Verisign

Q3 2013 Earnings Conference Call

October 24, 2013

Safe Harbor Disclosure

Statements in this announcement other than historical data and information constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934 as amended. These statements involve risks and uncertainties that could cause our actual results to differ materially from those stated or implied by such forward-looking statements. The potential risks and uncertainties include, among others, the uncertainty of whether the U.S. Department of Commerce will approve any exercise by us of our right to increase the price per .com domain name, under certain circumstances, the uncertainty of whether we will be able to demonstrate to the U.S. Department of Commerce that market conditions warrant removal of the pricing restrictions on .com domain names and the uncertainty of whether we will experience other negative changes to our pricing terms; the failure to renew key agreements on similar terms, or at all; the uncertainty of future revenue and profitability and potential fluctuations in quarterly operating results due to such factors as restrictions on increasing prices under the .com Registry Agreement, increasing competition, pricing pressure from competing services offered at prices below our prices and changes in marketing and advertising practices, including those of third-party registrars; changes in search engine algorithms and advertising payment practices; challenging global economic conditions; challenges to ongoing privatization of Internet administration; the outcome of legal or other challenges resulting from our activities or the activities of registrars or registrants, or litigation generally; the uncertainty regarding whether and when, if at all, the liquidation of one of our domestic subsidiaries will occur, and what the ultimate outcome, use or amount of benefit we receive, if any, will be; the outcome of our reevaluation of our current strategy related to foreign operations and the amount of additional tax obligation, if any, we may be required to accrue as a result of this analysis; new or existing governmental laws and regulations; changes in customer behavior, Internet platforms and web-browsing patterns; the uncertainty of whether we will successfully develop and market new services; the uncertainty of whether our new services will achieve market acceptance or result in any revenues; system interruptions; security breaches; attacks on the Internet by hackers, viruses, or intentional acts of vandalism; whether we will be able to continue to expand our infrastructure to meet demand; the uncertainty of the expense and timing of requests for indemnification, if any, relating to completed divestitures; and the impact of the introduction of new gTLDs, any delays in their introduction, the impact of ICANN's Registry Agreement for new gTLDs and whether our gTLD applications or the applicants' gTLD applications for which we have contracted to provide back-end registry services will be successful; and the uncertainty regarding the impact, if any, of the delegation into the root zone of up to 1,400 new TLDs. More information about potential factors that could affect our business and financial results is included in our filings with the SEC, including in our Annual Report on Form 10-K for the year ended Dec. 31, 2012, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Verisign undertakes no obligation to update any of the forward-looking statements after the date of this announcement.

