INOVIO BIOMEDICAL CORP
Form S-3
January 27, 2006

**As Filed with the Securities and Exchange Commission on January 27, 2006** **Registration No. 333-**

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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# FORM S-3

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

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# INOVIO BIOMEDICAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

| **Delaware** | **3841** | **33-0969592** |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification Number) |

**11494 Sorrento Valley Road**
**San Diego, California 92121**
**Telephone (858) 597-6006**
**Facsimile (858) 597-0119**

(Address including zip code and telephone number, including area code, of registrant s principal executive offices)

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**Avtar Dhillon**

**Chief Executive Officer and President**

**11494 Sorrento Valley Road**

**San Diego, California 92121**

**Telephone (858) 597-6006**

**Facsimile (858) 597-0119**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Copies to

**Thomas J. Poletti, Esq.**

**Kirkpatrick & Lockhart Nicholson Graham LLP**

**10100 Santa Monica Blvd., 7th Floor**

**Los Angeles, CA 90067**

**Telephone (310) 552-5000**

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Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are to be offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ý

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

**CALCULATION OF REGISTRATION FEE**

| Title of each class of securities to be registered | Amount to be Registered (1) | Proposed Maximum Offering Price per Share (2) | Proposed Maximum Aggregate Offering Price (2) | Amount of Registration Fee |
|---|---|---|---|---|
| Common Stock, $.001 par value (3) | 13,782,127 | $2.225 | $30,665,233 | $3,281.18 |

(1) The shares of common stock being registered hereunder are being registered for resale by the selling stockholders named in the prospectus or a prospectus supplement (the selling stockholders ) and includes 3,737,053 shares issuable upon exercise of outstanding warrants. In accordance with Rule 416(a), the Registrant is also registering hereunder an indeterminate number of shares that may be issued and resold to prevent dilution resulting from stock splits, stock dividends or similar transactions.

**(2)** Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) based on the average of the high and low prices of Registrant s common stock on the American Stock Exchange on January 24, 2006.

**The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registration shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement relating to these securities that has been filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

Subject to Completion, Dated January 27, 2006

PROSPECTUS

**13,782,127 Shares**

**Common Stock**

This prospectus relates to 13,782,127 shares of common stock of Inovio Biomedical Corporation that may be sold from time to time by the selling stockholders named in this prospectus beginning on page 26. Of these shares, 10,045,074 shares are issued and outstanding and 3,737,053 shares are issuable upon exercise of outstanding warrants. We originally issued the shares and warrants in private transactions. The selling stockholders may offer their shares through public or private transactions, on or off the American Stock Exchange, at prevailing market prices, or at privately negotiated prices. For details of how the selling stockholders may offer their Inovio common stock, please see the section of this prospectus called Plan of Distribution beginning on page 36. We will not receive any proceeds from the sales of shares by the selling stockholders.

Our common stock is traded on the American Stock Exchange under the symbol INO. On January 26, 2006, the last reported sale price for our common stock on the American Stock Exchange was $2.36 per share.

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The securities offered by this prospectus involve a high degree of risk. See Risk Factors beginning on page 8.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus is dated ,2006

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**You should rely only on the information contained or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized anyone to provide you with information different from that contained or incorporated by reference into this prospectus. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representation. You should assume that the information contained in this prospectus or any prospectus supplement is accurate only as of the date on the front of the document and that any information contained in any document we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus or any prospectus supplement or any sale of a security. These documents are not an offer to sell or a solicitation of an offer to buy these shares of common stock in any circumstances under which the offer or solicitation is unlawful.**

**ABOUT INOVIO**

We are a San Diego-based biomedical company whose technology platform is based on medical devices that use electroporation therapy, or EPT, to deliver drugs and genes into cells. We are developing and seeking to commercialize medical therapies to address a number of diseases with critical unmet treatment needs using EPT. Our Medpulser® Electroporation Therapy System is in Phase III clinical trials in the United States for the treatment of recurrent head and neck cancer. In addition, we are currently conducting a pre-marketing study to support the commercialization of our Medpulser® Electroporation Therapy System in Europe. Inovio s system delivers electrical pulses to tumors injected with the generic drug bleomycin. The distinctive feature of the system, which uses a generator together with disposable needle applicators, is the preservation of healthy tissue at the margins of the tumor. We believe this may afford advantages over surgery in preserving function and improving the quality of life for cancer patients who would otherwise face significant morbidity associated with cancer surgery.

The primary front line treatment of solid tumors involves surgical resection and/or radiation to debulk and control tumor growth prior to initiating systemic therapy with chemotherapeutic agents. Because surgeons often cannot determine the border, or margins, between healthy and diseased tissue, they will often remove, or resect, an area outside of the obvious tumor mass. This can result in the loss of function and appearance of the surrounding tissues and organs, reducing the patient s quality of life. Examples include the loss of speech from resection of tumors on the tongue or larynx or loss of erectile function from resection of the prostate. Recent advances in non-surgical forms of tumor ablation, such as cryoablation, microwave or high frequency radio ablation therapy, fail to meet clinical needs in preserving normal healthy tissue. Cryoablation is a technique that freezes cancer cells with liquid nitrogen. Radio ablation uses radio frequency energy to heat tissue to a high enough temperature to ablate it, or cause cell death. Given the desire for improved outcomes in the surgical resection of a large number of solid tumors such as head and neck, cutaneous, pancreatic, breast and prostate cancer, we believe that there may be significant demand for our technology from surgical oncologists.

As part of our Medpulser® Electroporation Therapy System product line, we have also been developing devices for the delivery of DNA for DNA vaccinations and gene therapy. To our knowledge, we were the first company to initiate a clinical study involving the use of EPT with DNA involving human patients. This was done in collaboration with investigators at the Moffit Regional Cancer Center in Tampa, Florida in December 2004. This FDA-approved investigation involves electroporating melanomas with DNA-encoded cytokines in an attempt to stimulate immunity against the patient s tumor. In 2004, we also extended our license with Vical to include a worldwide exclusive license for the use of electroporation together with Vical s «naked» DNA technology for their development of an HIV DNA vaccine. We also executed a major licensing deal with milestone and royalty payments with Merck for the development of proprietary DNA vaccines for cancer and infectious disease using electroporation. In addition, in January 2005, we acquired Inovio AS, a Norwegian company, to expand our patent portfolio in the area of intramuscular electroporation. We believe our compelling asset base of intellectual property and scientific and engineering accomplishments, combined with clinical results, position us as a leader in EPT.

We believe that attempts to pioneer new therapies based on DNA have been hampered by the side effects associated with the use of viral vectors for DNA delivery, i.e., certain genetically engineered viruses used as carriers or vectors to deliver DNA to the cell. In addition to safety issues, viral vectors are difficult and expensive to manufacture. Because electroporation has proven efficient and safe in animal experiments, we have been developing Medpulser® DNA Delivery Systems for different target tissues. By engineering different applicators and choosing appropriate electroporation parameters, we can deliver DNA to the muscle, tumor tissue, skin or vasculature. This should facilitate attempts to use DNA for

therapies ranging from vaccination to gene therapy of single or multiple gene defects, including cancer and vascular diseases.

We incurred a net loss attributable to common stockholders of $14.8 million for the nine months ended September 30, 2005, and had working capital of $2.4 million and an accumulated deficit of $102.7 million as of September 30, 2005. In December 2005, we successfully raised gross cash proceeds of approximately $15.8 million (including $2.4 million due from one of the investors as part of a funding commitment made, and promissory note delivered, to us in January 2005) through the sale of our common stock and warrants (see Recent Developments below). Net cash proceeds from this sale were approximately $14.8 million. However, despite our receipt of these funds, our ability to continue as a going concern is dependent upon our ability to obtain additional capital and to achieve profitable operations. We will continue to rely on outside sources of financing to meet our capital needs for 2007 and beyond. The outcome of whether we will ever be able to achieve profitable operations or continue to obtain additional capital cannot be predicted at this time. Further, there can be no assurance, assuming we successfully raise additional funds, that we will achieve positive cash flow or successfully commercialize our products. If we are not able to secure additional funding, we will be required to scale back our research and development programs, preclinical studies and clinical trials, and general and administrative activities and may not be able to continue in business. Including the cash proceeds received from our December 2005, January 2005, May 2004 and July 2003 financings discussed below, various licensing payments, the exercise of employee stock options and investor warrants, we believe we have sufficient funds to fund our operations for at least the next 12 months.

Our principal executive offices are located at 11494 Sorrento Valley Road, San Diego, California 92121-1318, and our telephone number is (858) 597-6006. Our website address is www.inovio.com. Effective March 31, 2005, we changed our name from Genetronics Biomedical Corporation to Inovio Biomedical Corporation and effective April 4, 2005, our American Stock Exchange ticker symbol changed from «GEB» to «INO.»

**Recent Developments**

In January 2006, we announced that we have been granted two new U.S. patents relating to the use of electroporation to deliver useful therapeutic agents in humans. The first patent includes claims for in vivo electroporation of muscle tissue. We believe this patent enhances the intellectual property for *in vivo* applications of electroporation and expands the coverage of our primary patents directed at basic electroporation methodologies that are important in the multiple Phase I clinical studies being conducted by our strategic partners. The second patent includes claims methods for the use of electroporation to deliver DNA and other nucleic acids into skin for the purpose of DNA vaccination and gene therapy. We believe DNA electroporation of the skin expands the delivery methods toward the development of next generation DNA vaccines and gene therapeutics in an area we are actively partnering

In December 2005, we completed a private placement of an aggregate of approximately $15.8 million in gross cash proceeds through the sale of our common stock to institutional and accredited investors, which included Merck & Co. Inc. and Vical Inc., two of our strategic partners. Net cash proceeds from this sale were approximately $14.8 million. The common stock was priced at $2.40 per share, which represented a premium to the closing price on December 15, 2005. In addition, we issued to the investors five-year warrants to purchase 35% of the number of shares of common stock they acquired in the offering at an exercise price of approximately $2.93 per share, a 25% premium to the closing price on December 15, 2005. In addition to the securities sold for cash in the private placement, we also issued shares of common stock and warrants on the same terms as the corresponding securities that were sold for cash to certain holders of our outstanding Cumulative Convertible Preferred Stock in exchange for their Preferred Stock pursuant to existing participation rights applicable to our new equity financings and to certain holders of our outstanding common stock in

exchange for our common stock. Gross cash proceeds from this funding included $2.4 million due from an investor, as part of their funding commitment made, and promissory note delivered, to us in January 2005. As a result of the use by these existing holders of our Preferred Stock and Common Stock to acquire our shares and warrants in this private placement, we expect to report a non-cash imputed dividend charge that we estimate will be approximately $8.3 million in our consolidated statement of operations for the year ended December 31, 2005. This imputed dividend charge will be calculated using guidance contained in Emerging Issues Task Force ( EITF ) Issue No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments. Our estimate regarding the range of the non-cash imputed dividend charge to be recorded for the year ended December 31, 2005 is a forward looking statement. The actual charge may be more or less depending on any adjustments we make as a result of the audit of our financial statements for the year ended December 31, 2005 by our independent registered public accounting firm.

In October 2005, we announced the initiation of a Phase I clinical trial to treat locally recurrent cancer after a mastectomy or partial mastectomy using Inovio s Selective Electrochemical Tumor Ablation, or SECTA, therapy. This study is designed to demonstrate that Inovio s innovative SECTA therapy, which provides discriminating selectivity in killing cancerous cells, can preserve surrounding healthy tissue when treating solid tumors while providing equivalency to surgery in terms of local tumor control. As an alternative to mastectomy for managing recurrences after prior breast conserving therapy, SECTA could potentially provide important quality of life benefits to breast cancer patients. This FDA-approved study is a multi-center, open label, single treatment arm trial and may enroll up to 24 patients with locally recurrent or metastatic in-breast carcinoma after partial mastectomy (lumptectomy) or cutaneous or sub-cutaneous recurrent or metastatic carcinoma of the breast or chest wall following mastectomy. The primary endpoint of this study is to assess the safety profile of Inovio s electroporation-based SECTA therapy in conjunction with bleomycin injected into a lesion. Secondary endpoints include an assessment of histopathology and objective tumor response through 24 weeks.

In October 2005, we announced that we have been granted a new patent for transdermal applications (i.e., applications to the skin) of our technology. This patent claims an apparatus that uses electroporation to deliver a therapeutic agent to and through the skin for medical applications, such as for delivering drugs or agents for cosmetic purposes. This patent expands Inovio s protected intellectual property to a handheld electroporation device that can be battery powered and offers a variety of electrode configurations.

In September 2005, we announced that we had been awarded an appropriation of approximately $1 million by the United States Department of Defense for the development of its gene delivery electroporation technology for application to vaccinations against infectious diseases, including potential bioterrorism agents. The United States Congress appropriated the funding in the Defense Appropriations Bill for 2005. The appropriation is a continuation of the first United States Army grant received by Inovio AS in Norway last year. The Inovio gene delivery system is a proprietary process for genetic immunization. It utilizes intramuscular electroporation of DNA, encoding selected antigens to induce immune responses. Compared to conventional vaccines, DNA vaccines delivered using electroporation appear to afford several important advantages in enhancing the onset and level of immunity generated, which may be critical in attempting to address threats posed by pandemics or bioterrorism. Numerous genes can be isolated from potential infectious organisms, sequenced, and then synthesized for vaccination of the population or military in order to induce a protective immune response. We expect to recognize the majority of the revenue from this grant beginning in 2006.

In July 2005, we announced along with our partner Vical Inc. the initiation of a human Phase 1 study of an investigational method of delivering interleukin-2 (IL-2), a potent immune system stimulant, for patients with recurrent metastatic melanoma. Intravenous delivery of IL-2 protein is approved as a treatment for metastatic melanoma, but frequently causes severe systemic toxicities. The novel treatment

approach being studied in this trial involves direct injection into a tumor lesion of plasmid DNA, or pDNA, encoding IL-2 followed by electroporation, the local application of electrical pulses designed to enhance the uptake of the pDNA into tumor cells. The pDNA is designed to cause cells within the tumor to produce high levels of IL-2 protein locally and stimulate the immune system to attack the tumor without the associated systemic toxicities. The protocol for this trial contemplates that treatments will be administered once a week in two four-week cycles, with each cycle followed by a four-week observation period. The initial dose-escalation phase of the trial will enroll up to three patients each at doses of 0.5 mg, 1.5 mg and 5 mg delivered to a single tumor lesion per patient, with a final group receiving 5 mg in each of three tumor lesions per patient. Up to 17 additional patients will be treated at the highest tolerated dose. The primary endpoint in the trial is safety. Secondary efficacy endpoints will also be monitored.

In July 2005, we received a $2 million milestone payment from Merck & Co., Inc. resulting from the achievement of a clinical milestone by Merck for a plasmid-based vaccine using Inovio s MedPulser® DNA Delivery System. The milestone relates to Inovio s license and collaboration agreement with Merck that was initiated in May 2004 for the development of certain DNA vaccines. Further development of the product may lead to additional milestone payments and royalties to Inovio. Inovio received this milestone payment for its contribution to the collaboration, which has demonstrated the high level of gene delivery and expression that is thought to be necessary for the induction of a therapeutic immune response. Merck has funded all clinical development costs of this product to date.

In May 2005, Merck exercised an option for a non-exclusive license for an additional antigen to be used with Inovio s MedPulser® DNA Delivery System, which is being developed for use with certain of Merck s DNA vaccine research programs. This option was also created under our 2004 license and research collaboration agreement with Merck and brings the total number of antigens licensed by Merck so far to three. A limited number of additional options for further target antigens remain available for Merck to license under our 2004 license and research collaboration agreement with Merck. We received the option fee of $500,000, which is characterized as a license payment in our financial statements, in June 2005, and along with other license payments received from Merck in 2004 and 2005, will be amortized over the remaining minimum term of our agreement with Merck.

In April 2005, we announced the initiation of a Phase I/II clinical trial undertaken in collaboration with the University of Southampton of Inovio s DNA delivery technology. This trial has been approved by the Medicines and Healthcare products Regulatory Agency (MHRA) of the United Kingdom and will investigate Inovio s DNA delivery technology to deliver a therapeutic plasmid-based DNA vaccine to skeletal muscles with the aim of treating recurrent prostate cancer. The trial is sponsored and led by the University of Southampton, to investigate whether its DNA vaccine can stimulate patients to develop immune responses against prostate cancer and whether use of Inovio s electroporation system enhances this response. In this Phase I/II open-label study, plasmid DNA encoding a prostate tumor antigen is delivered directly to skeletal muscles in patients with recurrent prostate cancer either by simple injection or using Inovio s proprietary DNA delivery system. This technology, which has been shown in preclinical studies to induce antigen production and generation of an immune response against the tumor antigen, uses electroporation to enable the entry and uptake of plasmid DNA into the muscle cells.

In March 2005, we announced that we have been granted a patent for a vascular application of our technology. The patent was granted for the invention that brief electrical pulses of relatively high field strength applied to blood vessels cause a widening of the inner diameter, or lumen, of the treated vessels. This allows for enhanced blood flow while lowering local blood pressure. We believe this procedure may have the potential to be applied beneficially to patients who suffer from partially or totally blocked arteries or veins, either by administering electrical field pulses by themselves or in conjunction with angioplasty.

In March 2005, we announced the initiation of a Phase I clinical trial to treat pancreatic cancer using our Medpulser® Elecroporation Therapy System. The FDA has granted us orphan designation for this indication. The primary endpoint of this study is to determine the safety profile of the Medpulser® electroporation therapy in conjunction with intralesionally-injected (i.e., tumor injected) bleomycin for the treatment of unresectable (i.e., unable to be removed by surgery) locally advanced pancreatic cancer. The secondary endpoints are to assess objective tumor response, patient pain, and weight loss over 24 weeks following electroporation therapy. Our aim is to complete enrollment of up to 12 patients by the end of the second quarter of 2006.

**SPECIAL NOTE ON FORWARD LOOKING STATEMENTS**

This prospectus and the documents and information incorporated by reference in this prospectus, such as under the heading About Inovio in this prospectus and from Item 1. Business and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2004, include forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended and section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include the information concerning our possible or assumed future operating results, business strategies, financing plans, competitive position, industry environment, the anticipated impact on our business and financial results of recent and future acquisitions, the effects of competition, our ability to produce new products in a cost-effective manner and estimates relating to our industry. Forward-looking statements may be identified by the use of words like believes, intends, expects, may, will, should or anticipates, or the negative equivalents of those wor comparable terminology, and by discussions of strategies that involve risks and uncertainties.

Actual results may differ materially from those expressed or implied by forward-looking statements for a number of reasons, including those appearing elsewhere in this prospectus under the heading Risk Factors. In addition, we base forward-looking statements on assumptions about future events, which may not prove to be accurate. In light of these risks, uncertainties and assumptions, you should be aware that the forward-looking events described in this prospectus and the documents incorporated by reference in this prospectus may not occur.

**RISK FACTORS**

*You should carefully consider the following factors regarding information included in this Registration Statement. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, financial condition and operating results could be materially adversely affected.*

**IF WE ARE UNABLE TO DEVELOP COMMERCIALLY SUCCESSFUL PRODUCTS, INCLUDING OUR MEDPULSER® ELECTROPORATION THERAPY SYSTEM IN VARIOUS MARKETS FOR MULTIPLE INDICATIONS, PARTICULARLY FOR THE TREATMENT OF HEAD AND NECK CANCER, OUR BUSINESS WILL BE HARMED AND WE MAY BE FORCED TO CURTAIL OR CEASE OPERATIONS.**

Our ability to achieve and sustain operating profitability depends on our ability to successfully commercialize our Medpulser® Electroporation Therapy System in various markets for use in treating solid tumors, particularly for the treatment of head and neck cancer, and other indications, which depends in large part on our ability to commence, execute and complete clinical programs and obtain regulatory approvals for our Medpulser® Electroporation Therapy System. In particular, our ability to achieve and sustain profitability will depend in large part on our ability to commercialize our MedPulser®

Electroporation Therapy System for the treatment of head and neck cancer in Europe and the United States. We have received various regulatory approvals, which apply to Europe for our Medpulser® Electroporation Therapy System for use in treating solid tumors; the products related to such regulatory approval have not yet been commercialized. We have not yet received any regulatory approvals to sell any of our products in the United States and further clinical trials are still necessary before we can seek regulatory approval to sell our products in the United States for treating solid tumors. We cannot assure you we will receive approval for our Medpulser® Electroporation Therapy System for the treatment of head and neck cancer or other types of cancer or indications in the United States or in other countries or, if approved, that we will achieve significant level of sales. If we fail to commercialize our products, we may be forced to curtail or cease operations.

We have started additional clinical studies for different indications, such as breast and pancreas, and are also in the pre-clinical stages of research and development with new product candidates using our electroporation technology. These new indications and product candidates will require significant costs to advance through the development stages. If such product candidates are advanced through clinical trials, the results of such trials may not gain FDA approval. Even if approved, our products may not be commercially successful. If we fail to develop and commercialize our products, we may be forced to curtail or cease operations.

We cannot assure you that we will successfully develop any products. If we fail to develop or successfully commercialize any products, we may be forced to curtail or cease operations. Additionally, much of the commercialization efforts for our products must be carried forward by a licensing partner. We may not be able to obtain such a partner.

**WE WILL HAVE A NEED FOR SIGNIFICANT FUNDS IN THE FUTURE AND THERE IS NO GUARANTEE THAT WE WILL BE ABLE TO OBTAIN THE FUNDS WE NEED.**

Developing a new medical device and conducting clinical trials is expensive. Our product development efforts may not lead to commercial products, either because our product candidates fail to be found safe or effective in clinical trials or because we lack the necessary financial or other resources or relationships to pursue our programs through commercialization. Our capital and future revenue may not be sufficient to support the expenses of our operations, the development of commercial infrastructure and the conduct of our clinical trials and pre-clinical research.

Our plans for continuing clinical trials, conducting research, furthering development and, eventually, marketing our human-use equipment will involve substantial costs. The extent of our costs will depend on many factors, including some of the following:

The progress and breadth of pre-clinical testing and the size or complexity of our clinical trials and drug delivery programs, all of which directly influence cost;

Higher then expected costs involved in complying with the regulatory process to get our human-use products approved, including the number, size, and timing of necessary clinical trials and costs associated with the current assembly and review of existing clinical and pre-clinical information;

Higher then expected costs involved in patenting our technologies and defending them and pursuing our intellectual property strategy;

Changes in our existing research and development relationships and our ability to enter into new agreements;

Changes in or terminations of our existing collaboration and licensing arrangements;

Faster than expected rate of progress and changes in scope and cost of our research and development and clinical trial activities;

An increase or decrease in the amount and timing of milestone payments we receive from collaborators;

Higher than expected costs of preparing an application for FDA approval of our Medpulser® Electroporation Therapy System;

Higher than expected costs of developing the processes and systems to support FDA approval of our Medpulser® Electroporation Therapy System;

An increase in our timetable and costs for the development of marketing operations and other activities related to the commercialization of our Medpulser® Electroporation Therapy System and our other product candidates;

A change in the degree of success in our Phase III clinical trial of Medpulser® Electroporation Therapy System and in our other clinical trials;

Higher then expected costs to further develop and scale up our manufacturing capability of our human-use equipment; and

Competition for our products and our ability, and that of our partners, to commercialize our products.

We plan to fund operations by several means. We will attempt to enter into contracts with partners that will fund either general operating expenses or specific programs or projects. Some funding also may be received through government grants. We cannot promise that we will enter into any such contracts or receive such grants or, if we do, that our partners and the grants will provide enough funding to meet our needs.

In the past, we have raised funds by public and private sale of our stock, and we are likely to do this in the future to raise needed funds. Sale of our stock to new private or public investors usually results in existing stockholders becoming diluted. The greater the number of shares sold, the greater the dilution. A high degree of dilution can make it difficult for the price of our stock to rise rapidly, among other things. Dilution also lessens a stockholder s voting power.

We cannot assure you that we will be able to raise capital needed to fund operations, or that we will be able to raise capital under terms that are favorable to us.

**THE MARKET FOR OUR STOCK IS VOLATILE, WHICH COULD ADVERSELY AFFECT AN INVESTMENT IN OUR STOCK.**

Our share price and volume are highly volatile. This is not unusual for biomedical companies of our size, age, and with a discrete market niche. It also is common for the trading volume and price of biotechnology stocks to be unrelated to a company s operations, i.e. to go up or down on positive news and to go up or down on no news. Our stock has exhibited this type of behavior in the past, and may well exhibit it in the future. The historically low trading volume of our stock, in relation to many other

biomedical companies of our size, makes it more likely that a severe fluctuation in volume, either up or down, will affect the stock price.

Some factors that we would expect to depress the price of our stock include:

Adverse clinical trial results;

Our inability to obtain additional capital;

Announcement that the FDA denied our request to approve our human-use product for commercialization in the United States, or similar denial by other regulatory bodies which make independent decisions outside the United States. To date, the EU is the only foreign jurisdiction in which we have sought approval for commercialization;

Announcement of legal actions brought by or filed against us for patent or other matters, especially if we do not win such actions;

Cancellation of important corporate partnerships or agreements;

Public concern as to the safety or efficacy of our human-use products including public perceptions regarding gene therapy in general;

Stockholders decisions, for whatever reasons, to sell large amounts of our stock;

Adverse research and development results;

Declining working capital to fund operations, or other signs of apparent financial uncertainty; and

Significant advances made by competitors that are perceived to limit our market position.

Additionally, our clinical trials are open-ended and, therefore, there is a risk that information regarding the success of our clinical trials may be obtained by the public prior to a formal announcement by us. These factors, as well as the other factors described in this Report, could significantly affect the price of our stock.

**WE HAVE A HISTORY OF LOSSES, WE EXPECT TO CONTINUE TO INCUR LOSSES AND WE MAY NOT ACHIEVE OR MAINTAIN PROFITABILITY**

As of September 30, 2005, we had an accumulated deficit of $102.7 million. We have operated at a loss since 1994, and we expect this to continue for some time. The amount of the accumulated deficit will continue to increase, as it will be expensive to continue clinical, research and development efforts. If these activities are successful and if we receive approval from the FDA to market equipment, then even more funding will be required to market and sell the equipment. We are evaluating potential partnerships as an additional way to fund operations. We will continue to rely on outside sources of financing to meet our capital needs beyond next year. The outcome of these matters cannot be predicted at this time.

Further, there can be no assurance, assuming we successfully raise additional funds, that we will achieve positive cash flow. If we are not able to secure additional funding, we will be required to further scale back our research and development programs, preclinical studies and clinical trials, general, and administrative activities and may not be able to continue in business. Including the cash proceeds received

from the January 2005, May 2004 and July 2003 financings, various licensing payments, the exercise of employee stock options and investor warrants, we believe we have sufficient funds to fund operations for at least the next 12 months.

