

VERISIGN INC/CA
Form 10-K
February 26, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from to

Commission File Number: 000-23593

VERISIGN, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
487 East Middlefield Road, Mountain View, CA
(Address of principal executive offices)

94-3221585
(I.R.S. Employer
Identification No.)
94043
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: Common Stock \$0.001 Par Value Per Share, and the Associated Stock Purchase Rights

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the Registrant as of June 30, 2009, was \$2,114,335,874 based upon the last sale price reported for such date on the NASDAQ Global Select Market. For purposes of this disclosure, shares of Common Stock held by persons known to the Registrant (based on information provided by such persons and/or the most recent schedule 13Gs filed by such persons) to beneficially own more than 5% of the Registrant's Common Stock and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. This determination is not necessarily a conclusive determination for other purposes.

Number of shares of Common Stock, \$0.001 par value, outstanding as of the close of business on February 17, 2010: 183,448,405 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the 2010 Annual Meeting of Stockholders are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

Overview

VeriSign's mission is to bring trust to the Internet. We offer a comprehensive spectrum of products and services that enable confidence among Internet users, website owners and operators of digital networks. VeriSign's Naming Services capabilities enable domain name registration through our registrar partners and provide network availability for registrars and Internet users alike. VeriSign's Authentication Services capabilities make it easier for consumers to identify websites that are authentic, safe and secure. We enhance business reputations, security and website uptime resulting in improved online traffic, sales conversion and customer loyalty for websites.

We have the following two reportable segments: (1) Internet Infrastructure and Identity Services (IIS), which consists of Naming Services and Authentication Services; and (2) Other Services, which consists of the continuing operations of our Content Portal Services (CPS), our remaining non-core business, and legacy products and services from divested businesses. Comparative segment revenues and related financial information for 2009, 2008 and 2007 are presented in Note 16, Segment Information, *Description of Segments*, of our Notes to Consolidated Financial Statements in Item 15 of this Form 10-K. We have operations inside as well as outside the United States (U.S.). For a geographic breakdown of revenues and changes in revenues, see Note 16, Segment Information, *Geographic Revenues*, of our Notes to Consolidated Financial Statements in Item 15 of this Form 10-K.

Naming Services is the authoritative directory provider of all .com, .net, .cc, .tv, .name, .jobs and .edu domain names. Authentication Services is comprised of Business Authentication Services and User Authentication Services. Business Authentication Services enable enterprises and Internet merchants to implement and operate secure networks and websites that utilize Secure Socket Layer (SSL) protocol. Business Authentication Services provide customers the means to authenticate themselves to their end users and website visitors and to encrypt transactions and communications between client browsers and Web servers. User Authentication Services includes identity protection services, fraud detection services, and managed public key infrastructure (PKI) services. User Authentication Services are intended to help enterprises secure intranets, extranets and other applications and devices, and provide authentication credentials.

During the fourth quarter of 2007, we announced a change to our business strategy to allow management to focus its attention on our core competencies and to make additional resources available to invest in our core businesses. The strategy called for the divestiture or winding-down of our non-core businesses.

During 2009, we substantially completed all of our divestitures, and the winding-down of our non-core businesses. In October 2009, we decided to wind down the operations of the CPS business after termination of active negotiations with a potential buyer. We expect the winding-down to be completed no later than the end of 2010. The assets and liabilities related to CPS have been reclassified to held and used as of December 31, 2009, and the results of operations of the CPS business have been reclassified from discontinued operations to continuing operations as part of our Other Services segment for all periods presented. The Pre-pay billing and payment services (Pre-pay) business was fully wound down in October 2009, and its results of operations were reclassified into discontinued operations for all periods presented. Having divested our non-core businesses, additional resources are available to invest in our core services that remain; namely, Naming Services and Authentication Services. The proceeds from the divestiture of non-core businesses will be used for, but will not be limited to, investment in growth opportunities in or adjacent to our core services.

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We were incorporated in Delaware on April 12, 1995. Our principal executive offices are located at 487 East Middlefield Road, Mountain View, California 94043. Our telephone number at that address is

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(650) 961-7500. Our common stock is traded on the NASDAQ Global Select Market under the ticker symbol VRSN. The information on our website is not a part of this Form 10-K. VERISIGN, the VeriSign logo, the checkmark circle, GEOTRUST, THAWTE, and certain other product or service names are trademarks or registered trademarks of VeriSign and/or its subsidiaries in the U.S. and other countries. Other names used in this Form 10-K may be trademarks of their respective owners. Our primary website is www.verisign.com.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), are available, free of charge, through our website at <http://investor.verisign.com> as soon as is reasonably practicable after filing such reports with the Securities and Exchange Commission (the SEC).

