

VERISIGN INC/CA
Form 10-K
July 12, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from _____ to _____

Commission File Number: 000-23593

VERISIGN, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the Registrant as of June 29, 2007 was approximately \$6,600,973,618 based upon the last sale price reported for such date on the NASDAQ Global Select Market. For purposes of this disclosure, shares of Common Stock held by persons known to the Registrant (based on information provided by such persons and/or the most recent schedule 13Gs filed by such persons) to beneficially own more than 5% of the Registrant's Common Stock and shares held by officers and

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directors of the Registrant have been excluded because such persons may be deemed to be affiliates. This determination is not necessarily a conclusive determination for other purposes.

Number of shares of Common Stock, \$0.001 par value, outstanding as of the close of business on June 29, 2007: 243,838,287 shares.

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EXPLANATORY NOTE

In this Form 10-K, we are restating our consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for the years ended December 31, 2005 and 2004.

We are also restating the unaudited quarterly financial information and financial statements for interim periods of 2005, and the unaudited condensed financial statements for the three months ended March 31, 2006. The decision to restate was based on the results of an independent review into our stock option accounting that was conducted under the direction of an ad hoc group of our independent directors who had not served on our Compensation Committee before 2005 (Ad Hoc Group). As part of the restatement, we have also made adjustments to our consolidated financial statements for the years ended December 31, 2005, 2004, 2003 and 2002 to correct errors identified for these fiscal years, which were not material to our financial statements in the aggregate or for any prior fiscal year.

Previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q affected by the restatements have not been amended and should not be relied upon.

We first learned of the potential issues associated with our past stock option grants from a May 16, 2006 article published by the Center for Financial Research and Analysis (CFRA) in which we were referenced as one of 15 public companies with one or two stock grants between 1997 and 2002 that the CFRA suggested were timed at, or close to, 40-day lows in the applicable company's stock price or preceding a material change in the stock price. Promptly after learning of the CFRA article, and prior to receiving the grand jury subpoena or the informal SEC request described below, the Ad Hoc Group, with the assistance of independent outside counsel, Cleary Gottlieb Steen & Hamilton LLP (Cleary Gottlieb), began reviewing the facts and circumstances of the timing of our historical stock option grants for the period January 1998 to May 2006 (relevant period). We believe that the analysis was properly limited to the relevant period. In addition to Cleary Gottlieb, the Ad Hoc Group was assisted in its Review by independent forensic accountants (collectively the Review Team).

On June 27, 2006, we announced that we had received a grand jury subpoena from the U.S. Attorney for the Northern District of California requesting documents relating to our stock option grants and practices dating back to January 1, 1995, and had received an informal request for information from the Securities and Exchange Commission (SEC) related to our stock option grants and practices. On February 9, 2007, we subsequently received a formal order of investigation from the SEC. We are fully cooperating with the U.S. Attorney's investigation and the SEC investigation.

On November 21, 2006, we announced that the Ad Hoc Group had determined the need to restate our historical financial statements to record additional non-cash stock-based compensation expense related to past stock option grants.

On March 30, 2007, we requested guidance from the Office of the Chief Accountant of the SEC (the OCA) concerning certain accounting issues relating to the restatement of our historical financials and the Review. On June 25, 2007, we concluded our discussions with the OCA regarding these accounting issues.

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On May 29, 2007, we announced that Stratton Sclavos, our then-current Chairman and Chief Executive Officer, had resigned from his position with the Company. Following Mr. Sclavos' resignation, the Board elected director William A. Roper, Jr. as our President and CEO and Edward Mueller as our Chairman of the Board of Directors.

On July 10, 2007, Dana L. Evan, our then-current Executive Vice President, Finance and Administration and Chief Financial Officer resigned from her position with VeriSign.

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On July 5, 2007 and July 12, 2007, the Board of Directors appointed Albert E. Clement as Chief Accounting Officer and Executive Vice President, Finance and Chief Financial Officer, respectively, of the Company.

The Review Team tested grants made on 239 dates, incurred 21,800 person-hours, searched more than 11 million pages of physical and electronic documents and conducted 75 interviews of 33 current and former directors, officers, employees, and advisors. We announced on January 31, 2007 that the Ad Hoc Group's Review was substantially completed and that, based on a review of the totality of evidence and the applicable law, the Review did not find intentional wrongdoing by any current member of the senior management team or the former CEO. The Ad Hoc Group's Review concluded that we failed to implement appropriate processes and controls for granting, accounting for, and reporting stock option grants and that corporate records in certain circumstances were incomplete or inaccurate.

The Review Team examined all grants to Section 16 officers and directors during the relevant period, as well as 7 annual performance grants to rank and file employees and 179 acquisition, new hire and promotion, and other grants to rank and file employees on 239 dates from January 1998 through January 2006.

The Review Team identified 8,164 stock option grants made on 41 dates during the relevant period for which measurement dates were incorrectly determined. The measurement dates required revision because the stated date either preceded or was subsequent to the proper measurement date and the stock price on the stated date was generally lower than the price on the proper measurement date. In several instances, the Review Team also determined that the stock price assigned on the initial grant dates was subsequently modified, without being given the required accounting and disclosure treatment.

Consistent with the accounting literature and recent guidance from the SEC, as part of the restatement, the grants during the relevant period were organized into categories based on grant type and process by which the grant was finalized. The evidence related to each category of grant was analyzed including, but not limited to, electronic and physical documents, document metadata, and witness interviews. Based on the relevant facts and circumstances, and consistent with the accounting literature and recent guidance from the SEC, the controlling accounting standards were applied to determine, for every grant within each category, the proper measurement date. If the measurement date was not the originally assigned grant date, accounting adjustments were made as required, resulting in stock-based compensation expense and related income tax effects.

Measurement Date Hierarchy

We have adopted the following framework for determining the measurement dates of our stock option grants and have applied this framework to each grant based on the facts, circumstances and availability of documentation.

We reviewed the date of the minutes of the Board of Directors or Compensation Committee meetings for grants made at such meetings when the number of options and exercise price for each recipient had been clearly approved. Where the Review Team determined that the meeting date was not the measurement date, the Review Team determined the actual date of approval of the grant via other documentary evidence and interviews.

When a grant was approved by unanimous written consent (UWC), the measurement date was the date of the Compensation Committee's approval of the UWC as established by available evidence, such as receipt of signature pages of the UWC, contemporaneous telephone and/or e-mail communications.

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If a grant was approved by the CEO under authority delegated by the Compensation Committee, the measurement date was the date on which the CEO communicated approval to the Human Resources Department, the Compensation Committee or the respective employees indicating final approval of both the number of options and exercise price.

If a grant was approved by the CEO based on the mistaken belief that he had delegated authority to do so (de facto or substantive authority), the measurement date was the date on which the CEO

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communicated approval to either the Human Resources Department, the Compensation Committee or the respective employees indicating final approval of both the number of options and exercise price.

In the event the date on which the CEO communicated approval was not evident from the approval forms, the measurement date was the date on which other available evidence, such as the surrounding e-mail communications, established the date the CEO approved the grant.

In the event the date of CEO approval could not be established by reviewing other available evidence, such as e-mails, the measurement date was the date on which the number of options and exercise price were entered into our option tracking database (Equity Edge).

Except for grants to Section 16 officers which require Compensation Committee approval, for new hire grants and promotion grants, prior to March 13, 1998, the measurement date was the date the Compensation Committee approved the grant (as described above). For new hire grants and promotion grants after March 13, 1998 and prior to September 2000 and after September 30, 2002, the measurement date was the 15th day or the last day of the month (or the prior business day if that day was not a business day) following the actual and documented start date or promotion date of the respective employee receiving the grant. New hire grants and promotion grants made in the period September 1, 2000 through September 30, 2002 required CEO approval. For new hire grants and promotion grants in the period September 1, 2000 through September 30, 2002, the measurement date was the date on which the CEO communicated approval to either the Human Resources Department, the Compensation Committee or the respective employees indicating final approval of both the number of options and exercise price. If that date could not be determined, the measurement date was based on the date on which the number of options and exercise price were entered into Equity Edge.

After determining the measurement date through the steps in the above Measurement Date Hierarchy, we then determined if there were any changes to the individual recipients, exercise prices or amount of shares granted after such measurement date. If there were no changes following such measurement date, then that date would be used. If we identified changes following such measurement date, then we would evaluate whether the changes should delay the measurement date for the entire list of grants on that date, result in a repricing, or result in separate accounting for specific grants.

Director Grants

Required Granting Actions: Grants to directors under the 1998 Director Plan (the Director Plan) were automatic and non-discretionary; the Director Plan did not require the CEO, the Board or the Compensation Committee to review or approve director grants. Each new director received an initial grant of a specified number of options on the date of his or her appointment and annually on the anniversary of the initial grant to be priced on the appointment or anniversary date, respectively. Directors serving before the Director Plan was adopted received an annual grant on the anniversary of their previous grant.

Method for Determining Proper Measurement Dates: For the initial grant, the measurement date was the date the director was appointed to the Board, as reflected in Board minutes. In the absence of Board minutes, the measurement date was the date specified in the proxy statement or, if not clear, the date of the first Board meeting attended by the new director. For anniversary grants, the measurement date was the annual anniversary of the initial grant (or the next business day if such date was not a business day).

Executive Grants

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Required Granting Actions: The Compensation Committee is required to approve all grants to executive officers. For grants to the former CEO, the Review Team concluded that, in all but three cases (including the February 2002 grant described below), the Compensation Committee or the Board of Directors approved the grant on the stated grant date, resulting in a correct measurement date.

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Method for Determining Proper Measurement Dates: For grants other than the February/May 2002 grant described below, including the other two grants to the former CEO referred to above, please refer to the Measurement Date Hierarchy above.

Acquisition Grants

Required Granting Actions: CEO authorization required. The Board of Directors implicitly delegated to the CEO authority to approve grants to employees from acquisitions when the Board approved an acquisition.

Method for Determining Proper Measurement Dates: Refer to the Measurement Date Hierarchy above.

Annual Refresh Grants

Required Granting Actions: The Compensation Committee was required to approve all annual refresh grants through and including the 2004 annual refresh grant. In 2005, the Compensation Committee delegated to the CEO the authority to approve rank and file annual refresh grants.

Method for Determining Proper Measurement Dates: Refer to the Measurement Date Hierarchy above.

Extended Grants

Required Granting Actions: The Compensation Committee or the Board of Directors is required to approve all extensions of grants.

Method for Determining Proper Measurement Dates: Extended grants are a modification of a previous award. Available documentation was used to establish the modification date and to measure the additional compensation charge.

Retention and Off-Cycle Grants

Required Granting Actions: The Compensation Committee is required to approve all retention and off-cycle grants.

Method for Determining Proper Measurement Dates: Refer to the Documentation Hierarchy above. For the February/May 2002 retention grant described below, the former CEO approved the grants to rank and file employees.

New Hire and Promotion Grants

Required Granting Actions: New hire grants and promotion grants made after March 13, 1998 and prior to September 2000 and those made after September 30, 2002 were automatic and did not require the CEO, the Board or the Compensation Committee review or approval. Prior to March 13, 1998, the Compensation Committee was required to approve all new hire and promotion grants. New hire grants and promotion grants made in the period September 1, 2000 through September 30, 2002 required CEO approval.

Method for Determining Proper Measurement Dates: Refer to the Measurement Date Hierarchy above.

The 8,164 grants previously identified as having incorrectly determined measurement dates were classified into the following six categories: (1) 27 grants on 11 dates to persons elected or appointed as members of the Board of Directors (Director Grants); (2) 33 grants to executive officers (Executive Grants); (3) 2,908 grants to employees issued after an acquisition, newly hired employees and promoted employees under the new hire and promotion grants program described below (New Hire and Promotion Grants Program), and other grants to a

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large number of non-executives; (4) 4,226 grants made in broad-based awards to large numbers of employees, usually on an annual basis (Annual Refresh Grants); (5) 964 off-cycle performance grants; and (6) 6 grants whereby the expiration dates were extended (Extended Grants). All references to the number of option shares, option exercise prices, and share prices have been adjusted for all subsequent stock splits.

As discussed below, it was determined that the originally assigned grant dates for 8,164 grants were not ascribed the proper measurement dates for accounting purposes. Accordingly, after accounting for forfeitures, stock-based compensation expense of \$171.4 million on a pre-tax basis was recognized over the respective awards' vesting terms for the periods from 1998 to 2006. As noted below, we also considered alternative measurement dates for eight grant dates which, if applied, would have resulted in additional stock-based compensation expense of approximately \$25.7 million. The adjustments made to reflect the proper measurement dates for accounting purposes and the financial statement impact of the alternative measurement dates considered by us, were determined by category as follows:

Director Grants: 64 director grants were made on 36 dates during the relevant period. Of the 64 grants, there were 27 grants to directors for which it was determined that the originally determined grant dates preceded or succeeded the measurement dates, 11 grants were in excess of plan parameters, and some of the dates were selected in hindsight based on an advantageous share price. Of the 27 grants with measurement date issues, 26 of the grants involved periods of 5 days or less and resulted in a stock-based compensation expense of less than \$100,000 in the aggregate. Revisions to measurement dates for director grants were made where the wrong date was selected based on the requirements of the Director Plan and where incorrect start dates were used for the date the director joined the Board of Directors. The excess grants have been historically honored by us. As a result, \$0.3 million of stock-based compensation expense was recognized.

Executive Officer Grants: It was determined that for 33 of the grants to executive officers, the originally determined grant dates preceded the measurement dates or the grant dates and exercise prices were subsequently changed. Some of these dates were selected in hindsight based on an advantageous share price. As the stock prices on the originally determined grant dates were lower than the stock prices on the proper measurement date, \$28.1 million of stock-based compensation expense was recognized. The revised measurement dates for various executive officer grants were based on Compensation Committee meeting dates, signed UWCs, delayed CEO approval, and for one date the measurement date was based on the date on which the number of options and exercise price were entered into Equity Edge. We also considered an alternative measurement date for one grant date which would have increased the compensation expense by approximately \$130,000 for that grant. The authority for 21 grants, which have been historically honored by us, is based on the CEO's presumed authority.

New Hire and Promotion Grants Program: We concluded that the new hire and promotion grants made pursuant to the New Hire and Promotion Grants Program within the pre-established guidelines did not require an adjustment, with the exception of the grants made from September 1, 2000 to September 30, 2002. For the 1,728 grants made during that time period, management concluded that the measurement dates occurred only on the dates of the CEO approval. Due to practical difficulties in ascertaining the actual dates of the CEO approval for many new hire and promotion grants in that time period, the measurement date was based on the date on which the number of options and exercise price were entered into Equity Edge. The incremental stock-based compensation expense associated with the New Hire and Promotion Grants during the relevant period was \$11.9 million.

Acquisition Grants: After the consummation of certain acquisitions, we granted stock options to employees of the acquired entities. It was determined that the measurement dates for 1,180 option grants required revision because the stated grant dates preceded the proper measurement dates and the approval authority was based on CEO approval. Some of these dates were chosen in hindsight based on an advantageous share price. Of the 1,180 grants, 1,048 grants were extinguished as part of our exchange program which commenced in November 2002. Due to issues associated with the measurement dates for the acquisition grants, \$36.2 million of additional stock-based compensation expense was recognized during the relevant period. We also considered an

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alternative measurement date for three different acquisition grant dates which, if they had been used, would have increased the compensation expense by approximately \$675,000.

Annual Refresh Grants: During the relevant period, 3,782 broad-based grants were made to employees under an annual program (the Refresh Grants) for which the originally assigned grant dates were not the proper measurement dates. Some of these dates were chosen in hindsight based on an advantageous share price, and the authority for some of the Refresh Grants was the CEO's presumed authority. For one of the annual Refresh Grants which occurred in August 2000, there was conflicting documentation and inconclusive evidence with respect to the measurement date. It was determined that the most appropriate measurement date, due to the lack of affirmative evidence otherwise, was the date on which the number of options and exercise price were entered into Equity Edge, and based on that date, \$19.2 million of stock-based compensation expense was recognized in the period 2000 to 2002. These grants were extinguished in December 2002 as part of our exchange program which commenced in November 2002. We did not approve or process any stock option grants to existing employees during the period of the tender offer or agree or imply that we would compensate employees for any increases in the market price during the tender period. The Review also determined that the annual refresh grants for the years 1999, 2001, 2004, and a portion of the 2003 grant had a measurement date that was later than the date that was originally used. In these cases, where the measurement dates were revised, the authority for the grants varied and included new dates based on UWCs by the Compensation Committee or approvals by the CEO. Where approval was not determinable based on the above, we utilized the date on which the number of options and exercise price were entered into Equity Edge. Due to the errors in measurement dates associated with the annual refresh grants, stock-based compensation expense of \$55.1 million was recognized. We also considered alternative measurement dates for two Refresh Grants which did not create additional compensation charge where one alternative measurement date had a lower price than the original grant date and the options for the second alternative measurement date were cancelled prior to the one-year cliff vesting date.

Off-Cycle Performance Grants: There were 964 performance grants made to employees on March 15, 2001 and October 1, 2003. These dates were chosen in hindsight based on an advantageous share price, and the authority for these grants was the CEO's de facto authority. The revised measurement dates were based on the dates of the UWC for the March 15, 2001 grant and e-mail correspondence for the October 1, 2003 grant. Due to the errors in measurement dates associated with the off-cycle performance grants, stock-based compensation expense of \$5.6 million was recognized. We also considered an alternative measurement date for the October 1, 2003 grant which, if it had been used, would have decreased the compensation expense by approximately \$100,000 for that grant.

Extended Grants: During the relevant period, there were 6 stock option extensions (including one to the former CEO described below) whereby an option was extended beyond its expiration or termination date and for which a compensation charge had not been recorded. As a result, \$2.1 million of stock-based compensation expense was recognized.

The former CEO received certain options from Network Solutions, Inc. (NSI) in his capacity as a NSI director prior to our acquisition of NSI. Upon receiving legal advice, management extended the term of those options beyond their original expiration date. The former CEO exercised those options on May 24, 2002. The Ad Hoc Group reviewed the extension of these options and determined that the legal advice was incorrect and that the options should not have been extended. Upon learning of this determination in January 2007, the former CEO voluntarily paid \$174,425 to us, reflecting the after-tax net profit he received from the exercise of those options.

2002 Retention Grants: Between February and May 2002, the Compensation Committee considered special option grants as a retention incentive for executive officers and other executives and key employees, since in many cases the exercise prices of options previously granted to these individuals were significantly above the then-current market price for shares of our common stock. These retention grants are summarized as follows:

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Grants to Executive Officers and Other Executives: We determined that 68 grants of options for a total of 4,631,000 shares to executive officers and other executives were finalized on April 10, 2002 rather than the

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stated grant date of February 21, 2002. The Review Team was unable, after review of detailed documentation, including multiple draft versions of the February 12, 2002 Compensation Committee minutes, approval forms (which were undated) and email correspondence, to affirmatively determine when the grants to executive officers and other executives were approved. In accordance with our measurement date hierarchy for grants described above, we determined that April 10, 2002 was the correct measurement date because that was the date that other grants, including certain executive grants, were entered into Equity Edge. The grant price as of the measurement date was \$23.74, the closing market price of our stock on April 10, 2002. Because the stated exercise price of the grants was set based on the closing market price on February 21, 2002 of \$22.71 and preceded the measurement date, an incremental \$1.3 million of stock-based compensation expense was recognized.

We also determined that the Compensation Committee repriced 1,870,000 of these options on May 24, 2002, with an exercise price of \$10.08, the closing market price of our stock on May 24, 2002. We determined that these grants were a reprice based on a UWC of the Compensation Committee. The accounting impact of the repricing was not recorded at the time of the Compensation Committee approval and we did not properly disclose the circumstances of these grants. In accordance with FIN 44 and after applying variable accounting, we recognized incremental stock-based compensation expense of approximately \$15.8 million, net of reversals, for the periods between 2002 and 2006. Had we considered an alternative measurement date between the periods from February 13, 2002 through April 25, 2002, compensation expense would have increased by up to \$25.0 million for these grants.

Grants to Employees: Broad-based employee grants were also considered during the February to May 2002 period. The Review Team determined that the CEO, under his presumed authority, approved 305 broad-based employee grants on or about March 20, 2002 with a grant price of \$26.42, the closing market price of our stock on that date. These awards were communicated shortly thereafter to the employees. We determined that March 20, 2002 was a definitive measurement date for the awards to the employees.

The grants to employees previously approved by the CEO on March 20, 2002 were submitted for approval to the Compensation Committee as evidenced in a UWC dated May 24, 2002. The Compensation Committee approved the 305 employee grants with an exercise price of \$10.08, the market value of our common stock on May 24, 2002. Therefore the employee awards were re-priced on that date. Although the awards had been communicated to the employees and disclosed in our Form 10-Q for the first quarter of 2002, the accounting impact of the repricing was not recorded at the time of the Compensation Committee approval and we did not properly disclose the circumstances of these grants. As a result of the repricing, and after applying variable accounting, approximately \$6.6 million, net of reversals of additional stock-based compensation expense, has been recorded for the periods between 2002 and 2006.

Retention Grants to our former CEO: In the February 12, 2002 Compensation Committee meeting, the Committee considered the number and vesting period of a proposed option award to the CEO. The Review Team found multiple draft versions of the minutes for the February 12, 2002 meeting of the Compensation Committee and concluded that the signed minutes were inaccurate. Attendees at the meeting have different recollections of the business conducted. One draft, unapproved version of those minutes, stated the number of options to be awarded to the CEO was 1,200,000, while the signed version of the minutes approved by the members of the Compensation Committee in late May 2002 stated that the number of options to be awarded was 600,000. Both versions of the minutes stated that the grant date and the exercise price was February 21, 2002 and \$22.71. The minutes of a Board meeting held on February 12, 2002, after the Compensation Committee meeting, also indicate that the CEO was awarded 1,200,000 options at the February 12, 2002 Compensation Committee meeting.