**IF WE DO NOT HAVE ENOUGH CAPITAL TO FUND OPERATIONS, THEN WE WILL HAVE TO CUT COSTS.**

If we are not able to raise needed money under acceptable terms, then we will have to take measures to cut costs, such as:

Delay, scale back or discontinue one or more of our oncology or gene delivery programs or other aspects of operations, including laying off some personnel or stopping or delaying clinical trials;

Sell or license some of our technologies that we would not otherwise give up if we were in a better financial position;

Sell or license some of our technologies under terms that are less favorable than they otherwise might have been if we were in a better financial position; and

Consider merging with another company or positioning ourselves to be acquired by another company.

If it became necessary to take one or more of the above-listed actions, then we may have a lower valuation, which may be reflected in our stock price.

**A SMALL NUMBER OF LICENSING PARTNERS ACCOUNT FOR A SUBSTANTIAL PORTION OF OUR REVENUES AND OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION COULD SUFFER IF WE LOSE THESE LICENSING PARTNERS OR FAIL TO ADD ADDITIONAL LICENSING PARTNERS IN THE FUTURE.**

We derive a significant portion of our revenue from a limited number of licensing partners in each period. Accordingly, if we fail to sign additional future contracts with major licensing partners, if a licensing contract is delayed or deferred, or if an existing licensing contract expires or is cancelled and we fail to replace the contract with new business, our revenue could be adversely affected. Until commercialization of our Medpulser® Electroporation Therapy System, we expect that a limited number of licensing partners will continue to account for a substantial portion of our revenue in each quarter in the foreseeable future. During the nine months ended September 30, 2005, one licensing partner, Merck, accounted for approximately 78% or $3.6 million of our consolidated revenue.

**PRE-CLINICAL AND CLINICAL TRIALS OF HUMAN-USE EQUIPMENT ARE UNPREDICTABLE. IF WE EXPERIENCE UNSUCCESSFUL TRIAL RESULTS, OUR BUSINESS WILL SUFFER.**

Before any of our human-use equipment can be sold, the FDA or applicable foreign regulatory authorities must determine that the equipment meets specified criteria for use in the indications for which approval is requested, including obtaining appropriate regulatory approvals. Satisfaction of regulatory requirements typically takes many years, and involves compliance with requirements covering research and development, testing, manufacturing, quality control, labeling and promotion of drugs for human use. To obtain regulatory approvals, we must, among other requirements, complete clinical trials demonstrating our product candidates are safe and effective for a particular cancer type or other disease.

Regulatory approval of a new drug is never guaranteed. The FDA will make this determination based on the results from our pre-clinical testing and clinical trials and has substantial discretion in the approval process. Despite the time and experience exerted, failure can occur at any stage, and we could encounter problems causing us to abandon clinical trials.

We have completed Phase II clinical trials and are conducting two Phase III clinical trials of our lead product candidate, the Medpulser® Electroporation Therapy System, for the treatment of recurrent and second primary head and neck cancers. In addition, we are conducting two Phase IV (or Pre-Marketing) clinical trials of our Medpulser® Electroporation Therapy System for the treatment of new and recurrent head and neck cancers and new and recurrent primary skin cancers, and have started a Phase I clinical trial of our Medpulser® Electroporation Therapy System for the treatment of breast and pancreas cancers. Current or future clinical trials may demonstrate the Medpulser® Electroporation Therapy System is neither safe nor effective.

Any delays or difficulties we encounter in our pre-clinical research and clinical trials, in particular the Phase III clinical trials of our Medpulser® Electroporation Therapy System for the treatment of recurrent head and neck cancer, may delay or preclude regulatory approval. Our product development costs will increase if we experience delays in testing or regulatory approvals or if we need to perform more or larger clinical trials than planned. Any delay or preclusion could also delay or preclude the commercialization of our Medpulser® Electroporation Therapy System or any other product candidates.

Clinical trials are unpredictable, especially human-use trials. Results achieved in early stage clinical trials may not be repeated in later stage trials, or in trials with more patients. When early positive results were not repeated in later stage trials, pharmaceutical and biotechnology companies have suffered significant setbacks. Not only are commercialization timelines pushed back, but some companies, particularly smaller biotechnology companies with limited cash reserves, have gone out of business after releasing news of unsuccessful clinical trial results.

We cannot be certain the results we observed in our pre-clinical testing will be confirmed in clinical trials or the results of any of our clinical trials will support FDA approval. If we experience unexpected, inconsistent or disappointing results in connection with a clinical or pre-clinical trial our business will suffer.

The patients admitted to our oncology clinical trials conducted in the United States and Europe are experiencing late stage cancer and are in a diminished physical state prior to entering our studies and thus these patients can experience serious adverse events (SAEs) whether due to our technology or other procedures. To date, there have been seven SAEs that were at least possibly related to our technology that resulted in death, a life-threatening experience, and hospitalization or prolongation of existing hospitalization. All seven of these serious adverse events were reported to the FDA. The SAEs were excessive bleeding in the tumor bed, edema of larynx, sudden death (suspected heart failure), weight loss, sudden death (cause unknown), obstruction of the airway, and death (suspected internal bleeding). Because our studies are controlled and ongoing, we cannot assure you that these or other serious adverse events will not delay or prevent approval of our product by the FDA.

In addition, any of our clinical trials for our treatment may be delayed or halted at any time for various reasons, including:

The electroporation-mediated delivery of drugs or other agents may be found to be ineffective or to cause harmful side effects, including death;

Our clinical trials may take longer than anticipated, for any of a number of reasons including a scarcity of subjects that meet the physiological or pathological criteria for entry into the study, a scarcity of subjects that are willing to participate through the end of the trial, or data and document review;

The reported clinical data may change over time as a result of the continuing evaluation of patients or the current assembly and review of existing clinical and pre-clinical information;

Data from various sites participating in the clinical trials may be incomplete or unreliable, which could result in the need to repeat the trial or abandon the project; and

Pre-clinical and clinical data can be interpreted in many different ways, and the FDA and other regulatory authorities may interpret our data differently than we do, which could halt or delay our clinical trials or prevent regulatory approval.

If any of the above events arise during our clinical trials or data review, then we would expect this to have a serious negative effect on our company and your investment.

Despite the FDA s designation of our Medpulser® Electroporation Therapy System as a Fast Track product, such FDA designation is independent of the FDA s Priority Review and Accelerated Approval designations and we may encounter delays in the regulatory approval process due to additional information requirements from the FDA, unintentional omissions in our PMA for our Medpulser® Electroporation Therapy System, or other delays in the FDA s review process. We may encounter delays or rejections in the regulatory approval process because of additional government regulation from future legislation or administrative action or changes in FDA policy during the period of product development, clinical trials and FDA regulatory review.

A majority of our operating expenses relate to our clinical trials. A delay in our trials, for whatever reason, will probably require us to spend additional funds to keep the product(s) moving through the regulatory process. If we do not have or cannot raise the needed funds, then the testing of our human-use products could be shelved. In the event the clinical trials are not successful, we will have to determine whether to put more money into the program to address its deficiencies or whether to abandon the clinical development programs for the products in the tested indications. Loss of the human-use product line would be a significant setback for our company.

Because there are so many variables inherent in clinical trials, we cannot predict whether any of our future regulatory applications to conduct clinical trials will be approved by the FDA or other regulatory authorities, whether our clinical trials will commence or proceed as planned, and whether the trials will ultimately be deemed to be successful. To date, our experience has been that submission and approval of clinical protocols has taken longer than desired or expected.

**OUR BUSINESS IS HIGHLY DEPENDENT ON RECEIVING APPROVALS FROM VARIOUS UNITED STATES AND INTERNATIONAL GOVERNMENT AGENCIES AND WILL BE DRAMATICALLY AFFECTED IF APPROVAL TO MANUFACTURE AND SELL OUR HUMAN-USE EQUIPMENT IS NOT GRANTED OR IS NOT GRANTED IN A TIMELY MANNER.**

The production and marketing of our human-use equipment and the ongoing research, development, pre-clinical testing, and clinical trial activities are subject to extensive regulation.

Numerous governmental agencies in the U.S. and internationally, including the FDA, must review our applications and decide whether to grant approval. All of our human-use equipment must go through an approval process, in some instances for each indication for which we want to label it for use (such as use for dermatology, use for transfer of a certain gene to a certain tissue, or use for administering a certain drug to a certain tumor type in a patient having certain characteristics). These regulatory processes are extensive and involve substantial costs and time.

We have limited experience in, and limited resources available for, regulatory activities. Failure to comply with applicable regulations can, among other things, result in non-approval, suspensions of regulatory approvals, fines, product seizures and recalls, operating restrictions, injunctions and criminal prosecution.

Any of the following events can occur and, if any did occur, any one could have a material adverse effect on our business, financial conditions and results of operations:

Clinical trials may not yield sufficiently conclusive results for regulatory agencies to approve the use of our products;

There can be delays, sometimes long, in obtaining approval for our human-use devices, and indeed, we have experienced such delays in obtaining FDA approval of our clinical protocols;

The rules and regulations governing human-use equipment such as ours can change during the review process, which can result in the need to spend time and money for further testing or review;

If approval for commercialization is granted, it is possible the authorized use will be more limited than we believe is necessary for commercial success, or that approval may be conditioned on completion of further clinical trials or other activities; and

Once granted, approval can be withdrawn, or limited, if previously unknown problems arise with our human-use product or data arising from its use.

**WE COULD BE SUBSTANTIALLY DAMAGED IF PHYSICIANS AND HOSPITALS PERFORMING OUR CLINICAL TRIALS DO NOT ADHERE TO PROTOCOLS OR PROMISES MADE IN CLINICAL TRIAL AGREEMENTS.**

We work and have worked with a number of hospitals to perform clinical trials, primarily in oncology. We depend on these hospitals to recruit patients for the trials, to perform the trials according to our protocols, and to report the results in a thorough, accurate and consistent fashion. Although we have agreements with these hospitals, which govern what each party is to do with respect to the protocol, patient safety, and avoidance of conflict of interest, there are risks that the terms of the contracts will not be followed, such as the following:

*Risk of Deviations from Protocol.* The hospitals or the physicians working at the hospitals may not perform the trial correctly. Deviations from protocol may make the clinical data not useful and the trial could be essentially worthless.

*Risk of Improper Conflict of Interest.* Physicians working on protocols may have an improper economic interest in our company, or other conflict of interest. When a physician has a personal stake in the success of the trial, such as can be inferred if the physician owns stock, or rights to purchase stock, of

the trial sponsor, it can create suspicion that the trial results were improperly influenced by the physician s interest in economic gain. Not only can this put the clinical trial results at risk, but it can also do serious damage to a company s reputation.

*Risks Involving Patient Safety and Consent.* Physicians and hospitals may fail to secure formal written consent as instructed or report adverse effects that arise during the trial in the proper manner, which could put patients at unnecessary risk. Physicians and hospital staff may fail to observe proper safety measures such as the mishandling of used medical needles, which may result in the transmission of infectious and deadly diseases, such as HIV and AIDS. This increases our liability, affects the data, and can damage our reputation.

If any of these events were to occur, then it could have a material adverse effect on our ability to receive regulatory authorization to sell our human-use equipment, not to mention on our reputation. Negative events that arise in the performance of clinical trials sponsored by biotechnology companies of our size and with limited cash reserves similar to ours have resulted in companies going out of business. While these risks are ever present, to date, our contracted physicians and clinics have been successful in collecting significant data regarding the clinical protocols under which they have operated, and we are unaware of any conflicts of interest or improprieties regarding our protocols.

**EVEN IF OUR PRODUCTS ARE APPROVED BY REGULATORY AUTHORITIES, IF WE FAIL TO COMPLY WITH ON-GOING REGULATORY REQUIREMENTS, OR IF WE EXPERIENCE UNANTICIPATED PROBLEMS WITH OUR PRODUCTS, THESE PRODUCTS COULD BE SUBJECT TO RESTRICTIONS OR WITHDRAWAL FROM THE MARKET.**

Any product for which we obtain marketing approval, along with the manufacturing processes, post-approval clinical data and promotional activities for such product, will be subject to continual review and periodic inspections by the FDA and other regulatory bodies. Even if regulatory approval of a product is granted, the approval may be subject to limitations on the indicated uses for which the product may be marketed or certain requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the product. Later discovery of previously unknown problems with our products, including unanticipated adverse events of unanticipated severity or frequency, manufacturer or manufacturing processes or failure to comply with regulatory requirements, may result in restrictions on such products or manufacturing processes, withdrawal of the products from the market, voluntary or mandatory recall, fines, suspension of regulatory approvals, product seizures or detention, injunctions or the imposition of civil or criminal penalties.

**FAILURE TO COMPLY WITH FOREIGN REGULATORY REQUIREMENTS GOVERNING HUMAN CLINICAL TRIALS AND MARKETING APPROVAL FOR OUR HUMAN-USE EQUIPMENT COULD PREVENT US FROM SELLING OUR PRODUCTS IN FOREIGN MARKETS, WHICH MAY ADVERSELY AFFECT OUR OPERATING RESULTS AND FINANCIAL CONDITIONS.**

For marketing our Medpulser® Electroporation Therapy System outside the United States, the requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from country to country and may require additional testing. The time required to obtain approvals outside the United States may differ from that required to obtain FDA approval. We may not obtain foreign regulatory approval on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other countries or by the FDA. Failure to comply with these regulatory requirements or to obtain required approvals could impair our ability to develop these markets and could have a material adverse effect on our results of operations and financial condition.

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**IF WE CANNOT MAINTAIN OUR EXISTING CORPORATE AND ACADEMIC ARRANGEMENTS AND ENTER INTO NEW ARRANGEMENTS, WE MAY BE UNABLE TO DEVELOP PRODUCTS EFFECTIVELY, OR AT ALL.**

Our strategy for the research, development and commercialization of our product candidates may result in our entering into contractual arrangements with corporate collaborators, academic institutions and others. We have entered into sponsored research, license and/or collaborative arrangements with several entities, including Merck, Vical, Valentis, the U.S. Navy, Chiron and the University of South Florida, as well as numerous other institutions that conduct clinical trials work or perform pre-clinical research for us. Our success depends upon our collaborative partners performing their responsibilities under these arrangements and complying with the regulations and requirements governing clinical trials. We cannot control the amount and timing of resources our collaborative partners devote to our research and testing programs or product candidates, or their compliance with regulatory requirements which can vary because of factors unrelated to such programs or product candidates. These relationships may in some cases be terminated at the discretion of our collaborative partners with only limited notice to us.

Merck can terminate its May 2004 license and collaboration agreement with us at any time in its sole discretion, without cause, by giving ninety days advance notice to us. If this agreement is terminated by Merck at any time during the first two years of the collaboration term, then Merck shall continue, for a six-month period beginning on the date of such termination, to make payments previously approved by the project s joint collaboration committee in relation to scientists and outside contractors engaged by us in connection with the agreement.

We may not be able to maintain our existing arrangements, enter into new arrangements or negotiate current or new arrangements on acceptable terms, if at all. Some of our collaborative partners may also be researching competing technologies independently from us to treat the diseases targeted by our collaborative programs.

**OUR ABILITY TO ACHIEVE SIGNIFICANT REVENUES FROM SALES OR LEASES OF HUMAN-USE PRODUCTS WILL DEPEND ON ESTABLISHING EFFECTIVE SALES, MARKETING AND DISTRIBUTION CAPABILITIES OR RELATIONSHIPS AND WE CURRENTLY LACK SUBSTANTIAL EXPERIENCE IN THESE AREAS.**

To market our products, we will need to develop sales, marketing and distribution capabilities. In order to develop or otherwise obtain these capabilities, we may have to enter into marketing, distribution or other similar arrangements with third parties in order to sell, market and distribute our products successfully. To the extent we enter into any such arrangements with third parties, our product revenue is likely to be lower than if we directly marketed and sold our products, and any revenue we receive will depend upon the efforts of such third parties. We may be unable to develop sufficient sales, marketing and distribution capabilities to commercialize our products successfully.

If we want to market and sell our human-use products directly, we must develop a marketing and sales force. This would involve substantial costs, training, and time. We have limited experience in sales, marketing and distribution of clinical and human-use products and we currently have no sales, marketing or distribution capability. We may be unable to develop sufficient sales, marketing and distribution capabilities to commercialize our products successfully. Regardless of whether we elect to use third parties or seek to develop our own marketing capability, we may not be able to successfully commercialize any product.

**WE RELY ON COLLABORATIVE AND LICENSING RELATIONSHIPS TO FUND A PORTION OF OUR RESEARCH AND DEVELOPMENT EXPENSES. IF WE ARE UNABLE TO MAINTAIN OR EXPAND EXISTING RELATIONSHIPS, OR INITIATE NEW RELATIONSHIPS, WE WILL HAVE TO DEFER OR CURTAIL RESEARCH AND DEVELOPMENT ACTIVITIES IN ONE OR MORE AREAS.**

Our partners and collaborators fund a portion of our research and development expenses and assist us in the research and development of our human-use equipment. These collaborations and partnerships can help pay the salaries and other overhead expenses related to research. In the past, we encountered operational difficulties after the termination of an agreement by a former partner. Because this partnership was terminated, we did not receive significant milestone payments which we had expected and were forced to delay some clinical trials as well as some product development.

Our clinical trials to date have used our equipment with the anti-cancer drug bleomycin. We do not currently intend to package bleomycin together with the equipment for sale, but if it should be necessary or desirable to do this, we would need a reliable source of the drug. At this time we do not have a fixed source of bleomycin for inclusion with equipment or alone. If it becomes necessary or desirable to include bleomycin in our package, we would have to form a relationship with another provider of this generic drug before any product could be launched.

We also rely on scientific collaborators at companies and universities to further our research and test our equipment. In most cases, we lend our equipment to a collaborator, teach him or her how to use it, and together design experiments to test the equipment in one of the collaborator s fields of expertise. We aim to secure agreements that restrict collaborators rights to use the equipment outside of the agreed upon research, and outline the rights each of us will have in any results or inventions arising from the work.

Nevertheless, there is always risk that:

Our equipment will be used in ways we did not authorize, which can lead to liability and unwanted competition;

We may determine that our technology has been improperly assigned to us or a collaborator may claim rights to certain of our technology, which may require us to pay license fees or milestone payments and, if commercial sales of the underlying product is achieved, royalties;

We may lose rights to inventions made by our collaborators in the field of our business, which can lead to expensive legal fights and unwanted competition;

Our collaborators may not keep our confidential information to themselves, which can lead to loss

of our right to seek patent protection and loss of trade secrets, and expensive legal fights; and

Collaborative associations can damage a company s reputation if they go awry and thus, by association or otherwise, the scientific or medical community may develop a negative view of us.

We cannot guarantee that any of the results from these collaborations will be successful, that we will be able to continue to collaborate with individuals and institutions that will further our work, or that we will be able to do so under terms that are not overly restrictive. If we are not able to maintain or

develop new collaborative relationships, then it is likely the research pace will slow down and it will take longer to identify and commercialize new products, or new indications for our existing products.

**WE RELY HEAVILY ON OUR PATENTS AND PROPRIETARY RIGHTS TO ATTRACT PARTNERSHIPS AND MAINTAIN MARKET POSITION.**

Another factor that will influence our success is the strength of our patent portfolio. Patents give the patent holder the right to prevent others from using its patented technology. If someone infringes upon the patented material of a patent holder, then the patent holder has the right to initiate legal proceedings against that person to protect the patented material. These proceedings, however, can be lengthy and costly. We perform an ongoing review of our patent portfolio to confirm that our key technologies are adequately protected. If we determine that any of our patents require either additional disclosures or revisions to existing information, we may ask that such patents be reexamined or reissued, as applicable, by the United States Patent and Trademark Office.

The patenting process, enforcement of issued patents, and defense against claims of infringement are inherently risky. Because we rely heavily on patent protection, we face the following significant risks:

*Risk of Inadequate Patent Protection for Product.* The United States Patent and Trademark Office or foreign patent offices may not grant patents of meaningful scope based on the applications we have already filed and those we intend to file. If we do not have patents that adequately protect our human-use equipment and indications for its use, then we will not be competitive.

*Risk That Important Patents Will Be Judged Invalid.* Some of the issued patents we now own or license may be determined to be invalid. If we have to defend the validity of any of our patents, the costs of such defense could be substantial, and there is no guarantee of a successful outcome. In the event an important patent related to our drug delivery technology is found to be invalid, we may lose competitive position and may not be able to receive royalties for products covered in part or whole by that patent under license agreements.

*Risk of Being Charged With Infringement.* Although we are not currently aware of any parties intending to pursue infringement claims against us, there is the risk that we will use a patented technology owned by another person and/or be charged with infringement. Defending or indemnifying a third party against a charge of infringement can involve lengthy and costly legal actions, and there can be no guarantee of a successful outcome. Biotechnology companies comparable to us in size and financial position have gone out of business after fighting and losing an infringement battle. If we or our partners were prevented from using or selling our human-use equipment, then our business would be materially adversely affected.

*Freedom to Operate Risks.* We are aware that patents related to electrically-assisted drug delivery have been granted to, and patent applications filed by, our potential competitors. We or our partners have taken licenses to some of these patents, and will consider taking additional licenses in the future. Nevertheless, the competitive nature of our field of business and the fact that others have sought patent protection for technologies similar to ours make these risks significant.

In addition to patents, we also rely on trade secrets and proprietary know-how. We try to protect this information with appropriate confidentiality and inventions agreements with our employees, scientific advisors, consultants, and collaborators. We cannot be sure that these agreements will not be breached, that we will be able to protect ourselves if they are breached, or that our trade secrets will not otherwise become known or be independently discovered by competitors. If any of these events occurs, then we run

the risk of losing control over valuable company information, which could negatively affect our competitive position.

**IF WE ARE NOT SUCCESSFUL DEVELOPING OUR CURRENT PRODUCTS, OUR BUSINESS MODEL MAY CHANGE AS OUR PRIORITIES AND OPPORTUNITIES CHANGE. OUR BUSINESS MAY NEVER DEVELOP TO BE PROFITABLE OR SUSTAINABLE.**

There are many products and programs that to us seem promising and that we could pursue. However, with limited resources, we may decide to change priorities and shift programs away from those that we had been pursuing for the purpose of exploiting our core technology of electroporation. The choices we may make will be dependent upon numerous factors, which we cannot predict. We cannot be sure that our business model, as it currently exists or as it may evolve, will enable us to become profitable or to sustain operations.

**SERIOUS AND UNEXPECTED SIDE EFFECTS ATTRIBUTABLE TO GENE THERAPY MAY RESULT IN GOVERNMENTAL AUTHORITIES IMPOSING ADDITIONAL REGULATORY REQUIREMENTS OR A NEGATIVE PUBLIC PERCEPTION OF OUR PRODUCTS.**

The Medpulser® DNA Delivery System and any of our other Gene Therapy or DNA Vaccine product candidates under development could be broadly described as gene therapies. A number of clinical trials are being conducted by other pharmaceutical companies involving gene therapy, including compounds similar to, or competitive with, our product candidates. The announcement of adverse results from these clinical trials, such as serious unwanted and unexpected side effects attributable to treatment, or any response by the FDA to such clinical trials, may impede the timing of our clinical trials, delay or prevent us from obtaining regulatory approval or negatively influence public perception of our product candidates, which could harm our business and results of operations and depress the value of our stock.

The U.S. Senate has held hearings concerning the adequacy of regulatory oversight of gene therapy clinical trials, as well as the adequacy of research subject education and protection in clinical research in general, and to determine whether additional legislation is required to protect volunteers and patients who participate in such clinical trials. The Recombinant DNA Advisory Committee, or RAC, which acts as an advisory body to the National Institutes of Health, has expanded its public role in evaluating important public and ethical issues in gene therapy clinical trials. Implementation of any additional review and reporting procedures or other additional regulatory measures could increase the costs of or prolong our product development efforts or clinical trials.

To date, there have not been any serious adverse events in any gene therapy clinical trials in which our technology was used. These current gene therapy clinical trials are being sponsored by several of our partners. In the future, if one or a series of serious adverse events were to occur during a gene therapy clinical trial in which our technology was used by a partner, the partner would be responsible for reporting all such events to the FDA and other regulatory agencies as required by law. Such serious adverse events, whether treatment-related or not, could result in negative public perception of our treatments and require additional regulatory review or other measures, which could increase the cost of or prolong our gene therapy clinical trials or require us to halt the clinical trials altogether.

The FDA has not approved any gene therapy product or gene-induced product for sale in the United States. The commercial success of our products will depend in part on public acceptance of the use of gene therapy products or gene-induced products, which are a new type of disease treatment for the prevention or treatment of human diseases. Public attitudes may be influenced by claims that gene therapy products or gene-induced products are unsafe, and these treatment methodologies may not gain the

acceptance of the public or the medical community. Negative public reaction to gene therapy products or gene-induced products could also result in greater government regulation and stricter clinical trial oversight.

**WE CANNOT PREDICT THE SAFETY PROFILE OF THE USE OF OUR MEDPULSER ELECTROPORATION SYSTEM WHEN USED IN COMBINATION WITH OTHER THERAPIES.**

Our trials involve the use of our Medpulser® Electroporation System in combination with bleomycin, an anti-cancer drug. While the data we have evaluated to date suggest the Medpulser® Electroporation Therapy System does not increase the adverse effects of other therapies, we cannot predict if this outcome will continue to be true or whether possible adverse side effects not directly attributable to the other drugs will compromise the safety profile of our Medpulser® Electroporation Therapy System when used in certain combination therapies or if used off-label with other drugs by physicians.

**WE RUN THE RISK THAT OUR TECHNOLOGY WILL BECOME OBSOLETE OR LOSE ITS COMPETITIVE ADVANTAGE.**

The drug delivery business is very competitive, fast moving and intense, and expected to be increasingly so in the future. Other companies and research institutions are developing drug delivery systems that, if not similar in type to our systems, are designed to address the same patient or subject population. Therefore, we cannot promise you that our products will be the best, the safest, the first to market, or the most economical to make or use. If competitors products are better than ours, for whatever reason, then we could make less money from sales and our products risk becoming obsolete.

There are many reasons why a competitor might be more successful than us, including:

*Financial Resources.* Some competitors have greater financial resources and can afford more technical and development setbacks than we can.

*Greater Experience.* Some competitors have been in the biomedical business longer than we have. They have greater experience than us in critical areas like clinical testing, obtaining regulatory approval, and sales and marketing. This experience or their name recognition may give them a competitive advantage over us.