Internet Infrastructure and Identity Services Group

Our 3IS group consists of our Naming Services and Authentication Services.

Naming Services

Registry Services

The Registry Services business operates the authoritative directory of all *.com*, *.net*, *.cc*, *.tv*, *.name*, *.jobs* and *.edu* domain names, allowing individuals and brand name organizations to establish their online identities, while providing the secure, always-on access they need to communicate and transact reliably with large-scale online audiences.

We are the exclusive registry of domain names within the *.com*, *.net* and *.name* generic top-level domains (gTLDs) under agreements with the Internet Corporation for Assigned Names and Numbers (ICANN) and the United States (U.S.) Department of Commerce (DOC). As a registry, we maintain the master directory of all second-level domain names in these top-level domains (e.g., johndoe.com and janedoe.net). These top-level domains are supported by our global constellation of domain name servers. In addition, we own and maintain the shared registration system that allows all registrars to enter new second-level domain names into the master directory and to submit modifications, transfers, re-registrations and deletions for existing second-level domain names (Shared Registration System).

Separate from our agreements with ICANN, we have agreements with others to be the exclusive registry for the *.tv* and *.cc* country code top-level domains (ccTLDs) and we operate the back-end registry systems for the *.jobs* and *.edu* gTLDs. These top-level domains are also supported by our global constellation of domain name servers and Shared Registration System.

With our existing gTLDs and ccTLDs, we also provide internationalized domain name (IDN) services that enable Internet users to access websites in characters representing their local language. Currently, IDNs may be registered in as many as 350 different native languages and scripts. We also support the Domain Name Systems (DNS) by locating and translating certain Internet Protocol (IP) addresses into Internet domain names.

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Domain names can be registered for between one and ten years, and the fees charged for *.com* and *.net* may only be increased according to adjustments prescribed in our agreements with ICANN over the applicable term. Revenues for registrations of *.name* are not subject to the same pricing restrictions as those applicable to *.com* and *.net*, however fees charged are subject to our agreement with ICANN over the applicable term. Revenues for *.cc* and *.tv* domain names are based on a similar fee system and registration system, though the fees charged are not subject to the same pricing restrictions as those imposed by ICANN. The fees received from operating the *.jobs* registry infrastructure are based on the terms of VeriSign's agreement with the registry operator of *.jobs*. No fees are received from operating the *.edu* registry infrastructure.

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VeriSign Internet Defense Services

VeriSign Internet Defense Services provides infrastructure assurance to organizations and is comprised of VeriSign iDefense Security Intelligence Service (iDefense) and VeriSign Internet Defense Network (VIDN).

iDefense provides enterprise security teams with comprehensive intelligence, in the form of alerts, reports and analyst access, to help companies keep up with ever-evolving cyberthreats. Our teams enable companies to improve vulnerability management, incident response, fraud mitigation, and proactive mitigation of the particular threats targeting their industry or global operations. Customers include banks, large corporations and governmental and quasi-governmental organizations. Customers pay an annual fee for iDefense.

VIDN supports online business continuity by providing the monitoring and mitigation services against Distributed Denial of Service (DDoS) attacks. Unlike on-premise solutions, which require significant upfront investment, and other service-based solutions, VeriSign's Internet-based service leverages our infrastructure to ensure protection against today's increasingly complex attacks. Customers include online businesses and organizations. Customers pay a monthly fee for VIDN.

Authentication Services

Business Authentication Services

Business Authentication Services enable confidential online interactions between individuals and organizations, while providing visual assurances that verify website ownership and affirm that interactions are safe and secure. We currently offer the following Business Authentication Services: VeriSign®, thawte®, and GeoTrust® branded SSL certificates. These services provide customers the means to authenticate themselves to their end users and website visitors and to encrypt communications between client browsers and Web servers. Revenues are generated through the issuance of SSL certificates for periods ranging from one to five years. The average certification issued by our Business Authentication Services business is approximately sixteen months. The SSL certificate also contains information about the certificate subscriber and the website domain to which the certificate was issued.