We have determined that the measurement date for the 1,200,000 options to the CEO was February 12, 2002 with a grant price of \$26.31, the closing market price of our stock on that date, and that the options were repriced on February 21, 2002 with a grant price of \$22.71, the closing market price of our stock on that date. Subsequently, 600,000 options of the 1,200,000 options were repriced on May 24, 2002 with a grant price of \$10.08, the closing market price of our stock on that date. The accounting impact of the repricings was not

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recorded at the time of the Compensation Committee approval and we did not properly disclose the circumstances of these grants. As a result of the repricing, and after applying variable accounting, approximately \$7.5 million, net of reversals, of additional stock-based compensation expense has been recorded for the periods between 2002 and 2006.

Actions Taken by the Board with respect to Grants: As part of the Review, the Board of Directors confirmed all option grants (including those to our former CEO and CFO) that the Review Team concluded had authority issues as legally binding and enforceable obligations of us as of the date of such grant. In addition, the Board of Directors decided to modify the following grants to the former CEO and CFO in 2007 and no reversal of compensation expense was recorded for these negative modifications in the financial statements.

Former CEO: An option grant to the former CEO of 100,000 shares originally dated December 29, 2000 at an exercise price of \$74.188 was modified to a new exercise price of \$127.31.

Former CEO: The February 2002 option grant to the former CEO of 600,000 shares originally dated February 21, 2002 at an exercise price of \$22.71 was modified to a new exercise price of \$26.31.

Former CFO: An option grant to the CFO of 25,000 shares originally dated December 29, 2000 at an exercise price of \$74.188 was modified to a new exercise price of \$127.31.

Former CFO: An option grant to the CFO of 125,000 shares originally dated August 1, 2000 at an exercise price of \$151.25 was modified to a new exercise price of \$165.22.

Former CFO: An option grant to the CFO of 40,000 shares originally dated March 15, 2001 at an exercise price of \$34.438 was modified to a new exercise price of \$42.26. The CFO's 409A tax election described below modified 1,667 of these options and the Board of Directors determined to modify the remaining 38,333 options.

Former CFO: A grant to the CFO of 90,000 shares originally dated September 6, 2001 at an exercise price of \$34.16 was modified to a new exercise price of \$38.30. The CFO's 409A tax election described below modified 11,250 of these options and the Board of Directors determined to modify the remaining 78,750 options.

Former CFO: The February 2002 option grant to the CFO of 100,000 shares originally dated February 21, 2002 at an exercise price of \$22.71 was modified to a new exercise price of \$23.74.

Other: The Company and the Review Team also determined that the former CEO received an option grant in October 1998 for 100,000 shares (95,928 non-qualified stock options (NQSOs) and 4,072 incentive stock options (ISOs)), which split to options for 200,000 shares in May 1999 and then split again to options for 400,000 shares in November 1999 when we announced a stock split during those respective periods. The account statements and monthly reporting statements for November 1 and December 1, 2000 showed that the former CEO held options for 400,000 shares at the split-adjusted price of \$7.67. However, the Ad Hoc Group determined that sometime between December 1, 2000 and

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January 1, 2001, we erroneously changed the former CEO's options to reflect the pre-split amount of 100,000 shares instead of 400,000 shares, but at the post-split price of \$7.67. The error was never subsequently corrected. Therefore, the former CEO did not receive the benefit of the additional 300,000 options arising from the two stock splits, which expired in 2005. Based on a determination by the Board of Directors after the Ad Hoc Group's Review in May 2007, we have agreed to pay the former CEO \$5,459,430, reflecting the gain he would have realized from the exercise of these options prior to their expiration, based on the weighted-average price of stock options exercised by the former CEO in August 2005.

The other principal factual findings of the Review included the following:

The human resources, accounting, and legal departments failed to implement appropriate processes and controls. During 2000 through 2003, the option grant process was characterized by a high degree of informality and relatively little oversight.

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The Review found no evidence that accounting personnel were aware of the deficient practices used in selecting grant dates.

The Review found instances of incomplete and inaccurate corporate records, including two sets of Committee minutes that were inaccurate.

The Review found no evidence of fictitious individuals being granted options.

Options found to be misdated, have a date chosen in hindsight based on an advantageous share price, repriced, or unauthorized with a stated exercise price lower than the share price at the actual approval date will result in adverse tax consequences to the recipients and us.

In light of the Review's other findings, our disclosures related to option grants were inaccurate in some respects.

The principal recommendations of the Ad Hoc Group's Review included the following:

The Board or the Compensation Committee should approve all grants that the Review found to be unauthorized, with the exception of certain grants made to our former CEO and CFO. The Board or the Compensation Committee should consider whether to cancel or request forfeiture of any options granted to the former CEO and CFO that were determined to be unauthorized, misdated, have a date chosen in hindsight based on an advantageous share price, or repriced, and then should consider the appropriate equity compensation for these officers for the periods covered by the Review.

We should develop and implement detailed written grant policies.

We should designate individuals in the legal and accounting departments to oversee the documentation of and accounting for option grants.

We should develop and implement improved training and controls relating to option granting practices to ensure that all personnel involved in the granting and administration of stock options understand the relevant option plans and accounting, tax, and disclosure requirements.

We should award regular grants (new hire, promotion, and annual performance) at predetermined dates and with all approvals documented and finalized on those dates.

The Board has adopted all of the Review's findings and recommendations. The Company, under the direction of the Audit Committee and the Compensation Committee, and with the assistance of PricewaterhouseCoopers LLP, has implemented or is in the process of implementing the recommendations.

Based on the results of the Review, we have recorded additional non-cash stock-based compensation expense (benefit) and related income tax effects related to past stock option grants of \$1.5 million for the first quarter ended March 31, 2006, (\$21.6 million) and \$36.9 million in fiscal years 2005 and 2004, respectively. These adjustments were recorded based on the evidence and findings from the Ad Hoc Group's review,

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including analysis of the measurement dates for the 8,164 stock option grants made on 41 dates during the relevant period that the Review determined were incorrect.

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The incremental impact from recognizing stock-based compensation expense resulting from the Ad Hoc Group's Review of past stock option grants is as follows (in thousands):

Fiscal Year	As Restated	As Previously Reported	Pre-Tax Expense (Income) Adjustments	After Tax (Income) Expense Adjustments
1998	\$ 1,288	\$ 1,280	\$ 8	\$ 8
1999	7,057	104	6,953	6,953
2000	24,814	1,722	23,092	23,092
2001	42,500	7,803	34,697	34,697
2002	70,066	18,956	51,110	51,110
2003	35,010	7,389	27,621	27,621
Total 1998 - 2003 impact	180,735	37,254	143,481	143,481
2004	46,835	3,136	43,699	36,873
2005(2)	(10,588)(2)	6,312	(17,670)	(21,560)
2006(1)	66,285	64,438	1,847(1)	1,532(1)
Total	\$ 283,267	\$ 111,140	\$ 171,357	\$ 160,326

(1) Pre-tax expense adjustments are through March 31, 2006 and represents amounts being reported pursuant to FAS 123R whereas amounts for all other years represent amounts being reported pursuant to APB 25.

(2) Includes \$0.8 million of other stock-based compensation adjustments that were unrelated to past stock option grants.

Additionally, the pro forma expense under SFAS No. 123 in Note 1 in the Notes to Consolidated Financial Statements of this Form 10-K has been restated to reflect the impact of these adjustments for the years ended December 31, 2005 and December 31, 2004.

As noted above we considered alternative measurement dates for eight grants which, if applied, would have resulted in additional stock-based compensation of approximately \$25.7 million. With the exception of these eight grants, there was no uncertainty on the measurement date for option grants. The table below shows what the incremental impact to stock-based compensation expense would have been by category of grant had these alternative measurement dates been applied (in thousands):

Category	Pre-Tax Expense (Income)
Director Grants	\$
Executive Grants	100
Acquisition Grants	675
Annual Refresh Grants	
Extended Grants	
Retention and Off-Cycle Grants	(100)
New Hire and Promotion Grants	
2002 Retention Grants	25,000
Total	\$ 25,675

Tax Implications

We evaluated the impact of the restatements on our global tax provision and have determined that a portion of the tax benefit relating to stock-based compensation expense formerly associated with stock option deductions is attributable to continuing operations. We identified deferred tax assets totaling \$16.3 million at December 31, 2005 which reflect the benefit of tax deductions from future employee stock option exercises. We have not realized this or any other deferred tax asset relating to taxing jurisdictions within the United States as of

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December 31, 2005. See Note 14 of Notes to Consolidated Financial Statements regarding our realization of United States-based deferred tax assets.

We also believe that we should not have taken a tax deduction under Internal Revenue Code (IRC) Section 162(m) in prior years for stock option related amounts pertaining to certain executives. Section 162(m) limits the deductibility of compensation above certain thresholds. As a result, our tax net operating losses associated with the stock option intra-period allocation have decreased by \$12.6 million. We continue to apply a valuation allowance to our tax net operating losses relating to stock options exercised prior to the adoption of SFAS No. 123R, *Share-Based Payment*. Pursuant to Footnote 82 of SFAS No. 123R, we recognize financial statement benefit of these tax net operating losses when such losses reduce cash taxes paid.

Section 409A of the Internal Revenue Code (Section 409A) imposes significant penalties on individual income taxpayers who were granted stock options that were unvested as of December 31, 2004 and that have an exercise price of less than the fair market value of the stock on the date of grant (Affected Options). These tax consequences include income tax at vesting, an additional 20% tax and interest charges. In addition, the issuer of Affected Options must comply with certain reporting and withholding obligations under Section 409A.

These adverse tax consequences may be avoided for unexercised Affected Options if the exercise price of the Affected Option is adjusted to reflect the fair market value at the time the option was granted (as such measurement date is determined for financial reporting purposes). Under Treasury regulations, Affected Options held by executive officers or directors were to be amended on or before December 31, 2006 to avoid the adverse tax consequences of Section 409A; holders of Affected Options who are not executive officers or directors have until December 31, 2007 to amend their Affected Options to avoid the adverse tax consequences of Section 409A. Four of our current and former executive officers and a current director holding Affected Options elected to increase the exercise price of their Affected Options to the market price on December 31, 2006. Effective December 31, 2006, the exercise prices of Affected Options held by D. James Bidzos, a current board member, Dana Evan, former Chief Financial Officer, Robert Korzeniewski, Executive Vice President of Corporate Development, Judy Lin, former Executive Vice President of Security Services and Mark McLaughlin, Executive Vice President of Products, Marketing and Customer Support, were adjusted so that these options will not be subject to Section 409A. We are currently considering actions to avoid or alleviate certain of the adverse tax consequences associated with Affected Options for employees who are not executive officers of the Company and whether to offer compensation to the executive officers and director who elected to increase the exercise price of their Affected Options as of December 31, 2006. Should we decide to take actions to avoid or alleviate these adverse tax consequences associated with current and former employees outstanding Affected Options, we estimate the related compensatory payments would be approximately \$11.6 million. In June 2007, we made payments of approximately \$0.9 million on behalf of current and former employees who exercised Affected Options in 2006 under the IRS and California Franchise Tax Board 409A Compliance Resolution Programs. We estimate the cost to participate in these compliance resolution programs, including a gross-up payment to the affected employees, will be approximately \$1.9 million.

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PART I

ITEM 1. BUSINESS

Overview

We operate intelligent infrastructure services that enable and protect billions of interactions every day across the world's voice and data networks. We offer a variety of Internet and communications-related services which are marketed through Web site sales, direct field sales, channel sales, telesales, and member organizations in our global affiliate network.

In 2006, we were organized into two service-based lines of business: the Internet Services Group and the Communications Services Group. The Internet Services Group consisted of the Security Services business and the Information Services business. The Security Services business provides products and services that protect online and network interactions, enabling companies to manage reputational, operational and compliance risks. The Information Services business is the authoritative directory provider of all *.com*, *.net*, *.cc*, and *.tv* domain names, and also provided other value-added services, including intelligent supply chain services, real-time publisher services and digital brand management services. The Communications Services Group provides communications services, such as connectivity and interoperability services and intelligent database services; commerce services, such as billing and operational support system services, mobile commerce, self-care and analytics services; and content services, such as digital content and messaging services.

In January 2007, we announced a new functional business structure that reorganizes the Internet Services Group and the Communications Services Group to deliver an integrated portfolio of products and services through a unified sales and services team across multiple industries. Our two main functional units are Sales and Consulting Services and Products and Marketing. The Sales and Consulting Services group combined our multiple sales and consulting functions into one organization, focusing on global accounts, strategic partnerships and worldwide channel relationships. This group is aligned by vertical industry to focus on specialized customer needs and solutions delivery, and includes our in-market consulting services, business development and global channels teams. The Products and Marketing group is responsible for the development, marketing, delivery and support of all our products and solutions to businesses of all sizes. This group includes all facets of product management, product development, marketing and customer support, as well as a new innovation team chartered with looking at longer-term product line synergies and emerging market trends. Unless otherwise specified herein, this Annual Report on Form 10-K describes the organizational structure in place as of December 31, 2006.

We were incorporated in Delaware on April 12, 1995. Our principal executive offices are located at 487 East Middlefield Road, Mountain View, California 94043. Our telephone number at that address is (650) 961-7500 and our common stock is traded on the NASDAQ Global Select Market under the ticker symbol VRSN. Our primary Web site is www.verisign.com. The information on our Web sites is not a part of this annual report. VeriSign, the VeriSign logo, GeoTrust, thawte, and certain other product or service names are trademarks or registered trademarks of VeriSign, Inc., and/or its subsidiaries in the United States and other countries. Other names used in this report may be trademarks of their respective owners.

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

Internet Services Group

The Internet Services Group consists of the Security Services business and Information Services business. The Security Services business provides products and services that protect online and network interactions,

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enabling companies to manage reputational, operational and compliance risks. The following types of services are included in the Security Services business: SSL certificate services; managed security services; iDefense security intelligence services; authentication services, including managed public key infrastructure (PKI) services, unified authentication services, and VeriSign Identity Protection services; and global security consulting services. The Information Services business operates the authoritative directory of all .com, .net, .cc, and .tv domain names, and provides other services, including intelligent supply chain services, real-time publisher services, and digital brand management services.

Security Services

SSL Certificate Services

Our SSL Certificate services enable enterprises and Internet merchants to implement and operate secure networks and Web sites that utilize SSL protocol. These services provide customers the means to authenticate themselves to their end users and Web site visitors and to encrypt communications between client browsers and web servers.

We currently offer the following SSL Certificate Services.

VeriSign Secure Site and Secure Site Pro Certificates. Both our Secure Site and Secure Site Pro certificates enable up to 256-bit SSL encryption when both the web server and the client browser support such sessions. Secure Site Pro, our premium certificate offering, implements Server Gated Cryptography, a technology which automatically steps-up encryption levels to 128-bit in certain client/browser configurations that would otherwise encrypt at lower levels.

GeoTrust®, RapidSSL and thawte® Branded Certificates. We offer SSL Certificate Services under the GeoTrust, RapidSSL and thawte brands. These services use similar underlying infrastructure as VeriSign branded certificates and are targeted at Internet providers, web hosting companies, domain name registrars, small businesses and independent software developers.

Extended Validation Certificates. Extended Validation SSL Certificates give high security Web browsers information to clearly identify a Web site s organizational identity by providing third-party verification through a visual display on the browser. Extended Validations SSL Certificates also rely on high assurance authentication standards promulgated by the CA/Browser Forum.

Managed Security Services (MSS). Our MSS services enable enterprises to effectively monitor and manage their network security infrastructure on a 24x7 basis while reducing the associated time, expense, and personnel commitments by relying on VeriSign s security platform and experienced security staff. Our MSS services include: Firewall Management Services, Intrusion Prevention Management Service, Intrusion Detection Management Service, Security Risk Profiling Service, Log Management Service, Vulnerability Management Service, and Phishing Response Service.

iDefense Security Intelligence Services. Our iDefense Security Intelligence services deliver comprehensive, actionable intelligence to help companies decide how to respond to threats and manage risk. Our teams identify, verify and track vulnerabilities, malicious code, and global threats, providing unique insight into the evolution of security risks and early discovery of software vulnerabilities.

Authentication Services. We offer a suite of Authentication products and services, including our Managed PKI service, our Unified Authentication service, and our VeriSign Identity Protection (VIP) service.

Managed PKI Service. Our Managed PKI service enables enterprises to easily secure intranets, extranets, VPNs, email, and e-commerce applications while retaining full control of access to information and leveraging VeriSign's service infrastructure for cost effective provisioning and validation.

Unified Authentication Service. Our Unified Authentication service provides a single, integrated platform for provisioning and managing all types of two-factor authentication credentials used to validate

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users, devices or applications for a variety of purposes, such as remote access, windows logon, and Wi-Fi access. Unified Authentication supports strong authentication using smart cards, device-generated one-time passwords and digital certificates, as well as PKI-based encryption, digital signing and non-repudiation. Unified Authentication can be run at the enterprise or through VeriSign's infrastructure.

VeriSign Identity Protection (VIP) Service. Our VIP services are a comprehensive suite of identity protection and authentication services that enable consumer-facing applications to provide a secure online experience for end users. Our VIP Fraud Detection service provides an invisible means of delivering proactive protection to consumers by detecting fraudulent logins and transactions in real-time without affecting a legitimate user's web experience. Our VIP Authentication service provides a visible means for businesses to easily issue and/or accept multiple credentials from users. As part of the VIP Authentication service, we provide access to the VIP Shared Authentication Network where it is anticipated that consumers will be able to use a single second factor authentication device to access multiple online accounts.

Global Security Consulting Services. Our Global Security Consulting services help enterprises understand corporate security requirements, navigate sets of diverse regulations, identify security vulnerabilities, defend against and respond to attacks, reduce risk, and meet the security compliance requirements of their business and industry. Key offerings include enterprise security assessments, enterprise compliance assessments, a security certification program, incident response and forensic services, technical security services, security policy and programs services, security architecture and design services, identity and access management services, and disaster recovery and business continuity solutions.

Information Services

Our Information Services business operates the authoritative directory provider of all *.com*, *.net*, *.cc*, and *.tv* domain names and provides other services, including intelligent supply chain services, real-time publisher services and digital brand management services.

Naming Services. We are the exclusive registry of domain names within the *.com* and *.net* generic top-level domains (gTLDs) under agreements with the Internet Corporation for Assigned Names and Numbers (ICANN) and the Department of Commerce (DOC). As a registry, we maintain the master directory of all second-level domain names in these top-level domains. We own and maintain the shared registration system that allows all registrars to enter new second-level domain names into the master directory and to submit modifications, transfers, re-registrations and deletions for existing second-level domain names.

We are also the exclusive registry for domain names within the *.tv* and *.cc* country code top-level domains (ccTLDs). These top-level domains are supported by our global name server constellation and shared registration system. We also provide internationalized domain name, or IDN, services that enable Internet users to access Web sites in their local language characters. Currently, IDNs are available in more than 350 languages such as Chinese, Greek, Korean and Russian.

Intelligent Supply Chain Services. Our intelligent supply chain services enable trusted, secure and scalable information exchange and collaboration among global supply chain participants. Our point-of-sale data service is a hosted, Web-based solution for accessing and managing daily updates of point-of-sale data from multiple key retailer partners. We have been selected by EPCglobal, a not-for-profit joint-venture formed by The Uniform Code Council, Inc. and EAN International, to operate the authoritative root directory for the EPCglobal Network™, the authoritative directory of information sources that is available to describe products assigned electronic product codes (EPCs). Additionally, we offer radio frequency identification (RFID) consulting services and managed services that are designed to work in conjunction with RFID and bar code technology and the EPC root directory to facilitate the secure sharing of product data across diverse supply chains.

Real-Time Publisher Services. Our Real-Time Publisher services allow organizations to obtain access to and organize large amounts of constantly updated content, and distribute it, in real time, to enterprises,

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web-portal developers, application developers and consumers. The Real-Time Publisher services also make it easier for publishers of all sizes to distribute and track their content feeds, which may improve the reliability and quality of their real-time content.

Digital Brand Management Services. We offer a range of corporate domain name and brand protection services that help enterprises, legal professionals, information technology professionals and brand marketers monitor, protect and build digital brand equity. These services include domain name management, global brand expansion services and digital brand monitoring solutions.

Communications Services Group

The Communications Services Group provides managed solutions to fixed line, broadband, mobile operators and enterprise customers through our integrated communications, content and commerce platforms. Our communications services offerings include network connectivity and interoperability services and intelligent database services; our content services offerings include digital content services and messaging services; and our commerce services offerings include billing and operational support system services, mobile commerce services, and self care and analytics services.

Communications Services

Connectivity and Interoperability Services

Through our connectivity and interoperability services, we provide connections and services that signal and route information within and between telecommunication carrier networks.

SS7 Connectivity and Signaling Services. Our Signaling System 7 (SS7) network is an industry-standard system of protocols and procedures used to control telephone communications and provide routing information in association with vertical calling features, such as calling card validation, local number portability, toll-free number database access and caller identification. Our SS7 trunk-signaling service reduces post-dial delay, allowing call connection almost as soon as dialing is completed which enables telecommunications carriers to deploy a full range of intelligent database services more quickly and cost effectively. By using our trunk-signaling service, carriers simplify SS7 link provisioning, and reach local exchange carriers and wireless carriers networks through our direct access to hundreds of carriers.

Voice and Data Roaming Services. We offer wireless carriers roaming services using the ANSI-41 and GSM signaling protocols that allow carriers to provide support for roamers visiting their service area and for their customers when they roam outside their service area. These services also allow number validation inside and outside carriers service areas by accessing our SS7 network. Our Interstandard Roaming service manages signaling conversion across protocols to provide activation processing, international customer care, end-user billing, and fraud protection, while our Wireless Data Roaming service enables carriers to offer wireless data roaming to their subscribers over Wi-Fi, CDMA2000 and GSM/GPRS networks.

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Voice Over Internet Protocol (VoIP) Services. The VeriSign® IP Connect service allows VoIP providers, cable operators and MSOs to extend VoIP services across multiple access methods to enterprise customers. VeriSign® SIP-7 Service integrates Session Initiation Protocol (SIP) based VoIP platforms with the existing SS7 network, allowing interconnection between IP networks and the Public Switch Telephone Network.

