

VERISIGN INC/CA  
Form 10-Q  
July 16, 2007  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-23593

---

**VERISIGN, INC.**

(Exact name of registrant as specified in its charter)

---

Delaware  
(State or other jurisdiction of

incorporation or organization)

487 East Middlefield Road, Mountain View, CA  
(Address of principal executive offices)

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

94-3221585  
(I.R.S. Employer

Identification No.)

94043  
(Zip Code)

Edgar Filing: VERISIGN INC/CA - Form 10-Q

---

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 Exchange Act.): YES  NO

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

Class	Shares Outstanding June 29, 2007
Common stock, \$.001 par value	243,838,287

---

---

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>Explanatory Note</u>	3
<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1. <u>Condensed Consolidated Financial Statements (Unaudited)</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
Item 4. <u>Controls and Procedures</u>	40
<b><u>PART II OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	42
Item 1A. <u>Risk Factors</u>	48
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	67
Item 6. <u>Exhibits</u>	68
<u>Signatures</u>	69
Certifications	

**Table of Contents**

**EXPLANATORY NOTE**

In our 2006 Annual Report on Form 10-K, we restated the consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the fiscal years ended December 31, 2005 and December 31, 2004. In addition, we restated the unaudited quarterly financial information and financial statements for interim periods of 2005, and unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2006.

Annual reports on Form 10-K and Quarterly Reports on Form 10-Q, filed on or before May 10, 2006, affected by the restatements have not been amended and should not be relied upon, and are superseded in their entirety by our 2006 Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q filed on July 12, 2007.

This Quarterly Report on Form 10-Q should be read in conjunction with our 2006 Annual Report on Form 10-K, as well as any Current Reports filed on Form 8-K.

**Table of Contents**

**PART I FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

As required under Item 1 Condensed Consolidated Financial Statements (Unaudited) included in this section are as follows:

<b>Financial Statement Description</b>	<b>Page</b>
<u>Condensed Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006</u>	5
<u>Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2007 and 2006</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2007 and 2006</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8

**Table of Contents**

**VERISIGN, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

(Unaudited)

	March 31, 2007	December 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 523,024	\$ 478,749
Short-term investments	147,929	198,656
Accounts receivable, net of allowance for doubtful accounts of \$6,110 and \$8,083 at March 31, 2007 and December 31, 2006, respectively	219,562	319,305
Prepaid expenses and other current assets	96,536	217,196
Deferred tax assets	80,621	84,318
Current assets of discontinued operations	30,761	34,356
<b>Total current assets</b>	<b>1,098,433</b>	<b>1,332,580</b>
Property and equipment, net	581,346	605,292
Goodwill	1,262,351	1,449,493
Other intangible assets, net	276,766	333,430
Restricted cash	48,976	49,437
Long-term deferred tax assets	209,534	177,805
Other assets, net	37,210	25,214
Investments in unconsolidated entities	103,751	
Long-term assets of discontinued operations	7,055	1,217
<b>Total long-term assets</b>	<b>2,526,989</b>	<b>2,641,888</b>
<b>Total assets</b>	<b>\$ 3,625,422</b>	<b>\$ 3,974,468</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 301,711	\$ 675,105
Accrued restructuring costs	15,361	3,818
Deferred revenue	485,058	448,413
Short-term debt		199,000
Deferred tax liabilities	1,106	1,414
Current liabilities of discontinued operations	30,685	31,743
<b>Total current liabilities</b>	<b>833,921</b>	<b>1,359,493</b>
Long-term deferred revenue	171,062	159,439
Long-term accrued restructuring costs	440	937
Long-term tax liability	44,106	
Other long-term liabilities	14,754	5,175
Long-term deferred tax liabilities	12,972	24,815
Long-term liabilities of discontinued operations		34
<b>Total long-term liabilities</b>	<b>243,334</b>	<b>190,400</b>
<b>Total liabilities</b>	<b>1,077,255</b>	<b>1,549,893</b>