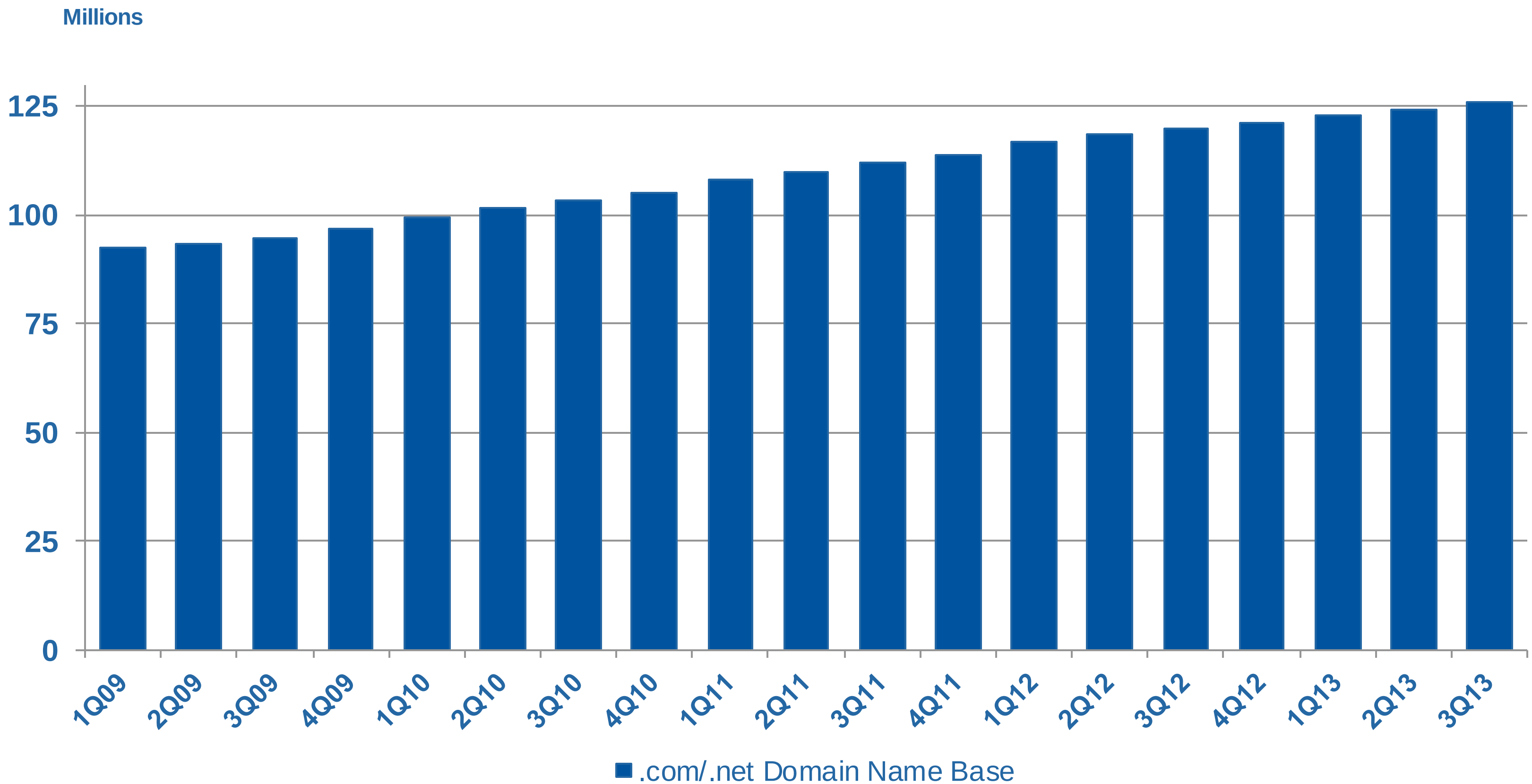
Agenda

- Introduction
- Registry Services Highlights
- Financial Performance / Guidance
- Closing / Q&A / Annex

Registry Services Highlights

Domain Name Base at 125.9 Million Names, Up 5.0% Y/Y [(1)]