We currently offer the following SSL certificate services:

VeriSign Secure Site with Extended Validation (EV) SSL certificates and Secure Site Pro with EV SSL certificates: EV SSL certificates offer the same level of encryption as VeriSign's Secure Site and Secure Site Pro certificates but provide a higher level of business authentication. These certificates enable high security Web browsers to prominently display a green address bar and identify a website's organizational identity. EV SSL certificates also rely on high assurance authentication standards promulgated by the Certificate Authority (CA)/Browser Forum, a voluntary organization of leading CAs working together to define the guidelines and means of implementation for the EV SSL certificate standards.

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VeriSign Secure Site and Secure Site Pro certificates: Both our Secure Site and Secure Site Pro certificates enable up to 256-bit SSL encryption when both the Web server and the client browser support such encryption. Secure Site Pro, our premium certificate offering, implements Server Gated Cryptography, a technology which automatically steps-up encryption levels to 128-bit in certain client-browser/operating system configurations that would otherwise encrypt at lower levels. The VeriSign branded certificates validate and authenticate the organization requesting the certificate.

GeoTrust and thawte branded certificates: We also offer SSL certificate services under the GeoTrust and thawte brands. These services use similar underlying infrastructure as VeriSign branded certificates and are targeted at small businesses, Internet service providers and Web hosting companies. The GeoTrust and thawte branded certificates primarily validate the ownership or control of a domain.

User Authentication Services

User Authentication Services offer a variety of strong authentication methods to help enterprises deploy secure remote access and secure business applications through PKI, digital certificates, or one-time passwords.

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We offer a suite of User Authentication products and services, including our VeriSign Identity Protection (VIP) Service, our Fraud Detection Service, and our VeriSign PKI Service. Revenues in our User Authentication Services are derived from a one-time credential sale to the customer seeking network services and a one-time set-up fee. We also charge an annual service fee based upon the number of individual users authorized by the customer to access its network and a customer support fee.

VeriSign Identity Protection Service: Our VIP Service allows organizations to secure username and password access credentials with a one time password, before permitting access to protected online resources. Unlike traditional measures to provide such account security, VIP Service is delivered through the Internet as a standards-based managed service, which reduces deployment and operational costs.

Fraud Detection Service: Our Fraud Detection Service provides an invisible means of delivering proactive protection to consumers by detecting fraudulent logins and transactions in real-time without affecting a legitimate user's Web experience.

VeriSign PKI Service: VeriSign PKI Service helps organizations reduce risk and comply with security standards through the creation of an independently verifiable trust framework. This framework is used by organizations to both create and validate unique identities for users and devices which can then be leveraged as credentials for accessing sensitive information and systems. While alternative solutions can be developed for such needs, VeriSign PKI solutions are deployment- and future-ready, leveraging a highly available infrastructure that supports open standards and protocols. Customers may choose from a fully hosted solution where VeriSign operates the entire infrastructure, a partially hosted PKI Service with a customer's own network, or, in very specialized cases, leverage VeriSign's in-premise PKI solutions.

Divestiture Transactions and Presentation of Results of Operations

During the fourth quarter of 2007, we announced a change to our business strategy to allow management to focus its attention on our core competencies and to make additional resources available to invest in our core businesses. The strategy called for the divestiture or winding-down of our non-core businesses. We substantially completed this strategy during 2009.

During the first quarter of 2009, the Company disaggregated its Enterprise and Security Services disposal group held for sale into the following three businesses: (i) Global Security Consulting (GSC), (ii) iDefense and (iii) Managed Security Services (MSS). The Company decided to retain its iDefense business and, accordingly, reclassified the assets and liabilities related to iDefense as held and used. The Company also reclassified the historical results of operations of iDefense from discontinued operations to continuing operations as part of our Naming Services business for all periods presented.

In October 2009, we decided to wind down the operations of the CPS business after termination of active negotiations with a potential buyer. We expect the winding-down to be completed no later than the end of 2010. The assets and liabilities related to CPS have been reclassified to held and used and the results of operations of CPS have been reclassified from discontinued operations to continuing operations as part of our Other Services segment for all periods presented. The Pre-pay business was fully wound down in October 2009, and its results of operations were reclassified into discontinued operations.

The historical results of operations of our divested businesses have been reclassified as discontinued operations for all periods presented unless otherwise noted.

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During 2009, we completed the divestiture or winding-down of the following businesses:

The Mobile Delivery Gateway Services which offered solutions to manage the complex operator interfaces, relationships, distribution, reporting, and customer service for the delivery of premium mobile content to customers.