CALEA Compliance Services. Our NetDiscovery services enable telecommunications carriers to meet the requirements of the Communications Assistance for Law Enforcement Act through provisioning, access and delivery of call information from carriers to law enforcement agencies.

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Intelligent Database Services

Through our Intelligent Database services, we enable carriers to find and interact with network databases and conduct database queries that are essential for many advanced services, including the following:

Number Portability. Our Number Portability services deliver essential network and database capabilities so providers can port numbers, route calls to ported numbers, and process orders when subscribers change service providers.

Calling Name (CNAM) Database Services. With our CNAM Database services, carriers can enable enhanced caller ID for wireline, broadband, and wireless devices; store subscriber names in the database all major CNAM providers access for call delivery; and minimize inaccurate call information and reduce unavailable data responses on inbound calls.

Line Information Database (LIDB). LIDB provides subscriber information (such as the subscriber's service profile and billing specifications) to other carriers, enabling them to respond to calls (e.g., whether to block certain calls, allow collect calls, etc.).

Toll-free Database Services. Leveraging VeriSign's SS7 network, our Toll-free Database services allow customers to complete 8xx calls throughout the U.S. and Canada.

Content Services

Digital Content Services

Our Digital Content services provide secure and scalable media and content delivery solutions for Internet, broadband, and mobile applications, including network connections, digital rights management, mobile storefronts and video-on-demand. With our Digital Content services, providers can deliver a wide range of content, including DVD-quality video-on-demand and IPTV solutions, business video delivery platforms for enterprises, mobile tickets, quickly deployable mobile marketing, interactive TV applications, such as voting, and white-label mobile storefronts with an extensive content library.

Messaging Services

Our Inter-Carrier Messaging services allow wireless subscribers to send text and multi-media messages between different service providers and devices. Our Inter-Carrier Multi-Media Messaging (MMS) services allow subscribers to send pictures, audio and video between different service providers and devices and are provided on a service bureau basis that connects to wireless service providers' multimedia messaging centers and routes MMS messages between service providers. Through our hosted services we also facilitate the sharing, distribution and storage of multimedia messages for our customers in the U.S., Canada, New Zealand and Mexico. Through our MetcalTM Inter-Carrier SMS services, we enable wireless carriers to send short messaging services (SMS) text messages between carrier systems and devices, and across disparate networks and technologies so that customers can exchange messages outside the carrier's network.

Mobile Delivery Services

Our Mobile Content Delivery Network enables providers to deliver and bill for nearly any type of mobile content and messaging using a distribution network for mobile media and applications that reaches wireless subscribers throughout North America, Europe, and other countries. The Mobile Content Delivery Network may be used to distribute messages, premium content, and Java applications through SMS, MMS, and WAP Push; bill for premium-rated messages and receive real-time transaction data from carriers' billing systems; deliver mass messages to large customer segments; create and offer monthly auto-renew subscription plans; and monitor all mobile programs, measure effectiveness, and customize reporting.

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Commerce Services

Billing and Operational Support System (OSS) Services

We offer advanced billing, payment and customer care services to wireless providers that support advance pay, prepaid and post-paid wireless services. Our Billing & OSS services give wireless providers a single point of access for adding billing features, securing payment options, engaging content, and other operational support services. As part of a converged suite of billing and payment services, our Billing & OSS services support operations at each stage of the customer lifecycle, so providers can activate new products and services with network provisioning solutions; mediate diverse networks and platforms; differentiate their offering with content and applications; and support multiple payment models and methods with secure payment processing.

Mobile Commerce Services

Our Mobile Commerce services enable and protect a full range of mobile commerce transactions for a mobile service provider's subscribers in a trusted environment by offering mobile service providers a comprehensive suite of solutions, including our Mobile Payment services and Secure Mobile Device Management services, that enable wireless payments, mobile coupon delivery to support mobile marketing campaigns and other banking services.

Self-Care and Analytics Services

Our Self-Care and Analytics services help carriers turn billing and usage data into valuable intelligence, allowing them to better understand and manage their communications. Consumer customers may pay bills online and obtain information on charges, while business users may conduct sophisticated analyses and cost allocations.

Operations Infrastructure

Our operations infrastructure consists of secure data centers in Mountain View, California; Dulles, Virginia; Lacey, Washington; Providence, Rhode Island; Overland Park, Kansas; Melbourne, Australia; and Kawasaki, Japan. We are currently in the process of building a new secure data center in New Castle, Delaware. Most of these secure data centers operate on a 24-hours-a-day, 7 days per week, 365-days-a-year basis, supporting our business units and services. Key features of our operations infrastructure include:

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

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

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

As part of our operations infrastructure for our domain name registry services, we operate all domain name servers that answer domain name lookups for the *.com* and *.net* zones. We also operate two of the thirteen externally visible root zone server addresses, including the A root, which is considered to be the authoritative root zone server of the Internet s domain name system (DNS). The domain name servers provide the associated name server and IP address for every *.com* and *.net* domain name on the Internet and a large number of other top-level domain queries, resulting in an average of over 19 billion responses per day during 2006. These name servers are located around the world, providing local domain name service throughout North America, Europe,

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and Asia. Each server facility is a controlled and monitored environment, incorporating security and system maintenance features. This network of name servers is one of the cornerstones of the Internet's DNS infrastructure.

To provide our communications services, we operate a SS7 network composed of specialized switches, computers and databases strategically located across the United States. These elements interconnect our customers and U.S. telecommunications carriers through leased lines. Our network currently consists of 16 mated pairs of SS7 signal transfer points (STPs) that are specialized switches that route SS7 signaling messages, and into which our customers connect. We own ten pairs of STPs and lease capacity on six pairs of STPs from regional providers. Our SS7 network control center, located in Overland Park, Kansas, is staffed 24 hours a day, 365 days a year.

Call Centers and Help Desk. We provide customer support services through our phone-based call centers, email help desks and Web-based self-help systems. Our California call center is staffed 24 hours a day, 365 days a year and employs an automated call directory system to support our Security Services business. Our Georgia call center is staffed from 8:00 a.m. to 7:00 p.m. Eastern Time and our Washington state call center is staffed from 8:00 a.m. to 5:00 p.m. Pacific Time and employs an automated call directory system to support our Communications Services business. Our Virginia call center is staffed 24 hours a day, 365 days a year to support our Information Services business. All call centers have a staff of trained customer support agents and provide Web-based support services that are available 24 hours a day, 365 days a year, utilizing customized automatic response systems to provide self-help recommendations.

Operations Support and Monitoring. We have an extensive monitoring capability that enables us to track the status and performance of our critical database systems and our global resolution systems. Our distributed Network Operations Centers are staffed 24 hours a day, 365 days a year.

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

Marketing, Sales and Distribution

We market our services worldwide through multiple distribution channels, including the Internet, direct sales, telesales, direct marketing through all media, mass merchandisers, value-added resellers, systems integrators and VeriSign Affiliates. We intend to increase our direct sales force in the Internet Services Group and the Communications Services Group both in the United States and abroad, and to expand our other distribution channels in both businesses.

Our direct sales and marketing organization at December 31, 2006 consisted of 989 individuals, including managers, sales representatives, and marketing, technical and customer support personnel. We have field sales offices throughout the world.

Research and Development

As of December 31, 2006, we had 1,022 employees dedicated to research and development. We believe that timely development of new and enhanced Internet security, e-commerce, information, and communications services and technologies are necessary to remain competitive in the marketplace. Accordingly, we intend to continue recruiting and hiring experienced research and development personnel and to make additional investments in research and development.

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Our future success will depend in large part on our ability to continue to maintain and enhance our current technologies and services. In the past, we have developed our services both independently and through efforts with leading application developers and major customers. We have also, in certain circumstances, acquired or licensed technology from third parties. Although we will continue to work closely with developers and major customers in our development efforts, we expect that most of the future enhancements to existing services and new services will be developed internally or acquired through business acquisitions.

The markets for our services are dynamic, characterized by rapid technological developments, frequent new product introductions and evolving industry standards. The constantly changing nature of these markets and their rapid evolution will require us to continually improve the performance, features and reliability of our services, particularly in response to competitive offerings, and to introduce both new and enhanced services as quickly as possible and prior to our competitors.

Competition

We compete in markets with our naming services, security services, commerce services, communication services, content services, and managed security services. We compete with numerous companies in each of these services categories. The overall number of our competitors may increase and the identity and composition of competitors may change over time.

Several of our current and potential competitors have longer operating histories and 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 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. See the section titled "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" of Item 1A of the Risk Factors for additional details regarding our competition.

Industry Regulation

Information Services. Within the U.S. Government, oversight of Internet administration is provided by the U.S. Department of Commerce (DOC). On September 29, 2006, the DOC and the Internet Corporation for Assigned Names and Numbers (ICANN) signed a Joint Project Agreement to continue the transition of the coordination of the technical functions relating to the management of the Internet Domain Name and Addressing System to the private sector.

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As the exclusive registry of domain names within the *.com* and *.net* generic top-level domains (gTLDs), we have entered into certain agreements with ICANN and the DOC:

.com Registry Agreement. On November 29, 2006, the DOC approved the Registry Agreement between ICANN and VeriSign for the *.com* gTLD (the *.com* Registry Agreement). The *.com* Registry Agreement

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provides that we will continue to be the sole registry operator for domain names in the *.com* top-level domain through November 30, 2012. The *.com* Registry Agreement provides that it shall be renewed unless it has been determined that VeriSign has been in fundamental and material breach of certain provisions of the *.com* Registry Agreement and has failed to cure such breach. The DOC shall approve such renewal if it concludes that it is in the public interest in the continued security and stability of the domain name system and the provision of registry services offered on reasonable terms.

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

Cooperative Agreement. In connection with the DOC's approval of the *.com* Registry Agreement, VeriSign and the DOC entered into Amendment No. Thirty (30) to its Cooperative Agreement Special Awards Conditions NCR-92-18742 regarding operation of the *.com* and *.net* gTLD registries, which extends the term of the Cooperative Agreement through November 30, 2012 and provides that any renewal or extension of the *.com* Registry Agreement is subject to prior written approval by the DOC. The Amendment provides that the DOC shall approve such renewal if it concludes that it is in the public interest in the continued security and stability of the domain name system and the provision of registry services offered on reasonable terms.

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

The descriptions of the *.com* Agreement and Amendment No. 30 of the Cooperative Agreement are qualified in their entirety by the text of the complete agreements that are filed as exhibits to this report.

Security Services. Some of our security services utilize and incorporate encryption technology. Exports of software and hardware products utilizing encryption technology are generally restricted by the United States and various non-United States governments. We have obtained approval to export many of the security services we provide to customers globally under applicable United States export law, including our server digital certificate services. As the list of products and countries for which export approval is expanded or changed, government restrictions on the export of software and hardware products utilizing encryption technology may grow and become an impediment to our growth in international markets. If we do not obtain required approvals, we may not be able to sell some of our security services in international markets.

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

Communications Services. Our communications customers are subject to FCC regulation, which indirectly affects our communications services business. We cannot predict when, or upon what terms and conditions, further regulation or deregulation might occur or the effect of

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regulation or deregulation on our business. Several services that we offer may be indirectly affected by regulations imposed upon potential users of those services, which may increase our costs of operations. In addition, future services we may provide could be subject to direct government regulation.

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Intellectual Property

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

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

We have obtained trademark registrations for various VeriSign marks in the United States and other countries. We have also filed numerous applications to register VeriSign trademarks and claims, and have common law rights in many other proprietary names. We take steps to enforce and police VeriSign's marks.

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

With regard to our Information Services business, our principal intellectual property consists of, and our success is dependent upon, proprietary software used in our registry service business and certain methodologies and technical expertise we use in both the design and implementation of our current and future registry services and Internet-based products and services businesses, including the conversion of internationalized domain names. We own our proprietary shared registration system through which competing registrars submit *.com* and *.net* second-level domain name registrations. Some of the software and protocols used in our registry services are in the public domain or are otherwise available to our competitors.

With regard to our Communications Services Group, we offer a wide variety of services, including network connectivity and interoperability, intelligent database, content and applications, and clearing and settlement services, each of which are protected by trade secret, patents and/or patent applications. We have also entered into agreements with third-party providers and licensors, including third-party providers of content such as music, games and logos.

Employees

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The following table shows a comparison of our employee headcount by function:

	December 31, 2006	December 31, 2005	December 31, 2004
Employee headcount from continuing operations:			
Cost of revenues	2,342	1,807	1,452
Sales and marketing	989	763	656
Research and development	1,022	801	408
General and administrative	978	705	567
Total	5,331	4,076	3,083

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We have never had a work stoppage, and no U.S.-based employees are represented under collective bargaining agreements. We consider our relations with our employees to be good. Our ability to achieve our financial and operational objectives depends in large part upon our continued ability to attract, integrate, train, retain and motivate highly qualified sales, technical and managerial personnel, and upon the continued service of our senior management and key sales and technical personnel, none of whom is bound by an employment agreement. Competition for qualified personnel in our industry and in some of our geographical locations is intense, particularly for software development personnel.

ITEM 1A. RISK FACTORS

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

Note: The following risk factors are intended to be current as of the date of the filing of this report.

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

volume of domain name registrations and customer renewals in our naming services business;

the mix of all our services sold during a period;

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;

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

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

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our success in assimilating the operations, products, services and personnel of any acquired businesses;

the timing and execution of individual customer contracts, particularly large contracts;

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

the impact of Statement of Financial Accounting Standards No. 123R that will require us to record a charge to earnings for stock-based compensation; and

general economic and market conditions as well as economic and market conditions specific to the telecommunications and Internet industries.

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.

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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 may be adversely affected by the uncertain geopolitical environment and unfavorable economic and market conditions.

Adverse economic conditions worldwide have contributed to downturns in the telecommunications and technology industries in the past and could impact our business in the future, resulting in:

reduced demand for our services as a result of a decrease in information technology and telecommunications spending by our customers;

increased price competition for our products and services; and

higher overhead costs as a percentage of revenues.

Recent political turmoil in many parts of the world, including terrorist and military actions, may continue to put pressure on global economic conditions. If the economic and market conditions in the United States and globally do not continue to improve, or if they deteriorate, we may experience material adverse impacts on our business, operating results, and financial condition as a consequence of the above factors or otherwise.

Our limited operating history under our current business structure may result in significant fluctuations of our financial results.

We have acquired many companies, a number of which operated in different businesses from our then-current business. Therefore, we have only a limited operating history on which to base an evaluation of our consolidated business and prospects. Our success will depend on many factors, many of which are not entirely under our control, including, but not limited to, the following:

the successful integration of acquired companies;

the use of the Internet and other Internet Protocol (IP) networks for electronic commerce and communications;

the extent to which digital certificates and domain names are used for electronic commerce or communications;

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growth in the number of Web sites;

growth in wireless networks and communications;

growth in demand for our services;

the continued evolution of electronic and mobile commerce as a viable means of conducting business;

the competition for any of our services;

the perceived security of electronic commerce and communications over the Internet and other IP networks;

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

the significant lead times before a new product or service begins generating revenues;

the varying rates at which telecommunications companies, telephony resellers and Internet service providers use our services;

the success in marketing and overall demand for our content services to consumers and businesses;

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

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

To address these risks we must, among other things:

successfully market our services to new and existing customers;

attract, integrate, train, retain and motivate qualified personnel;

respond to competitive developments;

successfully introduce new services; and

successfully introduce enhancements to our services to address new technologies and standards and changing market conditions.

The internal review of our historical stock option granting practices, the restatement of certain of our historical consolidated financial statements, investigations by the SEC and related events have had, and will continue to have, an adverse effect on us.

The Ad Hoc Group of independent directors of the Board of Directors conducted a review of our historical stock option granting practices for the period January 1998 through May 2006. During the course of the review, the Ad Hoc Group identified stock option grants with incorrect measurement dates, without required documentation, or with initial grant dates and exercise prices that were subsequently modified. Consequently, we have recorded additional non-cash stock-based compensation expense and related tax effects with regard to past stock option grants. In this Form 10-K, we are restating our consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years ended December 31, 2005 and 2004. We are restating the unaudited quarterly financial information and financial statements for interim periods of 2005, and the unaudited condensed financial statements for the three months ended March 31, 2006. Details of the restatement and its underlying circumstances are discussed in the Explanatory Note in Note 2 Restatement of Consolidated Financial Statements of the Notes to Consolidated Financial Statements in Item 15 of this report.

As a result of the events described above, we have become subject to a number of significant risks, each of which could have an adverse effect on our business, financial condition and results of operations, including:

we are subject to significant pending civil litigation, including shareholder class action lawsuits and derivative claims made on behalf of us, the defense of which will require us to devote significant management attention and to incur significant legal expense and which litigation, if decided against us, could require us to pay substantial judgments, settlements or other penalties;

we are subject to a continuing formal order of investigation from the SEC and a grand jury subpoena from the U.S. Attorney for the Northern District of California which could require significant management time and attention and cause us to incur significant

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accounting and legal expense and which could require us to pay substantial fines or other penalties;

we are subject to the risk of additional litigation and regulatory proceedings or actions; and

many members of our senior management team and our Board of Directors have been and will be required to devote a significant amount of time on matters relating to the continuing formal order of investigation from the SEC and a grand jury subpoena from the U.S. Attorney for the Northern District of California, remedial efforts and related litigation.

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We have identified 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.

Our management has identified a material weakness in our internal control over financial reporting as of December 31, 2006 arising from a combination of internal control deficiencies in our stock administration policies and practices, as discussed in Management's Report on Internal Control Over Financial Reporting in Item 9A. In addition, due to the identification of a material weakness in internal control over financial reporting, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2006 our disclosure controls and procedures were not effective.

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, and any projections of any evaluation of effectiveness of internal controls to future periods are subject to the risk that controls may become inadequate 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 (as defined by the relevant auditing standards) 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 the price of our securities.

Through the twelve-month period ended December 31, 2006, we expended significant resources in connection with the Section 404 process. In future periods, we will likely continue to expend substantial amounts in connection with the Section 404 process 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 and the price of our securities.

If our cost reduction and restructuring efforts are ineffective, our revenues and profitability may be hurt.

In the first quarter of 2007, we have undertaken various cost reduction and restructuring activities that replaced our previous business unit structure with a functional organization consisting of a combined worldwide sales and services team and an integrated marketing and product development organization. The restructuring, impairment and other charges are estimated to be approximately \$26.9 million in the first quarter of 2007; however, if we incur additional restructuring-related charges, our financial condition and results of operations may suffer. In addition, the cost reduction and restructuring activities may not produce the full efficiencies and benefits we expect or the efficiencies and benefits might be delayed. There can be no assurance that these efforts, as well as any potential future cost reduction and restructuring activities, will not adversely affect our business, operations or customer perceptions, or result in additional future charges. In addition, we have recently experienced changes in our management, which together with these cost reduction and restructuring activities, could also cause our remaining employees to leave or result in reduced productivity by our remaining employees, which in turn may affect our revenue and other operating results in the future.

We have faced difficulties assimilating, and may incur costs associated with, acquisitions and dispositions.

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We made numerous acquisitions and dispositions in the last six years and will pursue additional acquisitions and dispositions in the future. We have experienced difficulty in, and in the future may face difficulties, integrating the personnel, products, technologies or operations of companies or businesses we acquire or divest. Assimilating acquired businesses and dispositions involve a number of other risks, including, but not limited to:

the potential disruption of our ongoing business;

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the potential impairment of relationships with our employees, customers and strategic partners;

the need to manage more geographically-dispersed operations, such as our offices in the states of Georgia, Kansas, Illinois, Massachusetts, New York, Rhode Island, Texas, Virginia, and Washington, and globally in Australia, Europe, India, Japan, South Africa and South America;

greater than expected costs and/or lower than expected revenues and the assumption of unknown liabilities;

the diversion of management's attention from our other businesses in identifying, completing and integrating acquisitions;

the inability to retain the key employees of the acquired businesses;

adverse effects on the existing customer relationships of acquired companies;

the inability to incorporate acquired technologies successfully into our operations infrastructure;

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

the potential incompatibility of business cultures;

additional regulatory requirements;

any perceived adverse changes in business focus;

entering into markets and acquiring technologies in areas in which we have little experience;

the need to incur debt, which may reduce our cash available for operations and other uses, or issue equity securities, which may dilute the ownership interests of our existing stockholders; and

the inability to maintain uniform standards, controls, procedures and policies.

If we are unable to successfully address any of these risks for future acquisitions and dispositions, our business could be harmed.

Additionally, there is risk that we may incur additional expenses 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 evaluate other intangible assets as events or circumstances indicate that such assets may be impaired. These evaluations could result in further impairments of goodwill or other intangible assets.

We may not realize the benefits we are seeking from our investments in the Jamba joint ventures as a result of lower than predicted operating results, larger funding requirements or lower cash distributions or otherwise.

We have a 49% equity interest in two joint ventures related to our former Jamba business. We will incur our proportionate share of the income or losses of these joint ventures in our consolidated statements of income. We do not have control over the budget, day-to-day management or many of the other operating expenditures of the joint ventures, and therefore, we cannot predict with certainty the extent of the impact on our financial statements of these joint ventures for any particular period. Accordingly, our share of the income or losses of these joint ventures could materially affect our results of operations in future periods.

The joint venture agreements contain provisions requiring minimum cash distributions to the members. However, these provisions are subject to conditions and limitations, and therefore, we cannot assure you that we will ever receive cash distributions from these joint ventures. If the joint ventures require capital to fund their operations, we could be required to make capital contributions or loans to the joint ventures. The business operated by the U.S. joint venture is a newer business and therefore it may be more likely to require additional funding, although we cannot assure that the Netherlands joint venture will not require additional funding as well.

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If the Netherlands joint venture makes cash distributions to its members, to the extent we seek to use the cash in the U.S., we would be required to pay taxes on those funds if they are brought to the U.S., and therefore we would not receive the full benefit of any cash distribution. Additionally, we could be required to pay additional amounts to the joint ventures if it is later determined that we breached any of the representations of warranties in the formation agreement for the joint ventures.