110.7 Million .com Names and 15.2 Million .net Names



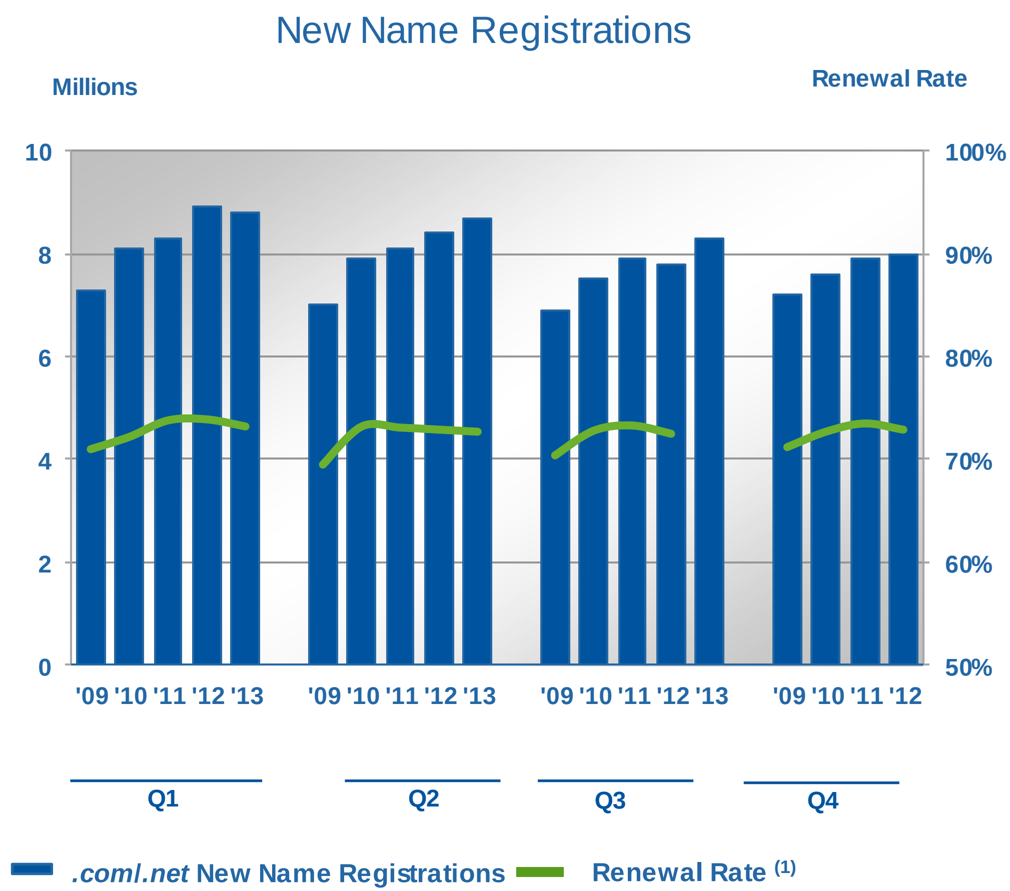
1) The Domain Name Base is a count of domain names in the *.com* and *.net* base, adjusted for domain name registrations cancelled during the grace period.

Registry Services Highlights

8.3 Million New Name Registrations in Q3 '13

Compared with 7.8 Million in Q3 '12

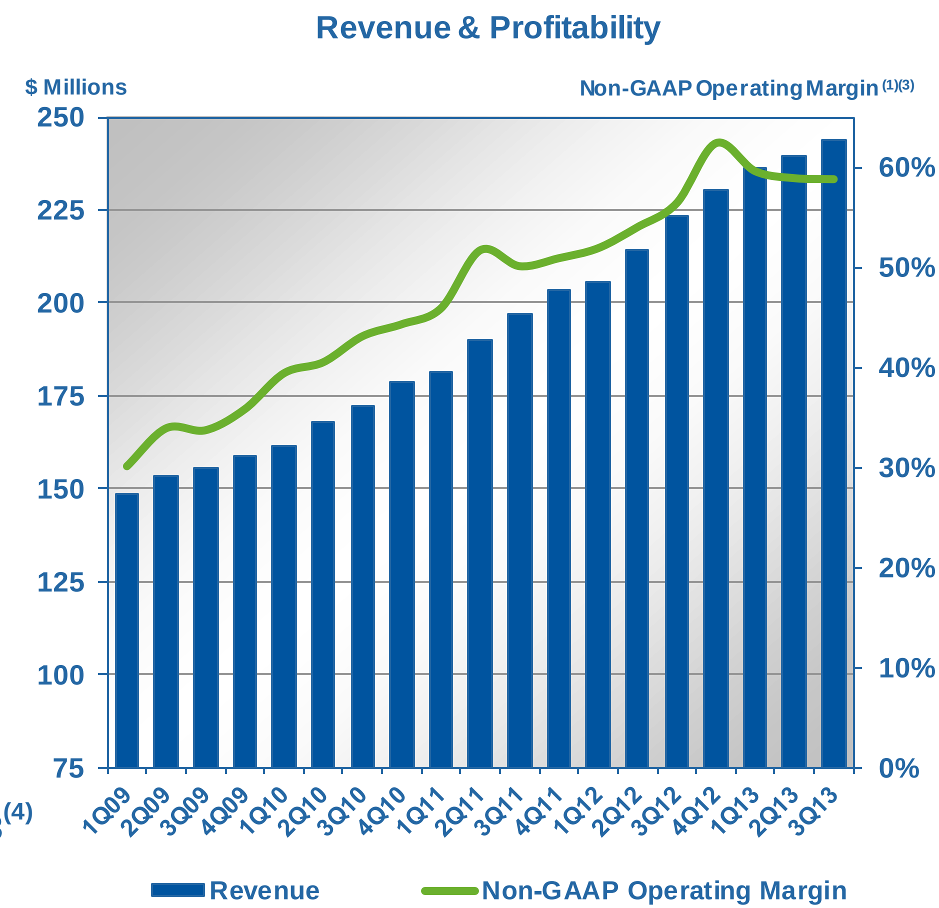
- **Q2 '13 renewal rate 72.7%**
  - Renewal rate determined 45 days after end of quarter
  - Q3 '13 renewal rate expected to be approximately 72.5%(1)(2) same as in Q3 '12
- **Net new additions for Q3 '13 were 1.55M names**
- **25.4M names expiring in Q4 '13 vs. 24.0M in Q4 '12**
- **Domain Name Base for Q4 '13 expected to add between 1.1M to 1.5M net names(2)**