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The Pre-pay business which licensed and managed solutions for prepay billing customers to deliver rating and billing services.

Messaging and Mobile Media (MMM) Services which consisted of the InterCarrier Messaging, PictureMail, Premium Messaging Gateway, and Mobile Enterprise Service offerings. The MMM Services business was an industry-leading global provider of short-messaging, multimedia messaging, and mobile content application services.

The GSC business which helped companies understand corporate security requirements, comply with all applicable regulations, identify security vulnerabilities, reduce risk, and meet the security compliance requirements applicable to the particular business and industry.

The MSS business which enabled enterprises to effectively monitor and manage their network security infrastructure 24 hours per day, every day of the year, while reducing the associated time, expense, and personnel commitments by relying on the MSS business security platform and experienced security staff.

The Real-Time Publisher Services business which allowed organizations to obtain access to and organize large amounts of constantly updated content, and distribute it, in real time, to enterprises, Web-portal developers, application developers and consumers.

The Communications Services business which provided Billing and Commerce Services, Connectivity and Interoperability Services, and Intelligent Database Services.

The International Clearing business which enabled financial settlement and call data settlement for wireless and wireline carriers.

During 2008, we completed the divestiture of the following businesses:

The EMEA Mobile Media business which offered mobile application services that included interactive messaging applications, content portal services, and messaging gateway services.

The Post-pay business which enabled advanced billing and customer care services to wireless telecommunications carriers.

The Communications Consulting business which offered 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.

The Digital Brand Management Services business which offered a range of corporate domain name and brand protection services that help enterprises, legal professionals, information technology professionals and brand marketers monitor, protect and build digital brand equity.

The Content Delivery Network (CDN) business which offered broadband content services that enable the delivery of high-quality video and other rich media securely and efficiently at a very large scale. We retained an equity ownership in the CDN business and have accounted for our investment in the CDN business as an equity method investment with a carrying value of zero. As a result of our continuing involvement in the CDN business, the historical results of operations of the CDN business have not been classified as discontinued operations.

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The Self-Care and Analytics business which provided on-line analysis applications for mobile communications customers and on-line customer self-service with a single view of billing across multiple systems.

During 2007, we completed the divestiture of the following businesses:

The Retail Data Solutions (RDS) business which specialized in intelligent supply chain services. The historical results of operations of the RDS business have not been classified as discontinued operations because they were not significant. The historical results of operations of RDS are included in our Other Services segment.

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Sale of other businesses

In addition to the divestiture of the non-core businesses as part of our divestiture strategy, we also sold the following businesses:

In 2007, we sold 51% of our ownership interest in our wholly-owned Jamba subsidiary to Fox Entertainment (Fox), a subsidiary of News Corporation, and simultaneously entered into two joint venture agreements (Jamba joint ventures) with Fox. In 2008, we sold the remaining 49% ownership interest in the Jamba joint ventures to Fox. The historical results of operations of the Jamba subsidiary and the Jamba joint ventures are classified as continuing operations for all periods presented.

In 2007, we sold our Jamba Service GmbH subsidiary (Jamba Service) which marketed insurance and extended service warranties to consumers for mobile electronic equipment and products. The historical results of operations of Jamba Service are classified as discontinued operations for all periods presented.

Operations Infrastructure

Our operations infrastructure consists of secure data centers in Mountain View, California; Dulles, Virginia; New Castle, Delaware; Melbourne, Australia; London, England; Kawasaki, Japan; and Fribourg, Switzerland. Most of these secure data centers operate on a 24-hour a day, every day basis, supporting our business units and services. The performance and scale of our infrastructure are critical for both our Naming Services and Authentication Services, and give us the platform to maintain our leadership position in our core services. Key features of our operations infrastructure include:

Distributed Servers: We deploy a large number of high-speed servers to support capacity and availability demands that, in conjunction with our proprietary software, offer automatic failover, global and local load balancing and threshold monitoring on critical servers.

Advanced Telecommunications: We deploy and maintain redundant telecommunications and routing hardware and maintain high-speed connections to multiple Internet service providers (ISPs) to ensure that our critical services are readily accessible to customers at all times.

Network Security: We incorporate architectural concepts such as protected domains, restricted nodes and distributed access control in our system architecture. We have also developed proprietary communications protocols within and between software modules that are designed to prevent most known forms of electronic attacks. In addition, we employ firewalls and intrusion detection software, and contract with security consultants who perform periodic probes to test our systems and security risk assessments.