The value of our investment in these joint ventures is subject to general economic, technological and market trends, as well as to the operating and financial decisions of the management team of the joint venture, all of which are outside of our control. In addition, these joint ventures may not gain the expected number of customers and/or generate the expected level of revenues, and consequently, we may never receive any cash distributions from these joint ventures, and in fact, they may require additional funding, any of which could diminish the value of or dilute our investment. Our investments in these joint ventures may not provide the economic returns we are seeking and may not increase in value above the minimum amounts that we can require Fox or News Corporation to buy our shares from us. We cannot assure you that the commercial agreements, including the Gateway Services Agreement, will provide us any benefit. It is also possible that Fox and News Corporation could purchase our shares from us in the future, prior to the businesses of the joint ventures reaching their full potential. Therefore, we cannot provide you with any assurance as to whether we will achieve a favorable return on our investment.

We also entered into various other commercial relationships with the joint ventures; however, we cannot assure you we will derive significant revenues from these other relationships.

The expansion of our international operations subjects our business to additional economic risks that could have an adverse impact on our revenues and business.

We intend to expand our international operations and international sales and marketing activities. For example, we expect to expand our operations and marketing activities throughout Asia, Europe, Latin America and South America. We have approximately 1,870 employees outside the United States. Expansion in these international markets has required and will continue to require significant management attention and resources. We may also need to tailor some of our other 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 United States. 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 United States regulations applicable to us. There can be no assurance that all of our employees, contractors and agents will not take actions in violation of them. Violations of laws 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, there are 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 and compliance with foreign laws;

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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;

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problems in collecting accounts receivable;

currency fluctuations, as our international revenues from Europe, South Africa, Japan, South America and Australia are not denominated in U.S. Dollars;

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 foreign countries;

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

seasonal reductions in business activity; and

potentially adverse tax consequences.

Our failure to manage past and future growth in our business could harm our business.

Between December 31, 1995 and December 31, 2006, we grew from 26 to 5,331 employees. This was achieved through internal growth, as well as acquisitions. During this time period, we opened new sales offices and significantly expanded our U.S. and non-U.S. operations. To successfully manage past growth and any future growth, we will need to continue to implement additional management information systems, continue the development of our operating, administrative, financial and accounting systems and controls and maintain close coordination among our executive, engineering, accounting, finance, marketing, sales and operations organizations. Any failure to manage growth effectively could harm our business.

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.

Competition in Security Services. Our security services are targeted at the rapidly evolving market for Internet security services, including network security, authentication and validation, which enable secure electronic commerce and communications over wireline and wireless IP

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networks. The market for security services is intensely competitive, subject to rapid change and significantly affected by new product and service introductions and other market activities of industry participants.

Principal competitors generally fall within one of the following categories: (1) companies such as RSA Security, Inc. 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 Identrus) that primarily offer digital certificate and certification authority related services; (3) companies focused on providing a bundled offering of products and services such as CyberTrust; and (4) companies offering competing SSL certificate and other security services, including GoDaddy and other domain name registrars. 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, Netscape and Microsoft have introduced software products that enable the issuance and management of digital certificates, and we believe that other companies could introduce similar products.

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 Web sites could also promote our competitors or charge us substantial fees for promotions in the future.

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Competition in Managed Security Services. Consulting companies or professional services groups of other companies with Internet expertise are current or potential competitors to our managed security services. These companies include large systems integrators and consulting firms, such as Accenture, IBM Global Services, Getronics and Lucent NetCare. We also compete with security product companies that offer managed security services in addition to other security services, such as Symantec and ISS, as well as a number of providers such as CyberTrust and BT Counterpane that offer managed security services. Telecommunications providers, such as Verizon Business, a provider of managed security services, are also potential competitors. In addition, we compete with some companies that have developed products that automate the management of IP addresses and name maps throughout enterprise-wide intranets, and with companies with internally developed systems integration efforts.

Competition in Communications Services. The market for communications services is extremely competitive and subject to significant pricing pressure. Competition in this area arises from two primary sources. Incumbent carriers provide competing in-house services in their respective regions. In addition, we face direct competition from national, unregulated companies, including Syniverse Technologies, Telcordia, NeuStar and other carriers such as Southern New England Telephone Diversified Group, a unit of AT&T. Furthermore, customers are increasingly likely to deploy internally developed communications technologies and services which may reduce the demand for technologies and services from third-party providers, such as VeriSign, and further increase competitive pricing pressures.

Competition in Commerce Services. Our wireless billing and payment services are also subject to competition from providers such as Comverse, Amdocs, Convergys Corporation and Boston Communications Group. We are also aware of major Internet service providers, software developers and smaller entrepreneurial companies that are or may in the future be focusing significant resources on developing and marketing products and services that may compete directly with ours. Furthermore, customers are increasingly likely to deploy internally developed communications technologies and services which may reduce the demand for technologies and services from third-party providers such as VeriSign and further increase competitive pricing pressures.

Competition in Content Services. The market for content services is extremely competitive. Competitors include developers of content and entertainment products and services in a variety of domestic and international markets, such as Infospace, Itouch, Arvato mobile, Monsternob, and Motricity This business also faces competition from mobile network operators such as Cingular, Verizon Wireless, Sprint Nextel Corporation, T-Mobile, Vodafone, O₂, Orange, E-Plus and Telefónica, as well as Internet portal operators such as Yahoo!, AOL, T-Online and Google. Additional competitors are handset manufacturers such as Nokia and software providers such as Microsoft and Apple. As the market for wireless data, including information and entertainment data, matures, new categories of competitors, such as mobile phone companies, broadcasters, music publishers, other content providers or others have begun to develop competing products or services.

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 .mobi, .biz, .name, .pro, .aero, .museum and .coop gTLDs and registries offering services related to ccTLDs. There are currently 16 gTLD registries and 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, Affilias, Register.com and Tucows.com.

Competition in Intelligent Supply Chain Services. There are a number of companies that provide intelligent supply chain services. For point-of-sale data, we face competition from IRI and AC Nielsen, as well as smaller software companies. For consulting services, we face

competition from traditional consulting firms.

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Competition in Real-Time Publisher Services. We face competition from various smaller companies providing similar services.

Competition in Digital Brand Management Services. We face competition from companies providing services similar to some of our Digital Brand Management Services. In the monitoring services, registration and domain name asset management area of our business, our competition comes primarily from ICANN accredited registrars and various smaller companies providing similar services.

Several of our current and potential competitors have longer operating histories and 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 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 the competitive pressure.

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.

Our communications services business depends in part on the acceptance of our SS7 network and the telecommunications industry's continuing use of SS7 technology.

Our future growth in our communications services business depends, in part, on the commercial success and reliability of our SS7 network. Our SS7 network is a vital component of our intelligent network services and has been a significant source of revenues for our Communications Services Group. Our communications services business will suffer if our target customers do not use our SS7 network. Our future financial performance will also depend on the successful development, introduction and customer acceptance of new and enhanced SS7-based services. We are not certain that our target customers will choose our particular SS7 network solution or continue to use our SS7 network. In the future, we may not be successful in marketing our SS7 network or any new or enhanced services.

The inability of our customers to successfully implement our signaling and network services with their existing systems could adversely affect our business.

Significant technical challenges exist in our signaling and network services business because many of our customers:

purchase and implement SS7 network services in phases;

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deploy SS7 connectivity across a variety of telecommunication switches and routes; and

integrate our SS7 network with a number of legacy systems, third-party software applications and engineering tools.

Customer implementation currently requires participation by our order management and our engineering and operations groups, each of which has limited resources. Some customers may also require us to develop

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costly customized features or capabilities, which increases our costs and consumes a disproportionate share of our limited customer service and support resources. Also, we typically charge one-time fees for initially connecting a customer to our SS7 network and a monthly recurring flat rate fee after the connection is established. If new or existing customers have difficulty deploying our products or require significant amounts of our engineering service support, we may experience reduced operating margins. Our customers' ability to deploy our network services to their own customers and integrate them successfully within their systems depends on our customers' capabilities and the complexity involved. Difficulty in deploying those services could reduce our operating margins due to increased customer support and could cause potential delays in recognizing revenues until the services are implemented.

Our failure to achieve or sustain market acceptance of our communications services at desired pricing levels and industry consolidation could adversely impact our revenues and cash flow.

The telecommunications industry is characterized by significant price competition. Competition and industry consolidation in our communications services could result in significant pricing pressure and an erosion of our market share. Pricing pressure from competition could cause large reductions in the selling price of our services. For example, our competitors may provide customers with reduced communications costs for Internet access or private network services, reducing the overall cost of services and significantly increasing pricing pressures on us. We would need to offset the effects of any price reductions by increasing the number of our customers, generating higher revenues from enhanced services or reducing our costs, and we may not be able to do so successfully. We believe that the business of providing network connectivity and related network services will see increased consolidation in the future. Consolidation could decrease selling prices and increase competition in these industries, which could erode our market share, revenues and operating margins in our Communications Services Group. Consolidation in the telecommunications industry has led to the merging of many companies, including AT&T Wireless, MCI, Nextel and Price Communications, customers of our Communications Services Group. Our business could be harmed if these mergers result in the loss of customers by our Communications Services Group. Furthermore, customers may choose to deploy internally developed communications technologies and services thereby reducing the demand for technologies and services we offer which could harm our business.

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

Our content 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 non-exclusive. If these third parties reduce their commitment to us, terminate their agreements with us or enter into similar agreements with our competitors, our content services business could be materially harmed.

Our business depends on the continued growth of the Internet and adoption and continued use of IP networks.

Our future success depends, in part, on continued growth in the use of the Internet and IP networks. If the use of, and interest in, the Internet and IP networks does not grow, our business would be harmed. To date, many businesses and consumers have been deterred from utilizing the Internet and IP networks for a number of reasons, including, but not limited to:

potentially inadequate development of network infrastructure;

security concerns, particularly for online commerce, including the potential for merchant or user impersonation and fraud or theft of stored data and information communicated over IP networks;

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privacy concerns, including the potential for third parties to obtain personally identifiable information about users or to disclose or sell data without notice to or the consent of such users;

other security concerns such as attacks on popular Web sites by hackers ;

inconsistent quality of service;

inability to integrate business applications on IP networks;

the need to operate with multiple and frequently incompatible products;

limited bandwidth access; and

government regulation.

The widespread acceptance of the Internet and IP networks will require a broad acceptance of new methods of conducting business and exchanging information. Organizations that already have invested substantial resources in other methods of conducting business may be reluctant to adopt new methods. Also, individuals with established patterns of purchasing goods and services and effecting payments may be reluctant to change.

A number of states, as well as the U.S. Congress, have been considering various initiatives that could permit sales and use taxes on Internet sales. If any of these initiatives are adopted, it could substantially impair the growth of electronic commerce and therefore hinder the growth in the use of the Internet and IP networks, which could harm our business.

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 security services at the market for trusted and secure electronic commerce and communications over IP and other networks. Our Information Services business unit is developing managed services designed to work with the EPCglobal Network and radio frequency identification (RFID), technology, point-of-sale data services and real-time publisher services. These are rapidly evolving markets that may not continue to grow. Even if these markets grow, our services may not be widely accepted. Accordingly, the demand for our services is very uncertain. The factors that may affect market acceptance of our services 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;

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the introduction and consumer acceptance of new generations of mobile handsets;

demand for supply chain information services, including acceptance of RFID technology, the EPCglobal Network and point-of-sale data services;

the ability of the Internet infrastructure to accommodate increased levels of usage; and

government regulations affecting electronic commerce and communications over IP networks.

If the market for electronic 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.

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

The growth and development of the Internet has led to new laws and regulations, as well as the application of existing laws to the Internet and wireless communications. Application of these laws can be unclear. The costs of complying or failure to comply with these laws and regulations could limit our ability to operate in our

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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, recent laws include those designed to restrict the on-line distribution of certain materials deemed harmful to children and impose additional restrictions or obligations for on-line services when dealing with minors. Such legislation 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.

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

The emerging nature of the Internet, other communication networks, content, digital certificate, and domain name registration markets, and their rapid evolution, require us continually to improve the performance, features and reliability of our services, particularly in response to competitive offerings. In particular, the market for entertainment and information is characterized by changing technology, developing industry standards, changing customer preferences and trends (which also vary from country to country), and the constant introduction of new products and services. In order to remain competitive, 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. When entertainment products are placed on the market, it is difficult to predict whether they will become popular.

The communications network services industry is also characterized by rapid technological change and frequent new product and service announcements. Significant technological changes could make our technologies obsolete and other changes in our markets could result in some of our other products and services losing market share. Accordingly, we must continually improve the responsiveness, reliability and features of our services and develop new features, services and applications to meet changing customer needs in our target markets. For example, we sell our SS7 network services primarily to traditional telecommunications companies that rely on traditional voice networks. Many emerging companies are providing convergent Internet protocol-based network services. Our future success could also depend upon our ability to provide products and services to these Internet protocol-based telephony providers, particularly if IP-based telephony becomes widely accepted. We cannot assure 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.

New products and services developed or introduced by us may not result in any significant revenues.

We must commit significant resources to develop new products and services before knowing whether our investments will result in products and services the market will accept. The success of new products and services depends on several factors, including proper new definition and timely completion, introduction and market acceptance. For example, our selection in January 2004 by EPCglobal, a not-for-profit standards organization, to operate the Object Naming Service as the root directory for the EPCglobal Network, may not increase our revenues in the foreseeable future. There can be no assurance that we will successfully identify new product and service opportunities, develop and bring new products and services to market in a timely manner, or achieve market acceptance of our products and services, or that products, services and technologies developed by others will not render our products, services or technologies obsolete or noncompetitive. Our inability to successfully

market new products and services may harm our business.

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Issues arising from our agreements with ICANN and the Department of Commerce could harm our registry business.

The U.S. Department of Commerce (DOC) has adopted a plan for the phased transition of the DOC 's responsibilities for the domain name system to the Internet Corporation for Assigned Names and Numbers (ICANN). As part of this transition, as the exclusive registry of domain names within the .com and .net generic top-level domains (gTLDs), we have entered into agreements with ICANN and with the DOC as described elsewhere in this report.

We face risks from the transition of the DOC 's responsibilities for the domain name system 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 and .net gTLDs or that are inconsistent with our current or future plans;

the DOC or ICANN could terminate our agreements to be the registry for the .com or .net gTLDs under the circumstances described elsewhere in this report;

if the .com and .net Registry Agreements are terminated, it 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;

the U.S. Government could refuse to transfer certain responsibilities for domain name system administration to ICANN due to security, stability or other reasons, resulting in fragmentation or other instability in domain name system administration; and

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

Challenges to ongoing privatization of Internet administration could harm our domain name registry business.

Risks we face from challenges by third parties, including governmental authorities in the United States 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;

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ICANN could fail to maintain its role, potentially resulting in instability in domain name system administration; and

some governments and governmental authorities outside the U.S. have in the past disagreed with, and may in the future disagree with, the actions, policies or programs of ICANN, the U.S. Government and us relating to the domain name system. 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 on how this business is conducted.

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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;

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; Lacey, Washington; Overland Park, Kansas, Melbourne, Australia and Berlin, Hamburg and Verl, Germany. 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 digital certificates, our domain name registry services and other 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 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, which could harm our business.

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

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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 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 and customers could be reluctant to use our

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services. Such an occurrence could also result in adverse publicity and therefore adversely affect the market's perception of the security of electronic commerce and communications over IP networks as well as of the security or reliability of our services.

The reliance of our network connectivity and interoperability services and content services on third-party communications infrastructure, hardware and software exposes us to a variety of risks we cannot control.

The success of our network connectivity and interoperability services and content services depends on our network infrastructure, including the capacity leased from telecommunications suppliers. In particular, we rely on AT&T, MCI, Sprint 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. Our business also depends upon the capacity, reliability and security of the infrastructure owned by third parties that is used to connect telephone calls. Specifically, we currently lease capacity from regional providers on four of the fourteen mated pairs of SS7 signal transfer points that comprise our network.

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.

Our signaling and SS7 services rely on links, equipment and software provided to us from our vendors, the most important of which are gateway equipment and software from Tekelec and Agilent Technologies, Inc. We cannot assure you that we will be able to continue to purchase equipment from these vendors on acceptable terms, if at all. If we are unable to maintain current purchasing terms or ensure product availability with these vendors, we may lose customers and experience an increase in costs in seeking alternative suppliers of products and services.

Capacity limits on our technology and network hardware and software may be difficult to project and we may not be able to expand and upgrade our systems to meet increased use.

If traffic from our telecommunication and content customers through our network increases, we will need to expand and upgrade our technology and network hardware and software. We may not be able to expand and upgrade, in a timely manner, our systems and network hardware and software capabilities to accommodate increased traffic on our network. If we do not appropriately expand and upgrade our systems and network hardware and software, we may lose customers and revenues.

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 volunteer basis. Because of the importance to the functioning of the Internet of these root zone servers, our registry services business could be harmed if these volunteer 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 registry services business could be harmed if any of these volunteer operators fail 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 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.

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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 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.

Services offered by our Internet Services Group rely on public key cryptography technology that may compromise our system's security.

Services offered by our Internet Services Group depend on public key cryptography technology. With public key cryptography technology, a user is given 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 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 be developed, the security of encryption products utilizing public key cryptography technology 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. If improved techniques for attacking cryptographic systems were ever developed, 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.

Some of our security services have lengthy sales and implementation cycles.

We market many of our security services directly to large companies and government agencies and we market our communications services to large telecommunication carriers. The sale and implementation of our services to these entities typically involves a lengthy education process and a significant technical evaluation and commitment of capital and other resources. This process is also subject to the risk of delays associated with customers' internal budgeting and other procedures for approving large capital expenditures, deploying new technologies within their networks and testing and accepting new technologies that affect key operations. As a result, the sales and implementation cycles associated with certain of our services can be lengthy, potentially lasting from three to nine months. Our quarterly and annual operating results could be materially harmed if orders forecasted for a specific customer for a particular quarter are not realized.

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.

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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. The VeriSign Processing Center platform provides a VeriSign Affiliate with the knowledge and

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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 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 electronic commerce and communication over IP networks generally.

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 on our internally developed technologies, patents and other 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 United States. 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. 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 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 could suffer if we lost the rights to use these technologies. A third-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 delay the introduction of our Internet infrastructure services until equivalent technology, if available, is identified, licensed and integrated. This could harm our business.

We could become subject to claims of infringement of intellectual property of others, which could be costly to defend and which 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. In addition, we use news content as part of our real-time publisher service. 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, 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 and simultaneously being filed in connection with Internet-related technology. There are 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.

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We must establish and maintain strategic 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. If we fail to enter into additional relationships, we would have to devote substantially more resources to the distribution, sale and marketing of our security services and communications 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 will also depend on our ability to continue to establish direct seller channels and to develop multiple distribution channels. Failure of one or more of our strategic 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.

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. Our success also depends on our ability to attract, integrate, train, retain and motivate these individuals and additional highly skilled technical and sales and marketing personnel, both in the U.S. and abroad. In addition, our stringent hiring practices for some of our key personnel, which consist of background checks into prospective employees' criminal and financial histories, further limit the number of qualified persons for these positions.

We have no employment agreements with any of our key executives that prevent them from leaving VeriSign at any time. In addition, we do not maintain key person life insurance for any of our officers or key employees. The loss of the services of any of our senior management team or other key employees or failure to attract, integrate, train, retain and motivate additional key employees could harm our business.

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

The Sarbanes-Oxley Act mandates, among other things, that companies adopt new corporate governance measures and imposes comprehensive reporting and disclosure requirements, sets stricter independence and financial expertise standards for audit committee members and imposes increased civil and criminal penalties for companies, their chief executive officers and chief financial officers and directors for securities law violations. For example, Section 404 of the Sarbanes-Oxley Act requires companies to do a comprehensive and costly evaluation of their internal controls. In addition, the NASDAQ Stock Market has adopted additional comprehensive rules and regulations relating to corporate governance. These laws, rules and regulations have increased the scope, complexity and cost of our corporate governance, reporting and disclosure practices, and our compliance efforts have required significant management attention. It has become 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 could face an increased risk of

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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.

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We have anti-takeover protections that may 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 meeting and not by written consent;

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;

we currently have a classified Board of Directors, with the board being currently divided into three classes that serve staggered three-year terms, although we intend to declassify our board commencing in connection with our 2007 Annual Meeting of Stockholders;

vacancies on our board may be filled until the next annual meeting of stockholders only by majority vote of the directors then in office; and

special meetings of our stockholders may be called only by the chairman of the board, the president or the board, and not by our stockholders.

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

The rights will become exercisable only upon the occurrence of certain events specified in the plan, including the acquisition of 20% of VeriSign's outstanding common stock by a person or group.

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

VeriSign's Board of Directors may redeem outstanding rights at any time prior to a person becoming an acquiring person, at a price of \$0.001 per right. Prior to such time, the terms of the rights may be amended by VeriSign's Board of Directors without the approval of the holders of the rights.

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 United States 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents**ITEM 2. PROPERTIES**

VeriSign's corporate headquarters are located in Mountain View, California. We have administrative, sales, marketing, research and development and operations facilities located in the United States, Canada, Latin America, Europe, Asia, Australia and Africa. We own approximately 512,000 square feet of space, which includes our headquarters complex in Mountain View, California and facilities in Savannah, Georgia, Lacey, Washington and New Castle, Delaware. As of December 31, 2006, we leased approximately 1.1 million square feet of space, primarily in the United States and to a lesser extent, Europe and the Asia Pacific. Our facilities are under lease agreements that expire at various dates through 2014. We believe that our existing facilities are well maintained and in good operating condition, and are sufficient for our needs for the foreseeable future.

