31, 2007. During the three months ended March 31, 2007, we recognized approximately \$23.8 million in revenues from our Jamba subsidiary business prior to the divestiture of our majority ownership interest in it. Our mobile content and messaging services revenues increased \$8.0 million during the three months ended March 31, 2008, as compared to the same period last year.

Table of Contents*Revenues by Geographic Region*

A comparison of our revenues by geographic region is presented below:

	Three Months Ended March 31,		% Change
	2008	2007	
	(Dollars in thousands)		
Americas:			
United States	\$ 271,644	\$ 269,857	1%
Other (1)	5,151	7,636	(33%)
Total Americas	276,795	277,493	(0%)
EMEA (2)	52,623	31,002	70%
APAC (3)	24,863	19,988	24%
Total revenues	\$ 354,281	\$ 328,483	8%

(1) Canada and Latin America

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

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

Revenues in the EMEA region increased \$21.6 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to the continued implementation of our global business structure where we now contract through our EMEA subsidiaries for various services provided to customers located outside the United States and Japan. This resulted in increased revenues in EMEA of \$29.4 million and decreased revenues in the United States of the same amount, offset by a decrease in revenues in EMEA due to the divestiture of our majority ownership interest in our Jamba subsidiary on January 31, 2007. Revenues in the United States increased due to continued growth in our Naming Services and SSL Certificate Services businesses during the three months ended March 31, 2008, as compared to the same period last year. Revenues in the APAC region increased \$4.9 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to increases in demand from Japan for our SSL Certificate Services and IAS.

Cost of revenues

Cost of revenues consist primarily of content licensing costs, carrier costs for our Signaling System 7 (SS7) and Internet Protocol (IP)-based networks, costs related to providing digital certificate enrollment and issuance services, billing services, operational costs for the domain name registration business, customer support and training, consulting and development services, operational costs related to the management and monitoring of our clients' network security infrastructures, labor costs to provide security and costs of facilities and computer equipment used in these activities.

A comparison of cost of revenues is presented below:

	Three Months Ended March 31,		% Change
	2008	2007	
	(Dollars in thousands)		
Cost of revenues	\$ 124,234	\$ 116,418	7%

Cost of revenues increased approximately \$7.8 million during the three months ended March 31, 2008, as compared to the same period last year. Salary and employee benefits increased \$5.2 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to the redeployment of certain employees from the research and development function to the cost of revenues function during the second quarter of 2007, as a result of management's realignment initiatives related to the 2007 restructuring plan. Salary and employee benefits also increased in part due to the redeployment of certain employees from the sales and

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marketing function to the cost of revenues function during the first quarter of 2008, as a result of management's realignment initiatives relating to the 2008 restructuring plan. Stock-based compensation expense increased \$1.9 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to an increase in the issuances of restricted stock to employees and greater participation pertaining to our employee stock purchase plan that allowed employees to increase their contribution withholding percentages beginning in the latter half of 2007. Depreciation expense increased \$2.2 million during the three months ended March 31, 2008, as compared to the same period last year, due to an increase in capitalized projects placed into service during the latter half of 2007. Telecommunication expenses increased \$2.8 million during three months ended March 31, 2008, as compared to the same period last year, primarily due to increased spending on capacity for global constellation sites that support our .com and .net registries. Direct cost of revenues decreased \$4.8 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to the divestiture of our majority ownership interest in Jamba during the first quarter of 2007, partially offset by an increase in direct costs associated with our former CSG segment.

Sales and marketing

Sales and marketing expenses consist primarily of costs related to sales, marketing and policy activities. These expenses include salaries, sales commissions, sales operations and other personnel-related expenses, travel and related expenses, trade shows, costs of lead generation, costs of computer and communications equipment and support services, facilities costs, consulting fees and costs of marketing programs, such as internet, television, radio, print and direct mail advertising costs.

A comparison of sales and marketing expenses is presented below:

	Three Months Ended		
	March 31,		
	2008	2007	%
	(Dollars in thousands)		Change
Sales and marketing	\$ 59,238	\$ 77,215	(23%)

Sales and marketing expenses decreased \$18.0 million during the three months ended March 31, 2008, as compared to the same period last year. Advertising and marketing expenses decreased \$6.8 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to a reduction in spending in our content services business that was a result of the divestiture of our majority ownership interest in Jamba during the first quarter of 2007. This decrease was partially offset by an increase in advertising expenses related to efforts to increase the market penetration of our Naming Services and SSL Certificate Services businesses. Salary and employee benefit costs decreased \$8.5 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to lower headcount resulting from the 2007 restructuring plan activities and employee attrition, and partially due to the redeployment of certain employees from the sales and marketing function to other functions as a result of management's realignment initiatives relating to the 2008 restructuring plan.

Research and development

Research and development expenses consist primarily of costs related to research and development personnel, including salaries and other personnel-related expenses, consulting fees and the costs of facilities, computer and communications equipment and support services used in service and technology development.

A comparison of research and development expenses is presented below:

	Three Months Ended		
	March 31,		
	2008	2007	%
	(Dollars in thousands)		Change
Research and development	\$ 38,351	\$ 42,177	(9%)

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Research and development expenses decreased approximately \$3.8 million during the three months ended March 31, 2008, as compared to the same period last year. Contract and professional services expenses decreased \$7.0 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to an increase in the capitalization of salary and employee benefits during the first quarter of 2008. Salary and employee benefit expenses increased \$1.9 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to merit pay increases offset by a decrease in headcount as a result of workforce reduction and redeployment initiated by the 2007 and 2008 restructuring plans. Stock-based compensation expense increased \$0.9 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to an increase in the issuances of restricted stock to employees and greater participation pertaining to our employee stock purchase plan that allowed employees to increase their contribution withholding percentages beginning in the latter half of 2007.

General and administrative

General and administrative expenses consist primarily of salaries and other personnel-related expenses for our executive, administrative, legal, finance, information technology and human resources personnel, facilities, computer and communications equipment, management information systems, support services, professional services fees, certain tax and license fees and bad debt expense.

A comparison of general and administrative expenses is presented below:

	Three Months Ended		
	March 31,		%
	2008	2007	Change
	(Dollars in thousands)		
General and administrative	\$ 71,660	\$ 49,281	45%

General and administrative expenses increased approximately \$22.4 million during the three months ended March 31, 2008, as compared to the same period last year. Salary and employee benefit costs increased approximately \$11.3 million during the three months ended March 31, 2008, as compared to the same period last year. The increase was primarily due to payroll tax penalties and merit pay increases. We recorded approximately \$8.1 million in penalties and interest related to late payment of payroll taxes on employee stock-based awards during fiscal 2004 through the first quarter of fiscal 2008. Stock-based compensation expense increased \$1.7 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to an increase in the issuances of restricted stock to employees and greater participation pertaining to our employee stock purchase plan that allowed employees to increase their contribution withholding percentages beginning in the latter half of 2007. Legal expenses increased \$8.2 million during the three months ended March 31, 2008, as compared to the same period last year, primarily due to increased litigation expense and legal consulting fees relating to the 2008 restructuring plan to divest our non-core businesses.

Table of Contents***Restructuring, impairments and other charges, net***

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

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
2008 restructuring plan charges	\$ 21,222	\$
2007 restructuring plan charges	271	23,348
2003 and 2002 restructuring plan charges	45	94
Total restructuring charges for continuing operations	21,538	23,442
Impairments and other charges for continuing operations		2,152
Total restructuring, impairments and other charges, net, for continuing operations	21,538	25,594