As part of our operations infrastructure for our Naming Services business, we operate all authoritative domain name servers that answer domain name lookups for the .com and .net zones, as well as for the other top-level domains for which we are the registry. We also operate two of the thirteen externally visible root zone server addresses, including the A root, which is considered to be the authoritative root zone server of the Internet's DNS. The domain name servers provide the associated name server and IP address for every .com and .net domain name on the Internet and a large number of other top-level domain queries, resulting in an annual average of over 55 billion responses per day. These name servers are located around the world, providing local domain name service throughout North America, South America, Europe, and Asia. Each server facility is a controlled and monitored environment, incorporating security and system maintenance features. This network of name servers is one of the cornerstones of the Internet's DNS infrastructure.

In 2009 VeriSign completed most elements of Project Titan, a large-scale infrastructure upgrade intended to increase the capacity of domain name queries handled by our DNS infrastructure. Project Titan also further fortified our infrastructure to repel significant DDoS attacks, and provide enhanced monitoring and logging capabilities. As part of the Project Titan implementation between 2007 and 2009, all of VeriSign's infrastructure sites have been upgraded, and more than 40 regional resolution sites were deployed.

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Call Centers and Help Desk: We provide customer support services through our phone-based call centers, email help desks and Web-based self-help systems. Our California call center is staffed 24 hours a day, every day of the year and employs an automated call directory system to support our Authentication Services business. Our Virginia call center is staffed 24 hours a day, every day of the year to support our Naming Services business. All call centers have a staff of trained customer support agents and provide Web-based support services utilizing customized automatic response systems to provide self-help recommendations.

Operations Support and Monitoring: Through our network operations centers, we have an extensive monitoring capability that enables us to track the status and performance of our critical database systems and our global resolution systems. Our distributed network operations centers are staffed 24 hours a day, every day of the year.

Disaster Recovery Plans: We have disaster recovery and business continuity capabilities that are designed to deal with the loss of entire data centers and other facilities. Our Naming Services business maintains dual mirrored data centers that allow rapid failover with no data loss and no loss of function or capacity. Our Authentication Services business is similarly protected by having service capabilities that exist in both of our East and West Coast data center facilities. Our critical data services (including digital certificates, domain name registration, telecommunications services and global resolution) use advanced storage systems that provide data protection through techniques such as mirroring and remote replication.

Marketing, Sales and Distribution

We market our Naming Services worldwide through registrars. We market our Authentication Services worldwide through multiple distribution channels, including the Internet, direct sales, telesales, direct marketing through all media, mass merchandisers, value-added resellers, systems integrators and VeriSign International Affiliates (each a VeriSign Affiliate). VeriSign established the VeriSign International Affiliate Program in the 1990s to recruit resale partners to resell PKI Services in regions where VeriSign does not offer PKI Services. VeriSign enables each VeriSign Affiliate to operate all aspects of a PKI Service business by licensing to the VeriSign Affiliate the VeriSign Processing Center software platform, which provides a scalable certificate authority service platform capable of supporting thousands of enterprises and millions of end users. Each VeriSign Affiliate is responsible for localizing PKI Services according to its local country regulations and requirements.

Our direct sales and marketing organization at December 31, 2009, consisted of 488 employees. We have field sales offices throughout the world.

Research and Development

As of December 31, 2009, we had 571 employees dedicated to research and development. We believe that timely development of new and enhanced Internet security, e-commerce, information, and technologies is necessary to remain competitive in the marketplace. During 2009, 2008 and 2007 our research and development expenses were \$83.6 million, \$88.9 million and \$94.4 million, respectively.

Our future success will depend in large part on our ability to continue to maintain and enhance our current technologies and services. In the past, we developed our services both independently and through efforts with leading application developers and major customers. We have also, in

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certain circumstances, acquired or licensed technology from third parties. Although we will continue to work closely with developers and major customers in our development efforts, we expect that most of the future enhancements to existing services and new services will be developed internally or acquired through business acquisitions.

The markets for our services are dynamic, characterized by rapid technological developments, frequent new product introductions and evolving industry standards. The constantly changing nature of these markets and their

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rapid evolution will require us to continually improve the performance, features and reliability of our services, particularly in response to competitive offerings, and to introduce both new and enhanced services as quickly as possible and prior to our competitors.