Major Locations	Approximate Square Footage	Use
United States: 455-685 East Middlefield Road	290,000	Corporate Headquarters; Internet Services Group; and Communications Services Group
Mountain View, California (owned) 320 Interlocken Parkway	25,000	Communications Services Group
Broomfield, Colorado 21345-21355 Ridgetop Circle	175,000	Internet Services Group; and Corporate Services
Dulles, Virginia 222 W Oglethorpe Ave	50,000	Communications Services Group
Savannah, Georgia (owned) 4501 Intelco Loop S.E.	67,000	Communications Services Group
Lacey, Washington (owned) 21 Boulden Circle	105,000	Communication Services Group
New Castle, Delaware (owned) 7400 West 129th Street	39,000	Communications Services Group
Overland Park, Kansas 90 Royal Little Drive	23,000	Internet Services Group
Providence, Rhode Island 110 Cooper Street	65,000	Communications Services Group
Santa Cruz, California		
Europe: Blandonnet International Business Center	17,000	Corporate European Headquarters; and Internet Services Group
8, Chemin De Blandonnet		

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CH-1217 Vernier

Geneva, Switzerland

Jamba GmbH

70,000 Communications Services Group

Dom Aquarree Building, Karl Liebknecht strasse 5, 10178
Berlin, Germany

Japan:

Nittobo Buildings

15,200 VeriSign Japan K.K. Corporate Headquarters

13F, 8-1 Yaesu, 2-chome

Chuo-ku, Tokyo, 104-0028

Japan

Table of Contents**ITEM 3. LEGAL PROCEEDINGS**

Note: The following description of pending legal proceedings is intended to be current as of June 30, 2007.

On September 7, 2001, NetMoneyIN, an Arizona corporation, filed a complaint alleging patent infringement against VeriSign and several other previously-named defendants in the United States District Court for the District of Arizona asserting infringement of U.S. patent Nos. 5,822,737 and 5,963,917. NetMoneyIN amended its complaint on October 15, 2002, alleging infringement by VeriSign and several other defendants of a third U.S. patent (No. 6,381,584) in addition to the two patents previously asserted. On August 27, 2003, NetMoneyIN filed a third amended complaint alleging direct infringement of the same three patents by VeriSign and several other previously-named defendants. NetMoneyIN dropped its claim of active inducement of infringement by VeriSign. Some of the other current defendants include IBM, BA Merchant Services, Wells Fargo Bank, Cardservice International, InfoSpace, E-Commerce Exchange and Paymentech. VeriSign filed an answer denying any infringement and asserting that the three asserted patents are invalid and later filed an amended answer asserting, in addition, that the asserted patents are unenforceable due to inequitable conduct before the U.S. Patent and Trademark Office. 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 the 584 patent and the Court has dismissed with prejudice all claims of infringement of the 584 patent. In its ruling on the claim construction issues, the Court found four of the five claims asserted against VeriSign, claims 1, 13 and 14 of the 737 patent and claim 1 of the 917 patent, invalid. NetMoneyIN may file an appeal after a final judgment seeking to overturn this ruling. Thus, only claim 23 of the 737 patent remains in the case. The Court granted the defendants' motion to strike certain of the Plaintiff's assertions of infringement, including all charges of infringement under the so-called doctrine of equivalents. The Court recently granted the defendants' motion for summary judgment of no inducement and no contributory infringement. Fact and expert witness discovery are completed. On September 29, 2006, VeriSign filed a Motion for Summary Judgment on Non-Infringement. On October 20, 2006, VeriSign filed a Motion for Summary Judgment on Invalidity. On November 1, 2006, NetMoneyIN filed a Motion for Summary Judgment on Infringement. On July 9, 2007, the Court is scheduled to hear oral argument on the pending motions for summary judgment. While we cannot predict the outcome of this lawsuit, VeriSign believes that the allegations are without merit.

Beginning in May of 2002, several class action complaints were filed against VeriSign and certain of its current and former officers and directors in the United States District Court for the Northern District of California. These actions were consolidated under the heading *In re VeriSign, Inc. Securities Litigation*, Case No. C-02-2270 JW (HRL), on July 26, 2002. The consolidated action seeks unspecified damages for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, on behalf of a class of persons who purchased VeriSign stock from January 25, 2001 through April 25, 2002. An amended consolidated complaint was filed on November 8, 2002. On April 14, 2003, the court granted in part and denied in part the defendants' motion to dismiss the amended and consolidated complaint. On May 5, 2004, plaintiffs filed a second amended complaint that was substantially identical to the amended consolidated complaint except that it purported to add a claim under Sections 11 and 15 of the Securities Act of 1933 on behalf of a subclass of persons who acquired shares of VeriSign pursuant to the registration statement and prospectus filed October 10, 2001 and amended October 26, 2001 for the acquisition of Illuminet Holdings, Inc. by VeriSign. Plaintiffs' second amended class action complaint was dismissed by the court on November 2, 2005 for failure to adequately plead loss causation. Plaintiffs were given leave to file an amended complaint. Plaintiffs filed a third amended class action Complaint on December 22, 2005. Defendants filed a motion to dismiss the third amended complaint. On April 6, 2006, that motion was granted in part and denied in part. Plaintiffs filed a fourth amended complaint on May 12, 2006. Plaintiffs' request for reconsideration of the April 6, 2006 order was granted on June 5, 2006. Plaintiffs filed a fifth amended complaint on June 30, 2006. VeriSign moved to dismiss the fifth amended complaint. Parallel derivative actions have also

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been filed against certain of VeriSign's current and former officers and directors in state courts in California and Delaware. VeriSign is named as a nominal defendant in these actions. Several of these derivative actions were filed in Santa Clara County Superior Court of California and these actions have since been consolidated under the heading *In re VeriSign, Inc. Derivative Litigation*, Case No. CV 807719.

The consolidated derivative action seeks unspecified damages for alleged breaches of fiduciary duty and violations of the California Corporations Code. Defendants' demurrer to these claims was granted with leave to amend on February 4, 2003. Plaintiffs have indicated their intention to file an amended complaint. Another derivative action was filed in the Court of Chancery New Castle County, Delaware, Case No. 19700-NC, alleging similar breaches of fiduciary duty. Defendants' motion to dismiss these claims was granted by the Court of Chancery with prejudice on September 30, 2003.

On April 24, 2007, the District Court entered Final Judgment and Order dismissing the Securities Litigation with prejudice based on final approval of the parties settlement of the Securities Litigation and the Derivative Litigation. On May 15, 2007, the State Court entered a final Stipulation and Proposed of Dismissal with Prejudice of the Derivative Litigation. Under the terms of the settlement, liability insurers for the Company and its directors and officers paid \$80 million in settlement of the lawsuits, within applicable insurance limits. The time for appeal in both matters has now passed.

On August 27, 2004, VeriSign filed a lawsuit against ICANN in the Superior Court of the State of California Los Angeles County. The lawsuit alleges that ICANN breached its .com Registry Agreement with VeriSign, including, without limitation, by overstepping its contractual authority and improperly attempting to regulate our business. The complaint seeks, among other things, specific performance of the .com Registry Agreement, an injunction prohibiting ICANN from improperly regulating VeriSign, and monetary damages. On November 12, 2004, ICANN filed an answer denying VeriSign's claims and a cross-complaint against VeriSign for declaratory relief and breach of the .com Registry Agreement, alleging that VeriSign's introduction of new services breached the .com Agreement. ICANN seeks a declaration from the court that it has acted in compliance with the parties' contractual obligations with regard to the .com registry; that VeriSign has breached the parties' agreement through VeriSign's actions with respect to, among other things, SiteFinder; and that ICANN has the right to terminate the .com registry agreement if VeriSign offers Registry Services without ICANN's approval, including among others SiteFinder. On December 28, 2004, VeriSign filed an answer denying the claims in ICANN's cross-complaint and a cross-complaint against ICANN for breach of contract, violation of the unfair competition laws, and declaratory relief, alleging, among other things, that ICANN's accreditation of thread registrars is improper and causes direct injury to VeriSign. On February 14, 2005, ICANN filed an answer to VeriSign's cross-complaint denying VeriSign's allegations.

On or about November 12, 2004, ICANN filed a Request for Arbitration before the International Chamber of Commerce International Court of Arbitration (the ICC) alleging that VeriSign violated its 2001 .net Registry Agreement with ICANN when, among other things, VeriSign operated the SiteFinder service without ICANN approval. ICANN seeks a declaration from the ICC that it has acted in compliance with the parties' contractual obligations with regard to the .net registry; that VeriSign has breached the parties' agreement through VeriSign's actions with respect to, among other things, SiteFinder; and that ICANN has the right to terminate the .net registry agreement if VeriSign offers Registry Services without ICANN's approval, including among others SiteFinder. ICANN also seeks a declaration that, in evaluating VeriSign's bid to become the successor registry operator for the .net top level domain after the term of the 2001 agreement expires on or about June 30, 2005, ICANN is entitled to consider VeriSign's alleged breaches of the existing agreement. VeriSign cannot predict the outcome of this action or the affect this lawsuit will have on our relationship with ICANN.

On January 18, 2005, VeriSign filed a request for arbitration before the ICC against ICANN regarding the process by which ICANN solicited and reviewed bids from companies, including VeriSign, to become the successor registry operator for the .net top level domain after the 2001 Registry Agreement expired on or about June 30, 2005. VeriSign alleges that the request for proposal (RFP) process constitutes a breach of the 2001

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.net registry agreement because, among other things, the RFP process fails to constitute an open and transparent process by which ICANN can reasonably select the best qualified successor to operate the .net registry and does not constitute a valid consensus policy as defined in the 2001 .net agreement. ICANN has not yet responded to our arbitration request. On June 8, 2005, ICANN announced that it had selected VeriSign as the successor registry operator for the .net top level domain, and ICANN and VeriSign have entered into a contract to confirm that selection. VeriSign anticipates that its selection as the .net registry operator will resolve its request for arbitration.

In October 2005, the Company and ICANN announced a proposed settlement of the various claims between them. The settlement was conditioned upon, among other things, approval of the agreement by the United States Department of Commerce. On November 29, 2006, the United States Department of Commerce approved the new .com Registry Agreement. With that approval, the settlement is finalized and implemented. Accordingly, pending litigation with ICANN was dismissed.

On February 14, 2005, Southeast Texas Medical Associates, LLP filed a putative class action lawsuit in the Superior Court of California, alleging violations of the unfair competition laws, breach of express warranty and unjust enrichment relating to our Secure Site Pro SSL certificates. The complaint is brought on behalf of a class of persons who purchased the Secure Site Pro certificate from February 2001 to present. On April 17, 2006, the class was certified and class notice was issued on May 21, 2007. VeriSign disputes these claims. While we cannot predict the outcome of this matter, VeriSign believes that the allegations are without merit.

On March 8, 2005, plaintiff Charles Ford filed a putative class action lawsuit in the Superior Court of California, County of San Diego, alleging fraud, negligent misrepresentation, false advertising, and violations of the California Consumers Legal Remedies Act and unfair competition laws relating to marketing and advertising of mobile phone ringtones and other content by VeriSign's subsidiaries, Jamster International Sarl and Jamba! GmbH. The complaint is brought on behalf of classes of persons who responded to advertising by sending a text message on their mobile phones or registered over the Internet to purchase ringtone or other content. On April 18, 2005, VeriSign removed the action to the federal district court for the Southern District of California. VeriSign disputes the claims in this action. While we cannot predict the outcome of this matter, VeriSign believes that the allegations are without merit.

On April 11, 2005, Prism Technologies, LLC filed a complaint against VeriSign in the U.S. District Court for the District of Delaware alleging that VeriSign's Go Secure suite of application and related hardware and software products and its Unified Authentication solution and related hardware and software products, including the VeriSign Identity Protection (VIP) product infringe U.S. Patent No. 6,516,416, entitled Subscription Access System for Use With an Untrusted Network. Prism Technologies seeks judgment in favor of Prism Technologies, a permanent injunction from infringement, damages in an amount not less than a reasonable royalty, attorneys' fees and costs. Prism Technologies has also named RSA Security, Inc., Netegrity, Inc. Computer Associates International, Inc and Johnson & Johnson as co-defendants. VeriSign responded on June 6, 2005 by filing a counterclaim for declaratory relief and an answer denying any infringement and asserting that the patent is invalid. On November 9, 2006, the Court held a Markman claim construction hearing. On February 9, 2007, Plaintiff withdrew its claim against Go Secure, leaving claims against Unified Authentication and VIP. On April 2, 2007, the Court issued a ruling from the Markman claim construction hearing. On April 13, 2007, the Court granted Defendants' Motion for Leave to File Amended Answers and Counterclaims to add an inequitable conduct defense. On April 23, 2007, on the basis of the Markman claim construction ruling, the Court entered a stipulated Final Judgment of Non-Infringement, dismissing all claims and counterclaims in the case. On April 27, 2007, Plaintiff filed a Notice of Appeal to the Federal Circuit Court of Appeals. While we cannot predict the outcome of this matter, VeriSign believes that the allegations are without merit and intends to vigorously defend against them.

On June 2, 2005, the Company received an access letter from the U.S. Federal Trade Commission for information to determine whether VeriSign, using the trade name Jamster, was engaging in unfair or deceptive acts or practices in violation of Section 5 of the Federal Trade Commission Act in its advertising, offering and

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billing for content services and products. The Company also received civil investigative demands from the Illinois State Attorney General (dated June 30, 2005) and from the Florida State Attorney General (dated October 6, 2005). Each of these letters requested information related to the marketing of Jamster ringtone and other downloadable content services.

In August 2005 and October 2005, respectively, VeriSign received two additional similar putative class action lawsuits, one in state court in Arkansas (short title, Page v. VeriSign), alleging claims for fraud, unjust enrichment, and violation of the Arkansas Deceptive Trade Practices Act, and one in federal district court for the Southern District of California (short title, Herrington v. VeriSign), alleging claims for fraud, negligence and negligent misrepresentation, unjust enrichment, quantum meruit, breach of contract, breach of warranty, false advertising, and unfair competition. These lawsuits relate to the marketing and advertising of mobile phone ringtones and other mobile phone content by VeriSign and its subsidiary Jamster International Sarl. VeriSign disputes the claims in these actions. On April 14, 2006 the Judicial Panel on Multidistrict Litigation coordinated and consolidated pretrial proceedings in the Ford, Page, and Herrington actions (short title, In Re Jamster Marketing Litigation). On June 16, 2006, the Judicial Panel on Multidistrict Litigation conditionally transferred one additional similar putative class action lawsuit, alleging violations of the Illinois Consumer Fraud Act and Illinois Automatic Contract Renewal Act (short title, Harmon v. VeriSign), from the federal district court for the Northern District of Illinois to the federal district court for the Southern District of California, where it will be coordinated with the Ford matter for pretrial proceedings. Similarly, on September 14, 2006, the Judicial Panel on Multidistrict Litigation conditionally transferred another similar putative class action lawsuit, alleging violations of Florida's Deceptive and Unfair Trade Practices Act (short title, Edwards v. VeriSign), from the federal district court for the Southern District of Florida to the federal district court for the Southern District of California, where it will likely be coordinated with the Ford matter for pretrial proceedings. While we cannot predict the outcome of these matters, VeriSign believes the allegations are without merit.

On February 24, 2006, GEMA, the German music authors collecting society, submitted an application to the Schiedsstelle, an arbitration board responsible for copyright matters at the German Patent and Copyright Office, requesting arbitration of GEMA's claim for alleged underpaid royalties in connection with Jamba GmbH's sale of ringtones as downloadable content for mobile phones. Jamba is a wholly owned subsidiary of VeriSign, Inc. Jamba pays royalties to GEMA on a per download basis for ringtones. GEMA claims that Jamba should also pay royalties for all GEMA-represented ringtones made available to Jamba customers, regardless of whether or not the content represented by GEMA has been downloaded by a Jamba customer. On April 11, 2006, the Schiedsstelle notified Jamba that it will conduct an arbitration of GEMA's claim. Jamba submitted a response to GEMA's application on May 22, 2006. GEMA submitted an answer to Jamba's response on August 6, 2006. Jamba submitted a reply to GEMA's answer on or about October 23, 2006. Arbitration has not yet been scheduled. While we cannot predict the outcome of this matter, VeriSign believes that the allegations are without merit.

On June 26, 2006, VeriSign received a grand jury subpoena from the U.S. Attorney for the Northern District of California requesting documents relating to VeriSign's stock option grants and practices. VeriSign also received an informal inquiry from the Securities and Exchange Commission (SEC) requesting documents related to VeriSign's stock option grants and practices. On February 9, 2007, VeriSign received a formal order of investigation from the SEC. VeriSign is cooperating fully with the U.S. Attorney's investigation and the SEC investigation.

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

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the consolidated federal court complaint were heard on May 23, 2007. Motions to stay the state court action are pending. On May 15, 2007, a putative class action (*Mykityshyn v. Bidzos, et al., and VeriSign*) was filed in state court naming the Company and certain current and former officers and directors, alleging false representations and disclosure failures regarding certain historical stock option grants. The plaintiff purports to represent all individuals who owned VeriSign common stock between April 3, 2002 and August 9, 2006. The complaint seeks rescission of amendments to the 1998 and 2006 Option Plans and the cancellation of shares added to the 1998 Option Plan. The complaint also seeks to enjoin defendants from granting any stock options and from allowing the exercise of any currently outstanding options granted under the 1998 and 2006 Option Plans. The complaint seeks an unspecified amount of compensatory damages, costs and attorneys fees. The matter was removed to federal court on June 25, 2007. VeriSign and the individual defendants dispute all of these claims.

On November 7, 2006, a judgment was entered against VeriSign by an Italian trial court in the matter of *Penco v. VeriSign, Inc.*, for Euro 5.8 million plus fees arising from a lawsuit brought by a former consultant who claimed to be owed commissions. VeriSign was granted a stay on execution of the judgment. VeriSign has appealed the lower court's ruling on the merits and the hearing on the appeal is likely to be scheduled in May 2008. VeriSign believes the claims are without merit.

On November 30, 2006, Freedom Wireless, Inc. filed a complaint against VeriSign and other defendants alleging that VeriSign infringes certain patents by making, using, selling or supplying products, methods or services relating to supplying prepaid wireless telephone services to telecommunications companies. VeriSign filed an answer to the complaint on January 25, 2007. The lawsuit is pending in the United States District Court for the Eastern District of Texas. No scheduling conference has been set. While we cannot predict the outcome of this matter, VeriSign believes that the allegations are without merit and intends to vigorously defend against them.

On January 31, 2007, VeriSign and News Corporation finalized a joint venture giving News Corporation a controlling interest in VeriSign's wholly owned Jamba subsidiary. Accordingly, effective January 31, 2007, VeriSign transferred to the joint venture direction and control of all litigation relating to Jamba! GmbH and Jamster International Sarl. Litigation and other legal matters covered by that transfer include, but are not limited to, *In Re Jamster Marketing Litigation* (Ford, Page, Herrington, Harmon and Edwards), the Federal Trade Commission access letter, the Illinois Attorney General Civil Investigative Demand, the Florida Attorney General Subpoena Duces Tecum, and the GEMA application for arbitration.

On May 31, 2007, plaintiffs Karen Herbert, et al., on behalf of themselves and a nationwide class of consumers, filed a complaint against VeriSign, Inc., m-Qube, Inc., and other defendants alleging that defendants collectively operate an illegal lottery under the laws of multiple states by allowing viewers of the NBC television show *Deal or No Deal* to incur premium text message charges in order to participate in an interactive television promotion called *Lucky Case Game*. The lawsuit is pending in the United States District Court for the Central District of California, Western Division. While we cannot predict the outcome of this matter, VeriSign believes that the allegations are without merit and intends to vigorously defend against them.

On June 5, 2007, plaintiffs Cheryl Bentley, et al., on behalf of themselves and a nationwide class of consumers, filed a complaint against VeriSign, Inc., m-Qube, Inc., and other defendants alleging that defendants collectively operate an illegal lottery under the laws of multiple states by allowing viewers of the NBC television show *The Apprentice* to incur premium text message charges in order to participate in an interactive television promotion called *Get Rich With Trump*. The lawsuit is pending in the United States District Court for the Central District of California, Western Division. While we cannot predict the outcome of this matter, VeriSign believes that the allegations are without merit and intends to vigorously defend against them.

On June 7, 2007, plaintiffs Michael and Michele Hardin, on behalf of themselves and a nationwide class of consumers, filed a complaint against VeriSign, Inc. and other defendants alleging that defendants collectively operate various gambling games in violation of Georgia state law. Plaintiffs allege that interactive television

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promotions contained in various broadcasts, including NBC's Deal or No Deal, wrongly permit participants to incur premium text message charges in order to participate in the promotions to win a prize. The lawsuit is pending in the United States District Court for the Northern District of Georgia, Gainesville Division. While we cannot predict the outcome of this matter, VeriSign believes that the allegations 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 our opinion will harm its business. VeriSign cannot assure that it will prevail in any litigation. Regardless of the outcome, any litigation may require VeriSign to incur significant litigation expense and may result in significant diversion of management attention.

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 2006.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Price Range of Common Stock**

VeriSign's common stock is traded on the NASDAQ Global Select Market under the symbol VRSN. The following table sets forth, for the periods indicated, the high and low sales prices per share for our common stock as reported by the NASDAQ Global Select Market:

	Price Range	
	High	Low
Year ended December 31, 2007:		
Second Quarter	\$ 32.12	\$ 24.83
First Quarter	26.78	22.92
Year ended December 31, 2006:		
Fourth Quarter	\$ 26.77	\$ 19.90
Third Quarter	23.27	15.95
Second Quarter	25.45	20.91
First Quarter	25.00	20.75
Year ended December 31, 2005:		
Fourth Quarter	\$ 24.48	\$ 19.01
Third Quarter	30.99	20.29
Second Quarter	33.36	24.65
First Quarter	33.67	24.48

On June 29, 2007, there were 845 holders of record of our common stock; although we believe there are approximately 150,000 beneficial owners since many brokers and other institutions hold our stock on behalf of stockholders. On June 29, 2007, the reported last sale price of our common stock was \$31.73 per share as reported by the NASDAQ Global Select Market.

The market price of our common stock has been and is likely to continue to be highly volatile and significantly affected by factors such as:

general market and economic conditions and market conditions affecting technology and Internet stocks generally;

announcements of technological innovations, acquisitions or investments by us or our competitors;

developments in Internet governance; and

industry conditions and trends.