Edgar Filing: VERISIGN INC/CA - Form 10-Q

Minority interest in subsidiaries	49,150	47,716
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - par value \$.001 per share		
Authorized shares: 5,000,000		
Issued and outstanding shares: none		
Common stock - par value \$.001 per share		
Authorized shares: 1,000,000,000		
Issued and outstanding shares: 243,860,598 and 243,844,122 (excluding 35,471,662 shares held in treasury at March 31, 2007 and December 31, 2006)	244	244
Additional paid-in capital	23,333,652	23,314,511
Accumulated deficit	(20,829,745)	(20,929,498)
Accumulated other comprehensive loss	(5,134)	(8,398)
Total stockholders' equity	2,499,017	2,376,859
Total liabilities and stockholders' equity	\$ 3,625,422	\$ 3,974,468

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	2007	March 31, 2006 (As Restated) (1)
Revenues	\$ 373,049	\$ 370,109
Costs and expenses:		
Cost of revenues	150,640	136,967
Sales and marketing	78,950	90,550
Research and development	45,162	28,259
General and administrative	51,589	60,515
Restructuring, impairments and other charges	27,012	3,409
Amortization of other intangible assets	31,787	28,000
Acquired in-process research and development		10,900
Total costs and expenses	385,140	358,600
Operating (loss) income	(12,091)	11,509
Other income, net	81,387	28,721
Income from continuing operations before income taxes, earnings from unconsolidated entities and minority interest	69,296	40,230
Income tax expense	(8,762)	(24,215)
Earnings from unconsolidated entities, net of tax	448	
Minority interest, net of tax	(569)	(647)
Net income from continuing operations	60,413	15,368
Net income from discontinued operations, net of tax	1,340	1,118
Net income	\$ 61,753	\$ 16,486
Basic net income per share from:		
Continuing operations	\$ 0.24	\$ 0.06
Discontinued operations	0.01	0.01
Net income	\$ 0.25	\$ 0.07
Diluted net income per share from:		
Continuing operations	\$ 0.24	\$ 0.06
Discontinued operations	0.01	0.01
Net income	\$ 0.25	\$ 0.07

Shares used in per share computation:



Edgar Filing: VERISIGN INC/CA - Form 10-Q

Basic	243,852	245,603
Diluted	248,357	248,083

---

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.  
See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<b>Three Months Ended</b>	
	<b>2007</b>	<b>March 31, 2006 (As Restated) (1)</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 61,753	\$ 16,486
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Gain on divestiture of majority stake in Jamba	(74,999)	
Depreciation of property and equipment	28,176	24,611
Amortization of other intangible assets	31,787	28,000
Acquired in-process research and development		10,900
Provision for doubtful accounts	(1,156)	650
Stock-based compensation and other	16,725	17,094
Restructuring, impairments and other charges	27,012	3,409
Net gain on sale of investments	(829)	(21,274)
Earnings from unconsolidated entities, net of tax	(448)	
Minority interest, net of tax	569	647
Deferred income taxes	5,123	1,115
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(45,859)	16,216
Prepaid expenses and other current assets	75,746	(2,710)
Accounts payable and accrued liabilities	(127,657)	2,475
Deferred revenue	48,034	40,508
<b>Net cash provided by operating activities</b>	<b>43,977</b>	<b>138,127</b>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(135,882)	(38,187)
Proceeds from maturities and sales of investments	191,912	85,607
Purchases of property and equipment	(15,125)	(66,797)
Cash paid in business combinations, net of cash acquired		(166,458)
Proceeds received on divestiture of majority stake in Jamba, net of cash contributed	152,643	
Net proceeds received on long-term note receivable		47,786
Other assets	1,138	(827)
<b>Net cash provided by (used in) investing activities</b>	<b>194,686</b>	<b>(138,876)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock from option exercises and employee stock purchase plan		29,564
Change in net assets of subsidiary and other	7	538
Repurchase of common stock		(75,000)
Repayment of debt	(199,000)	(1,077)
<b>Net cash used in financing activities</b>	<b>(198,993)</b>	<b>(45,975)</b>
Effect of exchange rate changes on cash and cash equivalents	791	562
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>40,461</b>	<b>(46,162)</b>
Cash and cash equivalents at beginning of period	501,784	478,660

## Edgar Filing: VERISIGN INC/CA - Form 10-Q

Cash and cash equivalents at end of period	542,245	432,498
Cash and cash equivalents of discontinued operations at end of period	(19,221)	(1,248)
Cash and cash equivalents of continuing operations at end of period	\$ 523,024	\$ 431,250
Cash flows from discontinued operations:		
Net cash used in operating activities	\$ (150)	\$ (631)
Supplemental cash flow disclosures:		
Cash paid for income taxes, net of refunds received	\$ 6,524	\$ 6,955

---

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.  
See accompanying Notes to Condensed Consolidated Financial Statements.