Competition

We compete with numerous companies in each of the Naming Services and Authentication Services businesses. The overall number of our competitors may increase and the identity and composition of competitors may change over time.

Competition in Naming Services: We face competition in the domain name registry space from other gTLD and ccTLD registries that are competing for the business of entities and individuals that are seeking to establish a Web presence, including registries offering services related to the .info, .org, .mobi, .biz, .pro, .aero, .museum and .coop gTLDs and registries offering services related to ccTLDs. ICANN currently has registry agreements with 14 registries for the operation of 16 gTLDs. In addition, there are over 240 ccTLD registries. Furthermore, under our agreements with ICANN, we are subject to certain restrictions in the operation of .com, .net and .name on pricing, bundling and use of registrars that do not apply to ccTLDs and therefore may create a competitive disadvantage for us.

We also face competition from service providers that offer outsourced domain name registration, resolutions and other DNS services to organizations that require a reliable and scalable infrastructure. Among the competitors are Neustar, Inc., Afiliis Limited and Nominum, Inc.

In addition, to the extent end-users navigate using search engines as opposed to direct navigation, we may face competition from search engine operators such as Google Inc., Microsoft Corporation and Yahoo! Inc.

Additional competition to our business may arise from the upcoming introduction of new Internationalized Domain Name TLDs (IDN TLDs) and new gTLDs by ICANN. On October 30, 2009, ICANN approved a fast track process for awarding new IDN TLDs by the first half of 2010. Other new domain extensions (including ones for which we could apply) could become available by the end of 2011. We do not yet know the impact, if any, that these new domain extensions may have on our business, including the extent to which the earlier introduction of ccTLDs in local languages and scripts by other registries will constitute a competitive advantage. While we may apply for one or more of these new domain extensions and seek to enter into agreements with other gTLD applicants to provide back-end registry services, there is no certainty that we will ultimately be successful and even if we are successful in obtaining one or more of these new domain extensions, there is no guarantee that such extensions will be any more successful than the domain name extensions obtained by our competitors. We do not yet know the impact, if any, these new domain extensions may have on our business, but the increase of name availability in the marketplace could introduce new choices for end-users as well as create end-user confusion around brand preference, which could have a material adverse effect on our business.

Competition in Business and User Authentication Services: Our Business Authentication Services and User Authentication Services are targeted at the rapidly evolving market for Internet security services, including network security, authentication and validation, which enable secure e-commerce and telecommunications over wireline and wireless IP networks. Principal competitors generally fall within one of the following categories: (1) companies such as RSA Security, Inc. (RSA), the security division of EMC Corporation, and Entrust, Inc. which offer software applications and related digital certificate products that customers operate themselves; (2) companies such as IdenTrust, Inc. that primarily offer digital certificate and certification authority-related services; (3) companies focused on providing a bundled offering of products and services; and (4) companies offering competing SSL certificate and other security services, including domain name registrars.

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The market for Business Authentication Services and User Authentication Services is intensely competitive, subject to rapid change and significantly affected by new product and service introductions and other market activities of industry participants. We also experience competition from a number of smaller companies, and we

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believe that our primary long-term competitors may not yet have entered the market. Furthermore, AOL Inc. and Microsoft Corporation have introduced software products that enable the issuance and management of digital certificates, and we believe that other companies could introduce similar products. If these or other companies introduce new products or services that compete with our Authentication Services, our business could be materially harmed.

In addition, browser companies that embed our interface technologies or otherwise feature them as a provider of digital certificate products and services in their Web browsers or on their websites could also promote products and services of our competitors or charge us substantial fees for promotions in the future.

Industry Regulation

Naming Services: Within the U.S. Government, oversight of Internet administration is provided by the DOC. Effective October 1, 2009, the DOC and ICANN entered into a new agreement, known as the Affirmation of Commitments which replaced a prior agreement known as the Joint Project Agreement. Under the Affirmation of Commitments, the DOC became one of several parties working together with other representative constituency members in providing an on-going review of ICANN's performance and accountability. The Affirmation of Commitments provides for more defined international participation in this review. The agreement sets forth periodic reviews by committees, the membership of which have yet to be determined. These review panels are charged with reviewing and making recommendations regarding: (i) the accountability and transparency of ICANN; (ii) the security, stability and resiliency of the DNS; (iii) the impact of new gTLDs on competition, consumer trust, and consumer choice; and (iv) the effectiveness of ICANN's policies with respect to registrant data in meeting the legitimate needs of law enforcement and promoting consumer trust. Under the Affirmation of Commitments, the Assistant Secretary of Communications and Information of the DOC will be a member of the Accountability and Transparency review panel. The reviews generally are to occur no less than every three to four years.