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The market price of our common stock also has been and is likely to continue to be significantly affected by expectations of analysts and investors. Reports and statements of analysts do not necessarily reflect our views. To the extent we have met or exceeded analyst or investor expectations in the past does not necessarily mean that we will be able to do so in the future. In the past, securities class action lawsuits have often followed periods of volatility in the market price of a particular company's securities. This type of litigation could result in substantial costs and a diversion of our management's attention and resources.

We have never declared or paid any cash dividends on our common stock or other securities and we do not anticipate paying cash dividends in the foreseeable future. We currently intend to retain our earnings, if any, for future growth. Information regarding our equity compensation plans may be found in Part III, Items 11 and 12, of this report. Further information regarding our equity compensation plans may be found in Note 11 Stockholders' Equity in Item 15 of our Consolidated Financial Statements of this report.

Table of Contents**Share Repurchases**

To facilitate the stock repurchase program, designed to return value to the stockholders and minimize dilution from stock issuances, we repurchase shares in the open market and from time to time enter into structured stock repurchase agreements with third parties.

In 2001, the Board of Directors of VeriSign authorized the repurchase of up to \$350 million of our common stock in open market, negotiated or block transactions. This stock repurchase program was completed in the third quarter of 2005. In 2005, the Board of Directors authorized a new stock repurchase program to repurchase up to \$500 million of our common stock in open market, negotiated or block transactions. This stock repurchase was completed in the second quarter of 2006. On May 16, 2006, the Board of Directors authorized the repurchase of up to \$1 billion stock of our common stock on the open market, or in negotiated or block trades. The 2006 stock program has no determined end date. As of December 31, 2006, we have approximately \$984.7 million available under the 2006 stock repurchase program.

The following table sets forth the total amount of shares repurchased and net purchase price for the years presented:

	December 31, 2006	December 31, 2005 (In thousands)	December 31, 2004
Shares repurchased	6,490	22,817	4,474
Aggregate purchase price	\$ 135,000	\$ 548,630	\$ 113,257

From the inception of the stock purchase program in 2001 to December 31, 2006, a total of 35.3 million shares have been repurchased for an aggregate purchase price of approximately \$865.3 million.

Table of Contents**Performance Graph**

The information contained in the Performance Graph shall not be deemed to be soliciting material or filed with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933, as amended (the Securities Act) or the Exchange Act.

The following graph compares the cumulative total stockholder return on our common stock, the NASDAQ Composite Index, and the S&P 500 Information Technology Index. The graph assumes that \$100 was invested in our common stock, the NASDAQ Composite Index and the S&P 500 Information Technology Index on December 31, 2001, and calculates the return quarterly through December 31, 2006. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/30/2005	12/29/2006
VeriSign, Inc.	\$ 100	\$ 21	\$ 43	\$ 88	\$ 58	\$ 63
NASDAQ Composite Index	\$ 100	\$ 68	\$ 103	\$ 112	\$ 113	\$ 124
S&P 500 Information Technology Index	\$ 100	\$ 62	\$ 91	\$ 93	\$ 94	\$ 133

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The consolidated balance sheet as of December 31, 2005 and the consolidated statements of income for the years ended December 31, 2005 and 2004 have been restated as set forth below. The data for the consolidated balance sheets as of December 31, 2004, 2003 and 2002 and the consolidated statements of operations for the fiscal years ended December 31, 2003 and 2002 have been restated, but such restated data has not been audited and is derived from the books and records of the Company. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes thereto included in Item 8 of this Form 10-K to fully understand factors that may affect the comparability of the information presented below. The information presented in the following tables has been adjusted to reflect the restatement of the Company's financial results, which is more fully described in Note 2, Restatement of Consolidated Financial Statements in Notes to Consolidated Financial Statements of this Form 10-K.

We have not amended our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by this restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this Annual Report on Form 10-K, and the financial statements and related financial information contained in such previously filed reports should no longer be relied upon.

We have completed a number of acquisitions over the last three fiscal years, each of which was accounted for as a purchase transaction, which may affect year-over-year comparisons of our selected financial data. See a description of such acquisitions fully described in Note 3, Business Combinations of our Notes to Consolidated Financial Statements. Accordingly, the results of the acquired companies' operations are included in our consolidated financial statements from their respective dates of acquisition. We sold certain assets related to our payment gateway business in November 2005. We accounted for this business as discontinued operations and accordingly, we have reclassified the selected financial data for all periods to reflect this business as discontinued operations. We completed the sale of our Network Solutions domain name registrar business in November 2003.

Selected Consolidated Statements of Operations Data: (in millions, except per share data)

	Year Ended December 31,				
	2006 (1)	2005 (2) (4) As Restated	2004 (4) As Restated	2003 (3) (5) As Restated	2002 (3) (5) As Restated
Continuing Operations:					
Revenues	\$ 1,575	\$ 1,613	\$ 1,121	\$ 1,017	\$ 1,195
Net income (loss)	378	162	135	(294)	(4,999)
Net income (loss) from continuing operations per share:					
Basic	\$ 1.55	\$ 0.63	\$ 0.54	\$ (1.23)	\$ (21.13)
Diluted	\$ 1.53	\$ 0.62	\$ 0.53	\$ (1.23)	\$ (21.13)
Discontinued Operations:					
Revenues		51	48	38	27
Net income (loss)	1	267	18	7	(16)
Net income (loss) from discontinued operations per share:					
Basic	\$	\$ 1.04	\$ 0.07	\$ 0.03	\$ (0.07)
Diluted	\$	\$ 1.01	\$ 0.07	\$ 0.03	\$ (0.07)
Consolidated Total:					
Net income (loss)	379	429	153	(287)	(5,015)
Net income (loss) per share:					

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Basic	\$ 1.55	\$ 1.67	\$ 0.61	\$ (1.20)	\$ (21.20)
Diluted	\$ 1.53	\$ 1.63	\$ 0.60	\$ (1.20)	\$ (21.20)

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- (1) Net income includes \$349.8 million in income tax benefits that resulted from the release of our valuation allowance of \$236.4 million from our deferred tax assets and recognizing a non-recurring benefit to tax expense of \$113.4 million due to a favorable ruling received in the second quarter of 2006 relating to a capital loss generated in 2003.
- (2) Net income for 2005 includes gain on sale of discontinued operations of \$250.6 million, net of tax.
- (3) In accordance with Statement of Financial Accounting Standards (SFAS) SFAS No 142, *Goodwill and Other Intangible Assets*, (SFAS 142) the consolidated statements of operations includes the impairment of goodwill and the amortization and impairment of other intangible assets totaling \$335.2 million and \$4.9 billion in 2003 and 2002, respectively.
- (4) The information presented has been adjusted to reflect restatement of our financials which is more fully described in Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements of this Form 10-K.
- (5) The Selected Financial Data for 2003 and 2002 has been restated to reflect adjustments related to stock-based compensation and other financial adjustments. See the tables below for additional information related to the restatement of fiscal years December 31, 2003 and 2002.

Consolidated Balance Sheet Data: (in millions)

	2006	2005	December 31, 2004	2003	2002
		As Restated (1)	As Restated (2)	As Restated (2)	As Restated (2)
Total assets	\$ 3,982	\$ 3,181	\$ 2,599	\$ 2,102	\$ 2,392
Long-term liabilities (3)	6	16	26	39	33
Stockholders' equity	2,385	2,023	1,691	1,377	1,575

- (1) The information presented has been adjusted to reflect restatement of our financials which is more fully described in Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements of this Form 10-K.
- (2) The Selected Financial Data for 2004, 2003 and 2002 has been restated to reflect adjustments related to stock-based compensation expense and the associated tax impact. See table below for additional information related to the restatement of fiscal years ended 2004, 2003 and 2002.
- (3) Other long-term liabilities include other long-term liabilities and long-term accrued restructuring costs.

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The impact of the restatement and a comparison to the amounts originally reported for the consolidated statements of operations and the consolidated balance sheet are detailed in the tables below (in millions, except per share amounts):

Selected Consolidated Statements of Income Data: (in millions, except per share data)

	Years Ended December 31,					
	2005			2004		
	Previously Reported	Adjustments	As Restated (1)	Previously Reported	Adjustments	As Restated (1)
Continuing Operations:						
Revenues	\$ 1,610	\$ 3	\$ 1,613	\$ 1,118	\$ 3	\$ 1,121
Net income	139	23	162	173	(38)	135
Net income from continuing operations per share:						
Basic	\$ 0.54	\$ 0.09	\$ 0.63	\$ 0.69	\$ (0.15)	\$ 0.54
Diluted	\$ 0.53	\$ 0.09	\$ 0.62	\$ 0.67	\$ (0.14)	\$ 0.53
Discontinued Operations:						
Revenues	51		51	48		48
Net income	267		267	13	5	18
Income from discontinued operations per share:						
Basic	\$ 1.04	\$	\$ 1.04	\$ 0.05	\$ 0.02	\$ 0.07
Diluted	\$ 1.01	\$	\$ 1.01	\$ 0.05	\$ 0.02	\$ 0.07
Consolidated Total:						
Net income	406	23	429	186	(33)	153
Net income per share:						
Basic	\$ 1.58	\$ 0.09	\$ 1.67	\$ 0.74	\$ (0.13)	\$ 0.61
Diluted	\$ 1.54	\$ 0.09	\$ 1.63	\$ 0.72	\$ (0.12)	\$ 0.60

(1) The information presented has been adjusted to reflect restatement of our financials which is more fully described in Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements of this Form 10-K.

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The following table presents the impact of the financial statement adjustments on the Company's previously reported consolidated statements of operations for year ended December 31, 2003:

	Previously Reported (1)	Adjustments	As Restated
	(In thousands, except share data)		
Revenues	\$ 1,017,345	\$	\$ 1,017,345
Costs and expenses:			
Cost of revenues	439,152	2,575	441,727
Sales and marketing	187,334	5,029	192,363
Research and development	49,408	3,075	52,483
General and administrative	173,094	13,262	186,356
Restructuring and other charges	74,633	3,773	78,406
Impairment of goodwill	81,885		81,885
Impairment of other intangible assets	71,534		71,534
Amortization of other intangible assets	181,736		181,736
Total costs and expenses	1,258,776	27,714	1,286,490
Operating loss from continuing operations	(241,431)	(27,714)	(269,145)
Other expense:			
Minority interest	(474)		(474)
Other expense, net	(7,803)	1,636	(6,167)
Total other expense, net	(8,277)	1,636	(6,641)
Loss from continuing operations before income taxes	(249,708)	(26,078)	(275,786)
Income tax expense	18,199		18,199
Net loss from continuing operations	(267,907)	(26,078)	(293,985)
Discontinued operations:			
Net income from discontinued operations, net of tax	8,028	(821)	7,207
Net loss	\$ (259,879)	(26,899)	\$ (286,778)
Basic net loss per share from:			
Continuing operations	\$ (1.12)	\$ (0.11)	\$ (1.23)
Discontinued operations	0.04	(0.01)	0.03
Net loss	\$ (1.08)	\$ (0.12)	\$ (1.20)
Diluted net loss per share from:			
Continuing operations	\$ (1.12)	\$ (0.11)	\$ (1.23)
Discontinued operations	0.04	(0.01)	0.03
Net loss	\$ (1.08)	\$ (0.12)	\$ (1.20)
Shares used in per share computation:			
Basic	239,780	(58)	239,722

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Diluted	239,780	(58)	239,722
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(1) Previously reported numbers have been adjusted to show the sale of our payments gateway business in November 2005.

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The following table presents the impact of the financial statement adjustments on the Company's previously reported consolidated statements of operations for year ended December 31, 2002:

	Previously		
	Reported (1)	Adjustments	As Restated
	(In thousands, except share data)		
Revenues	\$ 1,194,351	\$	\$ 1,194,351
Costs and expenses:			
Cost of revenues	563,904	8,473	572,377
Sales and marketing	241,954	19,388	261,342
Research and development	43,364	6,323	49,687
General and administrative	170,985	18,082	189,067
Restructuring and other charges	88,574		88,574
Impairment of goodwill	4,364,613		4,364,613
Impairment of other intangible assets	223,844		223,844
Amortization of other intangible assets	283,861		283,861
Total costs and expenses	5,981,099	52,266	6,033,365
Operating loss from continuing operations	(4,786,748)	(52,266)	(4,839,014)
Other expense:			
Minority interest	(415)		(415)
Other expense, net	(149,038)	(304)	(149,342)
Total other expense, net	(149,453)	(304)	(149,757)
Loss from continuing operations before income taxes	(4,936,201)	(52,570)	(4,988,771)
Income tax expense	10,375		10,375
Net loss from continuing operations	(4,946,576)	(52,570)	(4,999,146)
Discontinued operations:			
Net loss from discontinued operations, net of tax	(14,721)	(1,550)	(16,271)
Net loss	\$ (4,961,297)	\$ (54,120)	\$ (5,015,417)
Basic net loss per share from:			
Continuing operations	\$ (20.91)	\$ (0.22)	\$ (21.13)
Discontinued operations	(0.06)	(0.01)	(0.07)
Net loss	\$ (20.97)	\$ (0.23)	\$ (21.20)
Diluted net loss per share from:			
Continuing operations	\$ (20.91)	\$ (0.22)	\$ (21.13)
Discontinued operations	(0.06)	(0.01)	(0.07)
Net loss	\$ (20.97)	\$ (0.23)	\$ (21.20)
Shares used in per share computation:			

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Basic	236,552	(24)	236,528
Diluted	236,552	(24)	236,528

(1) Previously reported numbers have been adjusted to show the sale of our payments gateway business in November 2005.

Table of Contents**Consolidated Balance Sheet Data:** (in millions)

	December 31, 2005			December 31, 2004		
	Previously			Previously		
	Reported	Adjustments	As Restated	Reported	Adjustments	As Restated
Total assets	\$ 3,173	\$ 8	\$ 3,181	\$ 2,593	\$ 6	\$ 2,599
Other long-term liabilities	16		16	26		26
Stockholders' equity	2,032	(8)	2,024	1,692	(1)	1,691
	December 31, 2003			December 31, 2002		
	Previously			Previously		
	Reported	Adjustments	As Restated	Reported	Adjustments	As Restated
Total assets	\$ 2,101	\$ 1	\$ 2,102	\$ 2,391	\$ 1	\$ 2,392
Other long-term liabilities	39		39	33		33
Stockholders' equity	1,384	(7)	1,377	1,579	(4)	1,575

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Except for historical information, this Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve risks and uncertainties, including, among other things, statements regarding our anticipated costs and expenses and revenue mix. Forward-looking statements include, among others, those statements including the words expects, anticipates, intends, believes and similar language. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Item 1A Risk Factors. You should carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q or Current Reports on Form 8-K that we file in 2007. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. 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.

In this Form 10-K, we are restating our consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for the years ended December 31, 2005 and 2004. We are also restating the unaudited quarterly financial information and financial statements for interim periods of 2005, and the unaudited condensed financial statements for the three months ended March 31, 2006.

The decision to restate was based on the results of an independent review into our stock option accounting that was conducted under the direction of an ad hoc group of our independent directors who had not served on our Compensation Committee before 2005 (Ad Hoc Group). As part of the restatement, we have also made adjustments to our consolidated financial statements for the years ended December 31, 2005, 2004, 2003 and 2002 to correct errors identified for these fiscal years, which were not material to our financial statements in the aggregate or for any prior fiscal year.

Previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q affected by the restatements have not been amended and should not be relied upon.

We first learned of the potential issues associated with our past stock option grants from a May 16, 2006 article published by the Center for Financial Research and Analysis (CFRA) in which we were referenced as one of 15 public companies with one or two stock grants between 1997 and 2002 that the CFRA suggested were timed at, or close to, 40-day lows in the applicable company's stock price or preceding a material change in our stock price. Promptly after learning of the CFRA article, and prior to receiving the grand jury subpoena or the informal SEC request described below, the Ad Hoc Group, with the assistance of independent outside counsel, Cleary Gottlieb Steen & Hamilton LLP (Cleary Gottlieb), began reviewing the facts and circumstances of the timing of our historical stock option grants for the period January 1998 to May 2006 (relevant period). We believe that the analysis was properly limited to the relevant period. In addition to Cleary Gottlieb, the Ad Hoc Group was assisted in its Review by independent forensic accountants (collectively the Review Team).

On June 27, 2006, we announced that we had received a grand jury subpoena from the U.S. Attorney for the Northern District of California requesting documents relating to our stock option grants and practices dating back to January 1, 1995, and had received an informal request for information from the Securities and Exchange Commission (SEC) related to our stock option grants and practices. On February 9, 2007, we

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subsequently received a formal order of investigation from the SEC. We are fully cooperating with the U.S. Attorney's investigation and the SEC investigation.

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On November 21, 2006, we announced that the Ad Hoc Group had determined the need to restate our historical financial statements to record additional non-cash, stock-based compensation expense related to past stock option grants.

On March 30, 2007, we requested guidance from the Office of the Chief Accountant of the SEC (the OCA) concerning certain accounting issues relating to the restatement of our historical financials and the Review. On June 25, 2007, we concluded our discussions with the OCA regarding these accounting issues.

On May 29, 2007, we announced that Stratton Sclavos, our then-current Chairman and Chief Executive Officer, had resigned from his position with VeriSign. Following Mr. Sclavos' resignation, the Board elected director William A. Roper, Jr. as our President and CEO and Edward Mueller as our Chairman of the Board of Directors.

On July 10, 2007, Dana L. Evan, our then-current Executive Vice President of Finance and Administration and Chief Financial Officer, resigned from her position with VeriSign.

On July 5, 2007 and July 12, 2007, the Board of Directors appointed Albert E. Clement Chief Accounting Officer and Executive Vice President, Finance and Chief Financial Officer, respectively of the Company.

The Review Team tested grants made on 239 dates, incurred 21,800 person-hours, searched more than 11 million pages of physical and electronic documents and conducted 75 interviews of 33 current and former directors, officers, employees, and advisors. We announced on January 31, 2007 that the Ad Hoc Group's Review was substantially completed and that, based on a review of the totality of evidence and the applicable law, the Review did not find intentional wrongdoing by any current member of the senior management team or the former CEO. The Ad Hoc Group's Review concluded that we failed to implement appropriate processes and controls for granting, accounting for, and reporting stock option grants and that corporate records in certain circumstances were incomplete or inaccurate.

The Review Team examined all grants to Section 16 officers and directors during the relevant period, as well as 7 annual performance grants to rank and file employees and 179 acquisition, new hire and promotion, and other grants to rank and file employees on 239 dates from January 1998 through January 2006.

The Review Team identified 8,164 stock option grants made on 41 dates during the relevant period for which measurement dates were incorrectly determined. The measurement dates required revision because the stated date either preceded or was subsequent to the proper measurement date and the stock price on the stated date was generally lower than the price on the proper measurement date. In several instances, the Review Team also determined that the stock price assigned on the initial grant dates was subsequently modified, without being given the required accounting and disclosure treatment.

Consistent with the accounting literature and recent guidance from the SEC, as part of the restatement, the grants during the relevant period were organized into categories based on grant type and process by which the grant was finalized. The evidence related to each category of grant was analyzed including, but not limited to, electronic and physical documents, document metadata, and witness interviews. Based on the relevant facts and circumstances, and consistent with the accounting literature and recent guidance from the SEC, the controlling accounting standards were applied to determine, for every grant within each category, the proper measurement date. If the measurement date was not the originally assigned grant date, accounting adjustments were made as required, resulting in stock-based compensation expense and related income tax

effects.

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Measurement Date Hierarchy

We have adopted the following framework for determining the measurement dates of our stock option grants and have applied this framework to each grant based on the facts, circumstances and availability of documentation.

We reviewed the date of the minutes of the Board of Directors or Compensation Committee meetings for grants made at such meetings when the number of options and exercise price for each recipient had been clearly approved. Where the Review Team determined that the meeting date was not the measurement date, the Review Team determined the actual date of approval of the grant via other documentary evidence and interviews.

When a grant was approved by unanimous written consent (UWC), the measurement date was the date of the Compensation Committee's approval of the UWC as established by available evidence, such as receipt of signature pages of the UWC, contemporaneous telephone and/or e-mail communications.

If a grant was approved by the CEO under authority delegated by the Compensation Committee, the measurement date was the date on which the CEO communicated approval to the Human Resources Department, the Compensation Committee or the respective employees indicating final approval of both the number of options and exercise price.

If a grant was approved by the CEO based on the mistaken belief that he had delegated authority to do so (de facto or substantive authority), the measurement date was the date on which the CEO communicated approval to either the Human Resources Department, the Compensation Committee or the respective employees indicating final approval of both the number of options and exercise price.

In the event the date on which the CEO communicated approval was not evident from the approval forms, the measurement date was the date on which other available evidence, such as the surrounding e-mail communications, established the date the CEO approved the grant.

In the event the date of CEO approval could not be established by reviewing other available evidence, such as e-mails, the measurement date was the date on which the number of options and exercise price were entered into our option tracking database (Equity Edge).

Except for grants to Section 16 officers which require Compensation Committee approval, for new hire grants and promotion grants, prior to March 13, 1998, the measurement date was the date the Compensation Committee approved the grant (as described above). For new hire grants and promotion grants after March 13, 1998 and prior to September 2000 and after September 30, 2002, the measurement date was the 15th day or the last day of the month (or the prior business day if that day was not a business day) following the actual and documented start date or promotion date of the respective employee receiving the grant. New hire grants and promotion grants made in the period September 1, 2000 through September 30, 2002 required CEO approval. For new hire grants and promotion grants in the period September 1, 2000 through September 30, 2002, the measurement date was the date on which the CEO communicated approval to either the Human Resources Department, the Compensation Committee or the respective employees indicating final approval of both the number of options and exercise price. If that date could not be determined, the measurement date was based on the date on which the number of options and exercise price were entered into Equity Edge.

After determining the measurement date through the steps in the above Measurement Date Hierarchy, we then determined if there were any changes to the individual recipients, exercise prices or amount of shares granted after such measurement date. If there were no changes following such measurement date, then that date would be used. If we identified changes following such measurement date, then we would evaluate whether the changes should delay the measurement date for the entire list of grants on that date, result in a repricing, or result in

separate accounting for specific grants.