1) Renewal rates are not fully measurable until 45 days after the end of the quarter.
2) This guidance is based on historical seasonality and current market trends.

Q3 2013 Financial Performance

+ Revenue of $244M, up 9% y/y
+ GAAP operating margin of 54.5%
+ GAAP diluted EPS of $0.53
+ Non-GAAP operating margin of 58.8%[1]
+ Non-GAAP diluted EPS of $0.59[1]
+ Operating Cash Flow of $134M
+ Free Cash Flow of $134M[2]
+ 1,075 Full-Time Employees at Sept. 30, 2013[4]



1) Please refer to "Summary of Non-GAAP Measures" for important information.

2) Free cash flow is defined as cash flow from operations adjusted to include excess tax benefits from stock based compensation, less capital expenditures. See Free Cash Flow Calculation in slide appendix for more detail.

3) Non-GAAP Operating Margin for the second quarter of 2011 included a pre-tax $6 million accrued expense reversal, which is non-recurring in nature, which increased operating margin by 3.1 percentage points. Non-GAAP operating margin for the fourth quarter of 2012 included non-recurring pre-tax benefits of $5.8 million recorded in continuing operations, primarily related to reimbursements of previously incurred litigation and defense costs, received upon settlement with the selling shareholders of a previously acquired businesses and pre-tax benefits of $5.5 million related to a change in the estimated bonus payout, which together, increased the non-GAAP operating margin by 4.9 percentage points.

4) As of Sept. 30, 2013, net of interns (6).

Financial Guidance[1]

- 2013 Revenue
  - $960 to $965 million, or 10% growth; changed from $952 to $962 million, or 9% to 10% growth.
- 2013 Non-GAAP Gross Margin[2]
  - At least 80%; unchanged.
- Full year 2013 Non-GAAP Operating Margin[3]
  - 58% to 59%; unchanged.
- 2013 Non-GAAP Interest Expense and Non-GAAP Non-Operating Income, net[4]
  - $60 to $62 million expense; unchanged.
- 2013 Capital Expenditures
  - $65 to $75 million; changed from $60 to $80 million.

1) This guidance is based on our current growth expectations and increased operating efficiencies in our business in addition to our financial projections for non-operating income and interest expense. Guidance for all non-GAAP figures excludes the same items as we excluded in our Q3 2013 non-GAAP reconciliation, as follows: discontinued operations, stock-based compensation, amortization of other intangibles assets, impairments of goodwill and other intangible assets, restructuring charges, contingent interest payment to holders of our Convertible Debentures, unrealized gain/loss on contingent interest derivative on Convertible Debentures, and non-cash interest expense.

2) The most directly comparable GAAP measure to non-GAAP gross margin is GAAP gross margin. Non-GAAP gross margin is defined as revenues minus cost of revenues adjusted for stock-based compensation the total of which is then divided by revenues.

3) The most directly comparable GAAP measure to non-GAAP operating margin is GAAP operating income. Non-GAAP operating margin is defined as GAAP operating income adjusted for stock-based compensation, amortization of other intangible assets, impairments of goodwill and other intangible assets, if any, and restructuring charges, the total of which is then divided by revenues.