As the exclusive registry of domain names within the *.com*, *.net* and *.name* gTLDs, we have entered into certain agreements with ICANN and the DOC:

.com Registry Agreement: On November 29, 2006, the DOC approved the Registry Agreement between ICANN and VeriSign for the *.com* gTLD (the *.com* Registry Agreement). The *.com* Registry Agreement provides that we will continue to be the sole registry operator for domain names in the *.com* top-level domain through November 30, 2012. The *.com* Registry Agreement provides that it shall be renewed for successive terms unless it has been determined that VeriSign has been in fundamental and material breach of certain provisions of the *.com* Registry Agreement and has failed to cure such breach. The DOC shall approve such renewal if it concludes that approval will serve the public interest in (a) the continued security and stability of the Internet DNS and the operation of the *.com* registry including, in addition to other relevant factors, consideration of VeriSign's compliance with Consensus policies and technical specifications and its service level agreements as set forth in the *.com* Registry Agreement and the investment associated with improving the security and stability of the DNS, and (b) the provision of registry services as defined in the *.com* Registry Agreement at reasonable prices, terms and conditions. The parties have an expectancy of renewal of the *.com* Registry Agreement so long as the foregoing public interest standard is met and VeriSign is not in breach of the *.com* Registry Agreement.

We are required to comply with and implement temporary specifications or policies and consensus policies, as well as other provisions pursuant to the 2006 *.com* Registry Agreement relating to handling of data and other registry operations. The 2006 *.com* Registry Agreement also provides a procedure for VeriSign to propose, and ICANN to review and approve, additional registry services.

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Cooperative Agreement: In connection with the DOC's approval of the .com Registry Agreement, VeriSign and the DOC entered into Amendment No. Thirty (30) to their Cooperative Agreement - Special Awards Conditions NCR-92-18742, regarding operation of the .com gTLD registries, which extends the term of Cooperative Agreement through November 30, 2012, and provides that any renewal or extension of the .com

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Registry Agreement is subject to prior written approval by the DOC. As described above, the Amendment provides that the DOC shall approve such renewal if it concludes that it is in the public interest and in the continued security and stability of the DNS and that the provision of registry services is offered on reasonable terms.

.net Registry Agreement: On July 1, 2005, we entered into a Registry Agreement with ICANN for the *.net* gTLD (the *.net* Registry Agreement). The *.net* Registry Agreement provides that we will continue to be the sole registry operator for domain names in the *.net* top-level domain through June 30, 2011. The *.net* Registry Agreement provides that it shall be renewed unless it has been determined that VeriSign has been in fundamental and material breach of certain provisions of the *.net* Registry Agreement and has failed to cure such breach.

.name Registry Agreement: On October 1, 2008, we acquired The Global Name Registry Ltd. (GNR), the holder of the *.name* Registry Agreement which provides that GNR will continue to be the sole registry operator for domain names in the *.name* top-level domain through August 15, 2012. The renewal provisions are the same as for the *.net* Registry Agreement.

The descriptions of the *.com* Registry Agreement and Amendment No. 30 of the Cooperative Agreement are qualified in their entirety by the text of the complete agreements that are incorporated by reference as exhibits to this Form 10-K.

Authentication Services: Some of our security services utilize and incorporate encryption technology. Exports of software and hardware products utilizing encryption technology are generally restricted by the U.S. and various non-U.S. governments. We have obtained approval to export many of the security services we provide to customers globally under applicable U.S. export law. As the list of products and countries for which export approval is expanded or changes, government restrictions on the export of software and hardware products utilizing encryption technology may grow and become an impediment to our growth in international markets. If we do not obtain required approvals or we violate applicable laws, we may not be able to sell some of our security services in international markets and may be subject to fines and other penalties.

There are currently no U.S. federal laws or regulations that specifically control certification authorities, but a limited number of states have enacted legislation or regulations with respect to certification authorities. If we do not comply with these state laws and regulations, we will lose the statutory benefits and protections that would be otherwise afforded to us. Moreover, if our market for digital certificates grows, the U.S. federal, state, or foreign governments may choose to enact further regulations governing certification authorities or other providers of digital certificate products and related services. These regulations or the costs of complying with these regulations could have a material, adverse impact on our business.