---

**Table of Contents**

**VERISIGN, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1. Basis of Presentation and Summary of Significant Accounting Policies**

*Interim Financial Statements*

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by VeriSign, Inc. and its subsidiaries (the Company) in accordance with the instructions for Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) and, therefore, do not include all information and notes normally provided in audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative, nor comparable to the results of operations for any other interim period or for a full fiscal year. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes, together with management's discussion and analysis of financial position and results of operations contained in VeriSign's fiscal 2006 Annual Report on Form 10-K filed with the SEC (the 2006 Form 10-K ) on July 12, 2007.

In the first quarter of 2007, VeriSign decided to sell its wholly owned JAMBA Service GmbH subsidiary ( Jamba Service ). The associated assets and liabilities of Jamba Service have been classified as held for sale and its operations have been reported in net income from discontinued operations for all periods presented in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 144 ( SFAS 144 ), *Accounting for the Impairment or Disposal of Long Lived Assets*. In November 2005, VeriSign sold its payment gateway business. Accordingly, the Condensed Consolidated Financial Statements have been reclassified for all periods presented to reflect its payment gateway business as discontinued operations in accordance with SFAS 144. Unless noted otherwise, discussions in the Notes to Condensed Consolidated Financial Statements pertain to continuing operations.

*Reclassifications*

Certain reclassifications have been made to prior period amounts to conform to current period presentation. Such reclassifications have no effect on net income as previously reported.

*Critical Accounting Policies and Use of Estimates*

VeriSign has made no material changes to its critical accounting policies, which are included in its 2006 Form 10-K.

The Company adopted FIN No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, on January 1, 2007. FIN 48 is an interpretation of SFAS No. 109 ( SFAS 109 ), *Accounting for Income Taxes*, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. Under FIN 48, an entity may only recognize or continue to recognize tax positions that meet a more likely than not threshold. In accordance with its accounting policy, the Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. The impact on adoption of FIN 48 is more fully described in note 14.

**Table of Contents**

**Note 2. Restatement of Condensed Consolidated Financial Statements**

In this Form 10-Q, VeriSign is restating its Condensed Consolidated Statement of Income and the related Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2006.

In its 2006 Form 10-K, VeriSign restated its consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the fiscal years ended December 31, 2005 and December 31, 2004, as a result of an independent stock option investigation commenced under the direction of an ad hoc group of the Company's independent directors who had not served on the Compensation Committee before 2005 ( Ad Hoc Group ). In total, the restatement resulted in additional stock-based compensation and related payroll tax expenses, net of income taxes, of \$165.5 million recorded in fiscal years 1998 to 2005 and \$1.5 million in the first quarter of 2006. In addition, the Company restated its unaudited quarterly financial information for all interim periods of fiscal year 2005 and the interim period ended March 31, 2006.

As part of the restatement, the Company also made other adjustments to previously stated Condensed Consolidated Financial Statements to the first quarter of 2006. The other adjustments resulted in a decrease in net income of approximately \$1.8 million during the three months ended March 31, 2006.

**Table of Contents**

The following table presents the impact of the financial statement adjustments and the reclassification for discontinued operations on the Company's previously reported Condensed Consolidated Statement of Income:

	As Previously Reported	Three Months Ended March 31, 2006		As Restated
		Adjustments (in thousands, except per share amounts)	Reclassifications	
Revenues	\$ 373,604	\$ (786) (A)	\$ (2,709)	\$ 370,109
Costs and expenses:				
Cost of revenues	138,912	122	(2,067)	136,967
Sales and marketing	90,387	423	(260)	90,550
Research and development	28,033	247	(21)	28,259
General and administrative	58,493	2,022		60,515
Restructuring, impairments and other charges	3,409			3,409
Amortization of other intangible assets	28,000			28,000
Acquired in-process research and development	10,900			10,900
Total costs and expenses	358,134	2,814 (B)	(2,348)	358,600
Operating income	15,470	(3,600)	(361)	11,509
Non-operating income:				
Other income, net	28,797	79 (C)	(155)	28,721
Income from continuing operations before income taxes, earnings from unconsolidated entities and minority interest	44,267	(3,521)	(516)	40,230
Income tax expense	(24,627)	205	207	(24,215)
Minority interest	(647)			(647)
Net income from continuing operations	18,993	(3,316)	(309)	15,368
Net income from discontinued operations	778	31 (D)	309	1,118
Net income	\$ 19,771	\$ (3,285)	\$	\$ 16,486
Basic net income per share from:				
Continuing operations	\$ 0.08	\$ (0.02)	\$	\$ 0.06
Discontinued operations		0.01		0.01
Net income	\$ 0.08	\$ (0.01)	\$	\$ 0.07
Diluted net income per share from:				
Continuing operations	\$ 0.08	\$ (0.02)	\$	\$ 0.06
Discontinued operations		0.01		0.01
Net income	\$ 0.08	\$ (0.01)	\$	\$ 0.07
Shares used in per share computation:				
Basic	245,603			245,603
Diluted	248,905	(822)		248,083

## Edgar Filing: VERISIGN INC/CA - Form 10-Q

- (A) Recognition of previously unrecognized revenue relating to the Company's Jamba business in EMEA and correction of \$1.1 million of revenue to reverse billed services that were not delivered under contractual terms.
- (B) Includes \$1.9 million of additional stock-based compensation expense as a result of the restatement and a charge of \$1.2 million to correct an accounting error related to software maintenance amortization.
- (C) Primarily due to a foreign exchange gain that resulted from revenue adjustments to the Company's Jamba business in EMEA.
- (D) Additional stock-based compensation expense relating to the Company's stock option investigation allocated to discontinued operations.

**Table of Contents**

The following table presents the impact of the financial statement adjustments and the reclassification for discontinued operations on the Company's previously reported Condensed Consolidated Statement of Cash Flows:

	As Previously Reported	Three Months Ended March 31, 2006 Adjustments (in thousands)	As Restated
<b>Cash flows from operating activities:</b>			
Net income	\$ 19,771	\$ (3,285)	\$ 16,486
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation of property and equipment	24,444	167	24,611
Amortization of other intangible assets	28,000		28,000
Acquired in-process research and development	10,900		10,900
Provision for doubtful accounts	(650)	1,300	650
Stock-based compensation and other	15,146	1,948	17,094
Restructuring, impairments and other charges	1,966	1,443	3,409
Net gain on sale of investments	(21,274)		(21,274)
Minority interest	647		647
Deferred income taxes	(3,298)	4,413	1,115
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable	17,525	(1,309)	16,216
Prepaid expenses and other current assets	(2,930)	220	(2,710)
Accounts payable and accrued liabilities	(38,127)	40,602	2,475
Deferred revenue	41,601	(1,093)	40,508
<b>Net cash provided by operating activities</b>	<b>93,721</b>	<b>44,406</b>	<b>138,127</b>
<b>Cash flows from investing activities:</b>			
Purchases of investments	(38,353)	166	(38,187)
Proceeds from maturities and sales of investments	86,054	(447)	85,607
Purchases of property and equipment	(26,813)	(39,984)	(66,797)
Cash paid in business combinations, net of cash acquired	(166,458)		(166,458)
Net proceeds received on long-term note receivable	47,786		47,786
Other assets		(827)	(827)
<b>Net cash used in investing activities</b>	<b>(97,784)</b>	<b>(41,092)</b>	<b>(138,876)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of common stock from option exercises and employee stock purchase plan	29,926	(362)	29,564
Change in net assets of subsidiary	(494)	1,032	538
Repurchase of common stock	(75,000)		(75,000)
Excess tax benefits from stock-based compensation	5,840	(5,840)	
Repayment of debt	(824)	(253)	(1,077)
<b>Net cash used in financing activities</b>	<b>(40,552)</b>	<b>(5,423)</b>	<b>(45,975)</b>
Effect of exchange rate changes on cash and cash equivalents	287	275	562
<b>Net decrease in cash and cash equivalents</b>	<b>(44,328)</b>	<b>(1,834)</b>	<b>(46,162)</b>
Cash and cash equivalents at beginning of period	476,826	1,834	478,660
<b>Cash and cash equivalents at end of period</b>	<b>432,498</b>		<b>432,498</b>