4) The most directly comparable GAAP measure to Non-GAAP Interest Expense is GAAP Interest Expense. Non-GAAP Interest Expense excludes contingent interest payment to holders of the Convertible Debentures, and non-cash interest expense, which are included in GAAP Interest Expense. The most directly comparable GAAP measure to Non-GAAP Non-Operating Income, net is GAAP Non-Operating Income, net. Non-GAAP Non-Operating Income, net excludes unrealized gain/loss on contingent interest derivative on Convertible Debentures which is included in GAAP Non-Operating Income, net.

Q&A
Annex

Convertible Debenture Dilution Calculation

- Basic inputs (as of Sept. 30, 2013)
  - $1.25 billion notional
  - 29.0968 shares per $1,000 is the current conversion ratio
  - 36.37 million shares issuable (based on conversion ratio)
  - $34.368 current conversion price
- Treasury stock method dilution calculation[1]

$$\frac{\text{(Average Share Price x Shares Issuable)} - \text{Notional}}{\text{Average Share Price}} = \text{Share Dilution}$$

- Q3 calculation ($48.28 average share price during Q3 2013)

$$\frac{(\$48.28 \text{ x } 36.37\text{M shares}) - \$1.25\text{B}}{\$48.28} = 10.5\text{M shares}$$

1) Verisign uses the Treasury stock method to account for the dilutive effect of the convertible debenture.

Convertible Debenture Dilution Sensitivity

Verisign $1.25 Billion Convertible Debenture (due 8/15/2037) Dilution
Sensitivity Based on Average Quarterly Stock Price

Quarterly share dilution under the Treasury stock method is calculated as follows:

$$\text{Share Dilution} = \frac{(\text{Average Quarterly Share Price x Shares Issuable})\ \textit{minus}\ \text{Notional}}{\text{Average Quarterly Share Price}}$$

Inputs as of Sept 30, 2013

Notional	Conversion Ratio	Shares Issuable	Conversion Price	Q3 2013 Average Quarterly Stock Price
$1,250,000,000	29.0968	36,371,000	$34.368	$48.28

Hypothetical Quarterly Average Stock Price Matrix

	Average Quarterly Stock Price ($)	Quarterly Dilutive Share Count Impact (shares)
	Less than $34.368	-
	$35.00	656,714
	$36.00	1,648,778
	$37.00	2,587,216
	$38.00	3,476,263
	$39.00	4,319,718
	$40.00	5,121,000
	$41.00	5,883,195
Q4 2012 Average Stock Price	$41.66	6,366,199
	$42.00	6,609,095
	$43.00	7,301,233
Q1 2013 Average Stock Price	$43.91	7,903,680
	$44.00	7,961,909
	$45.00	8,593,222
	$46.00	9,197,087
Q3 2012 Average Stock Price	$46.06	9,232,485
Q2 2013 Average Stock Price	$46.33	9,390,642
	$47.00	9,775,255
	$48.00	10,329,333
Q3 2013 Average Stock Price	**$48.28**	**10,480,362**
	$49.00	10,860,796
	$50.00	11,371,000
	$51.00	11,861,196
	$52.00	12,332,538
	$53.00	12,786,094
	$54.00	13,222,852
	$55.00	13,643,727
	$56.00	14,049,571
	$57.00	14,441,175
	$58.00	14,819,276
	$59.00	15,184,559
	$60.00	15,537,667

For stock prices above $60, use the above calculation to determine the corresponding amount of dilution.

Note: Verisign uses the Treasury stock method to calculate the dilutive effect of the convertible debenture.
For further information see the notes to the consolidated financial statements, pages 72-74, on Form 10 K for the year ended December 31, 2012.

Summary of Non-GAAP Measures

- **As of Sept. 30, 2013, the Company's business consists of Naming Services, which includes Registry Services and Network Intelligence and Availability Services.**
- **Non-GAAP measures, other than adjusted EBITDA, exclude the following items:**
  - Discontinued operations
  - Stock-based compensation
  - Amortization of other intangible assets
  - Impairments of goodwill and other intangible assets
  - Restructuring charges
  - Contingent interest payments to holders of Convertible Debentures
  - Unrealized gain/loss on contingent interest derivative on Convertible Debentures
  - Non-cash interest expense
  - Non-GAAP financial information is also adjusted for a 28% tax rate, which differs from the GAAP tax rate

Financial forecasts and guidance are forward looking statements and actual results may vary for a number of reasons including those mentioned in our most recent 10-K, 10-Q and 8-K filings with the SEC.