*Superior Patent Position.* Some competitors may have a better patent position protecting their technology than we have or will have to protect our technology. If we cannot use our patents to prevent others from copying our technology or developing similar technology, or if we cannot obtain a critical license to another s patent that we need to make and use our equipment, then we would expect our competitive position to weaken.

*Faster to Market.* Some companies with competitive technologies may move through stages of development, approval, and marketing faster than us. If a competitor receives FDA approval before us, then it will be authorized to sell its products before we can sell ours. Because the first company to market often has a significant advantage over late-comers, a second place position could result in less than anticipated sales.

*Reimbursement Allowed.* In the U.S., third party payers, such as Medicare, may reimburse physicians and hospitals for competitors products but not for our human-use products. This would significantly affect our ability to sell our human-use products in the U.S. and would have a serious effect

on revenue and our business as a whole. Outside of the U.S., reimbursement and funding policies vary widely.

**ANY ACQUISITION WE MIGHT MAKE MAY BE COSTLY AND DIFFICULT TO INTEGRATE, MAY DIVERT MANAGEMENT RESOURCES OR DILUTE STOCKHOLDER VALUE.**

We have considered and made strategic acquisitions in the past, including Inovio AS in January 2005, and, in the future, may acquire or make investments in complementary companies, products or technologies. As part of our business strategy, we may acquire assets or businesses principally relating to or complementary to our current operations, and we have in the past evaluated and discussed such opportunities with interested parties. Any acquisitions we undertake will be accompanied by the risks commonly encountered in business acquisitions. These risks include, among other things:

Potential exposure to unknown liabilities of acquired companies;

The difficulty and expense of assimilating the operations and personnel of acquired businesses;

Diversion of management time and attention and other resources;

Loss of key employees and customers as a result of changes in management;

Incurrence of amortization expenses related to intangible assets or large impairment charges; and

Possible dilution to our stockholders.

In addition, geography may make the integration of businesses more difficult. We may not be successful in overcoming these risks or any other problems encountered in connection with any acquisitions.

**ECONOMIC, POLITICAL, MILITARY OR OTHER EVENTS IN THE UNITED STATES OR IN OTHER COUNTRIES COULD INTERFERE WITH OUR SUCCESS OR OPERATIONS AND HARM OUR BUSINESS**

The September 11, 2001 terrorist attacks disrupted commerce throughout the United States and other parts of the world. The continued threat of similar attacks throughout the world and the military action taken by the United States and other nations in Iraq or other countries may cause significant disruption to commerce throughout the world. To the extent that such disruptions further slow the global economy, our business and results of operations could be materially adversely affected. We are unable to predict whether the threat of new attacks or the responses thereto will result in any long-term commercial disruptions or if such activities or responses will have a long-term material adverse effect on our business, results of operations or financial condition.

**OUR DEPENDENCE UPON NON-MARKETED PRODUCTS, LACK OF EXPERIENCE IN MANUFACTURING AND MARKETING HUMAN-USE PRODUCTS, AND OUR CONTINUING DEFICIT MAY RESULT IN EVEN FURTHER FLUCTUATIONS IN OUR TRADING VOLUME AND SHARE PRICE.**

Successful approval, marketing, and sales of our human-use equipment are critical to the financial future of our company. Our human-use products are not yet approved for sale in the United States and some other jurisdictions and we may never obtain those approvals. Even if we do obtain approvals to sell our human-use products in the United States, those sales may not be as large or timely as we expect. These uncertainties may cause our operating results to fluctuate dramatically in the next several years. We believe that quarter-to-quarter or annual comparisons of our operating results are not a good indicator of our future performance. Nevertheless, these fluctuations may cause us to perform below the expectations of the public market analysts and investors. If this happens, the price of our common shares would likely fall.

**THERE IS A RISK OF PRODUCT LIABILITY WITH HUMAN-USE EQUIPMENT**

The testing, marketing and sale of human-use products expose us to significant and unpredictable risks of equipment product liability claims. These claims may arise from patients, clinical trial volunteers, consumers, physicians, hospitals, companies, institutions, researchers or others using, selling, or buying our equipment. Product liability risks are inherent in our business and will exist even after the products are approved for sale. If and when our human-use equipment is commercialized, we run the risk that use (or misuse) of the equipment will result in personal injury. The chance of such an occurrence will increase after a product type is on the market.

We have obtained liability insurance in connection with ongoing business and products, and we may purchase additional policies if such policies are determined by management to be necessary. However, our existing insurance and the insurance we purchase may not provide adequate coverage in the event a claim is made and we may be required to pay claims directly. If we did have to make payment against a claim, then it would impact our financial ability to perform the research, development, and sales activities we have planned.

If and when our human-use equipment is commercialized, there is always the risk of product defects. Product defects can lead to loss of future sales, decrease in market acceptance, damage to our brand or reputation, product returns and warranty costs, and even product withdrawal from the market. These events can occur whether the defect resides in a component we purchased from a third party or whether it was due to our design and/or manufacture. We expect that our sales agreements will contain provisions designed to limit our exposure to product liability claims. However, we do not know whether these limitations are enforceable in the countries in which the sale is made. Any product liability or other claim brought against us, if successful and of sufficient magnitude, could negatively impact our financial performance, even if we have insurance.

**WE CANNOT BE CERTAIN THAT WE WILL BE ABLE TO MANUFACTURE OUR HUMAN-USE EQUIPMENT IN SUFFICIENT VOLUMES AT COMMERCIALLY REASONABLE RATES.**

Our manufacturing facilities for human-use products will be subject to quality systems regulations, international quality standards and other regulatory requirements, including pre-approval inspection for the human-use equipment and periodic post-approval inspections for all human-use products. While we have undergone and passed a quality systems audit from an international body, we have never undergone a quality systems inspection by the FDA. We may not be able to pass an FDA

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inspection when it occurs. If our facilities are found not to be up to the FDA standards in sufficient time, prior to United States launch of product, then it will result in a delay or termination of our ability to produce the human-use equipment in our facility. Any delay in production will have a negative effect on our business. While there are no target dates set forth for launch of our products in the United States, we plan on launching these products once we successfully perform a Phase III clinical study, obtain the requisite regulatory approval, and engage a partner who has the financial resources and marketing capacity to bring our products to market.

Our products must be manufactured in sufficient commercial quantities, in compliance with regulatory requirements, and at an acceptable cost to be attractive to purchasers. We rely on third parties to manufacture and assemble most aspects of our equipment.

Disruption of the manufacture of our products, for whatever reason, could delay or interrupt our ability to manufacture or deliver our products to customers on a timely basis. This would be expected to affect revenue and may affect our long-term reputation, as well. In the event we provide product of inferior quality, we run the risk of product liability claims and warranty obligations, which will negatively affect our financial performance.

**IF WE LOSE KEY PERSONNEL OR ARE UNABLE TO ATTRACT AND RETAIN ADDITIONAL, HIGHLY SKILLED PERSONNEL REQUIRED TO DEVELOP OUR PRODUCTS OR OBTAIN NEW COLLABORATIONS, OUR BUSINESS MAY SUFFER.**

We depend, to a significant extent, on the efforts of our key employees, including senior management and senior scientific, clinical, regulatory and other personnel. The development of new therapeutic products requires expertise from a number of different disciplines, some of which is not widely available. We depend upon our scientific staff to discover new product candidates and to develop and conduct pre-clinical studies of those new potential products. Our clinical and regulatory staff is responsible for the design and execution of clinical trials in accordance with FDA requirements and for the advancement of our product candidates toward FDA approval. Our manufacturing staff is responsible for designing and conducting our manufacturing processes in accordance with the FDA s Quality System Regulations. The quality and reputation of our scientific, clinical, regulatory and manufacturing staff, especially the senior staff, and their success in performing their responsibilities, are significant factors in attracting potential funding sources and collaborators. In addition, our Chief Executive Officer and Chief Financial Officer and other executive officers are involved in a broad range of critical activities, including providing strategic and operational guidance. The loss of these individuals, or our inability to retain or recruit other key management and scientific, clinical, regulatory, manufacturing and other personnel, may delay or prevent us from achieving our business objectives. We face intense competition for personnel from other companies, universities, public and private research institutions, government entities and other organizations.

**WE MAY NOT MEET ENVIRONMENTAL GUIDELINES AND AS A RESULT COULD BE SUBJECT TO CIVIL AND CRIMINAL PENALTIES.**

Like all companies in our line of work, we are subject to a variety of governmental regulations relating to the use, storage, discharge and disposal of hazardous substances. Our safety procedures for handling, storage and disposal of such materials are designed to comply with applicable laws and regulations. Nevertheless, if we are found to not comply with environmental regulations, or if we are involved with contamination or injury from these materials, then we may be subject to civil and criminal penalties. This would have a negative impact on our reputation and finances, and could result in a slowdown or even complete cessation of our business. We believe we are currently in compliance with all material applicable environmental regulations.

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**OUR FACILITIES ARE LOCATED NEAR KNOWN EARTHQUAKE FAULT ZONES, AND THE OCCURRENCE OF AN EARTHQUAKE OR OTHER CATASTROPHIC DISASTER COULD CAUSE DAMAGE TO OUR FACILITIES AND EQUIPMENT.**

Our facilities are located near known earthquake fault zones and are vulnerable to damage from earthquakes. We are also vulnerable to damage from other types of disasters, including fire, floods, power loss, communications failures and similar events. If any disaster were to occur, our ability to operate our business at our facilities would be seriously impaired. In addition, the nature of our research activities could cause significant delays in our programs and make it difficult for us to recover from a disaster. The insurance we maintain may not be adequate to cover our losses resulting from disasters or other business interruptions. Accordingly, an earthquake or other disaster could materially and adversely harm our ability to conduct business.

**WE ARE EXPOSED TO POTENTIAL RISKS FROM RECENT LEGISLATION REQUIRING COMPANIES TO EVALUATE INTERNAL CONTROLS UNDER SECTION 404 OF THE SARBANES-OXLEY ACT OF 2002.**

As directed by Section 404 of the Sarbanes-Oxley Act of 2002 ( Section 404 ), the Securities and Exchange Commission adopted rules requiring public companies to include a report of management on our internal controls over financial reporting in our annual reports on Form 10-K that contains an assessment by management of the effectiveness of our internal controls over financial reporting. In addition, our independent registered public accounting firm must attest to and report on management s assessment of the effectiveness of our internal controls over financial reporting. This requirement first applied to our 2004 Annual Report on Form 10-K.

How companies are implementing these new requirements including internal control reforms, if any, to comply with Section 404 s requirements, and how independent auditors are applying these new requirements and testing companies internal controls, is an evolving process and remains subject to uncertainty. The requirements of Section 404 are ongoing and apply to future years. We expect that our internal controls will continue to evolve as our business activities change. During the course of management s and our independent registered public accounting firm s review of our internal controls over financial reporting as of December 31, 2004, we did identify two significant control deficiencies that did not rise to the level of material weaknesses, as defined by the Public Company Accounting Oversight Board (PCAOB). Although we will continue to diligently and vigorously review our internal controls over financial reporting in order to ensure compliance with the Section 404 requirements, any control system, regardless of how well designed, operated and evaluated, can provide only reasonable, not absolute, assurance that its objectives will be met.

If, during any year, our independent registered public accounting firm is not satisfied with our internal controls over financial reporting or the level at which these controls are documented, designed, operated, tested or assessed, or if the independent registered public accounting firm interprets the requirements, rules or regulations differently than we do, then our independent registered public accounting firm may decline to attest to management s assessment or may issue a report that is qualified. This could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could negatively impact the market price of our stock.

**ADDITIONAL OR UPDATED RISK FACTORS**

Prior to making an investment decision with respect to the common stock offered hereby, prospective investors should also carefully consider any specific factors set forth under a caption risk factors in the applicable prospectus supplement, together with all of the other information appearing in this prospectus or the prospectus supplement or incorporated by reference into this prospectus.

**USE OF PROCEEDS**

We will not receive any proceeds from the sale by any selling stockholder of the shares of our common stock being offered in this prospectus.

**SELLING STOCKHOLDERS**

Up to 13,782,127 shares of our common stock are being offered by this prospectus, all of which are being registered for sale for the accounts of the selling security holders and include the following:

9,892,735 shares of our common stock that we sold in a private placement to accredited investors in December 2005;

3,462,451 shares of our common stock underlying warrants exercisable at $2.93 per share that we sold in a private placement to accredited investors in December 2005;

55,518 shares of our common stock that we issued as dividends to holders of our Series A preferred stock, Series B preferred stock and Series C preferred stock on March 31, 2005, June 30, 2005 and September 30, 2005;

96,821 shares of our common stock that we sold in a private placement to accredited investors in January 2005;

161,507 shares of our common stock underlying warrants exercisable at $5.50 per share that we originally issued in a private placement to Baystar Capital II, LP in January 2005, an accredited investor, and which Baystar transferred to SDS Capital Group SPC, Ltd. in October 2005; and

113,095 shares of our common stock underlying warrants exercisable at $3.00 per share that we originally issued in a private placement to Xmark Fund, LP and Xmark Fund, Ltd., accredited investors, in September 2003 and which the Xmark funds transferred to Crestview Capital Masters LLC in December 2005.

Each of the transactions by which the selling stockholders acquired their securities from us was exempt under the registration provisions of the Securities Act of 1933.

The shares of common stock referred to above are being registered to permit public sales of the shares, and the selling stockholders may offer the shares for resale from time to time pursuant to this prospectus. The selling stockholders may also sell, transfer or otherwise dispose of all or a portion of their shares in transactions exempt from the registration requirements of the Securities Act or pursuant to another effective registration statement covering those shares. We may from time to time include additional selling stockholders in supplements or amendments to this prospectus.

The table below sets forth certain information regarding the selling stockholders and the shares of our common stock offered by them in this prospectus. The selling stockholders have not had a material relationship with us within the past three years other than as described in the footnotes to the table below or as a result of their acquisition of our shares or other securities. To our knowledge, subject to community property laws where applicable, each person named in the table has sole voting and investment power with respect to the shares of common stock set forth opposite such person s name.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, or SEC. In computing the number of shares beneficially owned by a selling stockholder and the percentage of ownership of that selling stockholder, shares of common stock underlying shares of our convertible preferred stock, options or warrants held by that selling stockholder that are convertible or exercisable, as the case may be, within 60 days of December 31, 2005 are included. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other selling stockholder. Each selling stockholder s percentage of ownership of our outstanding shares in the table below is based upon 29,468,756 shares of common stock outstanding as of December 31, 2005. In all but a few cases, there exist contractual provisions limiting conversion of our preferred stock and/or exercise of warrants to the extent such conversion or exercise would cause such selling stockholder, together with its affiliates or members of a group , to beneficially own a number of shares of common stock which would exceed 4.95% (9.95% if at the time of conversion or exercise such selling stockholder, its affiliates or members of a group, for purposes of Section 13(d) of the Securities Exchange Act of 1934, already exceeds 4.95%) of our then outstanding shares of common stock following such conversion or exercise. The shares and percentage ownership of our outstanding shares indicated in the table below do not give effect to these limitations.

| | Before offering | | After offering(1) | |
|---|---|---|---|---|
| **Selling Stockholder** | **Number of shares of common stock beneficially owned** | **Number of shares offered** | **Number of shares of common stock beneficially owned** | **Percentage of outstanding shares** |
| Albert L. Zesiger | 47,250(2) | 47,250 | | * |
| Alexa Zesiger Carver | 8,100(3) | 8,100 | | * |
| B.C. Equities Inc. | 12,126(4) | 275 | 11,851 | * |
| Banque SCS Alliance SA | 114,750(5) | 114,750 | | * |
| Barrie Ramsay Zesiger | 56,700(6) | 56,700 | | * |
| BGG, Banque Genevoise de Gestion | 43,124(7) | 28,124 | 15,000 | * |
| Booth & Co. | 112,050(8) | 112,050 | | * |
| Booth & Co. | 28,350(9) | 28,350 | | * |
| Booth & Co. | 41,850(10) | 41,850 | | * |
| Bridges and Pipes LLC | 257,657(11) | 140,624 | 117,033 | * |
| Brook Dey Cosby | 8,100(12) | 8,100 | | * |
| Cary Lapidus | 102,200(13) | 102,200 | | * |
| City of Milford Pension & Retirement Fund | 253,800(14) | 253,800 | | * |
| City of Stamford Firemen s Pension Fund | | (0.28) | | |
| Net loss | $ (0.35) | $ | $ | $ (0.35) |
| Shares used to compute net loss per share attributable to VeriSign common stockholders: | | | | |
| Basic | 195,515 | | | 195,515 |
| Diluted | 195,515 | | | 195,515 |

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| | Six Months Ended June 30, 2008 | | | |
|---|---|---|---|---|
| | As Reported (1) | Adjustment upon adoption of FSP APB 14-1 | Reclassification to Continuing Operations (2) | As Adjusted |
| | (In thousands, except per share data) | | | |
| Revenues | $ 471,695 | $ | $ 5,603 | $ 477,298 |
| Cost of revenues | 112,150 | | 3,083 | 115,233 |
| Other costs and expenses | 346,961 | 24(3) | 3,536 | 350,521 |
| Operating income | 12,584 | (24) | (1,016) | 11,544 |
| Other loss, net | (7,380) | (1,478)(4) | | (8,858) |
| Income from continuing operations before income taxes and loss from unconsolidated entities | 5,204 | (1,502) | (1,016) | 2,686 |
| Income tax benefit | (914) | (496)(6) | | (1,410) |
| Loss from unconsolidated entities, net of tax | (590) | | | (590) |
| Income from continuing operations, net of tax | 5,528 | (1,006) | (1,016) | 3,506 |
| Loss from discontinued operations, net of tax | (79,825) | (41)(3) | 1,016 | (78,850) |
| Net loss | (74,297) | (1,047) | | (75,344) |
| Less: Net income attributable to noncontrolling interest in subsidiary | (1,895) | | | (1,895) |
| Net loss attributable to VeriSign common stockholders | $ (76,192) | $ (1,047) | $ | $ (77,239) |
| Basic loss per share attributable to VeriSign common stockholders: | | | | |
| Continuing operations | $ 0.02 | $ | $ (0.01) | $ 0.01 |
| Discontinued operations | (0.40) | | 0.01 | (0.39) |
| Net loss | $ (0.38) | $ | $ | $ (0.38) |
| Diluted loss per share attributable to VeriSign common stockholders: | | | | |
| Continuing operations | $ 0.02 | $ | $ (0.01) | $ 0.01 |
| Discontinued operations | (0.39) | | 0.01 | (0.38) |
| Net loss | $ (0.37) | $ | $ | $ (0.37) |
| Shares used to compute net loss per share attributable to VeriSign common stockholders: | | | | |
| Basic | 201,032 | | | 201,032 |
| Diluted | 206,488 | | | 206,488 |

(1) As reported in or derived from the Company s 2008 Form 10-K, except per share amounts and Net income attributable to noncontrolling interest in subsidiary. Per share amounts have been adjusted to present the net loss per share attributable to VeriSign common stockholders. Net income attributable to noncontrolling interest in subsidiary has been presented after consolidated net loss to derive the net loss attributable to VeriSign common stockholders.

(2) Reclassification of the results of operations of the Company s iDefense business from discontinued operations to continuing operations.

(3) Other costs and expenses and Loss from discontinued operations, net of tax, increased during the three and six months ended June 30, 2008, due to additional depreciation expense recorded retroactively as result of an increase in capitalized interest costs.

(4) Other loss, net, increased during the three and six months ended June 30, 2008, primarily due to additional interest expense recorded retroactively.

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(5) Income tax benefit increased during the three months ended June 30, 2008, primarily due to an increase in loss from continuing operations before taxes.

(6) Income tax benefit increased during the six months ended June 30, 2008, primarily due to a decrease in income from continuing operations before taxes.

**Note 2. Stock-Based Compensation**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| Cost of revenues | $ 1,799 | $ 2,101 | $ 3,463 | $ 4,510 |
| Sales and marketing | 2,742 | 2,768 | 5,146 | 6,219 |
| Research and development | 1,486 | 1,833 | 3,009 | 4,304 |
| General and administrative | 5,691 | 10,151 | 10,968 | 16,625 |
| Restructuring and other charges | 68 | 1,138 | 798 | 4,562 |
| Other loss, net | | 610 | | 610 |
| Stock-based compensation for continuing operations | 11,786 | 18,601 | 23,384 | 36,830 |
| Stock-based compensation for discontinued operations | 2,383 | 10,935 | 4,712 | 19,501 |
| Total consolidated stock-based compensation | $ 14,169 | $ 29,536 | $ 28,096 | $ 56,331 |

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Stock options: | | | | |
| Volatility | 41% | 33% | 47% | 36% |
| Risk-free interest rate | 1.80% | 2.92% | 1.54% | 2.62% |
| Expected term | 3.33 years | 3.10 years | 3.68 years | 3.11 years |
| Dividend yield | Zero | Zero | Zero | Zero |
| Employee stock purchase plan awards: | | | | |
| Volatility | n/a | n/a | 54% | 31% |
| Risk-free interest rate | n/a | n/a | 0.47% | 2.69% |
| Expected term | n/a | n/a | 1.25 years | 1.25 years |
| Dividend yield | n/a | n/a | Zero | Zero |

VeriSign s expected volatility is based on the average of the historical volatility over the period commensurate with the expected term of the options and the mean historical implied volatility of traded options. The risk-free interest rates are derived from the average United States ( 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

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anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero. The Company estimates forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option and award forfeitures and records stock-based compensation only for those options and awards that are expected to vest.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| Stock options | $ 3,280 | $ 5,342 | $ 6,791 | $ 11,965 |
| Employee stock purchase plans | 2,668 | 6,167 | 5,388 | 14,694 |
| Restricted stock units | 8,485 | 7,218 | 15,966 | 15,186 |
| Stock options/awards acceleration | 457 | 11,385 | 1,389 | 15,630 |
| Capitalization (1) | (721) | (576) | (1,438) | (1,144) |
| Total consolidated stock-based compensation | $ 14,169 | $ 29,536 | $ 28,096 | $ 56,331 |

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

During the six months ended June 30, 2009, the Company modified certain stock-based awards to accelerate the vesting of twenty-five percent (25%) of unvested in-the-money stock options outstanding and 25% of unvested restricted stock units outstanding on the termination dates of employees affected by divestitures and workforce reductions. The Company remeasured the fair value of these modified awards and recorded the charges over the future service periods, if any. The modification charges are included in restructuring for continuing operations as well as for discontinued operations.

In the second quarter of 2008, the Company modified certain stock-based awards outstanding for Mr. William A. Roper, Jr., the former chief executive officer. Pursuant to the settlement agreement with Mr. Roper, the Company accelerated the vesting of Mr. Roper s then unvested sign-on options, unvested sign-on restricted stock units, first-year options outstanding that would otherwise have vested had Mr. Roper remained employed with the Company through August 8, 2008, and one-third of the first-year restricted stock units outstanding. Upon acceleration of vesting of Mr. Roper s stock-based awards, the Company recognized an additional amount of $5.4 million of stock-based compensation in general and administrative expenses during the second quarter of 2008.

**Note 3. Assets Held for Sale and Discontinued Operations**

In 2007, VeriSign announced a change to its business strategy to allow management to focus its attention on its core competencies and to make additional resources available to invest in its core businesses. The strategy calls for the divesture or winding down of the following remaining non-core businesses in the Company s portfolio as of June 30, 2009: GSC, MSS (sold in July 2009), Messaging Services, and Pre-Pay billing and payment ( Pre-Pay ) Services. The Messaging Services business is comprised of Messaging and Mobile Media ( MMM ) Services and m-Qube Services. The m-Qube Services business is comprised of Content Portal Services ( CPS ) which was formerly reported as a separate disposal group held for sale as of December 31, 2008, and Mobile Delivery Gateway ( MDG ) Services which was formerly included as part of the MMM disposal group held for sale as of December 31, 2008. All of the remaining non-core businesses in the Company s portfolio, except for the Pre-Pay Services business, which the Company is currently in the process of winding down, are classified as disposal groups held for sale as of June 30, 2009, and their results of operations have been classified as discontinued operations for all periods presented.

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During the first quarter of 2009, the Company disaggregated its ESS disposal group held for sale as of December 31, 2008, into the following three businesses: (i) GSC, (ii) iDefense and (iii) MSS. The Company decided to retain its iDefense business and, accordingly, reclassified the assets and liabilities related to iDefense as held and used in 2009. The Company also reclassified the historical results of operations of iDefense from discontinued operations to continuing operations as part of Naming Services for all periods presented.

*Completed Divestitures*

On May 5, 2009, the Company sold its Real-Time Publisher ( RTP ) Services business which allows 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. During the six months ended June 30, 2009, the Company recorded a gain on sale of $7.7 million, net of an income tax benefit of $5.8 million, including a reversal of estimated losses on disposal recorded prior to sale.

On May 1, 2009, the Company sold its Communications Services business which provides Billing and Commerce Services, Connectivity and Interoperability Services, and Intelligent Database Services to Transaction Network Services, Inc. ( TNS ) for cash consideration of $226.2 million. During the six months ended June 30, 2009, the Company recorded a loss on sale of $57.3 million, net of an income tax expense of $55.3 million, including estimated losses on disposal recorded prior to sale. The cash consideration of $226.2 million was determined after certain initial adjustments to reflect the parties then-current estimate of working capital associated with the Communications Services business as of the closing date. This divestiture transaction will be subject to a final adjustment to reflect the final agreed-upon working capital balances as of the closing date.

On April 10, 2009, the Company sold its International Clearing business which enables financial settlement and call data settlement for wireless and wireline carriers. The Company recorded a gain on sale of $12.2 million, net of an income tax benefit of $6.0 million, primarily representing cumulative translation adjustments associated with the business.

*Assets Held for Sale*

The following table presents the carrying amounts of major classes of assets and liabilities related to assets held for sale as of June 30, 2009 and December 31, 2008:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| **Assets:** | | |
| Accounts receivable | $ 25,917 | $ 58,588 |
| Other current assets | 60,236 | 63,516 |
| Goodwill | 103,798 | 237,177 |
| Other long-lived assets | 74,040 | 124,559 |
| Total assets held for sale | $ 263,991 | $ 483,840 |
| **Liabilities:** | | |
| Accounts payable and accrued liabilities | $ 41,845 | $ 35,853 |
| Deferred revenues | 7,740 | 13,307 |
| Total liabilities related to assets held for sale | $ 49,585 | $ 49,160 |

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As of June 30, 2009, businesses classified as held for sale and presented as discontinued operations are the following:

*Global Security Consulting*

The Company s GSC business helps 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.

*Managed Security Services*

The Company s MSS business enables 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 VeriSign s security platform and experienced security staff. VeriSign sold its MSS business on July 6, 2009, for a net consideration of $42.9 million.