## Edgar Filing: VERISIGN INC/CA - Form 10-Q

Cash and cash equivalents of discontinued operations at end of period	(1,248)		(1,248)
Cash and cash equivalents of continuing operations at end of period	\$ 431,250	\$	\$ 431,250
Cash flows from discontinued operations:			
Net cash used in operating activities	\$ (586)	(45)	\$ (631)

**Table of Contents****Note 3. Stock-Based Compensation**

On March 29, 2005, the SEC published Staff Accounting Bulletin ( SAB ) No. 107, which provides the Staff's views on a variety of matters relating to stock-based payments. SAB 107 requires stock-based compensation to be classified in the same expense line items as cash compensation. The following table sets forth the total stock-based compensation recognized on the Company's Condensed Consolidated Statements of Income:

	Three Months Ended	
	March 31,	
	2007	2006
	(As Restated) (1)	
Stock-based compensation:		
Cost of revenue	\$ 3,418	\$ 3,899
Sales and marketing	5,003	3,499
Research and development	3,050	2,246
General and administrative	5,159	6,894
Total stock-based compensation	16,630	16,538
Tax benefit associated with stock-based compensation expense	3,936	4,270
Net effect of stock-based compensation expense on net income	\$ 12,694	\$ 12,268
Net effect of stock-based compensation expense on net income per share:		
Basic	\$ 0.05	\$ 0.05
Diluted	\$ 0.05	\$ 0.05

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements. VeriSign currently uses the Black-Scholes option pricing model to determine the fair value of stock options and 1998 Employee Stock Purchase Plan ( Purchase Plan ) options. The determination of the fair value of stock-based payment awards using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. The following table sets forth the weighted average assumptions used to estimate the fair value of the stock options and Purchase Plan options:

	Three Months Ended	
	March 31,	
	2007	2006
Stock options:		
Volatility	34%	37%
Risk-free interest rate	4.67%	4.61%
Expected term	3.0 years	3.06 years
Dividend yield	zero	zero
Employee Stock Purchase Plan options:		
Volatility	n/a	39%
Risk-free interest rate	n/a	4.44%
Expected term	n/a	1.25 years
Dividend yield	n/a	zero

*Employee Stock Purchase Plan*

As a result of the independent review of the Company's historical stock option granting practices and due to not being current in its SEC filings, the Company was precluded from selling shares under its Purchase Plan during the three months ended March 31, 2007. The Company

Edgar Filing: VERISIGN INC/CA - Form 10-Q

terminated the six-month purchase period ended January 31, 2007 under its Purchase Plan and no shares were issued. In February 2007, the Company refunded

---

**Table of Contents**

Purchase Plan contributions totaling approximately \$11.6 million. The Company has suspended its employee payroll withholdings for the purchase of its common stock under the Purchase Plan from February 1, 2007 to the date of the filing of this report.

**Note 4. Joint Ventures**

On January 31, 2007, VeriSign finalized two joint venture agreements with Fox Entertainment ("Fox"), a subsidiary of News Corporation, to provide mobile entertainment to consumers on a global basis. Under the terms of the agreements, Fox owns a 51% interest and VeriSign owns a 49% interest in the joint ventures. One of the joint ventures, Netherlands Mobile Holdings, C.V., is based in the Netherlands, and the other, US Mobile Holdings LLC, is based in the United States. VeriSign contributed 51% of its stake in wholly owned subsidiary Jamba's 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 VeriSign approximately \$192.4 million in cash for the divestiture of 51% of its stake in Jamba and VeriSign paid Fox approximately \$4.9 million in cash for its contribution of Fox Mobile Entertainment assets. The Company recognized a gain of approximately \$75.0 million upon the divestiture of majority stake in Jamba and recorded its interests in the joint ventures as investments in unconsolidated entities as of March 31, 2007. The Company's condensed consolidated financial statements for the three months ended March 31, 2007 includes one month of Jamba's consolidated activity.