Reconciliation of Non-GAAP Financial Measures

VERISIGN

(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30, 2013		Three Months Ended June 30, 2013		Three Months Ended September 30, 2012	
	Operating Income	Net Income	Operating Income	Net Income	Operating Income	Net Income
GAAP as reported	132,713	80,898	132,081	86,890	$ 116,062	$ 77,910
Discontinued Operations						(1,091)
Adjustments:						
Stock-based compensation	10,577	10,577	8,835	8,835	9,807	9,807
Amortization of other intangible assets	—	—	—	—	140	140
Unrealized loss (gain) on contingent interest derivative on the subordinated convertible debentures		5,286		(1,996)		3,167
Non-cash interest expense		2,171		2,230		1,916
Tax adjustment		(8,907)		(4,157)		(7,803)
Non-GAAP	$ 143,290	$ 90,025	$ 140,916	$ 91,802	$ 126,009	$ 84,046
Revenues	$ 243,678		$ 239,332		$ 223,528	
Non-GAAP operating margin	58.8%		58.9%		56.4%	
Diluted shares		152,951		158,641		166,575
Per diluted share, non-GAAP		$ 0.59		$ 0.58		$ 0.50

Verisign provides quarterly and annual financial statements that are prepared in accordance with generally accepted accounting principles (GAAP). Along with this information, we typically disclose and discuss certain non-GAAP financial information in our quarterly earnings release, on investor conference calls and during investor conferences and related events. This non-GAAP financial information does not include the following types of financial measures that are included in GAAP: discontinued operations, stock-based compensation, amortization of other intangible assets, impairments of goodwill and other intangible assets, restructuring charges, contingent interest payments to holders of the subordinated convertible debentures, unrealized gain/loss on contingent interest derivative on subordinated convertible debentures, and non-cash interest expense. Non-GAAP financial information is also adjusted for a 28 percent tax rate, which differs from the GAAP tax rate.

Management believes that this non-GAAP financial data supplements the GAAP financial data by providing investors with additional information that allows them to have a clearer picture of our operations. The presentation of this additional information is not meant to be considered in isolation nor as a substitute for results prepared in accordance with GAAP. We believe that the non-GAAP information enhances investors' overall understanding of our financial performance and the comparability of our operating results from period to period. Above, we have provided a reconciliation of the non-GAAP financial information that we provide each quarter with the comparable financial information reported in accordance with GAAP for the given period.

SUPPLEMENTAL FINANCIAL INFORMATION

The following table presents the classification of stock-based compensation:

	Three Months Ended September 30, 2013	Three Months Ended June 30, 2013	Three Months Ended September 30, 2012
Cost of revenues	$ 1,524	$ 1,575	$ 1,491
Sales and marketing	1,442	1,727	1,697
Research and development	1,674	1,745	1,622
General and administrative	5,937	3,788	4,997
Total stock-based compensation expense	$ 10,577	$ 8,835	$ 9,807

Adjusted EBITDA Reconciliation

(In thousands, except per share data)
(Unaudited)

Following the offering of the 4.625% senior notes due 2023 (the "Notes"), we disclose our Adjusted EBITDA for the periods shown below. Adjusted EBITDA is a non-GAAP financial measure and is calculated in accordance with the terms of the indenture governing the Notes. Adjusted EBITDA refers to net income before interest, taxes, depreciation and amortization, stock-based compensation, unrealized loss (gain) on contingent interest derivative on the subordinated convertible debentures and unrealized loss (gain) on hedging agreements.