*Messaging Services*

The Company s Messaging Services business is comprised of the following two businesses:

*Messaging and Mobile Media Services*

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

*m-Qube Services*

The Company s m-Qube Services business is comprised of CPS and MDG Services. CPS enables a seamless end-to-end business solution focused on providing best-in-class digital content storefront services. CPS can be used as a content delivery platform for games, ringtones, and other content services. CPS are provided to mobile carriers and media companies primarily located in Canada. MDG Services offer solutions to manage the complex operator interfaces, relationships, distribution, reporting and customer service for the delivery of premium mobile content to customers. The MDG messaging aggregation services enable short messaging and multimedia messaging service connectivity for content providers, aggregators and others to all wireless subscribers of certain carriers and/or countries and regions. MDG Services enable content providers to more rapidly expand their global reach.

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

For a period of time, the Company will continue to generate cash flows and will report income statement activity in continuing operations that are associated with these disposal groups and certain of the completed divestitures. The activities that will give rise to these impacts are transitional in nature and generally result from agreements that ensure and facilitate the orderly transfer of business operations. The nature, magnitude and

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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 generally extend for periods less than 12 months.

During the three and six months ended June 30, 2009, the Company recorded net gains on disposals including net reversals of estimated losses on disposal, of $22.1 million and $26.1 million, respectively, which are included in discontinued operations. During the three and six months ended June 30, 2008, the Company recorded net losses on disposals, including estimated losses on disposal, of $13.8 million and $39.8 million, respectively, which are included in discontinued operations. Net gains on disposal are recorded on the date the sale of the disposal group is consummated. Full or partial reversals of previously reported estimated losses on disposals are recorded upon changes in the fair values and/or carrying values of the disposal groups.

The following table presents the revenues and the components of (Loss) income from discontinued operations, net of tax:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| Revenues | $ 69,783 | $ 148,885 | $ 172,437 | $ 307,096 |
| Income (loss) before income taxes | $ 10,745 | $ (45,516) | $ 33,637 | $ (50,937) |
| Income tax expense (benefit) | 5,307 | (3,623) | 13,283 | (8,924) |
| Income (loss) from discontinued operations | 5,438 | (41,893) | 20,354 | (42,013) |
| Gain (loss) on sale of discontinued operations and estimated (losses) reversals on assets held for sale, before income taxes | 22,087 | (13,820) | 26,071 | (39,801) |
| Income tax expense (benefit) | 36,057 | (552) | 36,331 | (2,964) |
| Loss on sale of discontinued operations | (13,970) | (13,268) | (10,260) | (36,837) |
| Total (loss) income from discontinued operations, net of tax | $ (8,532) | $ (55,161) | $ 10,094 | $ (78,850) |

**Note 4. Restructuring, Impairments and Other Charges**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| Restructuring charges for continuing operations | $ 408 | $ 6,054 | $ 5,183 | $ 22,315 |
| Other charges for continuing operations | 62 | 79,069 | 62 | 79,069 |
| Total restructuring and other charges for continuing operations | 470 | 85,123 | 5,245 | 101,384 |
| Restructuring charges for discontinued operations | 3,317 | 13,160 | 2,913 | 23,364 |
| Impairments for discontinued operations | | 45,793 | | 45,793 |
| Total restructuring charges and impairments for discontinued operations | 3,317 | 58,953 | 2,913 | 69,157 |
| Total consolidated restructuring, impairments and other charges | $ 3,787 | $ 144,076 | $ 8,158 | $ 170,541 |

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*Restructuring Charges*

As part of its divestiture strategy, VeriSign initiated a restructuring plan in the first quarter of 2008 (the 2008 Restructuring Plan ) which includes workforce reductions, abandonment of excess facilities and other exit costs. The restructuring charges in the table above are substantially related to the 2008 Restructuring Plan. Through June 30, 2009, VeriSign recorded a total of $77.7 million in restructuring charges, inclusive of amounts for discontinued operations, under its 2008 Restructuring Plan.

The following table presents the nature of the restructuring charges:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| **Continuing operations:** | | | | |
| Workforce reduction severance and benefits | $ 321 | $ 3,745 | $ 3,131 | $ 15,753 |
| Workforce reduction stock-based compensation | 68 | 1,138 | 798 | 4,562 |
| Total workforce reduction | 389 | 4,883 | 3,929 | 20,315 |
| Excess facilities | 19 | 274 | 1,254 | 288 |
| Other exit costs | | 897 | | 1,712 |
| Total restructuring charges for continuing operations | $ 408 | $ 6,054 | $ 5,183 | $ 22,315 |
| **Discontinued operations:** | | | | |
| Workforce reduction severance and benefits | $ 2,716 | $ 9,297 | $ 2,183 | $ 19,084 |
| Workforce reduction stock-based compensation | 389 | 3,863 | 591 | 4,280 |
| Total workforce reduction | 3,105 | 13,160 | 2,774 | 23,364 |
| Excess facilities | 212 | | 139 | |
| Other exit costs | | | | |
| Total restructuring charges for discontinued operations | $ 3,317 | $ 13,160 | $ 2,913 | $ 23,364 |
| **Consolidated:** | | | | |
| Workforce reduction severance and benefits | $ 3,037 | $ 13,042 | $ 5,314 | $ 34,837 |
| Workforce reduction stock based compensation | 457 | 5,001 | 1,389 | 8,842 |
| Total workforce reduction | 3,494 | 18,043 | 6,703 | 43,679 |
| Excess facilities | 231 | 274 | 1,393 | 288 |
| Other exit costs | | 897 | | 1,712 |
| Total consolidated restructuring charges | $ 3,725 | $ 19,214 | $ 8,096 | $ 45,679 |

As of June 30, 2009, the consolidated accrued restructuring costs are $10.5 million and consist of the following:

| | Accrued Restructuring Costs at December 31, 2008 | Restructuring Charges | Cash Payments | Non-cash | Accrued Restructuring Costs at June 30, 2009 |
|---|---|---|---|---|---|
| | | | (In thousands) | | |

| | | | | | |
|---|---|---|---|---|---|
| Workforce reduction | $ 25,374 | $ 6,703 | $ (25,955) | $ (1,388) | $ 4,734 |
| Excess facilities | 6,583 | 1,393 | (1,868) | (350) | 5,758 |
| Total accrued restructuring costs | $ 31,957 | $ 8,096 | $ (27,823) | $ (1,738) | $ 10,492 |
| Included in current portion of accrued restructuring costs | | | | | $ 6,882 |
| Included in long-term portion of accrued restructuring costs | | | | | $ 3,610 |

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Cash payments totaling $9.0 million related to the abandonment of excess facilities will be paid over the respective lease terms, the longest of which extends through 2016. The present value of future cash payments related to lease terminations due to the abandonment of excess facilities is expected to be as follows:

| | Contractual Lease Payments | Anticipated Sublease Income | Net |
|---|---|---|---|
| | | (In thousands) | |
| 2009 (remaining 6 months) | $ 1,634 | $ (484) | $ 1,150 |
| 2010 | 2,520 | (527) | 1,993 |
| 2011 | 2,308 | (504) | 1,804 |
| 2012 | 589 | (223) | 366 |
| 2013 | 422 | (280) | 142 |
| Thereafter | 942 | (639) | 303 |
| | $ 8,415 | $ (2,657) | $ 5,758 |

As part of the 2008 Restructuring Plan, the Company anticipates recording additional charges related to its workforce reduction, excess facilities and other exit costs through 2009. The estimate of these charges is not yet finalized and the total amount and timing of these charges will depend upon the nature, timing, and extent of these future actions.

*Impairments and Other Charges*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | (In thousands) | |
| Impairments of goodwill for discontinued operations | $ | $ 45,793 | $ | $ 45,793 |
| Other charges for continuing operations | 62 | 79,069 | 62 | 79,069 |
| Total consolidated impairments and other charges | $ 62 | $ 124,862 | $ 62 | $ 124,862 |

During the three and six months ended June 30, 2008, the Company recorded a goodwill impairment charge of $45.8 million in discontinued operations related to its divested Post-Pay business.

During the three and six months ended June 30, 2008, the Company recorded a loss of $79.1 million in continuing operations as a result of the sale of certain Mountain View facilities. The sale of the Mountain View facilities was consummated as a result of the 2008 Restructuring Plan to divest or wind down the Company s non-core businesses.

**Note 5. Goodwill**

The following table summarizes the changes in the carrying amount of goodwill allocated to the Company s Internet Infrastructure and Identity Services ( 3IS ) segment during the six months ended June 30, 2009. There is no goodwill allocated to the Company s Other Services segment. For a description of our segments, see Note 10, Segment Information.

| | 3IS |
|---|---|
| | (In thousands) |
| Balance at December 31, 2008 | $ 283,109 |
| Reclassification from assets held for sale | 7,000 |
| Other adjustments (1) | (428) |

| | |
|---|---|
| Balance at June 30, 2009 | $ 289,681 |

(1) Other adjustments consist of foreign exchange fluctuations.

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During the six months ended June 30, 2009, the Company disaggregated its ESS disposal group held for sale as of December 31, 2008, into the following three businesses: (i) GSC, (ii) iDefense, and (iii) MSS. The Company decided to retain its iDefense business and, accordingly, reclassified goodwill of $7.0 million allocated to iDefense as held and used in 2009.

During the second quarter of 2009, the Company performed an annual impairment review of its Naming Services, Authentication Services and VeriSign Japan reporting units related to its core businesses, as well as for an indefinite-lived intangible asset related to the Company s *.name* generic top-level domain. The estimated fair value of each reporting unit was computed using a combination of the income approach and the market valuation approach. 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. Each of the reporting units reviewed for impairment had a fair value in excess of its carrying value and no further analysis was required. The estimated fair value of the indefinite-lived intangible asset related to the Company s *.name* generic top-level domain was computed using the income approach. There were no impairment charges for goodwill and other indefinite-lived intangible assets during the second quarter of 2009. Any changes to the Company s business strategy, growth assumptions and/or discounted cash flow projections could result in an impairment of its indefinite-lived intangible asset in future periods. The indefinite-lived intangible asset has a carrying amount of $11.7 million as of June 30, 2009, and is included in Other intangible assets, net.

During the second quarter of 2008, the Company recorded a goodwill impairment charge of $45.8 million in discontinued operations relating to its divested Post-Pay reporting unit.

**Note 6. Other Balance Sheet Items**

*Prepaid Expenses and Other Current Assets*

Prepaid expenses and other current assets consist of the following:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Prepaid expenses | $ 23,175 | $ 22,775 |
| Deferred tax assets | 65,529 | 64,482 |
| Non-trade receivables | 12,326 | 13,054 |
| Receivables from buyers | 29,597 | 14,899 |
| Funds held by the Reserve | 32,445 | 150,346 |
| Other | 4,088 | 2,622 |
| Total prepaid expenses and other current assets | $ 167,160 | $ 268,178 |

As of June 30, 2009, the Company had an aggregate of $32.4 million held by The Reserve s Primary Fund (the Primary Fund ) and The Reserve International Liquidity Fund, Ltd. (the International Fund ), classified as Prepaid expenses and other current assets due to the lack of an active market. During the six months ended June 30, 2009, the Company received distributions of $13.9 million and $104.0 million from the Primary Fund and the International Fund, respectively. As of June 30, 2009, Receivables from buyers consists of receivables related to sale consideration of $10.5 million and receivables for payments made on behalf of buyers under transition services agreements of $19.1 million for certain divested businesses.

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*Property and Equipment, Net*

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

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Land | $ 133,746 | $ 133,746 |
| Buildings | 129,757 | 135,242 |
| Computer equipment and software | 326,919 | 342,470 |
| Capital work in progress | 10,589 | 16,595 |
| Office equipment, furniture and fixtures | 14,790 | 15,491 |
| Leasehold improvements | 52,590 | 52,690 |
| Total cost | 668,391 | 696,234 |
| Less: accumulated depreciation and amortization | (298,284) | (310,736) |
| Total property and equipment, net | $ 370,107 | $ 385,498 |

*Other Assets*

Other assets consist of the following:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Long-term deferred tax assets | $ 4,727 | $ 2,562 |
| Long-term investments | 6,745 | 5,996 |
| Debt issuance costs | 12,775 | 13,233 |
| Long-term restricted cash | 2,061 | 1,858 |
| Security deposits and other | 9,869 | 14,469 |
| Total other assets | $ 36,177 | $ 38,118 |

*Accounts Payable and Accrued Liabilities*

Accounts payable and accrued liabilities consist of the following:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Accounts payable | $ 27,630 | $ 30,690 |
| Accrued employee compensation | 72,760 | 109,958 |
| Customer deposits, net | 26,738 | 30,432 |
| Taxes payable and other tax liabilities | 39,250 | 18,173 |
| Other accrued liabilities | 72,407 | 74,282 |
| Total accounts payable and accrued liabilities | $ 238,785 | $ 263,535 |

*Other Long-term Liabilities*

Other long-term liabilities consist of the following:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Other long-term liabilities | $ 217 | $ 161 |
| Long-term tax liability | 16,037 | 15,549 |
| Deferred tax liability | 60,357 | 68,833 |
| Total other long-term liabilities | $ 76,611 | $ 84,543 |

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**Note 7. Stockholders Equity**

*Comprehensive Income (Loss)*

Comprehensive income (loss) consists of Net income (loss) adjusted for unrealized gains and losses on marketable securities classified as available-for-sale and foreign currency translation adjustments. The following table presents the components of Comprehensive income (loss):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| Net income (loss) | $ 35,772 | $ (68,189) | $ 101,287 | $ (75,344) |
| Foreign currency translation adjustments | (4,905) | (7,365) | (14,859) | 9,117 |
| Change in unrealized gain (loss) on investments, net of tax | 131 | (513) | 289 | (316) |
| Comprehensive income (loss) | 30,998 | (76,067) | 86,717 | (66,543) |
| Less: Comprehensive income (loss) attributable to noncontrolling interest in subsidiary | 2,090 | (3,369) | (2,024) | 5,158 |
| Comprehensive income (loss) attributable to VeriSign Inc. common stockholders | $ 28,908 | $ (72,698) | $ 88,741 | $ (71,701) |

*Repurchase of Common Stock*

In 2006, the Board of Directors authorized a stock repurchase program (the 2006 Stock Repurchase Program ) with no expiration date to repurchase up to $1.0 billion of its common stock. During the three and six months ended June 30, 2009, VeriSign repurchased approximately 0.9 million shares of its common stock at an average stock price of $23.15 per share for an aggregate of $20.0 million under the 2006 Stock Repurchase Program. As of June 30, 2009, approximately $250.0 million is available under the 2006 Stock Repurchase Program.

In 2008, the Board of Directors authorized the 2008 Stock Repurchase Program (the 2008 Stock Repurchase Program ) having an aggregate purchase price of up to $1.28 billion of its common stock. As of June 30, 2009, $680.0 million remained available for further repurchase under the 2008 Stock Repurchase Program.

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**Note 8. Calculation of Net Income (Loss) Per Share Attributable to VeriSign Common Stockholders**

The Company computes basic net income (loss) per share attributable to VeriSign common stockholders by dividing net income (loss) attributable to VeriSign common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share attributable to VeriSign common stockholders gives effect to dilutive potential common equivalent shares, including unvested stock options, unvested restricted stock units, employee stock purchases 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 income (loss) per share attributable to VeriSign common stockholders:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands, except per share data) | | | |
| **Income (loss) attributable to VeriSign common stockholders:** | | | | |
| Income (loss) from continuing operations, net of tax | $ 43,406 | $ (14,017) | $ 89,800 | $ 1,611 |
| (Loss) income from discontinued operations, net of tax | (8,532) | (55,161) | 10,094 | (78,850) |
| Net income (loss) attributable to VeriSign common stockholders | $ 34,874 | $ (69,178) | $ 99,894 | $ (77,239) |
| **Weighted-average shares:** | | | | |
| Weighted-average shares of common stock outstanding | 192,649 | 195,515 | 192,481 | 201,032 |
| Weighted-average potential shares of common stock outstanding: | | | | |
| Stock options | 306 | | 271 | 2,131 |
| Unvested restricted stock awards | 471 | | 364 | 1,205 |
| Conversion spread related to Convertible Debentures | | | | 1,655 |
| Employee stock purchase plans | | | | 465 |
| Shares used to compute diluted net income (loss) per share attributable to VeriSign common stockholders | 193,426 | 195,515 | 193,116 | 206,488 |
| **Income (loss) per share attributable to VeriSign common stockholders:** | | | | |
| Basic: | | | | |
| Continuing operations | $ 0.23 | $ (0.07) | $ 0.47 | $ 0.01 |
| Discontinued operations | (0.05) | (0.28) | 0.05 | (0.39) |
| Net income (loss) | $ 0.18 | $ (0.35) | $ 0.52 | $ (0.38) |
| Diluted: | | | | |
| Continuing operations | $ 0.22 | $ (0.07) | $ 0.47 | $ 0.01 |
| Discontinued operations | (0.04) | (0.28) | 0.05 | (0.38) |
| Net income (loss) | $ 0.18 | $ (0.35) | $ 0.52 | $ (0.37) |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 (1) | 2009 | 2008 |
| | (In thousands, except per share data) | | | |
| Weighted-average stock options outstanding | 7,274 | 11,635 | 7,781 | 2,858 |
| Weighted-average exercise price | $ 28.39 | $ 25.59 | $ 28.25 | $ 33.87 |
| Weighted-average restricted stock awards outstanding | 1,246 | 4,357 | 1,800 | 48 |
| Weighted-average conversion spread related to convertible debentures | | 3,053 | | |
| Employee stock purchase plans | 287 | | 428 | |

(1) As the Company recognized a net loss from continuing operations during the three months ended June 30, 2008, all potential common shares were excluded as they were anti-dilutive.

**Note 9. Junior Subordinated Convertible Debentures**

In 2007, the Company issued $1.25 billion principal amount of 3.25% convertible debentures due August 15, 2037, to an initial purchaser in a private offering. The Convertible Debentures are subordinated in right of payment to the Company s existing and future senior debt and to the other liabilities of the Company s subsidiaries. The Convertible Debentures are initially convertible, subject to certain conditions, into shares of the Company common stock at a conversion rate of 29.0968 shares of common stock per $1,000 principal amount of Convertible Debentures, representing an initial effective conversion price of approximately $34.37 per share of common stock. The conversion rate will be subject to adjustment for certain events as outlined in the Indenture governing the Convertible Debentures but will not be adjusted for accrued interest. As of June 30, 2009, the if-converted value of the Convertible Debentures does not exceed its principal amount.

Effective January 1, 2009, the Company retroactively adopted FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).* FSP APB 14-1 specifies that issuers of convertible debt instruments should separately account for the liability (debt) and equity (conversion option) components of such instruments in a manner that reflects the borrowing rate for a similar non-convertible debt.

The Company calculated the carrying value of the liability component at issuance as the present value of its cash flows using a discount rate of 8.5% (borrowing rate for similar non-convertible debt with no contingent payment options), adjusted for the fair value of the contingent interest feature, yielding an effective interest rate of 8.39%. The carrying value of the liability component was determined to be $550.5 million. The excess of the principal amount of the debt over the carrying value of the liability component is also called debt discount or equity component of the Convertible Debentures. The equity component of the Convertible Debentures on the date of issuance was $700.7 million. The debt discount will be amortized using the Company s effective interest rate of 8.39% over the term of the Convertible Debentures as a non-cash charge to interest expense included in Other loss, net. As of June 30, 2009, the remaining term of the Convertible Debentures is 28.2 years.

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The table below presents the carrying amounts of the liability and equity components:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Carrying amount of equity component (net of issuance costs of $14,449) | $ 686,221 | $ 686,221 |
| Principal amount of Convertible Debentures | $ 1,250,000 | $ 1,250,000 |
| Unamortized discount of liability component | (688,793) | (691,837) |
| Carrying amount of liability component | 561,207 | 558,163 |
| Contingent interest derivative | 9,500 | 10,549 |
| Convertible debentures, including contingent interest derivative | $ 570,707 | $ 568,712 |

The table below presents the interest expense for the contractual interest and the amortization of debt discount:

| | Three Months Ended June 30, | |
|---|---|---|
| | 2009 | 2008 |
| | (Dollars in thousands) | |
| Effective interest rate | 8.39% | 8.39% |
| Interest expense contractual interest | $ 10,156 | $ 10,156 |
| Interest expense amortization of discount on the liability component | $ 1,544 | $ 1,422 |

| | Six Months Ended June 30, | |
|---|---|---|
| | 2009 | 2008 |
| | (Dollars in thousands) | |
| Effective interest rate | 8.39% | 8.39% |
| Interest expense contractual interest | $ 20,313 | $ 20,313 |
| Interest expense amortization of discount on the liability component | $ 3,056 | $ 2,798 |

The embedded features related to the contingent interest payments, over-allotment option, and the Company making specific types of distributions (e.g., extraordinary dividends) qualify as derivatives to be accounted for separately. The fair value of the derivatives at the date of issuance of the Convertible Debentures was $11.4 million including $7.8 million for the contingent interest payment features and $3.6 million for the over-allotment option feature, which is accounted for as a discount on the Convertible Debentures. The over-allotment feature was revalued at $12.6 million on the date of exercise at August 28, 2007, which is currently accounted for as a premium on the Convertible Debentures. The debt discount and the debt premium are being accreted to the face value of the Convertible Debentures as net interest expense over 30 years. The balances of the debt discount and debt premium are included in the carrying amount of the liability component.

**Note 10. Segment Information**

*Description of segments*

The Company has the following two reportable segments: (1) 3IS, which consists of Naming Services and Authentication Services. Authentication Services is comprised of Business Authentication Services, formerly known as Secure Socket Layer ( SSL ) Certificate Services; and User Authentication Services, formerly known as Identity and Authentication Services; and (2) Other Services, which consists of the continuing operations of non-core businesses and legacy products and services from divested businesses.

Naming Services is the authoritative directory provider of all *.com, .net, .cc, .tv*, *.name* and *.jobs* domain names. Business Authentication Services enable enterprises and Internet merchants to implement and operate

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secure networks and websites that utilize SSL protocol. Business Authentication 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. User Authentication Services include identity protection services, fraud detection services, managed public key infrastructure ( PKI ) services, and unified authentication services. User Authentication Services are intended to help enterprises secure intranets, extranets and other applications and devices, and provide authentication credentials.

The Other Services segment consists of the continuing operations of the Company s non-core Pre-Pay billing and payment ( Pre-Pay ) Services business, as well as legacy products and services from the divested Content Delivery Network business. The Company is in the process of winding down the operations of the Pre-Pay Services business.

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

The following tables present the results of VeriSign s reportable segments:

| | 3IS | Other Services | Total Segments |
|---|---|---|---|
| | | (In thousands) | |
| Three months ended June 30, 2009: | | | |
| Revenues: | | | |
| Naming Services | $ 153,418 | $ | $ 153,418 |
| Authentication Services | 101,830 | | 101,830 |
| Other Services | | 1,371 | 1,371 |
| Total revenues | 255,248 | 1,371 | 256,619 |
| Cost of revenues | 46,173 | 946 | 47,119 |
| | $ 209,075 | $ 425 | $ 209,500 |

| | 3IS | Other Services | Total Segments |
|---|---|---|---|
| | | (In thousands) | |
| Three months ended June 30, 2008: | | | |
| Revenues: | | | |
| Naming Services | $ 133,981 | $ | $ 133,981 |
| Authentication Services | 100,467 | | 100,467 |
| Other Services | | 7,585 | 7,585 |
| Total revenues | 234,448 | 7,585 | 242,033 |
| Cost of revenues | 38,393 | 3,020 | 41,413 |
| | $ 196,055 | $ 4,565 | $ 200,620 |

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| | 3IS | Other Services | Total Segments |
|---|---|---|---|
| | | (In thousands) | |
| Six months ended June 30, 2009: | | | |
| Revenues: | | | |
| Naming Services | $ 301,726 | $ | $ 301,726 |
| Authentication Services | 205,734 | | 205,734 |
| Other Services | | 4,154 | 4,154 |
| Total revenues | 507,460 | 4,154 | 511,614 |
| Cost of revenues | 93,359 | 2,238 | 95,597 |
| | $ 414,101 | $ 1,916 | $ 416,017 |

| | 3IS | Other Services | Total Segments |
|---|---|---|---|
| | | (In thousands) | |
| Six months ended June 30, 2008: | | | |
| Revenues: | | | |
| Naming Services | $ 261,198 | $ | $ 261,198 |
| Authentication Services | 197,096 | | 197,096 |
| Other Services | | 19,004 | 19,004 |
| Total revenues | 458,294 | 19,004 | 477,298 |
| Cost of revenues | 77,618 | 7,196 | 84,814 |
| | $ 380,676 | $ 11,808 | $ 392,484 |

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | | (In thousands) | | |
| Total revenues from reportable segments | $ 256,619 | $ 242,033 | $ 511,614 | $ 477,298 |
| Total cost of revenues from reportable segments | 47,119 | 41,413 | 95,597 | 84,814 |
| Unallocated operating expenses (1) | 125,360 | 217,659 | 257,163 | 380,940 |
| Operating income (loss) | 84,140 | (17,039) | 158,854 | 11,544 |
| Other loss, net | (10,266) | (5,219) | (14,559) | (8,858) |
| Income (loss) from continuing operations before income taxes and income (loss) from unconsolidated entities | $ 73,874 | $ (22,258) | $ 144,295 | $ 2,686 |

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

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*Geographic Information*

The Company operates in the U.S.; Australia, Japan and Asia Pacific ( APAC ); Europe, the Middle East and Africa ( EMEA ); and certain other countries. The following table presents a comparison of the Company s geographic revenues:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| U.S. | $ 151,872 | $ 141,831 | $ 301,236 | $ 280,390 |
| EMEA | 53,527 | 51,286 | 106,534 | 100,382 |
| APAC | 33,654 | 33,780 | 69,339 | 65,855 |
| Other | 17,566 | 15,136 | 34,505 | 30,671 |
| Total revenues | $ 256,619 | $ 242,033 | $ 511,614 | $ 477,298 |

Revenues are generally attributed to the country of domicile and the respective regions in which the Company s customers are located.

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

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| U.S. | $ 346,092 | $ 357,607 |
| APAC | 15,036 | 19,176 |
| EMEA | 8,933 | 8,686 |
| Other | 46 | 29 |
| Total property and equipment, net | $ 370,107 | $ 385,498 |

Assets are not tracked by segment and the CODM does not evaluate segment performance based on asset utilization.

*Major Customers*

One customer accounted for 15% and 14% of the Company s revenues from continuing operations during the three and six months ended June 30, 2009, respectively. One customer accounted for 12% of the Company s revenues from continuing operations for both the three and six months ended June 30, 2008. No customer accounted for 10% or more of accounts receivable at June 30, 2009, and December 31, 2008.