In connection with the joint ventures, VeriSign and Fox entered into various put and call agreements. Under the put and call agreements, VeriSign has the option (the put) to sell all of its interests in the joint ventures to Fox at particular times within five years of the date of the agreements at prices determined pursuant to the terms of the put and call agreements. Fox has the option (the call) to purchase all of VeriSign's interests in the joint ventures at particular times within five years of the date of the agreements at a price determined pursuant to the put and call agreements. The Company calculated the fair value of its written call options to be \$10.9 million using the Black-Scholes option pricing model. The Company has recorded the fair value of the call options as a long-term liability, and will continue to mark-to-market the calls at each reporting period.

**Note 5. Discontinued Operations**

In the first quarter of 2007, VeriSign decided to sell Jamba Service, a subsidiary which was not divested with Jamba in connection with the joint ventures. The Company is actively marketing Jamba Service, and currently expects to consummate the sale of this business in the third quarter of 2007. The associated assets and liabilities of Jamba Service have been classified as discontinued operations and its operations reported in net income from discontinued operations for all periods presented in accordance with SFAS 144. Jamba Service is part of the Communications Services Group segment.

On November 18, 2005, the Company completed the sale of certain assets related to its payment gateway business pursuant to an Asset Purchase Agreement, dated October 10, 2005 (the Agreement), among PayPal, Inc., PayPal International Limited (collectively, PayPal), a wholly owned subsidiary of eBay Inc. Under the Agreement, PayPal acquired certain assets related to VeriSign's payment gateway business and assumed certain liabilities related thereto for \$370 million in cash. The payment gateway business was part of the Internet Services Group segment. The Company determined that the disposed payment gateway business should be accounted for as discontinued operation in accordance with SFAS 144. Consequently, the results of operations of the payment gateway business have been excluded from the Company's results from continuing operations for all periods presented and have instead been presented as discontinued operations.

In connection with the sale of the payment gateway business, the Company entered into a Transitional Service Agreement (TSA) with PayPal to provide certain transitional network and customer support services. The related fees were recorded as a direct reduction to the respective costs and expenses included in discontinued operations. The expected cash flows under the TSA do not represent a significant continuation of the direct cash

**Table of Contents**

flows of the disposed payment gateway business. In April 2006, PayPal elected to terminate the customer support services provided by VeriSign under the TSA. In September 2006, PayPal elected to terminate the billing services, production services and other transitional services provided under the TSA.

The following table represents revenues from the held-for-sale Jamba Service subsidiary and the disposed payment gateway businesses and the components of earnings from the discontinued operations:

	<b>Three Months Ended March 31, 2007      2006 (In thousands)</b>	
Revenues	\$ 4,397	\$ 2,660
Income from discontinued operations before income taxes	2,110	1,325
Income tax expense	(770)	(207)
Net income from discontinued operations	\$ 1,340	\$ 1,118

The following table presents the carrying amounts of major classes of assets and liabilities relating to Jamba Service and the payment gateway businesses at March 31, 2007 and December 31, 2006 respectively:

	<b>March 31, 2007</b>	<b>December 31, 2006 (In thousands)</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 19,221	\$ 23,036
Accounts receivable, net	9,209	11,254
Prepaid expenses and other current assets	40	66
Deferred tax assets	2,291	
Current assets of discontinued operations	30,761	34,356
Long-term assets of discontinued operations	7,055	1,217
Total assets of discontinued operations	\$ 37,816	\$ 35,573
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 24,720	\$ 24,995
Deferred revenue	5,965	6,533
Deferred tax liabilities		215
Current liabilities of discontinued operations	30,685	31,743
Long-term liabilities of discontinued operations		34
Total liabilities of discontinued operations	\$ 30,685	\$ 31,777

**Note 6. Restructuring, Impairments and Other Charges**

The following table presents the restructuring, impairments and other charges:

Edgar Filing: VERISIGN INC/CA - Form 10-Q

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>	
2007 restructuring plan charges	\$ 24,681	\$
2002 and 2003 restructuring plan charges	94	1,460
<b>Total restructuring charges</b>	<b>24,775</b>	<b>1,460</b>
Impairments and other charges	2,237	1,949
<b>Total restructuring, impairments and other charges</b>	<b>\$ 27,012</b>	<b>\$ 3,409</b>

**Table of Contents***2007 Restructuring Plan*

In January 2007, VeriSign initiated a restructuring plan to execute a company-wide reorganization replacing the previous business unit structure with a new combined worldwide sales and services team, and an integrated development and products organization. The restructuring plan included workforce reductions, abandonment of excess facilities, and other exit costs. To date, VeriSign has recorded \$24.7 million in restructuring charges under its 2007 restructuring plan.