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Director Grants

Required Granting Actions: Grants to directors under the 1998 Director Plan (the Director Plan) were automatic and non-discretionary; the Director Plan did not require the CEO, the Board or the Compensation Committee to review or approve director grants. Each new director received an initial grant of a specified number of options on the date of his or her appointment and annually on the anniversary of the initial grant to be priced on the appointment or anniversary date, respectively. Directors serving before the Director Plan was adopted received an annual grant on the anniversary of their previous grant.

Method for Determining Proper Measurement Dates: For the initial grant, the measurement date was the date the director was appointed to the Board, as reflected in Board minutes. In the absence of Board minutes, the date specified in the proxy statement or, if not clear, the date of the first Board meeting attended by the new director. For anniversary grants, annually on the date of the initial grant (or the next business day if such date was not a business day).

Executive Grants

Required Granting Actions: The Compensation Committee is required to approve all grants to executive officers. For grants to the former CEO, the Review Team concluded that, in all but three cases (including the February 2002 grant described below), the Compensation Committee or the Board of Directors approved the grant on the stated grant date, resulting in a correct measurement date.

Method for Determining Proper Measurement Dates: For grants other than the February/May 2002 grant described below, including the other two grants to the former CEO referred to above, please refer to the Measurement Date Hierarchy above.

Acquisition Grants

Required Granting Actions: CEO authorization required. The Board of Directors implicitly delegated to the CEO authority to approve grants to employees from acquisitions when the Board approved an acquisition.

Method for Determining Proper Measurement Dates: Refer to the Measurement Date Hierarchy above.

Annual Refresh Grants

Required Granting Actions: The Compensation Committee was required to approve all annual refresh grants through and including the 2004 annual refresh grant. In 2005, the Compensation Committee delegated to the CEO the authority to approve rank and file annual refresh grants.

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Method for Determining Proper Measurement Dates: Refer to the Measurement Date Hierarchy above.

Extended Grants

Required Granting Actions: The Compensation Committee or the Board of Directors is required to approve all extensions of grants.

Method for Determining Proper Measurement Dates: Extended grants are a modification of a previous award. Available documentation was used to establish the modification date and to measure the additional compensation charge.

Retention and Off-Cycle Grants

Required Granting Actions: The Compensation Committee is required to approve all retention and off-cycle grants.

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Method for Determining Proper Measurement Dates: Refer to the Documentation Hierarchy above. For the February/May 2002 retention grant described below, the former CEO approved the grants to rank and file employees.

New Hire and Promotion Grants

Required Granting Actions: New hire grants and promotion grants made after March 13, 1998 and prior to September 2000 and those made after September 30, 2002 were automatic and did not require the CEO, the Board or the Compensation Committee review or approval. Prior to March 13, 1998, the Compensation Committee was required to approve all new hire and promotion grants. New hire grants and promotion grants made in the period September 1, 2000 through September 30, 2002 required CEO approval.

Method for Determining Proper Measurement Dates: Refer to the Measurement Date Hierarchy above.

The 8,164 grants previously identified as having incorrectly determined measurement dates were classified into the following six categories: (1) 27 grants on 11 dates to persons elected or appointed as members of the Board of Directors (*Director Grants*); (2) 33 grants to executive officers (*Executive Grants*); (3) 2,908 grants to employees issued after an acquisition, newly hired employees and promoted employees under the new hire and promotion grants program described below (*New Hire and Promotion Grants Program*), and other grants to a large number of non-executives; (4) 4,226 grants made in broad-based awards to large numbers of employees, usually on an annual basis (*Annual Refresh Grants*); (5) 964 off-cycle performance grants; and (6) 6 grants whereby the expiration dates were extended (*Extended Grants*). All references to the number of option shares, option exercise prices, and share prices have been adjusted for all subsequent stock splits.

As discussed below, it was determined that the originally assigned grant dates for 8,164 grants were not ascribed the proper measurement dates for accounting purposes. Accordingly, after accounting for forfeitures, stock-based compensation expense of \$171.4 million on a pre-tax basis was recognized over the respective awards' vesting terms for the periods from 1998 to 2006. As noted below, we also considered alternative measurement dates for eight grant dates which, if applied, would have resulted in additional stock-based compensation expense of approximately \$25.7 million. The adjustments made to reflect the proper measurement dates for accounting purposes and the financial statement impact of the alternative measurement dates considered by us, were determined by category as follows:

Director Grants: 64 director grants were made on 36 dates during the relevant period. Of the 64 grants, there were 27 grants to directors for which it was determined that the originally determined grant dates preceded or succeeded the measurement dates, 11 grants were in excess of plan parameters, and some of the dates were selected in hindsight based on an advantageous share price. Of the 27 grants with measurement date issues, 26 of the grants involved periods of 5 days or less and resulted in a stock-based compensation expense of less than \$100,000 in the aggregate. Revisions to measurement dates for director grants were made where the wrong date was selected based on the requirements of the Director Plan and where incorrect start dates were used for the date the director joined the Board of Directors. The excess grants have been historically honored by us. As a result, \$0.3 million of stock-based compensation expense was recognized.

Executive Officer Grants: It was determined that for 33 of the grants to executive officers, the originally determined grant dates preceded the measurement dates or the grant dates and exercise prices were subsequently changed. Some of these dates were selected in hindsight based on an advantageous share price. As the stock prices on the originally determined grant dates were lower than the stock prices on the proper measurement date, \$28.1 million of stock-based compensation expense was recognized. The revised measurement dates for various executive officer grants were based on Compensation Committee meeting dates, signed UWCs, delayed CEO approval, and for one date the measurement

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date was based on the date on which the number of options and exercise price were entered into Equity Edge. We also considered an alternative measurement date for one grant date which would have increased the compensation expense by approximately \$130,000 for that grant. The authority for 21 grants, which have been historically honored by us, is based on the CEO's presumed authority.

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New Hire and Promotion Grants Program: We concluded that the new hire and promotion grants made pursuant to the New Hire and Promotion Grants Program within the pre-established guidelines did not require an adjustment, with the exception of the grants made from September 1, 2000 to September 30, 2002. For the 1,728 grants made during that time period, management concluded that the measurement dates occurred only on the dates of the CEO approval. Due to practical difficulties in ascertaining the actual dates of the CEO approval for many new hire and promotion grants in that time period, the measurement date was based on the date on which the number of options and exercise price were entered into Equity Edge. The incremental stock-based compensation expense associated with the New Hire and Promotion Grants during the relevant period was \$11.9 million.

Acquisition Grants: After the consummation of certain acquisitions, we granted stock options to employees of the acquired entities. It was determined that the measurement dates for 1,180 option grants required revision because the stated grant dates preceded the proper measurement dates and the approval authority was based on CEO approval. Some of these dates were chosen in hindsight based on an advantageous share price. Of the 1,180 grants, 1,048 grants were extinguished as part of our exchange program which commenced in November 2002. Due to issues associated with the measurement dates for the acquisition grants, \$36.2 million of additional stock-based compensation expense was recognized during the relevant period. We also considered an alternative measurement date for three different acquisition grant dates which, if they had been used, would have increased the compensation expense by approximately \$675,000.

Annual Refresh Grants: During the relevant period, 3,782 broad-based grants were made to employees under an annual program (the Refresh Grants) for which the originally assigned grant dates were not the proper measurement dates. Some of these dates were chosen in hindsight based on an advantageous share price, and the authority for some of the Refresh Grants was the CEO's presumed authority. For one of the annual Refresh Grants which occurred in August 2000, there was conflicting documentation and inconclusive evidence with respect to the measurement date. It was determined that the most appropriate measurement date, due to the lack of affirmative evidence otherwise, was the date on which the number of options and exercise price were entered into Equity Edge, and based on that date, \$19.2 million of stock-based compensation expense was recognized in the period 2000 to 2002. These grants were extinguished in December 2002 as part of our exchange program which commenced in November 2002. We did not approve or process any stock option grants to existing employees during the period of the tender offer or agree or imply that we would compensate employees for any increases in the market price during the tender period. The Review also determined that the annual refresh grants for the years 1999, 2001, 2004, and a portion of the 2003 grant had a measurement date that was later than the date that was originally used. In these cases, where the measurement dates were revised, the authority for the grants varied and included new dates based on UWCs by the Compensation Committee or approvals by the CEO. Where approval was not determinable based on the above, we utilized the date on which the number of options and exercise price were entered into Equity Edge. Due to the errors in measurement dates associated with the annual refresh grants, stock-based compensation expense of \$55.1 million was recognized. We also considered alternative measurement dates for two refresh grants which did not create additional compensation charge where one alternative measurement date had a lower price than the original grant date and the options for the second alternative measurement date were cancelled prior to the one-year cliff vesting date.

Off-Cycle Performance Grants: There were 964 performance grants made to employees on March 15, 2001 and October 1, 2003. These dates were chosen in hindsight based on an advantageous share price, and the authority for these grants was the CEO's de facto authority. The revised measurement dates were based on the dates of the UWC for the March 15, 2001 grant and e-mail correspondence for the October 1, 2003 grant. Due to the errors in measurement dates associated with the off-cycle performance grants, stock-based compensation expense of \$5.6 million was recognized. We also considered an alternative measurement date for the October 1, 2003 grant which, if it had been used, would have decreased the compensation expense by approximately \$100,000 for that grant.

Extended Grants: During the relevant period, there were 6 stock option extensions (including one to the former CEO described below) whereby an option was extended beyond its expiration or termination date and for

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which a compensation charge had not been recorded. As a result, \$2.1 million of stock-based compensation expense was recognized.

The former CEO received certain options from Network Solutions, Inc. (NSI) in his capacity as a NSI director prior to our acquisition of NSI. Upon receiving legal advice, management extended the term of those options beyond their original expiration date. The former CEO exercised those options on May 24, 2002. The Ad Hoc Group reviewed the extension of these options and determined that the legal advice was incorrect and that the options should not have been extended. Upon learning of this determination in January 2007, the former CEO voluntarily paid us \$174,425, reflecting the after-tax net profit he received from the exercise of those options.

2002 Retention Grants: Between February and May 2002, the Compensation Committee considered special option grants as a retention incentive for executive officers and other executives and key employees, since in many cases the exercise prices of options previously granted to these individuals were significantly above the then-current market price for shares of our common stock. These retention grants are summarized as follows:

Grants to Executive Officers and Other Executives: We determined that 68 grants of options for a total of 4,631,000 shares to executive officers and other executives were finalized on April 10, 2002 rather than the stated grant date of February 21, 2002. The Review Team was unable, after review of detailed documentation, including multiple draft versions of the February 12, 2002 Compensation Committee minutes, approval forms (which were undated) and email correspondence, to affirmatively determine when the grants to executive officers and other executives were approved. In accordance with our measurement date hierarchy for grants described above, we determined that April 10, 2002 was the correct measurement date because that was the date that other grants, including certain executive grants, were entered into Equity Edge. The grant price as of the measurement date was \$23.74, the closing market price of our stock on April 10, 2002. Because the stated exercise price of the grants was set based on the closing market price on February 21, 2002 of \$22.71 and preceded the measurement date, an incremental \$1.3 million of stock-based compensation expense was recognized.

We also determined that the Compensation Committee repriced 1,870,000 of these options on May 24, 2002, with an exercise price of \$10.08, the closing market price of our stock on May 24, 2002. We determined that these grants were a reprice based on a UWC of the Compensation Committee. The accounting impact of the repricing was not recorded at the time of the Compensation Committee approval and we did not properly disclose the circumstances of these grants. In accordance with FIN 44 and after applying variable accounting, we recognized incremental stock-based compensation expense of approximately \$15.8 million, net of reversals, for the periods between 2002 and 2006. Had we considered an alternative measurement date between the periods from February 13, 2002 through April 25, 2002, compensation expense would have increased by up to \$25.0 million for these grants.

Grants to Employees: Broad-based employee grants were also considered during the February to May 2002 period. The Review Team determined that the CEO, under his presumed authority, approved 305 broad-based employee grants on or about March 20, 2002 with a grant price of \$26.42, the closing market price of our stock on that date. These awards were communicated shortly thereafter to the employees. We determined that March 20, 2002 was a definitive measurement date for the awards to the employees.

The grants to employees previously approved by the CEO on March 20, 2002 were submitted for approval to the Compensation Committee as evidenced in a UWC dated May 24, 2002. The Compensation Committee approved the 305 employee grants with an exercise price of \$10.08, the market value of our common stock on May 24, 2002. Therefore the employee awards were re-priced on that date. Although the awards had been communicated to the employees and disclosed in our Form 10-Q for the first quarter of 2002, the accounting impact of the repricing was not recorded at the time of the Compensation Committee approval and we did not properly disclose the circumstances of these grants. As a result of the repricing, and after applying variable accounting, approximately \$6.6 million, net of reversals of additional stock-based compensation

expense, has been recorded for the periods between 2002 and 2006.

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Retention Grants to our former CEO: In the February 12, 2002 Compensation Committee meeting, the Committee considered the number and vesting period of a proposed option award to the CEO. The Review Team found multiple draft versions of the minutes for the February 12, 2002 meeting of the Compensation Committee and concluded that the signed minutes were inaccurate. Attendees at the meeting have different recollections of the business conducted. One draft, unapproved version of those minutes, stated the number of options to be awarded to the CEO was 1,200,000, while the signed version of the minutes approved by the members of the Compensation Committee in late May 2002 stated that the number of options to be awarded was 600,000. Both versions of the minutes stated that the grant date and the exercise price was February 21, 2002 and \$22.71. The minutes of a Board meeting held on February 12, 2002, after the Compensation Committee meeting, also indicate that the CEO was awarded 1,200,000 options at the February 12, 2002 Compensation Committee meeting.

We have determined that the measurement date for the 1,200,000 options to the CEO was February 12, 2002 with a grant price of \$26.31, the closing market price of our stock on that date, and that the options were repriced on February 21, 2002 with a grant price of \$22.71, the closing market price of our stock on that date. Subsequently, 600,000 options of the 1,200,000 options were repriced on May 24, 2002 with a grant price of \$10.08, the closing market price of our stock on that date. The accounting impact of the repricings was not recorded at the time of the Compensation Committee approval and we did not properly disclose the circumstances of these grants. As a result of the repricing, and after applying variable accounting, approximately \$7.5 million, net of reversals, of additional stock-based compensation expense has been recorded for the periods between 2002 and 2006.

Actions Taken by the Board with respect to Grants: As part of the Review, the Board of Directors confirmed all option grants (including those to our former CEO and CFO) that the Review Team concluded had authority issues as legally binding and enforceable obligations of the Company as of the date of such grant. In addition, the Board of Directors decided to modify the following grants to the former CEO and CFO in 2007 and no reversal of compensation expense was recorded for these negative modifications in the financial statements.

Former CEO: An option grant to the former CEO of 100,000 shares originally dated December 29, 2000 at an exercise price of \$74.188 was modified to a new exercise price of \$127.31.

Former CEO: The February 2002 option grant to the former CEO of 600,000 shares originally dated February 21, 2002 at an exercise price of \$22.71 was modified to a new exercise price of \$26.31.

Former CFO: An option grant to the CFO of 25,000 shares originally dated December 29, 2000 at an exercise price of \$74.188 was modified to a new exercise price of \$127.31.

Former CFO: An option grant to the CFO of 125,000 shares originally dated August 1, 2000 at an exercise price of \$151.25 was modified to a new exercise price of \$165.22.

Former CFO: An option grant to the CFO of 40,000 shares originally dated March 15, 2001 at an exercise price of \$34.44 was modified to a new exercise price of \$42.26. The CFO's 409A tax election described below modified 1,667 of these options and the Board of Directors determined to modify the remaining 38,333 options.

Former CFO: A grant to the CFO of 90,000 shares originally dated September 6, 2001 at an exercise price of \$34.16 was modified to a new exercise price of \$38.30. The CFO's 409A tax election described below modified 11,250 of these options and the Board of Directors determined

to modify the remaining 78,750 options.

Former CFO: The February 2002 option grant to the CFO of 100,000 shares originally dated February 21, 2002 at an exercise price of \$22.71 was modified to a new exercise price of \$23.74.

Other: The Company and the Review Team also determined that the former CEO received an option grant in October 1998 for 100,000 shares (95,928 non-qualified stock options (NQSOs) and 4,072 incentive stock

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options (ISOs), which split to options for 200,000 shares in May 1999 and then split again to options for 400,000 shares in November 1999 when we announced a stock split during those respective periods. The account statements and monthly reporting statements for November 1 and December 1, 2000 showed that the former CEO held options for 400,000 shares at the split-adjusted price of \$7.67. However, the Ad Hoc Group determined that sometime between December 1, 2000 and January 1, 2001, we erroneously changed the former CEO's options to reflect the pre-split amount of 100,000 shares instead of 400,000 shares, but at the post-split price of \$7.67. The error was never subsequently corrected. Therefore, the former CEO did not receive the benefit of the additional 300,000 options arising from the two stock splits, which expired in 2005. Based on a determination by the Board of Directors after the Ad Hoc Group's Review in May 2007, we have agreed to pay the former CEO \$5,459,430, reflecting the gain he would have realized from the exercise of these options prior to their expiration, based on the weighted-average price of stock options exercised by the former CEO in August 2005.

The other principal factual findings of the Review included the following:

The human resources, accounting, and legal departments failed to implement appropriate processes and controls. During 2000 through 2003, the option grant process was characterized by a high degree of informality and relatively little oversight.

The Review found no evidence that accounting personnel were aware of the deficient practices used in selecting grant dates.

The Review found instances of incomplete and inaccurate corporate records, including two sets of Committee minutes that were inaccurate.

The Review found no evidence of fictitious individuals being granted options.

Options found to be misdated, have a date chosen in hindsight based on an advantageous share price, repriced, or unauthorized with a stated exercise price lower than the share price at the actual approval date will result in adverse tax consequences to the recipients and us.

In light of the Review's other findings, our disclosures related to option grants were inaccurate in some respects.

The principal recommendations of the Ad Hoc Group's Review included the following:

The Board or the Compensation Committee should approve all grants that the Review found to be unauthorized, with the exception of certain grants made to our former CEO and CFO. The Board or the Compensation Committee should consider whether to cancel or request forfeiture of any options granted to the former CEO and CFO that were determined to be unauthorized, misdated, have a date chosen in hindsight based on an advantageous share price, or repriced, and then should consider the appropriate equity compensation for these officers for the periods covered by the Review.

We should develop and implement detailed written grant policies.

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We should designate individuals in the legal and accounting departments to oversee the documentation of and accounting for option grants.

We should develop and implement improved training and controls relating to option granting practices to ensure that all personnel involved in the granting and administration of stock options understand the relevant option plans and accounting, tax, and disclosure requirements.

We should award regular grants (new hire, promotion, and annual performance) at predetermined dates and with all approvals documented and finalized on those dates.

The Board has adopted all of the Review's findings and recommendations. Under the direction of the Audit Committee and the Compensation Committee, and with the assistance of PricewaterhouseCoopers LLP, we have implemented or are in the process of implementing the recommendations.

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Based on the results of the Review, we have recorded additional non-cash stock-based compensation expense (benefit) net of related income tax effects related to past stock option grants of \$1.5 million for the first quarter ended March 31, 2006, (\$21.6) million and \$36.9 million in fiscal years 2005 and 2004, respectively. These adjustments were recorded based on the evidence and findings from the Ad Hoc Group's review, including analysis of the measurement dates for the 8,164 stock option grants made on 41 dates during the relevant period that the Review determined were incorrect.

The incremental impact from recognizing stock-based compensation expense resulting from the Ad Hoc Group's Review of past stock option grants is as follows (dollars in thousands):

Fiscal Year	As Restated	As Previously Reported	Pre-Tax	After Tax
			Expense	(Income) Expense
			(Income) Adjustments	Adjustments
1998	\$ 1,288	\$ 1,280	\$ 8	\$ 8
1999	7,057	104	6,953	6,953
2000	24,814	1,722	23,092	23,092
2001	42,500	7,803	34,697	34,697
2002	70,066	18,956	51,110	51,110
2003	35,010	7,389	27,621	27,621
Total 1998 - 2003 impact	180,735	37,254	143,481	143,481
2004	46,835	3,136	43,699	36,873
2005(2)	(10,588)(2)	6,312	(17,670)	(21,560)
2006(1)	66,285	64,438	1,847(1)	1,532(1)
Total	\$ 283,267	\$ 111,140	\$ 171,357	\$ 160,326

(1) Pre-tax expense adjustments are through March 31, 2006 and represents amounts being reported pursuant to FAS 123R whereas amounts for all other years represent amounts being reported pursuant to APB 25.

(2) Includes \$0.8 million of other stock-based compensation adjustments that were unrelated to past stock option grants.

Additionally, the pro forma expense under SFAS No. 123 in Note 1 in the Notes to Consolidated Financial Statements of this Form 10-K has been restated to reflect the impact of these adjustments for the years ended December 31, 2005 and December 31, 2004.

As noted above we considered alternative measurement dates for eight grants which, if applied, would have resulted in additional stock-based compensation of approximately \$25.7 million. With the exception of these eight grants, there was no uncertainty on the measurement date for option grants. The table below shows what the incremental impact to stock-based compensation expense would have been by category of grant had these alternative measurement dates been applied (in thousands):

Category	Pre-Tax Expense
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	(Income)
Director Grants	\$
Executive Grants	100
Acquisition Grants	675
Annual Refresh Grants	
Extended Grants	
Retention and Off-Cycle Grants	(100)
New Hire and Promotion Grants	
2002 Retention Grants	25,000
Total	\$ 25,675

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We evaluated the impact of the restatements on our global tax provision and have determined that a portion of the tax benefit relating to stock-based compensation expense formerly associated with stock option deductions is attributable to continuing operations. We identified deferred tax assets totaling \$16.3 million at December 31, 2005 which reflect the benefit of tax deductions from future employee stock option exercises. We have not realized this or any other deferred tax asset relating to taxing jurisdictions within the United States as of December 31, 2005.