**Note 11. Other Loss, Net**

The following table presents the components of Other loss, net:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| Interest income | $ 1,126 | $ 2,728 | $ 2,569 | $ 11,023 |
| Interest expense | (11,805) | (10,824) | (23,610) | (21,745) |
| Net gain on divestiture of businesses | | 2,127 | 909 | 954 |

| | | | | |
|---|---|---|---|---|
| Unrealized (loss) gain on contingent interest derivative on convertible debentures | (125) | 246 | 1,049 | 2,084 |
| Income from transition services agreements | 1,056 | 1,366 | 1,838 | 1,366 |
| Other, net | (518) | (862) | 2,686 | (2,540) |
| Total other loss, net | $ (10,266) | $ (5,219) | $ (14,559) | $ (8,858) |

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Interest income is earned principally from the investment of VeriSign s surplus cash balances. Interest expense is derived principally from interest on VeriSign s Convertible Debentures. During the six months ended June 30, 2009, Other, net, primarily consists of $3.3 million received from Certicom Corporation ( Certicom ) due to the termination of the acquisition agreement entered into with Certicom during the three months ended March 31, 2009, and foreign exchange rate gains and losses. During the six months ended June 30, 2008, Other, net primarily consists of net foreign exchange rate losses.

**Note 12. Income Taxes**

During the three and six months ended June 30, 2009, the Company recorded income tax expense for continuing operations of $29.6 million and $53.1 million, respectively. During the three and six months ended June 30, 2008, the Company recorded income tax benefit for continuing operations of $8.1 million and $1.4 million, respectively. On February 20, 2009, the State of California enacted changes in tax laws that are expected to have a beneficial impact on the Company s effective tax rate beginning in 2011. As a result, the Company revalued certain state deferred tax assets and liabilities that are expected to reverse after the effective date of the change, and recognized a discrete income tax benefit adjustment of $4.1 million during the six months ended June 30, 2009.

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

As of June 30, 2009, and December 31, 2008, the Company had gross unrecognized tax benefits for income taxes associated with uncertain tax positions of $33.5 million and $31.9 million, respectively. As of June 30, 2009 and December 31, 2008, $33.5 million and $31.7 million, respectively, of unrecognized tax benefit, including penalties and interest could affect the Company s tax provision and effective tax rate. During the three and six months ended June 30, 2009, the Company recorded an increase in unrecognized tax benefits associated with uncertain tax positions of $0.6 million and $1.6 million, respectively.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of Income tax expense. During the three months ended June 30, 2009, and June 30, 2008, the Company expensed $0.3 million and $0.7 million, respectively, for interest and penalties related to income tax liabilities through Income tax expense.

The Company is not currently under examination by the Internal Revenue Service or the Virginia Department of Revenue. The Company is currently under examination by the California Franchise Tax Board for the years ended December 31, 2004 and December 31, 2005. Because the Company uses historic net operating loss carryforwards and other tax attributes to offset its taxable income in current and future years income tax returns for U.S. Federal, California and Virginia, such attributes can be adjusted by these taxing authorities until the statute closes on the year in which such attribute was utilized. The Company is not currently under examination by the Japan National Tax Agency. The years which remain subject to examination by the Japan National Tax Agency are those ended on December 31, 2007 and December 31, 2008.

The balance of the gross unrecognized tax benefits is not expected to materially change in the next 12 months.

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**Note 13. Fair Value of Financial Instruments**

*Assets and Liabilities Measured at Fair Value on a Recurring Basis*

The following table summarizes the Company s financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2009:

| | Total Fair Value as of June 30, 2009 | Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | | (In thousands) | | |
| Assets: | | | | |
| Investments in money market funds and time deposits | $ 1,199,611 | $ 1,199,611 | $ | $ |
| Equity investments | 457 | 457 | | |
| Total | $ 1,200,068 | $ 1,200,068 | $ | $ |
| Liabilities: | | | | |
| Foreign currency forward contracts | $ 460 | $ | $ 460 | $ |
| Contingent interest derivative on Convertible Debentures | 9,500 | | | 9,500 |
| Total | $ 9,960 | $ | $ 460 | $ 9,500 |

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

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. The Company recorded unrealized gains and losses related to changes in the fair value of its foreign currency forward contracts in Other loss, net. The Company recorded an unrealized gain of $1.6 million and an unrealized loss of $1.4 million during the three months ended June 30, 2009 and 2008, respectively, related to changes in the fair value of its foreign currency forward contracts. The Company recorded an unrealized gain of $0.7 million and an unrealized loss of $1.4 million during the six months ended June 30, 2009 and 2008, respectively, related to changes in the fair value of its foreign currency forward contracts.

Equity investments relate to the Company s investments in the securities of other public companies. The fair value of these investments is based on the quoted market prices of the underlying shares. Such investments are included in Prepaid expenses and other current assets.

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

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The following table summarizes the change in the fair value of the Company s Level 3 contingent interest derivative on Convertible Debentures during the six months ended June 30, 2009 (in thousands):

| | |
|---|---|
| Fair value at December 31, 2008 | $ 10,549 |
| Unrealized gain on contingent interest derivative on Convertible Debentures (1) | (1,049) |
| Fair value at June 30, 2009 | $ 9,500 |

(1) Included in Other loss, net.

*Assets and Liabilities Measured at Fair Value on a Non-recurring Basis*

The Company measures its disposal groups held for sale at the lower of their carrying amount or fair value less cost to sell. The following table summarizes the Company s net assets of those disposal groups held for sale which are measured at fair value as of June 30, 2009:

| | Fair Value Measurement Using Significant Unobservable Inputs (Level 3) | Total gain for the three months ended June 30, 2009 (1) | Total gain for the six months ended June 30, 2009 (1) |
|---|---|---|---|
| | | (In thousands) | |
| Net assets of disposal groups held for sale | $ 154,500 | $ 15,550 | $ 11,664 |

(1) Included in (Loss) income from discontinued operations, net of tax.

The Company has classified the net assets of its disposal groups held for sale as Level 3 due to the lack of observable inputs to determine the fair values of such net assets. The fair value of net assets of disposal groups held for sale is determined considering active bids from potential buyers. Significant unobservable inputs used in the income or market valuation approaches primarily include internal cash flow projections, discount rates and control premium. Discount rates are calculated using mathematical models that utilize observable inputs such as risk-free interest rates and beta, adjusted for company specific characteristics. Control premium is determined based on industry studies.

During the three months ended June 30, 2009, net assets of the disposal groups held for sale which are measured at fair value as of June 30, 2009, with a carrying amount of $138.9 million, were written up to their fair value of $154.5 million less costs to sell of $2.6 million (or $151.9 million), resulting in a net reversal of estimated losses previously reported of $15.6 million.

During the six months ended June 30, 2009, the Company recorded a net gain of $11.7 million related to net reversals of estimated losses on the disposal groups which are measured at fair value as of June 30, 2009.

*Other*

The fair value of other financial instruments including accounts receivable, restricted cash and investments, and accounts payable, approximates the carrying amount, which is the amount for which the instrument could be exchanged in a current transaction between willing parties. The fair value of the Company s Convertible Debentures at June 30, 2009, is $833.4 million, and is based on quoted market prices.

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**Note 14. 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 U.S. District Court for the District of Arizona asserting infringement of certain patents. The complaint alleged that VeriSign s Payflow payment products and services directly infringe certain claims of NetMoneyIN s three patents and requested the Court to enter judgment in favor of NetMoneyIN, a permanent injunction against the defendants alleged infringing activities, an order requiring defendants to provide an accounting for NetMoneyIN s damages, to pay NetMoneyIN such damages and three times that amount for any willful infringers, and an order awarding NetMoneyIN attorney fees and costs. NetMoneyIN has withdrawn its allegations of infringement of one of the patents and the Court has dismissed with prejudice all claims of infringement of such patent. In its ruling on the claim construction issues, the Court found some of the claims asserted against VeriSign to be valid. NetMoneyIN may file an appeal after a final judgment seeking to overturn this ruling. Only one claim remains in the case. On July 13, 2007, the Court issued an order granting summary judgment in favor of VeriSign based on the Court s finding that such claim is invalid, and denying all other pending dispositive motions. On August 29, 2007, plaintiff filed a Notice of Appeal. On September 19, 2007, the U.S. Court of Appeals for the Federal Circuit docketed the appeal. On October 20, 2008, the appellate court issued a decision that affirmed in part and reversed in part the summary judgment order and remanded the case for further proceedings in the trial court. VeriSign and NetMoney entered into a settlement agreement in July 2009. The case against VeriSign has been dismissed.

On July 6, 2006, a stockholder derivative complaint (Parnes v. Bidzos, et al., and VeriSign) was filed against VeriSign in the U.S. District Court for the Northern District of California, 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 the U.S. District Court for the Northern District of California (Port Authority v. Bidzos, et al., and VeriSign), and one in the Superior Court of the State of California, Santa Clara County (Port Authority v. Bidzos, et al., and VeriSign) on August 14, 2006. The state court derivative action is stayed pending resolution of the federal actions. The current directors and officers named in this state action are D. James Bidzos, William L. Chenevich, Roger H. Moore and Louis A. Simpson. The Company is named as a nominal defendant in these actions. The federal actions have been consolidated and plaintiffs filed a consolidated complaint on November 20, 2006. The current directors and officers named in this consolidated federal action are D. James Bidzos, William L. Chenevich, Roger H. Moore, Louis A. Simpson and Timothy Tomlinson. Motions to dismiss the consolidated federal court complaint were heard on May 23, 2007. Those motions were granted on September 14, 2007. On November 16, 2007, a second amended shareholder derivative complaint was filed in the federal action wherein the Company was again named as a nominal defendant. By stipulation and Court order, defendants obligation to respond to the second amended shareholder derivative complaint has been continued pending informal efforts by the parties to resolve the action.

On May 15, 2007, a putative class action (Mykityshyn v. Bidzos, et al., and VeriSign) was filed in Superior Court for the State of California, Santa Clara County, naming the Company and certain current and former officers and directors, alleging false representations and disclosure failures regarding certain historical stock option grants. The plaintiff purports to represent all individuals who owned the Company 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 the Company 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 the Superior Court for the State of California, Santa Clara County 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. The current directors and officers named in this consolidated class action are D. James Bidzos, William L. Chenevich, Roger H. Moore, Louis A. Simpson and

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Timothy Tomlinson. VeriSign and the individual defendants dispute all of these claims. Defendants collective pleading challenges to the putative consolidated class action complaint were granted with leave to amend in August 2008. By stipulation and Court order, plaintiff s obligation to file an amended consolidated class action complaint has been continued pending informal efforts by the parties to resolve the action.

On November 7, 2006, a judgment was entered against VeriSign by a trial court in Terni, Italy, in the matter of Penco v. VeriSign, Inc. in the amount of Euro 5.8 million plus fees arising from a lawsuit brought by a former consultant who claimed to be owed commissions. The Company was granted a stay on execution of the judgment and the Company filed an appeal. On July 9, 2008, the appellate court rejected all of plaintiff s claims. On or about April 2, 2009, plaintiff filed an appeal in the Supreme Court of Cassation, Rome, Italy. VeriSign filed a Writ of Reply on May 5, 2009. While the Company cannot predict the outcome of these proceedings, it believes the allegations against it are without merit.

On May 31, 2007, plaintiffs Karen Herbert, et al., on behalf of themselves and a nationwide class of consumers ( *Herbert* ), filed a complaint against VeriSign, m-Qube, Inc., and other defendants alleging that defendants collectively operate an illegal lottery under the laws of multiple states by allowing viewers of the NBC television show Deal or No Deal to incur premium text message charges in order to participate in an interactive television promotion called Lucky Case Game. The lawsuit is pending in the U.S. District Court for the Central District of California, Western Division. On June 5, 2007, plaintiffs Cheryl Bentley, et al., on behalf of themselves and a nationwide class of consumers ( *Bentley* ), filed a complaint against VeriSign, 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 Bentley matter is currently stayed. A motion to dismiss ruling in Herbert is on appeal in the U.S. Court of Appeals for the Ninth Circuit. 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 September 12, 2008, Leon Stambler filed a declaratory judgment complaint against VeriSign in the U.S. District Court for the Eastern District of Texas. The complaint seeks an order permitting Stambler to proceed with patent infringement actions against VeriSign SSL certificate customers in actions in which VeriSign is not a party in view of Stambler s prior unsuccessful action in 2003 against VeriSign on the same patents in which a verdict was returned against Stambler and a judgment was entered thereon. VeriSign has received requests to indemnify certain SSL certificate customers in the patent infringement actions brought by Stambler. VeriSign and Stambler entered into a confidential settlement agreement on June 1, 2009. The confidential settlement agreement with Stambler does not resolve the indemnity requests received from certain SSL certificate customers. The declaratory judgment complaint against VeriSign was dismissed on June 8, 2009.

On June 5, 2009, the U.S. Court of Appeals for the Ninth Circuit reversed and remanded a district court order dismissing a second amended complaint filed by plaintiff Coalition for ICANN Transparency, Inc. ( CFIT ). CFIT filed its initial complaint and an application for a temporary restraining order against VeriSign and ICANN in the U.S. District Court for the Northern District of California on November 28, 2005, asserting claims under Sections 1 and 2 of the Sherman Antitrust Act (the Sherman Act ), the Cartwright Act, and Cal. Bus. & Prof. Code § 17200. The district court denied CFIT s application for a temporary restraining order on November 30, 2005. Shortly after the action was initiated and CFIT s application was denied, the district court granted defendants Motion for Judgment on the Pleadings on February 28, 2006, with leave to amend. CFIT filed a First Amended Complaint on March 14, 2006. The Court granted defendants Motion to Dismiss the First Amended Complaint, with leave to amend, on December 8, 2006. CFIT filed a Second Amended Complaint on December 28, 2006; ICANN was not included as a defendant in the Second Amended Complaint. The Second Amended Complaint, which VeriSign has not yet answered, asserted claims, among others, under Sections 1 and 2 of the Sherman Act against VeriSign, challenging in part VeriSign s conduct in entering into, and the pricing, renewal and certain other terms of, the *.com* and *.net* registry agreements with ICANN. The same renewal and pricing terms in the *.com* registry agreement are incorporated by reference in the Cooperative Agreement between VeriSign and the U.S. Department of Commerce, which approved the *.com* Registry Agreement as in the

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public interest. The Court granted VeriSign s Motion to Dismiss the Second Amended Complaint on May 14, 2007, without leave to amend, and entered judgment for VeriSign. CFIT filed a Notice of Appeal to the U.S. Court of Appeals for the Ninth Circuit on June 13, 2007. After briefing, the appeal was argued on December 8, 2008. The Ninth Circuit filed its Opinion reversing and remanding the dismissal of the Second Amended Complaint on June 5, 2009. VeriSign filed a motion for rehearing in the Ninth Circuit on July 2, 2009. While the Company cannot predict the outcome of these proceedings, it believes the allegations against it are without merit and intends to vigorously defend against them.

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

**Note 15. Subsequent Events**

On July 6, 2009, the Company sold its MSS business for a net consideration of $42.9 million.

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

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

*This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). These forward-looking statements involve risks and uncertainties, including, among other things, statements regarding our anticipated costs and expenses and revenue mix. Forward-looking statements include, among others, those statements including the words expects, anticipates, intends, believes and similar language. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section titled Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q. You should also carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q or Current Reports on Form 8-K that we file in 2009 and our 2008 Form 10-K, which was filed on March 3, 2009, which discuss our business in greater detail. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.*

**Overview**

We are the trusted provider of Internet infrastructure services for the networked world. We offer a comprehensive spectrum of products and services that help a growing number of organizations and individuals to communicate and conduct commerce with confidence.

We have the following two reportable segments: Internet Infrastructure and Identity Services ( 3IS ) which consists of Naming Services and Authentication Services. Authentication Services is comprised of Business Authentication Services, formerly known as Secure Socket Layer ( SSL ) Certificate Services; and User Authentication Services, formerly known as Identity and Authentication Services; and (2) Other Services, which consists of the continuing operations of non-core businesses and legacy products and services from divested businesses. See Note 10, Segment Information, for further information regarding our reportable segments. In our 2008 Form 10-K, we presented VeriSign Japan as a separate component of our 3IS segment. Beginning in the first quarter of 2009, we have reclassified the results of operations of VeriSign Japan into the results of operations of our Authentication Services which is also a component of our 3IS segment, as VeriSign Japan is a majority-owned subsidiary whose operations primarily consist of Business and User Authentication Services.

Naming Services is the authoritative directory provider of all *.com, .net, .cc, .tv*, *.name* and *.jobs* domain names. Business Authentication Services enable enterprises and Internet merchants to implement and operate secure networks and websites that utilize SSL protocol. Business Authentication 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. User Authentication Services includes identity protection services, fraud detection services, managed public key infrastructure ( PKI ) services, and unified authentication services. User Authentication Services are intended to help enterprises secure intranets, extranets and other applications and devices, and provide authentication credentials. The Other Services segment consists of the continuing operations of our non-core Pre-Pay billing and payment ( Pre-Pay ) Services business, as well as legacy products and services from the divested Content Delivery Network ( CDN ) business. We are in the process of winding down the operations of the Pre-Pay Services business.

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

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businesses. The strategy calls for a divestiture or winding down of all the non-core businesses. These businesses, except the Pre-Pay Services business, are classified as disposal groups held for sale as of June 30, 2009, and their results of operations have been classified as discontinued operations for all periods presented. The continued execution of our divestiture plan is subject to the availability of financing, identification of buyers, and general market conditions, including further developments in the current global economic environment and potential continued deterioration of the credit markets. While we are executing our divestiture plan, we will experience additional risks, including, but not limited to the disruption of our business and the potential loss of key employees; difficulties separating operations, services, products and personnel; the potential damage to relationships with our existing customers; and the delay in completion of transition services. For example, our divestiture plan requires a substantial amount of management, administrative and operational resources. Once our divestiture plan is completed, the scale and scope of our operations will decrease in absolute terms, which we expect will allow our remaining core services to benefit from a more efficient and streamlined operational structure. However, we cannot assure you that we will be able to achieve the full strategic and financial benefits we expect from the divestiture of our non-core businesses and there is no guarantee that the planned divestitures will occur or will not be significantly delayed, all of which may result in future variability in our results of operations. By divesting our non-core businesses, additional resources should be available to invest in our core services that will remain: Naming Services and Authentication Services.

***Our Core Services***

Our core services consist of our Naming Services and Authentication Services.

*Naming Services*

As of June 30, 2009, we had approximately 93.5 million domain names registered under the *.com* and *.net* registries, which are our principal registries. The number of domain names registered is largely driven by Internet usage and broadband penetration rates. Although growth in absolute number of registrations remains greatest in mature markets such as the United States ( U.S. ) and Western Europe, growth on an annual percentage basis is expected to be greatest in markets outside of the U.S. and Western Europe where Internet penetration has demonstrated the greatest potential for growth. We are largely insulated from the risk posed by fluctuations in exchange rates due to the fact that all revenues paid to us for *.com* and *.net* registrations are in U.S. dollars.

*Authentication Services*

*Business Authentication Services*

We currently offer the following Business Authentication Services: VeriSign®, thawte®, and GeoTrust® branded SSL certificates. As of June 30, 2009, we had an installed base of SSL certificates of approximately 1.2 million. The major factors impacting the growth and performance of our Business Authentication Services are the penetration and adoption of the Internet, especially through broadband services, the spread of e-commerce, the utilization of electronic means for executing financial transactions (such as credit card payments), and the extent to which advertising through search engines encourages consumers to engage in e-commerce. As a result of the growing impact of the Internet on global commercial transactions and the current economic environment, we expect continued but slowing revenue growth in our business, primarily in markets outside of the U.S. where e-commerce has the largest growth potential.

*User Authentication Services*

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

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From time to time we engage in promotional activities in both our Naming Services and Authentication Services.

***Business Highlights and Trends Three and six months ended June 30, 2009***

We recorded revenues of $256.6 and $511.6 million during the three and six months ended June 30, 2009, an increase of 6% and 7%, respectively, as compared to the same periods last year. The increase was primarily due to an increase in revenues from both our Naming Services as well as Authentication Services.

We recorded income from continuing operations of $43.4 million and $89.8 million during the three and six months ended June 30, 2009, respectively, compared to a loss from continuing operations of $14.0 million and income from continuing operations of $1.6 million during the three and six months ended June 30, 2008, respectively. The increase is primarily due to an increase in revenues, a decrease in operating costs and expenses due to the implementation of strategic cost-saving initiatives and a decrease in restructuring charges.

We received $18.3 million and $104.0 million from The Reserve International Liquidity Fund, Ltd. (the International Fund ) during the three and six months ended June 30, 2009, respectively. We received $5.6 million and $13.9 million from The Reserve s Primary Fund (the Primary Fund ) during the three and six months ended June 30, 2009, respectively. As of June 30, 2009, we have an aggregate of $32.4 million outstanding in the Primary Fund and the International Fund.

On May 5, 2009, we sold our Real-Time Publisher ( RTP ) Services business. During the three and six months ended June 30, 2009, we recorded a gain on sale of $7.7 million, net of an income tax benefit of $5.8 million, including a reversal of estimated losses on disposal recorded prior to sale.

On May 1, 2009, we sold our Communications Services business to Transaction Network Services, Inc. ( TNS ) for cash consideration of $226.2 million. During the three and six months ended June 30, 2009, we recorded a loss on sale of $57.3 million, net of an income tax expense of $55.3 million, including estimated losses on disposal recorded prior to sale.

On April 10, 2009, we sold our International Clearing business which enables financial settlement and call data settlement for wireless and wireline carriers. During the three and six months ended June 30, 2009, we recorded a gain on sale of $12.2 million, net of an income tax benefit of $6.0 million, primarily representing cumulative translation adjustments associated with the business.

***Assets Held for Sale and Discontinued Operations***

During the first quarter of 2009, we disaggregated our Enterprise and Security Services ( ESS ) disposal group held for sale as of December 31, 2008, into the following three businesses: (i) Global Security Consulting ( GSC ), (ii) iDefense Security Intelligence Services ( iDefense ) and (iii) Managed Security Services ( MSS ). We decided to retain our iDefense business and, accordingly, reclassified the assets and liabilities related to iDefense as held and used in 2009. We also reclassified the historical results of operations of iDefense from discontinued operations to continuing operations as part of Naming Services for all periods presented. See Note 3, Assets Held for Sale and Discontinued Operations, of our Notes to Condensed Consolidated Financial Statements for further information.

As of June 30, 2009, businesses classified as held for sale and presented as discontinued operations are the following:

*Global Security Consulting*

Our GSC business, part of our former ESS disposal group, helps 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.

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*Managed Security Services*

Our MSS business, part of our former ESS disposal group, enables 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 VeriSign s security platform and experienced security staff. We sold our MSS business on July 6, 2009, for a net consideration of $42.9 million.

*Messaging Services*

Our Messaging Services business consists of the following two businesses:

*Messaging and Mobile Media Services*

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

*m-Qube Services*

Our m-Qube Services business is comprised of Mobile Delivery Gateway ( MDG ) Services and CPS. MDG Services offer solutions to manage the complex operator interfaces, relationships, distribution, reporting and customer service for the delivery of premium mobile content to customers. MDG messaging aggregation services enable short messaging and multimedia messaging service connectivity for content providers, aggregators and others to all wireless subscribers of certain carriers and/or countries and regions. MDG services enable content providers to more rapidly expand their global reach. CPS enables a seamless end-to-end business solution focused on providing best-in-class digital content storefront services. CPS can be used as a content delivery platform for games, ringtones, and other content services. CPS are provided to mobile carriers and media companies primarily located in Canada.

***Subsequent Events***

On July 6, 2009, we sold our MSS business for a net consideration of $42.9 million.

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**Results of Operations**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues | 100% | 100% | 100% | 100% |
| Costs and expenses | | | | |
| Cost of revenues | 22 | 23 | 23 | 24 |
| Sales and marketing | 18 | 18 | 16 | 19 |
| Research and development | 9 | 10 | 9 | 10 |
| General and administrative | 17 | 20 | 18 | 22 |
| Restructuring and other charges | | 35 | 1 | 21 |
| Amortization of other intangible assets | 1 | 1 | 1 | 1 |
| Total costs and expenses | 67 | 107 | 68 | 97 |
| Operating income (loss) | 33 | (7) | 32 | 3 |
| Other loss, net | (4) | (2) | (4) | (2) |
| Income (loss) from continuing operations before income taxes and income (loss) from unconsolidated entities | 29 | (9) | 28 | 1 |
| Income tax expense (benefit) | 12 | (3) | 10 | |
| Income (loss) from unconsolidated entities, net of tax | | | | |
| Income (loss) from continuing operations, net of tax | 17 | (6) | 18 | 1 |
| (Loss) income from discontinued operations, net of tax | (3) | (23) | 2 | (17) |
| Net income (loss) | 14 | (29) | 20 | (16) |
| Less: Net income attributable to noncontrolling interest in subsidiary | | | | |
| Net income (loss) attributable to VeriSign common stockholders | 14% | (29)% | 20% | (16)% |

***Revenues***

We have two reportable segments: 3IS and Other Services. A comparison of revenues is presented below:

| | Three Months Ended June 30, | | % |
|---|---|---|---|
| | 2009 | 2008 | Change |
| | (Dollars in thousands) | | |
| 3IS: | | | |
| Naming Services | $ 153,418 | $ 133,981 | 15% |
| Authentication Services | 101,830 | 100,467 | 1% |
| Total 3IS | 255,248 | 234,448 | 9% |
| Other Services | 1,371 | 7,585 | (82)% |

| | | | |
|---|---|---|---|
| Total revenues | $ 256,619 | $ 242,033 | 6% |

| | Six Months Ended June 30, | | % |
|---|---|---|---|
| | 2009 | 2008 | Change |
| | (Dollars in thousands) | | |
| 3IS: | | | |
| Naming Services | $ 301,726 | $ 261,198 | 16% |
| Authentication Services | 205,734 | 197,096 | 4% |
| Total 3IS | 507,460 | 458,294 | 11% |
| Other Services | 4,154 | 19,004 | (78)% |
| Total revenues | $ 511,614 | $ 477,298 | 7% |

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The changes in revenues during the three and six months ended June 30, 2009, are described in the segment discussions that follow.