Intellectual Property

We rely primarily on a combination of copyrights, trademarks, service marks, patents, restrictions on disclosure and other methods to protect our intellectual property. We also enter into confidentiality and/or invention assignment agreements with our employees, consultants and current and potential affiliates, customers and business partners. We also generally control access to and distribution of proprietary documentation and other confidential information.

We have been issued numerous patents in the U.S. and abroad, covering a wide range of our technology. Additionally, we have filed numerous patent applications with respect to certain of our technology in the U.S. Patent and Trademark Office and patent offices outside the U.S. Patents may not be awarded with respect to these applications and even if such patents are awarded, such patents may not provide us with sufficient

protection of our intellectual property.

We have obtained trademark registrations for various VeriSign marks in the U.S. and other countries, including VERISIGN, the VeriSign logo, the checkmark circle, GEOTRUST, and THAWTE. We have also filed

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numerous applications to register VeriSign trademarks and claims, and have common law rights in many other proprietary names. We take steps to enforce and police VeriSign's trademarks. We rely on the strength of our VeriSign brand to differentiate ourselves in the marketing of our products, particularly with respect to our SSL certificates.

With regard to our Naming Services business, our principal intellectual property consists of, and our success is dependent upon, proprietary software used in our registry service business and certain methodologies and technical expertise we use in both the design and implementation of our current and future registry services and Internet-based products and services businesses, including the conversion of IDNs. We own our proprietary Shared Registration System through which competing registrars submit second-level domain name registrations for each of the registries we operate. Some of the software and protocols used in our registry services are in the public domain or are otherwise available to our competitors.

With regard to our Authentication Services business, we also rely on certain licensed third-party technology, such as public key cryptography technology licensed from RSA, and other technology that is used in our security services to perform key functions. RSA has granted us a perpetual, royalty-free, nonexclusive, worldwide license to use certain RSA products relating to certificate issuing, management and processing functionality. We develop services that contain or incorporate the RSA BSAFE products and that relate to digital certificate-issuing software, software for the management of private keys and for digitally signing computer files on behalf of others, and software for customers to preview and forward digital certificate requests to them. RSA's BSAFE product is a software tool kit that allows for the integration of encryption and authentication features into software applications.

Employees

The following table shows a comparison of our consolidated employee headcount, by function, including historical headcount associated with the divested and wound-down businesses:

	As of December 31,		
	2009	2008	2007
Employee headcount by function:			
Cost of revenues	658	1,164	1,673
Sales and marketing	488	607	809
Research and development	571	769	954
General and administrative	611	757	815
 Total	 2,328	 3,297	 4,251

We have never had a work stoppage, and no U.S.-based employees are represented under collective bargaining agreements. Our ability to achieve our financial and operational objectives depends in large part upon our continued ability to attract, integrate, train, retain and motivate highly qualified sales, technical and managerial personnel, and upon the continued service of our senior management and key sales and technical personnel. Competition for qualified personnel in our industry and in some of our geographical locations is intense, particularly for software development personnel.

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ITEM 1A. RISK FACTORS

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

Risks relating to our business

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

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

the current global economic environment as well as its impact on e-commerce, financial services, and the communications and Internet industries;

volume of new domain name registrations and customer renewals in our Naming Services business;

the long sales and implementation cycles for, and potentially large order sizes of, some of our Authentication Services and the timing and execution of individual customer contracts;

changes in the payment structures of on-line advertising network providers and compensation levels, as well as policies proposed and implemented by ICANN, which could impact the number of domain name registrations;

our success in marketing and market acceptance of our services by our existing customers and by new customers;

customer renewal rates and turnover of customers of our services;

continued development of our direct and indirect distribution channels for our products and services, both in the U.S. and abroad;

the impact of price changes in our products and services or our competitors' products and services;

the impact of decisions by channel partners and resellers to offer competing products or modify their marketing practices;

the mix of all our services sold during a period;

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seasonal fluctuations in business activity;

changes in marketing expenses related to promoting and distributing our services;

potential attacks by hackers, which could threaten the perceived reliability of our products and services;

changes in the level of spending for information technology-related products and services by enterprise customers; and

the uncertainties, costs and risks related to our divestiture plan, including any income statement charges we incur in connection therewith and costs related to o