We also believe that we should not have taken a tax deduction under Internal Revenue Code (IRC) Section 162(m) in prior years for stock option related amounts pertaining to certain executives. Section 162(m) limits the deductibility of compensation above certain thresholds. As a result, our tax net operating losses associated with the stock option intra-period allocation have decreased by \$12.6 million. We continue to apply a valuation allowance to our tax net operating losses relating to stock options exercised prior to the adoption of SFAS No.123R, *Share-Based Payment*. Pursuant to Footnote 82 of SFAS No. 123R, we recognize financial statement benefit of these tax net operating losses when such losses reduce cash taxes paid.

Section 409A of the Internal Revenue Code (Section 409A) imposes significant penalties on individual income taxpayers who were granted stock options that were unvested as of December 31, 2004 and that have an exercise price of less than the fair market value of the stock on the date of grant (Affected Options). These tax consequences include income tax at vesting, an additional 20% tax and interest charges. In addition, the issuer of Affected Options must comply with certain reporting and withholding obligations under Section 409A.

These adverse tax consequences may be avoided for unexercised Affected Options if the exercise price of the Affected Option is adjusted to reflect the fair market value at the time the option was granted (as such measurement date is determined for financial reporting purposes). Under Treasury regulations, Affected Options held by executive officers or directors were to be amended on or before December 31, 2006 to avoid the adverse tax consequences of Section 409A; holders of Affected Options who are not our executive officers or directors have until December 31, 2007 to amend their Affected Options to avoid the adverse tax consequences of Section 409A. Four of our current and former executive officers and a current director holding Affected Options elected to increase the exercise price of their Affected Options to the market price on December 31, 2006. Effective December 31, 2006, the exercise prices of Affected Options held by D. James Bidzos, a current board member, Dana Evan, former Chief Financial Officer, Robert Korzeniewski, Executive Vice President of Corporate Development, Judy Lin, former Executive Vice President of Security Services and Mark McLaughlin, Executive Vice President of Products, Marketing and Customer Support, were adjusted so that these options will not be subject to Section 409A. We are currently considering actions to avoid or alleviate certain of the adverse tax consequences associated with Affected Options for employees who are not executive officers of the Company and whether to offer compensation to the executive officers and director who elected to increase the exercise price of their Affected Options as of December 31, 2006. Should we decide to take actions to avoid or alleviate these adverse tax consequences associated with current and former employees outstanding Affected Options, we estimate the related compensatory payments would be approximately \$11.6 million. In June 2007, we made payments of approximately \$0.9 million on behalf of current and former employees who exercised Affected Options in 2006 under the IRS and California Franchise Tax Board 409A Compliance Resolution Programs. We estimate the cost to participate in these Compliance Resolution Programs, including a gross-up payment to the affected employees, will be approximately \$1.9 million.

Other Matters

As part of the restatement, we made other adjustments to previously stated financial statements back to 2002. These adjustments include corrections to revenue, expenses, other income and related income tax adjustments. The adjustments mentioned below are in addition to the

recognition of additional stock compensation expense resulting from the stock option investigation.

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In 2002, we recorded a \$2.7 million charge to stock compensation expense that was previously recorded in the first quarter of 2003.

As part of our stock option investigation, we were required to record additional payroll tax expense for the periods affected by the restatement. Although the statute for such taxes is closed through 2003, we recorded the additional payroll tax as if the statute were open, and then reversed the accrual for payroll tax when the statute closed. We recorded additional immaterial expenses in 2002 and 2003 and reduced payroll tax expense by \$4.0 million and \$0.8 million in 2004 and 2005, respectively.

As part of the 2003 restructuring activities, we had one significant leased property for which real estate taxes and utilities costs were not properly accounted for at the time of the restructuring. The adjustment resulted in an increase in accrued restructuring costs of \$3.8 million in 2003. Approximately \$1.5 million of this adjustment was later released in 2004 as part of the building was subleased to a third party and \$2.3 million was released in 2005 when the remainder of the space was assumed by another tenant directly with the landlord.

During 2004, we adjusted the interest amortization on the note receivable from Network Solutions. This item was the result of adjusting the interest rate on the loan to a market rate. It was determined that this adjustment would have increased other income in the fourth quarter of 2003 by \$1.9 million. We originally booked the additional \$1.9 million gain in 2004, which has since been reversed.

As a part of our internal control processes during 2006, we detected an error related to the accounting for software maintenance amortization for various software license arrangements acquired from vendors. As a result of this error, we increased software maintenance expenses by \$203,000 in 2004, \$2.5 million in 2005 and \$1.2 million in the first quarter of 2006.

During 2006, we detected two errors related to the accounting at our Jamba subsidiary in Berlin, Germany. The first error relates to the accounting for insurance revenues recorded after Jamba was acquired. We did not properly account for insurance renewal premiums on contracts that were renewed after the acquisition. The second error relates to the timing of certain revenues, which were booked in incorrect periods. The combined impact of these errors increased revenues \$2.3 million in 2004, \$3.1 million in 2005 and \$284,000 in the first quarter of 2006.

In the first quarter of 2006, we reversed \$1.1 million of revenue to account for billed services that were not delivered under contractual terms.

The following table presents the impact of the other adjustments that are not related to the stock option investigation on consolidated selected financial data for the periods presented:

	Twelve Months Ended				Three Months Ended
	December 31, 2002	December 31, 2003	December 31, 2004	December 31, 2005	March 31, 2006
	(in thousands, except per share data)				
Increase (decrease) in revenues	\$	\$	\$ 2,289	\$ 3,080	\$ (786)
Increase (decrease) in costs	2,706	914	(4,526)	213	936
(Decrease) increase in other income, net	(304)	1,636	(1,175)	(295)	79
Tax (benefit) expense			2,172	1,615	110

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Change in net (loss) income	\$ (3,010)	\$ 722	\$ 3,468	\$ 957	\$ (1,753)
Change in net (loss) income per share, basic and diluted	\$ (0.01)	\$	\$ 0.01	\$	\$ (0.01)

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Business Overview

In January 2007, we announced a new functional business structure that reorganizes the Internet Services Group (the ISG) and the Communications Services Group (the CSG) to deliver an integrated portfolio of products and services through a unified sales and services team across multiple industries. Our two main functional units will be Sales and Consulting Services and Products and Marketing. The Sales and Consulting Services group will combine our multiple sales and consulting functions into one organization, focused on global accounts, strategic partnerships and worldwide channel relationships. The group will be aligned by vertical industry to focus on specialized customer needs and solutions delivery, and will also include our in-market consulting services, Business Development and Global Channels teams. The Products and Marketing group is responsible for the development, marketing, delivery and support of all of our products and solutions to businesses of all sizes. The group includes all facets of product management, product development, marketing and customer support, as well as a new innovation team chartered with looking at longer-term product line synergies and emerging market trends.

We operate intelligent infrastructure services that enable and protect billions of interactions every day across the world's voice and data networks. In 2006, our business consists of two reportable segments: the ISG and the CSG.

The ISG consists of the Security Services business and Information Services business. The Security Services business provides products and services that protect online and network interactions, enabling companies to manage reputational, operational and compliance risk, including the following types of services: SSL certificate services; managed security services; iDefense security intelligence services; authentication services, including managed PKI services, unified authentication services and VeriSign Identity Protection services; and global security consulting service. The Information Services business operates the authoritative directory of all .com, .net, .cc, and .tv domain names, and provides other services, including intelligent supply chain services, real-time publisher services, and digital brand management services.

The CSG provides managed solutions to fixed line, broadband, mobile operators and enterprise customers through our integrated communications, content and commerce platforms. Our communications service offerings include connectivity and interoperability services and intelligent database services; commerce services, such as billing and operational support system services, mobile commerce, self-care and analytics services; and content services, such as digital content and messaging services.

Acquisitions

On November 30, 2006, we completed our acquisition of inCode Telecom Group, Inc. (inCode), a privately held consulting firm for the wireless industry. We paid approximately \$41.8 million for all of the outstanding capital stock, vested stock options and assumed unvested stock options of inCode. Immediately upon closing, we paid \$21.7 million of inCode's outstanding principal debt and assumed liabilities.

On September 1, 2006, we completed our acquisition of GeoTrust, Inc. (GeoTrust), a Needham, Massachusetts-based privately held provider of digital certificates and identity verification solutions. We paid approximately \$127.4 million for all of the outstanding capital stock of GeoTrust.

On May 1, 2006, we completed our acquisition of m-Qube, Inc. (m-Qube), a Watertown, Massachusetts-based privately held mobile channel enabler that helps companies develop, deliver and bill for mobile content, applications and messaging services. We paid approximately \$269.2

million for all of the outstanding capital stock and vested options of m-Qube.

On March 14, 2006, we completed our acquisition of Kontiki, Inc. (Kontiki), a Sunnyvale, California-based provider of broadband content services. We paid approximately \$59.6 million for all of the outstanding capital stock and vested options of Kontiki.

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On February 28, 2006, we completed our acquisition of 3united Mobile Solutions ag (3united), a Vienna, Austria-based provider of wireless application services. We paid approximately \$71.2 million for approximately 99.8% of the outstanding capital stock of 3united.

On January 24, 2006, we completed our acquisition of CallVision, Inc. (CallVision), a Seattle, Washington-based privately held provider of online analysis applications for mobile communications customers. We paid approximately \$38.7 million for all of the outstanding capital stock and vested options of CallVision.

In October 2005, we completed our acquisition of Retail Solutions International, Inc. (RSI), a Lincoln, Rhode Island-based privately held provider of operational point-of-sale data to the retail industry. We paid approximately \$25.2 million for all of the outstanding capital stock, vested stock options and assumed unvested stock options of RSI.

In October 2005, we completed our acquisition of Moreover Technologies, Inc., (Moreover) a privately held wholesale aggregator of real-time internet content. We paid approximately \$29.7 million for all the outstanding capital stock, vested stock options and transaction related expenses of Moreover.

In October 2005, VeriSign Japan, our majority-owned consolidated subsidiary, completed its acquisition of siteRock K.K., a Tokyo-based privately held remote network monitoring and outage managing and handling firm. VeriSign Japan paid approximately \$53.3 million in cash for siteRock K.K.

In July 2005, we completed our acquisition of iDefense, Inc., (iDefense) a Reston, Virginia-based privately held provider of detailed intelligence on network-based threats, vulnerabilities and malicious code. We paid approximately \$37.8 million in cash for all the outstanding capital stock, vested stock options and certain transaction-related expenses and assumed unvested stock options of iDefense.

In April 2005, we completed our acquisition of LightSurf Technologies, Inc., (LightSurf) a Santa Cruz, California-based privately held provider of multimedia messaging and interoperability solutions for the wireless market. We paid approximately \$275.4 million in common stock for all of the outstanding capital stock, warrants, vested stock options and certain transaction-related expenses and assumed unvested stock options of LightSurf.

In June 2004, we completed our acquisition of Jamba, a privately held provider of content services. We paid approximately \$266.2 million for all the outstanding shares of capital stock of Jamba, of which approximately \$178.0 million was in cash and the remainder in VeriSign common stock. Also, in June 2004, we acquired the remaining 49% minority interest in VeriSign Australia for approximately \$4.6 million in VeriSign common stock. VeriSign Australia is now a wholly-owned subsidiary.

In February 2004, we completed our acquisition of Guardent, Inc., a privately held provider of managed security services. We paid approximately \$141.2 million for all the outstanding shares of capital stock of Guardent, of which approximately \$65 million was in cash and the remainder in VeriSign common stock.

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In addition to the above, we also completed several other acquisitions during 2006, 2005 and 2004 that were not material on an individual basis or in the aggregate.

We accounted for all of our significant acquisitions in 2006, 2005 and 2004 as business combinations using the purchase method of accounting in accordance with SFAS No. 141 *Business Combinations*. Accordingly, the acquired companies' revenues, costs and expenses have been included in our results of operations beginning with their dates of acquisition.

See Note 3 *Business Combinations* of our Notes to Consolidated Financial Statements for further information regarding our business acquisitions over the last three years.

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Dispositions

Payment Gateway Business Sale

On November 18, 2005, we completed the sale of certain assets related to our payment gateway business to PayPal, Inc. and PayPal International Limited for \$370 million in cash. This transaction was accounted for as a discontinued operation in accordance with SFAS No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long Lived Assets* (SFAS 144) and, accordingly, we have reclassified the consolidated financial statements for all periods to reflect this transaction.

Domain Name Registrar Business

On January 9, 2006, Network Solutions repaid in full all amounts outstanding under the Secured Senior Promissory Note dated November 25, 2003. In addition, Network Solutions redeemed our 15% equity interest in Network Solutions. We received approximately \$47.8 million in total cash, which included the \$26.5 million repayment of the note receivable and related interest and recognized a gain on investment of \$21.3 million. As a result of the redemption of the membership interests, we no longer own equity interests in any Internet domain name registrars.

VeriSign Japan K.K.

On November 22, 2004, we sold 18,000 ordinary shares of our Tokyo-based, majority-owned consolidated subsidiary, VeriSign Japan K.K. (VeriSign Japan), representing approximately 7% of our ownership interest, for approximately \$78 million. After giving effect to the sale, we continue to own a majority stake in VeriSign Japan equal to approximately 54% of VeriSign Japan 's total shares outstanding.

Subsequent Events

In January 2007, we initiated a restructuring plan to execute a company-wide reorganization replacing the previous business unit structure with a new combined worldwide sales and services team, and an integrated development and products organization. The restructuring plan included workforce reductions, abandonment of excess facilities, disposals of property and equipment, and other charges. In the first quarter of 2007, we recorded approximately \$26.9 million in restructuring charges.

As of the date of the filing of this report, we are not in compliance with certain covenants under our Credit Agreement related to the \$500 million senior unsecured revolving credit facility (the Facility), as described in Note 10 Credit Facility in the Notes to the Consolidated Financial Statements, that require us to deliver specified financial statements, compliance certificates and certain other documents to our Lenders. The required Lenders under the Facility have waived our compliance with these requirements through July 13, 2007. On February 28, 2007, we repaid \$199 million in loans representing the entire outstanding balance under our \$500 million senior unsecured revolving credit facility.

On January 31, 2007, the Company and Fox Entertainment (Fox), a subsidiary of News Corporation, and various subsidiaries of our Company and Fox, finalized two joint venture agreements to provide mobile entertainment to consumers on a global basis. Under the terms of the agreements Fox (through a subsidiary) will own a 51% interest in the joint ventures, and we (through a subsidiary) will own a 49% interest in the joint ventures. One of the joint ventures, Netherlands Mobile Holdings, C.V., is based in the Netherlands, and the other is based in the United States. We contributed our Jamba business to consumer business to the Netherlands joint venture and Fox contributed its Fox Mobile Entertainment assets to the U.S.-based joint venture. Fox paid us approximately \$192.4 million in cash for its contribution of the Jamba business and we paid Fox approximately \$4.9 million in cash for its contribution of Fox Mobile Entertainment assets

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In the first quarter of 2007, we decided to sell our wholly-owned Jamba Services GmbH subsidiary. In accordance with SFAS 144, the associated assets and liabilities of Jamba Services GmbH will be classified as held for sale and its operations will be reported as discontinued operations in the first quarter of 2007.

On May 27, 2007, Stratton D. Sclavos, our former President, Chief Executive Officer, Chairman of the Board of Directors and member of our Board of Directors, resigned from his positions. Effective May 27, 2007, our Board of Directors appointed William A. Roper, Jr., to replace Mr. Sclavos as President and Chief Executive Officer, and elected Edward A. Mueller as Chairman of the Board of Directors.

On July 5, 2007 and July 12, 2007, the Board of Directors appointed Albert E. Clement as Chief Accounting Officer and Executive Vice President, Finance and Chief Financial Officer, respectively of the Company.

On July 10, 2007, Dana Evan, our then-current Executive Vice President, Finance and Administration and Chief Financial Officer resigned from her position with VeriSign.

Critical Accounting Policies and Significant Management Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, allowance for doubtful accounts, long-lived assets, restructuring and stock-based compensation. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in preparing our consolidated financial statements:

Revenue recognition

We recognize revenue in accordance with current generally accepted accounting principles. Revenue recognition requirements are complex rules which require us to make judgments and estimates. In applying our revenue recognition policy we must determine which portions of our revenue are recognized currently and which portions must be deferred. In order to determine current and deferred revenue, we make judgments and estimates with regard to the products and services to be provided. Our assumptions and judgments regarding products and services could differ from actual events.

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Revenues from consulting services are recognized either on a time-and-materials basis as the services are performed, or for fixed price consulting as services are performed, completed and accepted. In some cases fixed price consulting is measured using the proportional performance method of accounting. Proportional performance is based upon the ratio of hours incurred to total hours estimated to be incurred for the project. We have a history of accurately estimating project status and the hours required to complete projects. If different conditions were to prevail such that accurate estimates could not be made, then the use of the completed contract method would be required and all revenue and costs would be deferred until the project was completed. Revenues from time-and-materials are recognized as services are performed.

Allowance for doubtful accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We regularly review the adequacy of our accounts receivable allowance

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after considering the size of the accounts receivable balance, each customer's expected ability to pay and our collection history with each customer. We review significant invoices that are past due to determine if an allowance is appropriate based on the risk category using the factors described above. In addition, we maintain a general reserve for certain invoices by applying a percentage based on the age category. We require all acquired companies to adopt our credit policies. The allowance for doubtful accounts represents our best estimate, but changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the future. As of December 31, 2006, the allowance for doubtful accounts represented approximately 2.4% of total accounts receivable, or approximately \$8.1 million. A change of 1% in our estimate would amount to approximately \$3.4 million.

The following table shows a comparison of our bad debt expense for 2006, 2005 and 2004:

	2006	Change	2005	Change	2004
	(Dollars in thousands)				
Bad debt (recovery) expense	\$ (1,165)	(212)%	\$ 1,041	121%	\$ 472

Valuation of long-lived assets including goodwill and other intangibles

Our long-lived assets consist primarily of goodwill, other intangible assets and property and equipment. We review, at least annually, goodwill resulting from purchase business combinations for impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*.

We review long-lived assets, including certain identifiable intangibles, for impairment whenever events or changes in circumstances indicate that we will not be able to recover the asset's carrying amount in accordance with SFAS 144. Such events or circumstances include, but are not limited to, a significant decrease in the fair value of the underlying business or asset, a significant decrease in the benefits realized from the acquired business, difficulty and delays in integrating the business or a significant change in the operations of the acquired business or use of an asset.

Recoverability of long-lived assets other than goodwill is measured by comparison of the carrying amount of an asset to estimated undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds its fair value.

Goodwill and other intangible assets, net of accumulated amortization, totaled approximately \$1.8 billion at December 31, 2006, which was comprised of \$1.5 billion of goodwill and \$0.3 billion of other intangible assets. Other intangible assets include customer relationships, technology in place, carrier relationships, non-compete agreements, trade names, and other. Factors we consider important which could trigger an impairment review include, but are not limited to, significant under-performance relative to historical or projected future operating results, significant changes in the manner of our use of our acquired assets or the strategy for our overall business or significant negative economic trends. If this evaluation indicates that the value of an intangible asset may be impaired, an assessment of the recoverability of the net carrying value of the asset over its remaining useful life is made. If this assessment indicates that an intangible asset is not recoverable, based on the estimated undiscounted future cash flows or other comparable market valuations, of the entity or technology acquired over the remaining amortization period, the net carrying value of the related intangible asset will be reduced to fair value and the remaining amortization period may be adjusted. Any such impairment charge could be significant and could have a material adverse effect on our reported financial statements. It is our policy to engage third-party valuation consultants to assist us in the measurement of the fair value of our long-lived intangible assets including goodwill.

Restructuring, impairment and other charges (reversals), net

In November 2003, we initiated a restructuring plan related to the sale of our Network Solutions business and the realignment of other business units. In April 2002, we initiated plans to restructure our operations to fully

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rationalize, integrate and align our resources. Both plans resulted in reductions in workforce, abandonment of excess facilities, disposal of property and equipment and other charges. We expect these restructuring plans to be completed in 2008 upon the expiration of our lease obligations for abandoned facilities. Restructuring charges take into account the fair value of lease obligations of the abandoned space, including the potential for sublease income. Estimating the amount of sublease income requires management to make estimates for the space that will be rented, the rate per square foot that might be received and the vacancy period of each property. These estimates could differ materially from actual amounts due to changes in the real estate markets in which the properties are located, such as the supply of office space and prevailing lease rates. Changing market conditions by location and considerable work with third-party leasing companies require us to periodically review each lease and change our estimates on a prospective basis, as necessary. During 2006, we recorded net restructuring reversals of approximately \$6.4 million primarily related to excess facilities as a result of reductions in lease obligations. Such estimates will likely be revised in the future.

Stock-based compensation

Effective January 1, 2006, we adopted the provisions of, and accounted for stock-based compensation in accordance with Financial Accounting Standards Board's (FASB) SFAS 123R. We elected the modified prospective application method, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. For stock-based awards granted on or after January 1, 2006, we will amortize stock-based compensation expense on a straight-line basis over the requisite service period, which is the vesting period. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation costs estimated for the SFAS 123 pro forma disclosures.

We currently use the Black-Scholes option pricing model to determine the fair value of stock options and employee stock purchase plan shares. The determination of the fair value of stock-based awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

We estimate the expected term of options granted based on observed and expected time to post-vesting exercise and/or cancellations. Expected volatility is based on the combination of historical volatility of our common stock over the period commensurate with the expected life of the options and the mean historical implied volatility from traded options. We base the risk-free interest rate that we use in the option pricing model on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options. We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. All stock-based awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share.

See Note 13 Stock-Based Compensation of our Notes to Consolidated Financial Statements for further information regarding the SFAS 123R disclosures.

Table of Contents**Results of Operations**

The following table sets forth the selected information on our results of operations as a percentage of revenues for the periods presented:

	2006	Years Ended December 31,	
		2005	2004
		As Restated (1)	As Restated (1)
Revenues	100%	100%	100%
Cost and expenses:			
Cost of revenues	37	32	39
Sales and marketing	24	30	22
Research and development	8	6	6
General and administration	16	11	17
Restructuring, impairment and other charges (reversals), net		1	2
Amortization of other intangibles assets	8	6	7
Acquired in-process research and development	1	1	