***3IS:***

*Naming Services*

Revenues related to our Naming Services are derived from registrations for domain names in the *.com, .net, .cc, .tv*, *.name* and *.jobs* domain name registries. Revenues from *.cc, .tv, .name and .jobs* are not significant. For domain names registered with the *.com* and *.net* registries, we receive a fee per annual registration that is fixed pursuant to our agreements with the Internet Corporation for Assigned Names and Numbers ( ICANN ). Individual customers contract directly with third-party registrars or their resellers, and the third-party registrars in turn register the *.com*, *.net*, *.cc*, *.tv*, *.name* and *.jobs* domain names with VeriSign. Changes in revenues are driven largely by increases in the number of new domain name registrations and the renewal rate for existing registrations, as well as fee increases as permitted under our agreements with ICANN. As of June 30, 2009, we have the contractual right to increase the fees for *.com* domain name registrations up to 7% each year during any two years over the remaining term of our agreement with ICANN through November 30, 2012. As of June 30, 2009, we have the contractual right to increase the fees for *.net* domain name registrations up to 10% each year during the remaining three years of our agreement with ICANN through June 30, 2011. We frequently offer promotional marketing programs for our registrars based upon market conditions and the business environment in which the registrars operate.

The following table compares active domain names ending in *.com* and *.net* managed as part of our Naming Services as of June 30, 2009 and 2008:

| | June 30, | | % |
|---|---|---|---|
| | **2009** | **2008** | **Change** |
| Active domain names ending in *.com* and *.net* | 93.5 million | 87.3 million | 7% |

During the three and six months ended June 30, 2009, the growth in the number of domain names registered was primarily driven by continued Internet growth and adoption primarily within international markets and new domain name promotion programs. We expect that new name registrations and renewals from customers engaged in the business of registering domain names for the purpose of on-line advertising networks will continue to have a diminishing impact on our domain name base through 2009. During 2008, we started seeing signs of the slowing of growth in some areas of new traditional name registrations due to the current macro-economic environment. We expect that the current and expected state of the economic environment may contribute to a continued slowing of growth rates in 2009 for the total worldwide domain name zone as well as for the *.com* and *.net* domain name zones under our management, even as we continue to add to the net names in our domain name zones in absolute terms. We continue to experience growth in targeted international markets where we have focused efforts to develop regions of growth with potential in both our *.com* and *.net* domain name zones over time.

Our Naming Services revenues increased during the three and six months ended June 30, 2009, as compared to the same periods last year, primarily due to a 7% year-over-year increase in the number of active domain names ending in *.com* and *..net* and increases in our *.com* and *.net* registry fees in October 2008 of 7% and 10%, respectively, to $6.86 and $4.23, respectively as per our agreements with ICANN.

*Authentication Services*

Our Authentication Services revenues increased during the three and six months ended June 30, 2009, as compared to the same periods last year, primarily due to an 11% year-over-year increase in the installed base of SSL certificates and increased demand for our unified authentication and identity protection services.

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*Business Authentication Services*

Revenues related to our Business Authentication Services are derived from licensing and service fees charged to our customers for the issuance of SSL certificates that authenticate their identity to the third parties with whom they carry out secured transactions. Revenues in the Business Authentication Services are related to fees charged per certificate, which are based upon a number of factors, including: (i) the brand name under which the certificate is issued, which determines the level of encryption and rigor of authentication; (ii) the number of servers authenticated, and (iii) the duration of the certification.

The following table compares the approximate installed base of SSL certificates in our Business Authentication Services as of June 30, 2009 and 2008:

| | June 30, | | % |
|---|---|---|---|
| | 2009 | 2008 | Change |
| Installed base of SSL certificates | 1,172,000 | 1,056,000 | 11% |

During the three and six months ended June 30, 2009, our installed base of SSL certificates from our GeoTrust® and thawte® brands increased at a higher rate than our higher-priced VeriSign® brand, and as a result, our average-unit-revenue decreased compared to prior periods. We expect that the number of our SSL certificates issued will continue to increase at a higher rate than the revenues recognized from our Business Authentication Services. As we have a market share leadership at the high end of the SSL certificates market, our unit growth rate for the high end is limited by the overall segment growth. In the mid and low segments, we expect to see good growth opportunities for market share gains as these markets are growing faster than the high end market. Our Extended Validation ( EV ) SSL certificate sales, while still a small portion of our Business Authentication Services, continue to increase year-over-year. Due to the effect of the economic slowdown, however, EV SSL certificates adoption has slowed as large-scale customers delay their orders. We expect the mainstream adoption of EV SSL certificates will be deferred until we see improvements in the macro-economic environment. The weakening economy is affecting our Business Authentication Services and, while we expect to experience growth, we expect those growth rates to decline in 2009 compared to 2008.

*User Authentication Services*

Revenues related to our User Authentication Services are derived from one-time credential sales to customers seeking network services and one-time set-up fees. 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. Our managed PKI services are characterized by lower growth rates than other product lines within User Authentication Services, reflecting the greater maturity of our managed PKI services. We expect User Authentication Services revenues to continue to grow in 2009 primarily from growth in our VeriSign Identity Protection ( VIP ) services and fraud detection services, but at a lower growth rate than in 2008.

***Other Services***

Other services revenues are derived from our non-core Pre-Pay Services business as well as legacy products and services from divested businesses. We are in the process of winding down the operations of our Pre-Pay Services business.

Other services revenues decreased during the three and six months ended June 30, 2009, as compared to the same periods last year, primarily due to a decrease in revenues from our Pre-Pay Services business resulting from management s decision to wind down the business, the divestiture of our CDN business in 2008 and termination of revenues from a service agreement with our former Jamba joint ventures.

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Our expectations and trends for our segments are based on what we are observing and can project about the current macro-economic environment. Our outlook is subject to broader changes in the market and could alter significantly over time.

***Geographic Revenues***

We operate in the U.S.; Australia, Japan and Asia Pacific ( APAC ); Europe, the Middle East and Africa ( EMEA ); and certain other countries.

A comparison of our geographic revenues is presented below:

| | Three Months Ended June 30, | | % |
|---|---|---|---|
| | 2009 | 2008 | Change |
| | (Dollars in thousands) | | |
| U.S. | $ 151,872 | $ 141,831 | 7% |
| EMEA | 53,527 | 51,286 | 4% |
| APAC | 33,654 | 33,780 | (0)% |
| Other | 17,566 | 15,136 | 16% |
| Total revenues | $ 256,619 | $ 242,033 | 6% |

| | Six Months Ended June 30, | | % |
|---|---|---|---|
| | 2009 | 2008 | Change |
| | (Dollars in thousands) | | |
| U.S. | $ 301,236 | $ 280,390 | 7% |
| EMEA | 106,534 | 100,382 | 6% |
| APAC | 69,339 | 65,855 | 5% |
| Other | 34,505 | 30,671 | 13% |
| Total revenues | $ 511,614 | $ 477,298 | 7% |

Revenues are generally attributed to the country of domicile and the respective regions in which our customers are located.

Revenues from the U.S. increased during the three and six months ended June 30, 2009, as compared to the same periods last year, primarily due to increases in revenues from our Naming Services and Authentication Services. Revenues from the EMEA region increased during the three and six months ended June 30, 2009, as compared to the same periods last year, primarily due to an increase in revenues from our Naming Services. Revenues from the APAC region increased during the six months ended June 30, 2009, as compared to the same period last year, primarily due to an increase in revenues from our Authentication Services. Revenues from Other regions increased during the three and six months ended June 30, 2009, as compared to the same periods last year, primarily due to increases in revenues from our Naming Services and Authentication Services.

Mature markets, such as the U.S. and Western Europe, where broadband and e-commerce have seen strong market penetration, may be expected to see consistent incremental growth reflecting the maturity of these markets. We expect to see larger increases in revenues from other EMEA and APAC countries driven by greater growth in international regions, resulting from greater broadband and Internet penetration and expanding e-commerce as electronic means of payment are increasingly adopted.

***Cost of revenues***

Cost of revenues consist primarily of costs related to providing digital certificate enrollment and issuance services, billing services, operational costs associated with the delivery of our services, customer support and

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training, consulting and development services, labor costs to provide security, costs of facilities and computer equipment used in these activities and allocations of indirect costs such as corporate overhead. All allocations of indirect costs are included in continuing operations.

A comparison of cost of revenues is presented below:

| | Three Months Ended June 30, | | % | Six Months Ended June 30, | | % |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| | (Dollars in thousands) | | | (Dollars in thousands) | | |
| Cost of revenues | $ 57,476 | $ 55,748 | 3% | $ 117,784 | $ 115,233 | 2% |

Cost of revenues increased during the three and six months ended June 30, 2009, as compared to the same periods last year, primarily due to increases in registry fees paid to ICANN to maintain domain name registrations and outside consulting costs, and telecommunication expenses, partially offset by decreases in salary and employee benefits, and allocated overhead expenses. Registry fees paid to ICANN increased primarily due to an increase in the number of *.com* and *.net* domain names registered coupled with an increase in the cost of registry fees effected in the latter half of fiscal 2008 per the ICANN agreement. Outside consulting costs increased primarily resulting from an increase in projects associated with our Naming Services. Telecommunication expenses increased primarily due to increased spending on capacity for global constellation sites that support our *.com* and *.net* registries and an increase in expenses to support our new data centers that became operational in the latter half of 2008. Salary and employee benefits, which include stock-based compensation, and allocated overhead expenses decreased primarily due to a reduction in average headcount resulting from the 2008 restructuring plan and decreased corporate overhead expenses.

***Sales and marketing***

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

A comparison of sales and marketing expenses is presented below:

| | Three Months Ended June 30, | | % | Six Months Ended June 30, | | % |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| | (Dollars in thousands) | | | (Dollars in thousands) | | |
| Sales and marketing | $ 45,299 | $ 43,550 | 4% | $ 83,326 | $ 92,133 | (10)% |

Sales and marketing expenses increased during the three months ended June 30, 2009, as compared to the same period last year, primarily due to an increase in advertising and marketing expenses, partially offset by a decrease in salary and employee benefits and travel expenses. Advertising and marketing expenses increased primarily due to increased spending as a result of management s strategy to increase market penetration of our Business Authentication Services. Salary and employee benefits, which include stock-based compensation, decreased primarily due to lower average headcount resulting from the 2008 restructuring plan. Travel expenses decreased primarily due to lower average headcount and management s cost-saving initiatives.

Sales and marketing expenses decreased during the six months ended June 30, 2009, as compared to the same period last year, primarily due to a decrease in salary and employee benefits, and travel expenses. Salary and employee benefits, which include stock-based compensation, decreased primarily due to lower average headcount resulting from the 2008 restructuring plan and the divestiture of our Content Delivery Network ( CDN ) business in April 2008. Travel expenses decreased primarily due to lower average headcount and management s cost-saving initiatives.

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***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, support services used in service and technology development and allocations of indirect costs such as corporate overhead. All allocations of indirect costs are included in continuing operations.

A comparison of research and development expenses is presented below:

| | Three Months Ended June 30, | | % Change | Six Months Ended June 30, | | % Change |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | | 2009 | 2008 | |
| | (Dollars in thousands) | | | (Dollars in thousands) | | |
| Research and development | $ 23,234 | $ 23,540 | (1)% | $ 48,036 | $ 48,764 | (1)% |

Research and development expenses decreased during the three and six months ended June 30, 2009, as compared to the same periods last year, primarily due to decreases in salary and employee benefits, partially offset by an increase in depreciation expenses. Salary and employee benefits, which include stock-based compensation, decreased primarily due to lower average headcount resulting from the 2008 restructuring plan, the divestiture of our CDN business in April 2008, and the ongoing wind-down of our Pre-Pay Services business. Depreciation expenses increased primarily due to an increase in capitalized projects placed into service during the latter half of 2008.

***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, bad debt expense and allocations of indirect costs such as corporate overhead. All allocations of indirect costs are included in continuing operations.

A comparison of general and administrative expenses is presented below:

| | Three Months Ended June 30, | | % Change | Six Months Ended June 30, | | % Change |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | | 2009 | 2008 | |
| | (Dollars in thousands) | | | (Dollars in thousands) | | |
| General and administrative | $ 42,939 | $ 48,574 | (12)% | $ 92,087 | $ 103,065 | (11)% |

General and administrative expenses decreased during the three and six months ended June 30, 2009, as compared to the same periods last year, primarily due to decreases in salary and employee benefits, and contractor and professional services; partially offset by an increase in legal expenses. Salary and employee benefits, which include stock-based compensation, decreased primarily due to lower average headcount resulting from the 2008 restructuring plan. Contractor and professional services decreased primarily due to decreased professional services costs incurred for accounting and auditing services. Legal expenses increased primarily due to reversals of certain previously accrued litigation expenses recorded in the first half of 2008.

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***Restructuring, impairments and other charges***

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| Restructuring charges for continuing operations | $ 408 | $ 6,054 | $ 5,183 | $ 22,315 |
| Other charges for continuing operations | 62 | 79,069 | 62 | 79,069 |
| Total restructuring and other charges for continuing operations | 470 | 85,123 | 5,245 | 101,384 |
| Restructuring charges for discontinued operations | 3,317 | 13,160 | 2,913 | 23,364 |
| Impairments for discontinued operations | | 45,793 | | 45,793 |
| Total restructuring charges and impairments for discontinued operations | 3,317 | 58,953 | 2,913 | 69,157 |
| Total consolidated restructuring, impairments and other charges | $ 3,787 | $ 144,076 | $ 8,158 | $ 170,541 |

*Restructuring Charges*

As part of our divestiture strategy, we initiated a restructuring plan in the first quarter of 2008 ( 2008 Restructuring Plan ) which includes workforce reductions, abandonment of excess facilities and other exit costs. The restructuring charges in the table above are substantially related to the 2008 Restructuring Plan. Through June 30, 2009, we recorded $77.7 million in restructuring charges, inclusive of amounts for discontinued operations, under our 2008 Restructuring Plan.

The following table presents the nature of the restructuring charges:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| **Continuing operations:** | | | | |
| Workforce reduction severance and benefits | $ 321 | $ 3,745 | $ 3,131 | $ 15,753 |
| Workforce reduction stock-based compensation | 68 | 1,138 | 798 | 4,562 |
| Total workforce reduction | 389 | 4,883 | 3,929 | 20,315 |
| Excess facilities | 19 | 274 | 1,254 | 288 |
| Other exit costs | | 897 | | 1,712 |
| Total restructuring charges for continuing operations | $ 408 | $ 6,054 | $ 5,183 | $ 22,315 |
| **Discontinued operations:** | | | | |
| Workforce reduction severance and benefits | $ 2,716 | $ 9,297 | $ 2,183 | $ 19,084 |
| Workforce reduction stock-based compensation | 389 | 3,863 | 591 | 4,280 |
| Total workforce reduction | 3,105 | 13,160 | 2,774 | 23,364 |
| Excess facilities | 212 | | 139 | |
| Other exit costs | | | | |

| | | | | |
|---|---|---|---|---|
| Total restructuring charges for discontinued operations | $ 3,317 | $ 13,160 | $ 2,913 | $ 23,364 |
| | | | | |
| **Consolidated:** | | | | |
| Workforce reduction severance and benefits | $ 3,037 | $ 13,042 | $ 5,314 | $ 34,837 |
| Workforce reduction stock based compensation | 457 | 5,001 | 1,389 | 8,842 |
| | | | | |
| Total workforce reduction | 3,494 | 18,043 | 6,703 | 43,679 |
| Excess facilities | 231 | 274 | 1,393 | 288 |
| Other exit costs | | 897 | | 1,712 |
| | | | | |
| Total consolidated restructuring charges | $ 3,725 | $ 19,214 | $ 8,096 | $ 45,679 |

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As part of the 2008 Restructuring Plan, we anticipate recording additional charges related to our workforce reduction, excess facilities and other exit costs through 2009. While the estimate of these charges is not yet finalized, the total amount and timing of these charges will depend upon the nature, timing, and extent of these future actions.

*Impairments and Other Charges*

During the three and six months ended June 30, 2008, we recorded a goodwill impairment charge of $45.8 million in discontinued operations related to our divested Post-Pay business.

During the three and six months ended June 30, 2008, we recorded a loss of $79.1 million in continuing operations as a result of the sale of certain Mountain View facilities. The sale of the Mountain View facilities was consummated as a result of our 2008 Restructuring Plan to divest or wind down our non-core businesses.

***Other loss, net***

Other loss, net, consists primarily of interest earned on our cash, cash equivalents, and investments, interest expense related to our borrowings, net gains or losses on the divestiture of certain businesses, realized and unrealized gains and losses on the contingent interest derivative on the Convertible Debentures, income from transition services agreements, and the net effect of foreign currency gains and losses. The net effect of foreign currency gains and losses is included in Other, net, in the table below.

A comparison of other loss, net, is presented below:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| Interest income . | $ 1,126 | $ 2,728 | $ 2,569 | $ 11,023 |
| Interest expense | (11,805) | (10,824) | (23,610) | (21,745) |
| Net gain on divestiture of businesses | | 2,127 | 909 | 954 |
| Unrealized (loss) gain on contingent interest derivative on convertible debentures | (125) | 246 | 1,049 | 2,084 |
| Income from transition services agreements . | 1,056 | 1,366 | 1,838 | 1,366 |
| Other, net | (518) | (862) | 2,686 | (2,540) |
| Total other loss, net . | $ (10,266) | $ (5,219) | $ (14,559) | $ (8,858) |

Other loss, net, increased during the three months ended June 30, 2009, as compared to the same period last year. During the three months ended June 30, 2009, interest income decreased primarily due to lower average interest rates. During the three months ended June 30, 2008, we recorded a gain on divestiture of our CDN business.

Other loss, net, increased during the six months ended June 30, 2009, as compared to the same period last year, primarily due to a decrease in interest income that resulted from lower average interest rates, partially offset by a gain recorded upon termination of the acquisition agreement entered into with Certicom during the first quarter of 2009.

***Income taxes***

During the three and six months ended June 30, 2009, we recorded income tax expense for continuing operations of $29.6 million and $53.1 million, respectively. During the three and six months ended June 30, 2008, we recorded income tax benefit for continuing operations of $8.1 million and $1.4 million, respectively.

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The increase in income tax expense during the three and six months ended June 30, 2009, compared to the three and six months ended June 30, 2008, was primarily attributable to the increase in income from continuing operations before income taxes. On February 20, 2009, the State of California enacted changes in tax laws that are expected to have a beneficial impact on our effective tax rate beginning in 2011. As a result, we revalued certain state deferred tax assets and liabilities that are expected to reverse after the effective date of the change, and recognized a discrete income tax benefit adjustment of $4.1 million during the six months ended June 30, 2009.

***(Loss) income from discontinued operations, net of tax***

As of June 30, 2009, businesses classified as held for sale and presented as discontinued operations included the following: GSC, MSS (sold in July 2009), and Messaging Services. Businesses that have been divested and whose results of operations are reflected as discontinued operations for all periods presented, include the following: Communications Services, Communications Consulting, Digital Brand Management Services, EMEA Mobile Media, International Clearing, Post-Pay, RTP Services and Self-Care and Analytics.

The following table presents the revenues and the components of (Loss) income from discontinued operations, net of tax:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| Revenues | $ 69,783 | $ 148,885 | $ 172,437 | $ 307,096 |
| Income (loss) before income taxes | $ 10,745 | $ (45,516) | $ 33,637 | $ (50,937) |
| Income tax expense (benefit) | 5,307 | (3,623) | 13,283 | (8,924) |
| Income (loss) from discontinued operations | 5,438 | (41,893) | 20,354 | (42,013) |
| Gain (loss) on sale of discontinued operations and estimated (losses) reversals on assets held for sale, before income taxes | 22,087 | (13,820) | 26,071 | (39,801) |
| Income tax expense (benefit) | 36,057 | (552) | 36,331 | (2,964) |
| Loss on sale of discontinued operations | (13,970) | (13,268) | (10,260) | (36,837) |
| Total (loss) income from discontinued operations, net of tax | $ (8,532) | $ (55,161) | $ 10,094 | $ (78,850) |

During the three and six months ended June 30, 2009, we recorded net gains on disposals including net reversals of estimated losses on disposal, of $22.1 million and $26.1 million, respectively, which are included in discontinued operations. During the three and six months ended June 30, 2008, we recorded net losses on disposals, including estimated losses on disposal, of $13.8 million and $39.8 million, respectively, which are included in discontinued operations. Net gains on disposal are recorded on the date the sale of the disposal group is consummated. Full or partial reversals of previously reported estimated losses on disposals are recorded upon changes in the fair values and/or carrying values of the disposal groups. See Note 3, Assets Held for Sale and Discontinued Operations, of our Notes to Condensed Consolidated Financial Statements for further information on our discontinued operations.

The continued execution of our divestiture plan is subject to the availability of financing, identification of buyers, and general market conditions, including further developments in the current economic environment and potential continued deterioration of the credit markets.

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**Liquidity and Capital Resources**

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Cash and cash equivalents | $ 1,308,352 | $ 789,068 |
| Restricted cash | 2,061 | 1,858 |
| Total | $ 1,310,413 | $ 790,926 |

As of June 30, 2009, our principal source of liquidity was $1.3 billion of cash and cash equivalents and restricted cash.

During the six months ended June 30, 2009, we received $235.5 million in cash upon divestiture of businesses, net of $1.7 million of cash contributed.

During the six months ended June 30, 2009, we received distributions of $13.9 million and $104.0 million from the Primary Fund and the International Fund, respectively.

During the three and six months ended June 30, 2009, we repurchased approximately 0.9 million shares of our common stock at an average stock price of $23.15 per share for an aggregate of $20.0 million under the 2006 Stock Repurchase Program.

In summary, our cash flows were as follows:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2009 | 2008 |
| | (In thousands) | |
| Net cash provided by operating activities | $ 121,265 | $ 246,957 |
| Net cash provided by investing activities | 309,120 | 49,897 |
| Net cash provided by (used in) financing activities | 92,736 | (1,056,576) |
| Effect of exchange rate changes on cash and cash equivalents | (3,837) | 4,017 |
| Net increase (decrease) in cash and cash equivalents | $ 519,284 | $ (755,705) |

*Cash flows from operating activities*

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

Net cash provided by operating activities decreased during the six months ended June 30, 2009, compared to the same period last year, primarily due to a decrease in cash received from customers resulting from a decrease in consolidated revenues, inclusive of revenues from discontinued operations, coupled with the timing of receipts from customers. The decrease in cash receipts was partially offset by a decrease in cash payments to suppliers and employees primarily resulting from lower headcount during the six months ended June 30, 2009.

*Cash flows from investing activities*

The changes in cash flows from investing activities primarily relate to the divestiture of businesses; timing of purchases, maturities and sales of investments; and purchases of property and equipment.

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Net cash provided by investing activities increased during the six months ended June 30, 2009, compared to the same period last year, primarily due to an increase in proceeds received upon divestiture of businesses, distributions from the Primary Fund and the International Fund and a decrease in cash paid for purchases of property and equipment. During the three and six months ended June 30, 2008, we sold certain property and equipment in our Mountain View, California, location.

*Cash flows from financing activities*

The changes in cash flows from financing activities primarily relate to borrowings and payments under debt obligations as well as stock repurchase and stock option exercise activities.

Net cash provided by financing activities increased during the six months ended June 30, 2009, compared to the same period last year, primarily due to excess tax benefits on stock-based compensation and a decrease in stock repurchases, partially offset by a decrease in proceeds received from issuance of common stock from stock option exercises and employee stock purchase plans.

*Other Liquidity and Capital Resources Information*

Our credit facility is available for cash borrowings up to a maximum of $500.0 million and for the issuance of letters of credit up to a maximum limit of $50.0 million. As of June 30, 2009, we had no outstanding borrowings under our credit facility and we had utilized $4.1 million for outstanding letters of credit.

Future operating lease payments include payments related to leases on excess facilities included in restructuring. If sublease rates decrease in these markets, or if it takes longer than expected to sublease these facilities, the actual lease expense relating to our excess facilities under our restructuring plans could exceed this estimate by an additional $2.9 million over the next eight years. Cash payments totaling $9.0 million related to the abandonment of excess facilities under our restructuring plans will be paid over the next eight years. See Note 4, Restructuring, Impairments and Other Charges, of our Notes to Condensed Consolidated Financial Statements.

We believe existing cash and cash equivalents, together with funds generated from operations should be sufficient to meet our working capital, capital expenditure requirements and to service our debt for the next 12 months. We regularly assess our cash management approach and activities in view of our current and potential future needs.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no significant changes in our market risk exposures during the three and six months ended June 30, 2009.

**ITEM 4. CONTROLS AND PROCEDURES**

Based on our management s evaluation, with the participation of our Chief Executive Officer, on an interim basis (our principal executive officer) and our Chief Financial Officer (our principal financial officer), as of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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**Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2009, that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

**Inherent Limitations of Disclosure Controls and Internal Control over Financial Reporting**

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

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## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The information set forth under Legal Proceedings in Note 14, Contingencies, of our Notes to Condensed Consolidated Financial Statements in Part I, Item 1, of this Quarterly Report on Form 10-Q is incorporated herein by reference.

### ITEM 1A. RISK FACTORS

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

**Risks relating to our business**

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

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

- the uncertainties, costs and risks related to our proposed divestiture plan, including any income statement charges we incur in connection therewith and any further delays we may encounter;
- the current global economic environment as well as its impact on e-commerce, financial services, and the telecommunications and Internet industries;
- the long sales and implementation cycles for, and potentially large order sizes of, some of our security services and the timing and execution of individual customer contracts;
- volume of new domain name registrations and customer renewals in our Naming Services business;
- 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;
- the mix of all our services sold during a period;
- seasonal fluctuations in business activity;
- our success in marketing and market acceptance of our services by our existing customers and by new customers;

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

customer renewal rates and turnover of customers of our services;

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

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

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

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

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

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

Due to all of the above factors, our revenues and operating results are difficult to forecast. Therefore, we believe that period-to-period comparisons of our operating results will not necessarily be meaningful, and you should not rely upon them as an indication of future performance. Also, operating results may fall below our expectations and the expectations of securities analysts or investors in one or more future periods. If this were to occur, the market price of our common stock would likely decline.

***Our operating results have been adversely affected by the current economic downturn, unfavorable market and economic conditions.***

The current global economic downturn may have a significant negative impact on demand for our services and our ability to conduct our business. As the economic downturn continues to deepen and spread overseas, these conditions have also negatively impacted our foreign operations. The economic downturn has or may negatively impact, among other things:

current and future demand for our services, including decreases as a result of reduced spending on information technology and communications by our customers;

our liquidity;

our ability to service our debt, to obtain financing or assume new debt obligations;

our ability to execute on any stock repurchase plans;

the price of our common stock;

the ability of our suppliers to continue to fill our orders;

our customers continued growth and development of their businesses;

our ability to obtain payment for outstanding debts owed to us by our customers or other parties with whom we do business; and

price competition for our products and services.