The following table reconciles GAAP net income to Adjusted EBITDA for the periods shown below (in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012
Net Income	$ 80,898	$ 77,910
Interest expense	21,119	12,619
Income tax expense	26,104	24,985
Depreciation and amortization	14,889	13,379
Stock-based compensation	10,577	9,807
Unrealized loss on contingent interest derivative on the subordinated convertible debentures	5,286	3,167
Unrealized loss on hedging agreements	222	435
Adjusted EBITDA	$ 159,095	$ 142,302

	Four Quarters Ended September 30, 2013
Net Income	$ 357,941
Interest expense	66,181
Income tax expense	121,541
Depreciation and amortization	60,582
Stock-based compensation	33,976
Unrealized loss on contingent interest derivative on the subordinated convertible debentures	2,174
Unrealized loss on hedging agreements	18
Adjusted EBITDA	$ 642,413

Verisign's management believes that presenting Adjusted EBITDA enhances investors' overall understanding of our financial performance and the comparability of our operating results from period to period. However, Adjusted EBITDA has important limitations as an analytical tool. These limitations include, but are not limited to, the following:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- non-cash compensation is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating its ongoing operating performance for a particular period; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP.

Free Cash Flow Calculation

Reconciliation of Operating Cash Flow to Free Cash Flow (1)

Free Cash Flow ($M)	Q111	Q211	Q311	Q411	FY11	Q112	Q212	Q312	Q412	FY12	Q113	Q213	Q313
Cash Flow from Operating Activities	90.3	12.9	108.4	124.2	335.9	110.2	135.0	121.6	170.8	537.6	150.6	146.8	134.5
Excess Tax Benefits from Stock-Based Awards	3.6	(2.8)	1.0	11.6	13.4	3.6	8.0	9.1	(2.3)	18.4	11.8	5.8	12.5
Total	**93.9**	**10.1**	**109.4**	**135.8**	**349.3**	**113.8**	**143.0**	**130.7**	**168.5**	**556.0**	**162.4**	**152.6**	**147.0**
Acquisition of Property and Equipment, Net	(15.6)	(13.9)	(34.0)	(129.2)	(192.7)	(12.9)	(13.3)	(13.6)	(13.2)	(53.0)	(17.1)	(20.4)	(12.7)
Total Free Cash Flow	**78.3**	**(3.8)**	**75.4**	**6.6**	**156.6**	**100.9**	**129.7**	**117.1**	**155.3**	**503.0**	**145.3**	**132.2**	**134.3**

1) Free Cash Flow is a non-GAAP financial measure defined as cash flow from operating activities (adjusted to include excess tax benefits from stock-based compensation), less net capital expenditures. The excess tax benefits from stock-based compensation, as reported on the statements of cash flows in cash flows from financing activities, represent the reduction in income taxes otherwise payable during the period, attributable to the actual gross tax benefits in excess of the expected tax benefits for options exercised/awards released in current and prior periods.

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Historical Naming Metrics

Naming Metrics (1)(2)	2010					2011					2012					2013		
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3
New Name Registrations (M's)	8.1	7.9	7.5	7.6	**31.0**	8.3	8.1	7.9	7.9	**32.1**	8.9	8.4	7.8	8.0	**33.1**	8.8	8.7	8.3
Net New Additions (M's)	2.5	2.2	2.0	1.8	**8.5**	2.7	2.0	2.0	1.9	**8.6**	2.9	1.8	1.4	1.3	**7.3**	2.0	1.2	1.6
Domain Base at End of Period (M's)	99.3	101.5	103.5	105.2	**105.2**	108	109.9	111.9	113.8	**113.8**	116.7	118.5	119.9	121.1	**121.1**	123.1	124.3	125.9
Overall Renewal Rate (3)	*72.2%*	*73.2%*	*72.8%*	*72.7%*	***72.7%***	*73.8%*	*73.1%*	*73.3%*	*73.5%*	***73.4%***	*73.9%*	*72.9%*	*72.5%*	*72.9%*	***73.1%***	*73.2%*	*72.7%*	--

1) The domain name base is a count of domain names in the *.com* and *.net* base, adjusted for domain names registrations cancelled during the grace period.
2) Figures may differ slightly from figures reported elsewhere due to rounding.
3) Renewal rates are not fully measurable until 45 days after the end of the quarter.