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

***Our diversified business structure may result in significant fluctuations of our financial results.***

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

the use of the Internet and other IP networks for e-commerce and communications;

the extent to which digital certificates and domain names are used for e-commerce or telecommunications;

growth in demand for our services;

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the competition for any of our services;

the perceived security of e-commerce and telecommunications over the Internet and other IP networks;

the perceived security of our services, technology, infrastructure and practices;

the loss of customers through industry consolidation or customer decisions to deploy in-house or competitor technology and services;

our continued ability to maintain our current, and enter into additional, strategic relationships;

our ability to successfully market our services to new and existing customers;

our success in attracting, integrating, training, retaining and motivating qualified personnel;

our response to competitive developments;

the successful introduction of new products and services;

seasonal fluctuations in business activity; and

the successful introduction of enhancements to our services to address new technologies and standards and changing market conditions.

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

As of June 30, 2009, we had 886 or 32% of our employees outside the U.S. Expansion into international markets has required and will continue to require significant management attention and resources. We may also need to tailor some of our services for a particular market and to enter into international distribution and operating relationships. We have limited experience in localizing our services and in developing international distribution or operating relationships. We may not succeed in expanding our services into international markets. Failure to do so could harm our business. Moreover, local laws and customs in many countries differ significantly from those in the U.S. In many foreign countries, particularly in those with developing economies, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or U.S. law or regulations applicable to us. There can be no assurance that all of our employees, contractors and agents will not take actions in violation of such policies, procedures, laws and/or regulations. Violations of laws, regulations or key control policies by our employees, contractors or agents could result in financial reporting problems, fines, penalties, or prohibition on the importation or exportation of our products and could have a material adverse effect on our business. In addition, we face risks inherent in doing business on an international basis, including, among others:

competition with foreign companies or other domestic companies entering the foreign markets in which we operate;

differing and uncertain regulatory requirements;

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

export and import restrictions on cryptographic technology and products incorporating that technology;

tariffs and other trade barriers and restrictions;

difficulties in staffing and managing foreign operations;

longer sales and payment cycles;

problems in collecting accounts receivable;

currency fluctuations, as our international revenues are not always denominated in U.S. dollars; and some of our costs are denominated in foreign currencies;

difficulty in repatriating profits to the U.S.;

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potential problems associated with adapting our services to technical conditions existing in different countries;

the necessity of developing foreign language portals and products for our services;

difficulty of authenticating customer information for digital certificates and other purposes;

political instability;

failure of foreign laws to protect our U.S. proprietary rights adequately;

more stringent privacy policies in some foreign countries;

additional vulnerability from terrorist groups targeting U.S. interests abroad;

seasonal reductions in business activity; and

potentially adverse tax consequences.

***We are exposed to risks faced by financial institutions.***

We have entered into hedging transactions with counterparties in the financial services industry which have been adversely impacted by the current economic environment. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. The hedging transactions we have entered into expose us to credit risk in the event of default by one of our counterparties. Despite the risk control measures we have in place, a default by one of our counterparties, or liquidity problems in the financial services industry in general, could have a material adverse effect on our business, financial condition and results of operations.

***Governmental regulation and the application of existing laws may slow business growth, increase our costs of doing business and create potential liability.***

Application of new and existing laws and regulations to the Internet and wireless communications industry can be unclear. The costs of complying or failing to comply with these laws and regulations could limit our ability to operate in our current markets, expose us to compliance costs and substantial liability and result in costly and time-consuming litigation.

Foreign, federal or state laws could have an adverse impact on our business. For example, laws designed to restrict the on-line distribution of certain materials deemed harmful to children, on-line gambling, cybersecurity and cyber squatting may impose significant additional costs on our business or subject us to additional liabilities.

Due to the nature of the Internet, it is possible that the governments of other states and foreign countries might attempt to regulate Internet transmissions or prosecute us for violations of their laws. We might unintentionally violate such laws, such laws may be modified and new laws may be enacted in the future. Any such developments could increase the costs of regulatory compliance for us, force us to change our business practices or otherwise materially harm our business.

***While we believe we currently have effective internal control over financial reporting, we may identify a material weakness in our internal controls over financial reporting that could cause investors to lose confidence in the reliability of our financial statements and result in a decrease in the value of our securities.***

We will continue to evaluate, upgrade and enhance our internal controls. Because of inherent limitations, our internal control over financial reporting may not prevent or detect misstatements, errors or omissions, including those caused by human error, the circumvention of overriding controls, the violation of company policies or practices (whether negligent or willful) or fraud, and any projections of any evaluation of effectiveness of internal controls to future periods are subject to the risk that controls may become inadequate

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because of changes in conditions or that the degree of compliance with our policies or procedures may deteriorate. We cannot be certain in future periods that other control deficiencies that may constitute one or more significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified. If we fail to maintain the adequacy of our internal controls, including any failure to implement or difficulty in implementing required new or improved controls, our business and results of operations could be harmed, the results of operations we report could be subject to adjustments, we could fail to be able to provide reasonable assurance as to our financial results or the effectiveness of our internal controls or meet our reporting obligations and there could be a material adverse effect on our business.

We have expended significant resources in connection with our efforts to comply with the requirements of the Sarbanes-Oxley Act. In future periods, we will likely continue to expend substantial amounts in connection with these compliance efforts and with ongoing evaluation of, and improvements and enhancements to, our internal control over financial reporting. These expenditures may make it difficult for us to control or reduce the growth of our general and administrative and other expenses, which could adversely affect our results of operations.

***Issues arising from our agreements with ICANN and the DOC could harm our registry business.***

The U.S. Department of Commerce ( DOC ) has adopted a plan for the phased transition of its responsibilities for the domain name system ( DNS ) to ICANN. As part of this transition, we have entered into agreements with ICANN and the DOC as the exclusive registry of domain names within the *.com* and *.net* generic top-level domains ( gTLDs ) and with ICANN with respect to being the exclusive registry for the *.name* gTLD.

We face risks arising from our agreements with ICANN and the DOC and from the planned transition of the DOC s responsibilities for the DNS to ICANN, including the following:

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

the DOC could not renew its agreement with ICANN, in which case there would no longer be DOC oversight of ICANN;

one or more of the Registry Agreements may not renew when they expire in 2011 (*.net*) and 2012 (*.com* and *.name*), which in the case of *..com* or *.net*, could have a material adverse effect on our business;

ICANN s relationship with the DOC could terminate and another entity could exercise oversight of ICANN;

the U.S. Government could refuse to transfer certain responsibilities for DNS administration to ICANN due to security, stability or other reasons, which could result in fragmentation or other instability in DNS administration;

under certain circumstances, ICANN could terminate one or more of our agreements to be the registry for the *.com*, *.net* or *.name* gTLDs and the DOC could terminate the *.com* Registry Agreement, in which case terminations of the *.com* or *.net* Registry Agreements could have a material adverse impact on our business;

the DOC s or ICANN s interpretation of provisions of our agreements with either of them could differ from ours;

the DOC could revoke its recognition of ICANN, as a result of which the DOC could take the place of ICANN for purposes of our agreements with ICANN, and could take actions that are harmful to us and could disrupt current or future business plans; and

our registry business could face legal or other challenges resulting from our activities or the activities of registrars and registrants.

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***Challenges to ongoing privatization of Internet administration could harm our Naming Services business.***

Risks we face from challenges by third parties, including governmental authorities in the U.S. and other countries, to our role in the ongoing privatization of the Internet include:

- legal, regulatory or other challenges could be brought, including challenges to the agreements governing our relationship with the DOC or ICANN, or to the legal authority underlying the roles and actions of the DOC, ICANN or us;
- the U.S. Congress could take action that is unfavorable to us;
- ICANN could fail to maintain its role, potentially resulting in instability in DNS administration; and
- some governments and governmental authorities outside the U.S. have in the past disagreed, and may in the future disagree, with the actions, policies or programs of ICANN, the U.S. Government and us relating to the DNS. These foreign governments or governmental authorities may take actions or adopt policies or programs that are harmful to our business.

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

***We may encounter difficulties renewing irrevocable letters of credit provided by customers of our Naming Services business as security for payment of registration fees if we are forced to draw down on such letters of credit to collect payment.***

With respect to our Naming Services business, some registrars who register domain names on behalf of their customers utilize irrevocable letters of credit to secure payment for the registration of domain names. In the event that we are unable to obtain payment for the registration of these domain names, we may draw down on the letter of credit. In some cases, withdrawals may be made until we utilize the full amount of the letter of credit, at which point the registrar s ability to process new billable transactions and their agreement may be terminated. If registrars are unwilling or unable to provide new letters of credit once we have drawn down the full amount, we may need to reevaluate our approach for security for payment of registration fees.

***We rely on third parties who maintain and control root zone servers and route Internet communications.***

We currently administer and operate only two of the thirteen root zone servers. The others are administered and operated by independent operators on a non-regulated basis. Root zone servers are name servers that contain authoritative data for the very top of the DNS hierarchy. These servers have the software and data needed to locate name servers that contain authoritative data for the top-level domains. Because of the importance to the functioning of the Internet of these root zone servers, our Naming Services business could be harmed if these independent operators fail to maintain these servers properly or abandon these servers, which would place additional capacity demands on the two root zone servers we operate.

Further, our Naming Services business could be harmed if any of these volunteer operators fails to include or provide accessibility to the data that it maintains in the root zone servers that it controls. In the event and to the extent that ICANN is authorized to set policy with regard to an authoritative root zone server system, as provided in our registry agreement with ICANN, it is required to ensure that the authoritative root will point to the top-level domain zone servers designated by us. If ICANN does not do this, our business could be harmed.

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

Currently, Internet users navigate to a website either by directly typing in its domain name or through the use of a search engine. If browser or search technologies were to change significantly or if user behavior were to shift away from direct navigation, the demand for domain names could decrease.

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***Changes in the level of spending on on-line advertising and/or the way that on-line and pay-per-click advertisers compensate owners of websites could impact the demand for domain names.***

Some domain name registrars and registrants seek to generate revenue through advertising on their websites; changes in the way these registrars and registrants are compensated (including changes in methodologies and metrics) by advertisers and advertisement placement networks, such as Google and Yahoo!, could adversely affect the market for those domain names favored by such registrars and registrants resulting in a decrease in demand and/or the renewal rate for those domain names. As a result of the general economic downturn, spending on on-line advertising and marketing may not increase or may be reduced, which in turn may result in a further decline in the demand for those domain names.

***Services offered by our 3IS segment rely on the continued integrity of public key cryptography technology and various hashing algorithms that may be compromised or proven obsolete over time.***

Services offered by our 3IS segment depend on public key cryptography technology. With public key cryptography technology, a user possesses a public key and a private key, both of which are required to perform encryption and decryption operations. The security afforded by this technology depends on the integrity of a user s private key and ensuring that it is not lost, stolen or otherwise compromised. The integrity of private keys also depends in part on the application of specific mathematical principles known as factoring. This integrity is predicated on the assumption that the factoring of large numbers into their prime number components is difficult. Should an easy factoring method or other method be developed which make currently used asymmetric key sizes such as 1024, 2048 and 4096 bits inadequate, the security of encryption products utilizing public key cryptography technology may require significant modifications or would be reduced or eliminated. Furthermore, any significant advance in techniques for attacking cryptographic systems could also render some or all of our existing PKI services obsolete or unmarketable. Likewise, hashing algorithms, such as SHA1 or SHA2, are also utilized in public key cryptography technology and as new methods of attacking these algorithms are created, it could render our PKI services obsolete or unmarketable. If improved techniques for attacking cryptographic systems were ever developed that make attacks practical, we would likely have to reissue digital certificates to some or all of our customers, which could damage our reputation and brand or otherwise harm our business. In the past there have been public announcements of the successful attack upon cryptographic keys of certain kinds and lengths and of the potential misappropriation of private keys and other activation data. This type of publicity could also hurt the public perception as to the safety of the public key cryptography technology included in our digital certificates. This negative public perception could harm our business.

***Undetected or unknown defects in our services could harm our business and future operating results.***

Services as complex as those we offer or develop frequently contain undetected defects or errors. Despite testing, defects or errors may occur in our existing or new services, which could result in compromised customer data, loss of or delay in revenues, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to our reputation, tort or warranty claims, increased insurance costs or increased service and warranty costs, any of which could harm our business. The performance of our services could have unforeseen or unknown adverse effects on the networks over which they are delivered as well as on third-party applications and services that utilize our services, which could result in legal claims against us, harming our business. Furthermore, we often provide implementation, customization, consulting and other technical services in connection with the implementation and ongoing maintenance of our services, which typically involves working with sophisticated software, computing and communications systems. Our failure or inability to meet customer expectations in a timely manner could also result in loss of or delay in revenues, loss of market share, failure to achieve market acceptance, injury to our reputation and increased costs.

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***If we encounter system interruptions, we could be exposed to liability and our reputation and business could suffer.***

We depend on the uninterrupted operation of our various systems, secure data centers and other computer and communication networks. Our systems and operations are vulnerable to damage or interruption from:

power loss, transmission cable cuts and other telecommunications failures;

damage or interruption caused by fire, earthquake, and other natural disasters;

attack by hackers;

computer viruses or software defects; and

physical or electronic break-ins, sabotage, intentional acts of vandalism, terrorist attacks and other events beyond our control. Most of our systems are located at, and most of our customer information is stored in, our facilities in Mountain View, California and Kawasaki, Japan (both of which are susceptible to earthquakes); Providence, Rhode Island; Dulles, Virginia; Melbourne, Australia; London, England; Berlin, Germany; and Fribourg, Switzerland. Any damage or failure that causes interruptions in any of these facilities or our other computer and communications systems could materially harm our business. Although we carry insurance for property damage and business interruption, we do not carry insurance or financial reserves for interruptions or potential losses arising from earthquakes or terrorism.

In addition, our ability to issue SSL certificates, our domain name registry services and certain of our services depend on the efficient operation of the Internet connections from customers to our secure data centers and from our customers to the shared registration system. These connections depend upon the efficient operation of Internet service providers and Internet backbone service providers, all of which have had periodic operational problems or experienced outages in the past.

A failure in the operation of our domain name zone servers, the domain name root zone servers, or other events could result in the deletion of one or more domain names from the Internet for a period of time. A failure in the operation of our shared registration system could result in the inability of one or more other registrars to register and maintain domain names for a period of time. A failure in the operation or update of the master database that we maintain could result in the deletion of one or more top-level domains from the Internet and the discontinuation of second-level domain names in those top-level domains for a period of time. Any of these problems or outages could decrease customer satisfaction, harming our business or resulting in adverse publicity that could adversely affect the market s perception of the security of e-commerce and communications over IP networks as well as of the security or reliability of our services.

***If we experience security breaches, we could be exposed to liability and our reputation and business could suffer.***

We retain certain confidential customer information in our secure data centers and various registration systems. It is critical to our business strategy that our facilities and infrastructure remain secure and are perceived by the marketplace to be secure. Our domain name registry operations also depend on our ability to maintain our computer and telecommunications equipment in effective working order and to reasonably protect our systems against interruption, and potentially depend on protection by other registrars in the shared registration system. The root zone servers and top-level domain name zone servers that we operate are critical hardware to our registry services operations. Therefore, we may have to expend significant time and money to maintain or increase the security of our facilities and infrastructure. Despite our security measures, our infrastructure may be vulnerable to physical break-ins, computer viruses, attacks by hackers or similar disruptive problems. It is possible that we may have to expend additional financial and other resources to address such problems. Any physical or electronic break-in or other security breach or compromise of the information stored at our secure

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data centers and domain name registration systems may jeopardize the security of information stored on our premises or in the computer systems and networks of our customers. In such an event, we could face significant liability, customers could be reluctant to use our services and we could be at risk for loss of various security and standards based compliance certifications needed for certain of our businesses. Such an occurrence could also result in adverse publicity and therefore adversely affect the market s perception of the security of e-commerce and communications over IP networks as well as of the security or reliability of our services.

***The reliance of our Messaging Services on third-party communications infrastructure, hardware and software exposes us to a variety of risks we cannot control.***

The success of our Messaging Services depends on our network infrastructure, including the capacity leased from telecommunications suppliers. In particular, we rely on AT&T, Sprint Nextel Corporation and other telecommunications providers for leased long-haul and local loop transmission capacity. These companies provide the dedicated links that connect our network components to each other and to our customers.

We have no control over the operation, quality or maintenance of a significant portion of that infrastructure or whether or not those third parties will upgrade or improve their equipment. We depend on these companies to maintain the operational integrity of our connections. If one or more of these companies is unable or unwilling to supply or expand its levels of service to us in the future, our operations could be severely interrupted. In addition, rapid changes in the telecommunications industry have led to the merging of many companies. These mergers may cause the availability, pricing and quality of the services we use to vary and could cause the length of time it takes to deliver the services that we use to increase significantly.

***We rely on our intellectual property, and any failure by us to protect, or any misappropriation of, our intellectual property could harm our business.***

Our success depends in part on our internally developed technologies and intellectual property. Despite our precautions, it may be possible for a third party to copy or otherwise obtain and use our trade secrets or other forms of our intellectual property without authorization. Furthermore, the laws of foreign countries may not protect our proprietary rights in those countries to the same extent U.S. law protects these rights in the U.S. In addition, it is possible that others may independently develop substantially equivalent intellectual property. If we do not effectively protect our intellectual property, our business could suffer. Additionally, we have filed 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. In the future, we may have to resort to litigation to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This type of litigation, regardless of its outcome, could result in substantial costs and diversion of management attention and technical resources.

We also license third-party technology that is used in our products and services to perform key functions. These third-party technology licenses may not continue to be available to us on commercially reasonable terms or at all. Our business would suffer if we lost the rights to use certain of these technologies. Additionally, another party could claim that the licensed software infringes a patent or other proprietary right. Litigation between the licensor and a third-party or between us and a third-party could lead to royalty obligations for which we are not indemnified or for which indemnification is insufficient, or we may not be able to obtain any additional license on commercially reasonable terms or at all. The loss of or our inability to obtain or maintain, any of these technology licenses could harm our business.

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. Dilution of our brand could harm our business.

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***We could become subject to claims of infringement of intellectual property of others, which could be costly to defend and could harm our business.***

Claims relating to infringement of intellectual property of others or other similar claims have been made against us in the past and could be made against us in the future. It is possible that we could become subject to additional claims for infringement of the intellectual property of third parties. Any claims, with or without merit, could be time consuming, result in costly litigation and diversion of technical and management personnel attention, cause delays or require us to develop non-infringing technology or enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may not be available on acceptable terms or at all. If a successful claim of infringement were made against us, we could be required to pay damages or have portions of our business enjoined. If we could not develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis, our business could be harmed.

In addition, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights in Internet-related businesses are uncertain and still evolving. Because of the growth of the Internet and Internet-related businesses, patent applications are continuously being filed in connection with Internet-related technology. There is a significant number of U.S. and foreign patents and patent applications in our areas of interest, and we believe that there has been, and is likely to continue to be, significant litigation in the industry regarding patent and other intellectual property rights.

***We are involved in a number of investigations, claims and lawsuits against us that may result in adverse outcomes.***

In addition to intellectual property litigation and infringement claims, we are involved in a number of investigations, claims and lawsuits. Litigation is inherently unpredictable, and excessive verdicts do occur. Adverse outcomes in some or all of these investigations, claims and lawsuits may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business and may have a material adverse effect on our financial condition and results of operations. Additionally, these investigations, claims and lawsuits may involve significant expense and diversion of management s attention and resources from other matters.

***We must establish and maintain strategic, channel and other relationships.***

One of our significant business strategies has been to enter into strategic or other similar collaborative relationships in order to reach a larger customer base than we could reach through our direct sales and marketing efforts. We may need to enter into additional relationships to execute our business plan. We may not be able to enter into additional, or maintain our existing, strategic relationships on commercially reasonable terms, and, in addition, our ability to enter into or maintain strategic relationships may be impacted by our divestiture plan. If we fail to enter into additional relationships, we would have to devote substantially more resources to the distribution, sale and marketing of our information and security services than we would otherwise.

Our success in obtaining results from these relationships will depend both on the ultimate success of the other parties to these relationships and on the ability of these parties to market our services successfully.

Furthermore, our ability to achieve future growth also depends on our ability to continue to establish direct seller channels and to develop multiple distribution channels. In addition, any changes by our channel partners to their existing marketing strategies could have a material adverse effect on our business. Failure of one or more of our strategic or channel relationships to result in the development and maintenance of a market for our services could harm our business. If we are unable to maintain our relationships or to enter into additional relationships, this could harm our business.

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Under the *.com*, *.net* and *.name* Registry Agreements, we are prohibited from holding a greater than 15% ownership interest in an ICANN accredited registrar. This prohibition on cross-ownership currently applies to all sixteen ICANN gTLDs, but does not apply to ccTLDs. If other gTLD registries were allowed to acquire registrars, access to certain distribution channels could be adversely affected or blocked.

***Failure of VeriSign Affiliates to follow our security and trust practices or to maintain the privacy or security of confidential customer information could have an adverse impact on our revenues and business.***

We have licensed to VeriSign Affiliates our Processing Center platform, which is designed to replicate our own secure data centers and allows the VeriSign Affiliate to offer back-end processing of PKI services for enterprises in the regions in which the Affiliate operates. The VeriSign Processing Center platform provides a VeriSign Affiliate with the knowledge and technology to offer PKI services similar to those offered by us. It is critical to our business strategy that the facilities and infrastructure used in issuing and marketing digital certificates remain secure and we are perceived by the marketplace to be secure. Although we provide the VeriSign Affiliate with training in security and trust practices, network management and customer service and support, these practices are performed by the VeriSign Affiliate and are outside of our control. Any failure of a VeriSign Affiliate to maintain the privacy or security of confidential customer information could result in negative publicity and therefore adversely affect the market s perception of the security of our services as well as the security of e-commerce and telecommunication over IP networks generally.

***Our VeriSign Identity Protection services depend in part on the acceptance of our services.***

The future growth of our VeriSign Identity Protection ( VIP ) services, which form a part of User Authentication Services, depends in part on the commercial success and acceptance, and reliability of our VIP services. Our VIP services will suffer if our target customers do not use our VIP services. Our future financial performance will also depend on the successful development, introduction and customer acceptance of new and enhanced VIP services. We are not certain that our target customers will choose our VIP services or continue to use our VIP services once adopted.

***Many of our target markets are evolving, and if these markets fail to develop or if our products and services are not widely accepted in these markets, our business could suffer.***

We target our 3IS segment at the market for trusted and secure e-commerce and communications over IP and other networks. Our Naming Services business is developing managed services in emerging markets that involve naming and directory services other than registry and related infrastructure services. Our Authentication Services business is working to expand our portfolio of business and consumer based authentication solutions through the development of new services that build on or complement current offerings. These emerging markets are rapidly evolving, may never gain wide acceptance and may not grow. Even if these markets grow, our services may not be widely accepted. Accordingly, the demand for our services in these markets is very uncertain. The factors that may affect market acceptance of our services in these markets include the following:

- market acceptance of products and services based upon technologies other than those we use;
- public perception of the security of our technologies and of IP and other networks;
- the introduction and consumer acceptance of new generations of mobile handsets;
- the ability of the Internet infrastructure to accommodate increased levels of usage; and
- government regulations affecting e-commerce and telecommunications over IP networks.

If the market for e-commerce and communications over IP and other networks does not grow or these services are not widely accepted in the market, our business would be materially harmed.

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***We depend on key personnel to manage our business effectively and may not be successful in attracting and retaining such personnel.***

We depend on the performance of our senior management team and other key employees, including key employees in the businesses we intend to divest. Our success also depends on our ability to attract, integrate, train, retain (particularly with respect to key employees in the businesses we intend to divest) and motivate these individuals and additional highly skilled technical and sales and marketing personnel, both in the U.S. and abroad.

All of the members of our senior management team and other key employees are at-will employees and we do not maintain key person life insurance for any of our senior management team members or key employees. The loss of the services of any of our senior management team or other key employees, including key employees in the businesses we intend to divest, or failure to attract, integrate, train, retain and motivate additional key employees could harm our business.

***We have experienced changes in our senior management team, and these changes may result in operating inefficiencies.***

In August 2009, Mr. McLaughlin, our current President and Chief Operating Officer, was appointed Chief Executive Officer and effective August 17, 2009, will be President and Chief Executive Officer. Concurrently with this appointment, the Board of Directors accepted Mr. Bidzos resignation from the position of Chief Executive Officer on an interim basis, and appointed him to the position of Executive Chairman, effective August 17, 2009. In addition, on August 4, 2009 and effective immediately, Mr. Robins, our current acting Chief Financial Officer and Senior Vice President, Finance, was appointed Chief Financial Officer and Executive Vice President. During the period of transition following these appointments, we may experience operational inefficiencies as these executives familiarize themselves with their new roles.

***Compliance with rules and regulations concerning corporate governance is costly and could harm our business.***

Ongoing compliance with the corporate governance requirements of the Sarbanes-Oxley Act and the NASDAQ Stock Market has increased the scope, complexity and cost of our corporate governance, reporting and disclosure practices, and our compliance efforts have required significant management attention. It is more difficult and more expensive for us to obtain director and officer liability insurance, and we have been required to accept reduced coverage and incur substantially higher costs to obtain the reduced level of coverage. Further, our board members, chief executive officer and chief financial officer face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers, which could harm our business.

***We have anti-takeover protections that may discourage, delay or prevent a change in control that could benefit our stockholders.***

Our amended and restated Certificate of Incorporation and Bylaws contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors. These provisions include:

- our stockholders may take action only at a duly called meeting and not by written consent;
- special meetings of our stockholders may be called only by the chief executive officer, the president or our Board of Directors, and cannot be called by our stockholders;

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our board must be given advance notice regarding stockholder-sponsored proposals for consideration at annual meetings and for stockholder nominations for the election of directors;

vacancies on our Board of Directors can be filled until the next annual meeting of stockholders by majority vote of the members of the Corporate Governance and Nominating Committee or a majority of directors then in office if no such committee exists or a sole remaining director; and

our Board of Directors has the ability to designate the terms of and issue new series of preferred stock without stockholder approval.

VeriSign has also adopted a stockholder rights plan that may discourage, delay or prevent a change of control or the acquisition of a substantial bloc of our common stock and may make any future unsolicited acquisition attempt more difficult. Under the rights plan:

The rights will generally become exercisable if a person or group acquires 20% or more of VeriSign s outstanding common stock (unless such transaction is approved by our Board of Directors) and thus becomes an acquiring person.

Each right, when exercisable, will entitle the holder, other than the acquiring person, to acquire shares of VeriSign s common stock at a 50% discount to the then-prevailing market price.

As a result, the rights plan will cause substantial dilution to a person or group that becomes an acquiring person on terms that our Board of Directors does not believe are in our best interests and those of our stockholders and may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares.

In addition, Section 203 of the General Corporation Law of Delaware prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person which together with its affiliates owns or within the last three years has owned 15% or more of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless in the same transaction the interested stockholder acquired 85% ownership of our voting stock (excluding certain shares) or the business combination is approved in a prescribed manner. Section 203 therefore may impact the ability of an acquirer to complete an acquisition of us after a successful tender offer and accordingly could discourage, delay or prevent an acquirer from making an unsolicited offer without the approval of our Board of Directors.

***Changes in, or interpretations of, tax rules and regulations may adversely affect our effective tax rates.***

We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are subject to audit by various tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. Should additional taxes be assessed as a result of an audit or litigation, an adverse effect on our income tax provision and net income in the period or periods for which that determination is made could result.

**Risks relating to the competitive environment in which we operate**

***The business environment is highly competitive and, if we do not compete effectively, we may suffer price reductions, reduced gross margins and loss of market share.***

*General:* Several of our current and potential competitors have longer operating histories and/or significantly greater financial, technical, marketing and other resources than we do and therefore may be able to respond more quickly than we can to new or changing opportunities, technologies, standards and customer

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requirements. Many of these competitors also have broader and more established distribution channels that may be used to deliver competing products or services directly to customers through bundling or other means. If such competitors were to bundle competing products or services for their customers, the demand for our products and services might be substantially reduced and the ability to distribute our products successfully and the utilization of our services would be substantially diminished.

New technologies and the expansion of existing technologies may increase competitive pressure. We cannot assure you that competing technologies developed by others or the emergence of new industry standards will not adversely affect our competitive position or render our security services or technologies noncompetitive or obsolete. In addition, our markets are characterized by announcements of collaborative relationships involving our competitors. The existence or announcement of any such relationships could adversely affect our ability to attract and retain customers. As a result of the foregoing and other factors, we may not be able to compete effectively with current or future competitors, and competitive pressures that we face could materially harm our business.

*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.

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 UltraDNS, NeuLevel and Afilias.

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 and Yahoo!.

Additional competition to our business may arise from the upcoming introduction of new Internationalized Domain Name TLDs ( IDN TLDs ) and new gTLDs by ICANN. These new domain extensions could become available by the first half of 2010. 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. While we may apply for one or more of these new domain extensions, 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.

*Competition in 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, the security division of EMC, and Entrust Technologies, which offer software applications and related digital certificate products that customers operate themselves; (2) companies such as Digital Signature Trust Company (a subsidiary of 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.

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 believe that our primary long-term competitors may not yet have entered the market. Furthermore, AOL and

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Microsoft 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.

*Competition in Messaging Services:* The market for messaging services is extremely competitive. Competitors include companies that deliver various mobile messaging services in a range of domestic and international markets, such as Sybase, Syniverse, Aicent, mBlox, Open Market, Clickatell, and OpenWave. This business also faces competition from mobile network operators such as AT&T, Verizon Wireless, Sprint Nextel Corporation, T-Mobile, Vodafone, and others who may elect to internally develop services that would be competitive to our Messaging Services.

***Our inability to react to changes in our industry and successfully introduce new products and services could harm our business.***

The Internet and communications network services industries are characterized by rapid technological change and frequent new product and service announcements which require us continually to improve the performance, features and reliability of our services, particularly in response to competitive offerings. In order to remain competitive and retain our market share, we must continually improve our access technology and software, support the latest transmission technologies, and adapt our products and services to changing market conditions and customer preferences. We cannot assure you that we will be able to adapt to these challenges or respond successfully or in a cost effective way to adequately meet them. Our failure to do so would adversely affect our ability to compete and retain customers or market share.

**Risks related to our divestiture plan**

***We may face difficulties and incur costs associated with our divestiture plan and our financial condition, results of operations or cash flows could be adversely affected.***

Until the divestitures are complete, we will experience additional risks, including, but not limited to the disruption of our business and the potential loss of key employees; difficulties separating operations, services, products and personnel; and the potential damage to relationships with our existing customers.

For example, our divestiture plan requires a substantial amount of management, administrative and operational resources. These demands may distract our employees from the day-to-day operation of VeriSign s core businesses.

There is also risk that we may incur additional charges associated with an impairment of a portion of goodwill and other intangible assets due to changes in market conditions for acquisitions and dispositions. Under generally accepted accounting principles, we are required to evaluate goodwill for impairment on an annual basis, and to re-evaluate goodwill and to evaluate other intangible assets as events or circumstances indicate that such assets may be impaired. Further, we are likely to incur income statement charges to complete the divestiture plan, which could be material.

If we are unable to successfully address any of these risks for future dispositions, our financial condition, results of operations or cash flows could be adversely affected.

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***We may be unable to achieve some or all of the benefits we expect from the divestiture plan and such benefits may be delayed or not occur at all.***

We may not be able to achieve the full strategic and financial benefits we expect from the divestiture of VeriSign s non-core businesses. For example, we have encountered and may continue to encounter difficulties identifying buyers for certain businesses or be unable to sell businesses identified for divestiture, and there can be no assurance that analysts and investors will place greater value on VeriSign following completion of the divestiture plan than the value placed on us pre-divestiture.

In addition, there is no guarantee that the planned divestitures will occur or will not be further delayed. Completion of the divestiture plan is subject to a number of factors, including:

- business, political and economic environment in the U.S. and in other countries in which the Company currently operates;
- governmental regulations and policies, actions and approvals of regulatory bodies;
- the operating performance of the Company or the businesses or assets offered for sale;
- identification of buyers and negotiation of sale agreements;
- the willingness of buyers to assume certain liabilities associated with the businesses or assets offered for sale;
- our ability to identify and separate the assets associated with the businesses offered for sale from the core businesses we choose to retain; and
- the availability of financing or other sources of funding to buyers under reasonable terms and conditions.

In the third quarter of 2008, management determined that due in large part to the downturn in the economy and the condition of the credit markets, the divestiture plan would take longer than originally expected. Buyers continue to be more conservative, which makes it more difficult to consummate dispositions and has required some modifications to our original approach to individual dispositions. For example, some potential buyers have asked for more detailed financial information than we originally anticipated, which has increased the time and expense required to conduct the sale process. In addition, the condition in the credit markets has limited sources of financing for potential purchasers, which has affected the number of proposals we have received and prospective buyers ability to borrow the funds necessary to complete the purchase of our businesses being divested which has impacted the number of divestitures we have been successful in completing. These developments are having an adverse effect on the timing and our chances of completing the divesture plan.

***We may be adversely affected under certain covenants in our credit facility.***

The Credit Agreement governing our $500.0 million credit facility (the Facility ) contains a negative covenant that limits our ability to sell assets and freely deploy the proceeds we receive from such sales, subject to exceptions based on the size and timing of the sales. Therefore, depending on the size and timing of any dispositions that we decide to pursue as part of our divestiture plan, we may find it necessary to seek an amendment to our Credit Agreement or to structure the sales in a manner that complies with the covenant but that is potentially less favorable to the Company than would otherwise be the case. There can be no guarantee that we will be successful in obtaining any such amendment on acceptable terms or at all or be able to structure potential dispositions accordingly.

***We continue to be responsible for a portion of our contingent and other corporate liabilities following the divestiture of certain businesses.***

Under the agreements reached with buyers for certain businesses divested under the divestiture plan, we remain liable for certain contingent and corporate liabilities. In addition, it is possible that we may enter into agreements with similar contingent and corporate liabilities in connection with future businesses we may divest.

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There is a possibility that we will incur costs and expenses associated with the management of these contingent and other corporate liabilities. These contingent and other corporate liabilities could potentially relate to consolidated securities litigation, as well as actions brought by third parties as a result of the divestiture plan. Where responsibility for such liabilities is to be shared with the buyer, it is possible that the buyer or another party may be in default for payments for which they are responsible, obligating us to pay amounts in excess of our agreed-upon share of the assumed obligations.

***Following the divestiture of certain businesses, our ability to compete in certain market sectors is restricted.***

Under the agreements reached with buyers for certain businesses divested under the divestiture plan, we are restricted from competing, either directly or indirectly, with those businesses or from entering certain market sectors for a defined period of time pursuant to negotiated non-compete arrangements. It is possible that the Company will be subject to similar restrictions with respect to other businesses as they are divested.

**Risks related to our securities**

***We have a considerable number of common shares subject to future issuance.***

As of June 30, 2009, we had one billion authorized common shares, of which 192.2 million shares were outstanding. In addition, of our authorized common shares, 36.5 million common shares were reserved for issuance pursuant to outstanding employee stock option and employee stock purchase plans ( Equity Plans ), and 36.4 million shares were reserved for issuance upon conversion of the Convertible Debentures. As a result, we keep substantial amounts of our common stock available for issuance upon exercise or settlement of equity awards outstanding under our Equity Plans and/or the conversion of Convertible Debentures into our common stock. Issuance of all or a large portion of such shares would be dilutive to existing security holders, could adversely affect the prevailing market price of our common stock and could impair our ability to raise additional capital through the sale of equity securities.

***Our financial condition and results of operations could be adversely affected if we do not effectively manage our liabilities.***

As a result of the sale of the Convertible Debentures, we have a substantial amount of long term debt outstanding. In addition to the Convertible Debentures, we have a Facility with a borrowing capacity of $500.0 million. As of June 30, 2009, we had no outstanding borrowings under the Facility and we had utilized $4.1 million of the $50.0 million limit for outstanding letters of credit. The availability of borrowing capacity under the Facility allows us immediate access to working capital if we identify opportunities for the use of this cash. Our maintenance of substantial levels of debt could adversely affect our flexibility to take advantage of corporate opportunities and could adversely affect our financial condition and results of operations.

***We may not have the ability to repurchase the Convertible Debentures in cash upon the occurrence of a fundamental change, or to pay cash upon the conversion of Convertible Debentures, as required by the indenture governing the Convertible Debentures.***

Holders of our outstanding Convertible Debentures will have the right to require us to repurchase the Convertible Debentures upon the occurrence of a fundamental change as defined in the Indenture dated as of August 20, 2007 (the Indenture ) between the Company and U.S. Bank National Association, as Trustee. Although we currently intend to settle the principal amount of the Convertible Debentures in cash as required under the Indenture, we may not have sufficient funds to repurchase the Convertible Debentures in cash or have the ability to arrange necessary financing on acceptable terms or at all. In addition, upon conversion of the Convertible Debentures, we will be required to make cash payments to the holders of the Convertible Debentures equal to the lesser of the principal amount of the Convertible Debentures being converted and the conversion value (as defined in the Indenture) of those debentures. Such payments could be significant, and we may not have sufficient funds to make them at such time.

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A fundamental change may also constitute an event of default or prepayment under, or result in the acceleration of the maturity of, our then-existing indebtedness. Our ability to repurchase the Convertible Debentures in cash or make any other required payments may be limited by law or the terms of other agreements relating to our indebtedness outstanding at the time. Our failure to repurchase the Convertible Debentures or pay cash in respect of conversions when required would result in an event of default with respect to the Convertible Debentures.

While we currently have the intent and ability to settle the principal in cash, if we conclude that we no longer have the ability, in the future, we will be required to change our accounting policy for earnings per share from the treasury stock method to the if-converted method.

***There may be potential new accounting pronouncements or regulatory rulings which may have an impact on our future financial position and results of operations.***

New accounting pronouncements could, when adopted, require us to implement different accounting methods which could have a material adverse impact on future or past results of operations, which could in turn materially adversely affect the trading price of our common stock.

**Certain other risks**

The following risks are primarily related to businesses we expect to divest as part of our divestiture plan. Until our divestiture plan is complete, any one or more of these risks could have a significant impact on our financial condition, results of operations or cash flows. In addition, the materialization of any one or more of these risks could affect the timing of future dispositions, the price at which we dispose our businesses or whether we are able to dispose our businesses at all.

***Our Messaging Services business depends on agreements with many different third parties, including wireless carriers. If these agreements are terminated or not renewed, or are amended to require us to change the way our Messaging Services are offered to customers, our business could be harmed.***

Our Messaging Services business depends on our ability to enter into and maintain agreements with many different third parties including wireless carriers and other mobile phone service providers, upon which this business is highly dependent for billing its customers.

These agreements are typically for a short term, or are otherwise terminable upon short notice, and in the case of agreements with carriers, other mobile phone service providers and content developers, are nonexclusive. If these third parties reduce their commitment to us, terminate their agreements with us or enter into similar agreements with our competitors, our Messaging Services business could be materially harmed.

***A significant portion of revenue for our Messaging Services business is derived from a small number of customers. If one or more of these customers terminates their agreement with us, our business could be harmed.***

Revenue related to our Messaging Services business is concentrated in a small number of customers. If any of these customers experiences a substantial adverse change in their economic condition or terminates their relationship with us, our Messaging Services business could be materially harmed.

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**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On May 16, 2006, the Board of Directors authorized the 2006 Stock Repurchase Program (the 2006 Stock Repurchase Program ) with no expiration date to repurchase up to $1.0 billion of our common stock. During the three months ended June 30, 2009, we repurchased approximately 0.9 million shares of our common stock at an average stock price of $23.15 per share for an aggregate cost of $20.0 million under the 2006 Stock Repurchase Program. As of June 30, 2009, approximately $250.0 million remained available for further repurchases under the 2006 Stock Repurchase Program.

On January 31, 2008, the Board of Directors of VeriSign authorized the 2008 Stock Repurchase Program (the 2008 Stock Repurchase Program ) with no expiration date having an aggregate purchase price of up to $600.0 million of our common stock. On August 5, 2008, our Board of Directors authorized additional stock repurchases under our 2008 Stock Repurchase Program having an aggregate purchase price of up to $680.0 million of our common stock. As of June 30, 2009, $680.0 million remained available for further repurchase under the 2008 Stock Repurchase Program.

The following table presents the share repurchases during the three months ended June 30, 2009.

| | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (2) |
|---|---|---|---|---|
| April 1 30, 2009 | | $ | | $ 950.0 million |
| May 1 31, 2009 | 691,773 | $ 23.10 | 691,773 | $ 934.0 million |
| June 1 30, 2009 | 171,974 | $ 23.36 | 171,974 | $ 930.0 million |
| | 863,747 | | 863,747 | |

(1) Represent shares repurchased under the 2006 Stock Repurchase Program.

(2) Represents the remaining amount available for further repurchases under the 2008 and 2006 Stock Repurchase Programs.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The 2009 Annual Meeting of Stockholders was held on May 28, 2009, at our corporate offices, located at 487 East Middlefield Road, Mountain View, California. Two proposals were voted on at the meeting. The results of each proposal are as follows:

Proposal No. 1 to elect seven directors of VeriSign, each to serve a one-year term, or until a successor has been elected and qualified or until the director s earlier resignation or removal, was approved by the stockholders. The nominees received the following votes:

| | For | Withheld |
|---|---|---|
| D. James Bidzos | 162,978,285 | 7,434,992 |
| William L. Chenevich | 158,837,318 | 11,575,959 |
| Kathleen A. Cote | 164,101,816 | 6,311,461 |
| Roger H. Moore | 160,249,634 | 10,163,643 |
| John D. Roach | 168,762,371 | 1,650,906 |
| Louis A. Simpson | 161,463,212 | 8,950,065 |
| Timothy Tomlinson | 168,377,001 | 2,036,276 |

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In Proposal No. 2, stockholders ratified the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009. This proposal received the following votes:

| | Votes |
|---|---|
| For | 165,742,974 |
| Against | 4,160,119 |
| Abstain | 510,183 |

Abstentions and broker non-votes were included in the determination of the number of shares represented at the meeting for purposes of determining the presence of a quorum at the Annual Meeting of Stockholders.

**ITEM 5. OTHER INFORMATION**

**Appointment of President and Chief Executive Officer**

On August 4, 2009, our Board of Directors appointed Mark D. McLaughlin, our current President and Chief Operating Officer, as Chief Executive Officer, effective August 17, 2009. From August 17, 2009, Mr. McLaughlin will be President and Chief Executive Officer, and will cease to have the title of Chief Operating Officer. Mr. McLaughlin, 43, has served as President and Chief Operating Officer of the Company since January 14, 2009. From November 1, 2008 and until his appointment as President and Chief Operating Officer, Mr. McLaughlin served as a consultant to the Company. From January 2007 through November 2007, he served as the Company s Executive Vice President, Products and Marketing. From May 2006 to January 2007, he served as the Company s Executive Vice President and General Manager, Information Services. From December 2004 to May 2006, he served as the Company s Senior Vice President and General Manager, Information Services. From November 2003 through December 2004, Mr. McLaughlin was the Company s Senior Vice President and Deputy General Manager of Information Services. From 2002 to 2003, he served as the Company s Vice President, Corporate Business Development and from 2000 to 2001 he was Vice President, General Manager of VeriSign Payment Services. Prior to joining the Company, Mr. McLaughlin was the Vice President, Business Development of Signio, an Internet payment company acquired by the Company in February 2000.

In connection with Mr. McLaughlin s appointment as Chief Executive Officer, the Company s independent directors approved the following compensation package effective with his appointment: (a) a cash salary of $750,000 per annum, (b) eligibility for a target bonus of 100% of his annual base salary, and (c) a grant of 30,000 restricted stock units, which will vest annually over a four-year period from the date of the grant, subject to Mr. McLaughlin continuing to be employed by the Company. The stock options and restricted stock units will be granted pursuant to the Company s 2006 Equity Incentive Plan and will have a grant date of August 17, 2009.

Mr. McLaughlin will also enter into a Change-in-Control and Retention Agreement in connection with his appointment as Chief Executive Officer, the terms of which are identical to the terms contained in the Company s form of Change-in-Control and Retention Agreements for VeriSign Section 16 Executive Officers (the CIC Agreement ), as previously approved by the Compensation Committee on August 24, 2007 and disclosed in the Current Report on Form 8-K, filed with the SEC on August 30, 2007, except that Mr. McLaughlin s agreement will provide for cash severance of two times his base salary plus bonus and continuation of health benefits for Mr. McLaughlin and his dependents for two years. In addition, Mr. McLaughlin s agreement will reflect the change to the CIC Agreement approved by the Company s Board of Directors on August 4, 2009 whereby the threshold for triggering a Change-in-Control through the acquisition of shares will be triggered when a person, other than a trustee or other fiduciary holding securities of the Company or its subsidiaries, becomes the beneficial owner, directly or indirectly, of securities of the Company representing at least thirty-five percent (35%) of (a) the then-outstanding shares of common stock of the Company, or (b) the combined voting power of the Company s then-outstanding shares.

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Mr. McLaughlin provided consulting services to the Company from November 1, 2008 to January 13, 2009, and pursuant to this arrangement received cash payments of $60,000 per month.

In connection with Mr. McLaughlin s resignation from the Company on December 1, 2007, VeriSign entered into a Separation and General Release Agreement (the Separation Agreement ) with Mr. McLaughlin, effective December 8, 2007. Pursuant to the terms of the Separation Agreement, Mr. McLaughlin (a) provided consulting services to VeriSign from December 2, 2007 to December 1, 2008 and received an aggregate of $60,000 for such services; (b) received accelerated vesting of 19,811 shares subject to outstanding stock options with a weighted average exercise price of approximately $22.54 per share and (c) was paid a bonus for 2007 of $145,800. Mr. McLaughlin received $234,941 to compensate him for his election as of December 31, 2006 to increase the exercise price of certain of VeriSign stock options ( Affected Options ) in order to avoid unfavorable tax consequences under Section 409A of the Internal Revenue Code as well as to reimburse him (on a fully grossed-up basis) for the estimated amount of tax owed in connection with his exercise in 2006 of certain Affected Options. In addition, Mr. McLaughlin executed a release in favor of the Company and agreed not to solicit the Company s employees, consultants and employees for 12 months after his resignation date.

**Appointment to the Board of Directors**

By resolution, the Board of Directors increased the size of the Board from 7 members to 8 members and the Corporate Governance and Nominating Committee appointed Mr. McLaughlin to fill the new directorship effective August 4, 2009. Mr. McLaughlin will not serve on any Committees of the Board of Directors and will not receive any compensation in connection with his service on the Board.

**Appointment of Executive Chairman and Resignation of Chief Executive Officer, on an Interim Basis**

Concurrently with the appointment of Mr. McLaughlin as Chief Executive Officer, the Board of Directors accepted the resignation of D. James Bidzos from the position of Chief Executive Officer, on an interim basis, effective August 17, 2009. The Board of Directors also approved the appointment of Mr. Bidzos to the position of Executive Chairman of the Company, effective August 17, 2009, upon his resignation from the position of Chief Executive Officer. Mr. Bidzos was previously Executive Chairman on an interim basis.

On June 30, 2008, the Board appointed Mr. D. James Bidzos as the Company s Executive Chairman, President and Chief Executive Officer on an interim basis. On January 14, 2009, Mr. Bidzos resigned from his position as President on an interim basis, which is the date that Mr. McLaughlin commenced employment at the Company as President and Chief Operating Officer. Mr. Bidzos, 54, has served as Chairman of the Board since August 2007. Mr. Bidzos served as Vice Chairman of the Board from December 2001 to August 2007, and was Chairman of the Board from April 1995 to December 2001. Mr. Bidzos served as Vice Chairman of RSA Security, an Internet identity and access management solution provider, from March 1999 to May 2002 and Executive Vice President from July 1996 to February 1999. Prior thereto, he served as President and Chief Executive Officer of RSA Data Security from 1986 to February 1999.

In connection with Mr. Bidzos appointment as Executive Chairman, the Company s independent directors approved the following compensation package effective with his appointment: (a) a cash salary of $500,000 per annum and (b) a grant of restricted stock units with a value of $2 million based on the closing price of the Company s common stock on August 17, 2009, which will vest quarterly over a two-year period from the date of the grant, subject to Mr. Bidzos continuing to be affiliated with the Company. The restricted stock units will be granted pursuant to the Company s 2006 Equity Incentive Plan and will have a grant date of August 17, 2009.

**Appointment of Chief Financial Officer and Executive Vice President**

On August 4, 2009, our Board of Directors appointed Brian G. Robins, our current acting Chief Financial Officer and Senior Vice President, Finance, as Chief Financial Officer and Executive Vice President, effective

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August 4, 2009. Mr. Robins, 39, has served as acting Chief Financial Officer of the Company since April 2008, and has served as Senior Vice President, Finance since August 2007. From January to August 2007, Mr. Robins was Vice President, Finance. Prior to joining VeriSign in January 2007, Mr. Robins was employed by NeuStar, a provider of clearinghouse services for communication service providers and enterprises, in a number of capacities since 2001, including as Vice President of Finance and Treasurer.

In connection with Mr. Robins appointment as Chief Financial Officer and Executive Vice President, the Company s independent directors approved the following compensation package effective with his appointment: (a) a cash salary of $400,000 per annum, (b) eligibility for a target bonus of 75% of his annual base salary, and (c) a grant of 10,000 restricted stock units, which will vest annually over a four-year period from the date of the grant, subject to Mr. Robins continuing to be employed by the Company. The restricted stock units were granted pursuant to the Company s 2006 Equity Incentive Plan and have a grant date of August 4, 2009.

Mr. Robins will also enter into a Change-in-Control and Retention Agreement in connection with his appointment as Chief Financial Officer, the terms of which are identical to the terms contained in the Company s CIC Agreement, as previously approved by the Compensation Committee on August 24, 2007 and disclosed in the Current Report on Form 8-K, filed with the SEC on August 30, 2007, except that Mr. Robins agreement will reflect the change to the CIC Agreement approved by the Company s Board of Directors on August 4, 2009 whereby the threshold for triggering a Change-in-Control through the acquisition of shares will be triggered when a person, other than a trustee or other fiduciary holding securities of the Company or its subsidiaries, becomes the beneficial owner, directly or indirectly, of securities of the Company representing at least thirty-five percent (35%) of (a) the then-outstanding shares of common stock of the Company, or (b) the combined voting power of the Company s then-outstanding shares.

**Amendment to the Change-in-Control and Retention Agreement**

On August 4, 2009, the Company s Board of Directors approved a change in the Company s form of CIC Agreement, as previously approved by the Compensation Committee on August 24, 2007. Pursuant to the amendment, the Board raised the threshold for triggering a Change-in-Control through the acquisition of shares, such that effective August 4, 2009, a Change-in-Control will be triggered when a person, other than a trustee or other fiduciary holding securities of the Company or its subsidiaries, becomes the beneficial owner, directly or indirectly, of securities of the Company representing at least thirty-five percent (35%) of (a) the then-outstanding shares of common stock of the Company, or (b) the combined voting power of the Company s then-outstanding shares. Prior to the amendment, a Change-in-Control, would have been triggered by the beneficial ownership by any such person of at least thirty percent (30%) of the outstanding shares of common stock or combined voting power of the Company s outstanding shares.

The Board also resolved to apply the thirty-five percent (35%) ownership threshold within the definition of a Change-in-Control to the CIC Agreement entered into by Mr. McLaughlin in his position as President and Chief Executive Officer and Mr. Robins in his position as Chief Financial Officer and Executive Vice President. The thirty-five percent (35%) ownership threshold will apply to the Company s existing Section 16 Officers that are already party to a CIC Agreement effective August 4, 2009, subject to the terms of the CIC Agreement.

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**ITEM 6. EXHIBITS**

(a) Index to Exhibits

**Exhibit**

| **Number** | **Exhibit Description** |
|---|---|
| 10.01 | Letter Agreement dated May 1, 2009 to Asset Purchase Agreement between VeriSign, Inc. and Transaction Network Services, Inc., dated March 2, 2009. |
| 31.01 | Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a). |
| 31.02 | Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a). |
| 32.01 | Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350). * |
| 32.02 | Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350). * |
| 101.INS | XBRL Instance Document.** |
| 101.SCH | XBRL Taxonomy Extension Schema.** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase.** |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase.** |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase.** |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase.** |

* As contemplated by SEC Release No. 33-8212, these exhibits are furnished with this Quarterly Report on Form 10-Q and are not deemed filed with the SEC and are not incorporated by reference in any filing of VeriSign, Inc. under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in such filings.

** Furnished herewith.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VERISIGN, INC.

Date: August 6, 2009 By: /s/ D. JAMES BIDZOS
**D. James Bidzos**

**Interim Chief Executive Officer**

**(Principal Executive Officer)**

Date: August 6, 2009 By: /s/ BRIAN G. ROBINS
**Brian G. Robins**

**Chief Financial Officer**

**(Principal Accounting Officer)**

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**EXHIBITS**

As required under Item 6 Exhibits, the exhibits filed as part of this report are provided in this separate section. The exhibits included in this section are as follows:

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