*Workforce reduction:* VeriSign recorded restructuring charges related to workforce reduction in accordance with SFAS No. 112 ( SFAS 112 ), *Employers Accounting for Postemployment Benefits an amendment of FASB Statements No. 5 and 43* since benefits were provided pursuant to a severance plan which used a standard formula of paying benefits based upon tenure with the Company. The accounting for these restructuring charges has met the four requirements of SFAS 112 which are: (i) the Company's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered; (ii) the obligation relates to rights that vest or accumulate; (iii) payment of the compensation is probable; and (iv) the amount can be reasonably estimated. The 2007 restructuring plan resulted in a workforce reduction of approximately 350 employees across both segments starting in the first quarter of 2007 followed by the next four quarters. All severance related charges will be paid by the end of the first quarter of 2008.

*Excess facilities:* Excess 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 requires the Company to periodically review each lease and change its estimates on a prospective basis, as necessary. VeriSign recorded additional charges for excess facilities located primarily in the United States and Europe that were either abandoned or downsized relating to lease terminations and non-cancelable lease costs.

*Other exit costs:* VeriSign recorded other exit costs primarily relating to the realignment of its organization.

Consolidated restructuring charges associated with the 2007 restructuring plan are as follows:

	<b>Three Months Ended March 31, 2007 (In thousands)</b>
Workforce reduction	\$ 22,115
Excess facilities	1,060
Other exit costs	1,506
 Total restructuring charges	 \$ 24,681

Approximately \$2.3 million of the workforce reduction charges related to stock compensation for certain severed employees.

**Table of Contents**

At March 31, 2007, the accrued restructuring costs associated with the 2007 restructuring plan were \$12.3 million and consisted of the following:

	<b>Restructuring Charges</b>	<b>Cash Payments</b>	<b>Non-cash Write-offs (In thousands)</b>	<b>Accrued Restructuring Costs at March 31, 2007</b>
Workforce reduction	\$ 22,115	\$ (9,211)	\$ (2,297)	\$ 10,607
Excess facilities	1,060	(197)		863
Other exit costs	1,506	(705)		801
Total accrued restructuring costs	\$ 24,681	\$ (10,113)	\$ (2,297)	\$ 12,271
Included in current portion of accrued restructuring costs				\$ 12,058
Included in long-term portion of accrued restructuring costs				\$ 213

Cash payments totaling approximately \$4.3 million related to the abandonment of excess facilities under the 2007 restructuring plan will be paid over the respective lease terms, the longest of which extends through 2011. The present value of future cash payments related to lease terminations due to the abandonment of excess facilities is expected to be as follows:

	<b>Contractual Lease Payments</b>	<b>Anticipated Sublease Income (In thousands)</b>	<b>Net</b>
2007 (remaining 9 months)	\$ 582	\$	\$ 582
2008	812	(741)	71
2009	791	(726)	65
2010	781	(711)	70
2011	771	(696)	75
	\$ 3,737	\$ (2,874)	\$ 863

*2003 Restructuring Plan*

In November 2003, VeriSign initiated a restructuring plan related to the sale of its Network Solutions business and the realignment of other business units. The restructuring plan resulted in reductions in workforce, abandonment of excess facilities, disposals of property and equipment, and other charges.

*2002 Restructuring Plan*

In April 2002, VeriSign initiated a plan to restructure its operations to rationalize, integrate and align resources. This restructuring plan included workforce reductions, abandonment of excess facilities, write-offs of abandoned property and equipment, and other charges.

To date, VeriSign has recorded \$161.1 million in restructuring charges under its 2003 and 2002 restructuring plans.



Edgar Filing: VERISIGN INC/CA - Form 10-Q

Consolidated net restructuring charges associated with the 2002 and 2003 restructuring plans are as follows:

	<b>Three Months Ended</b>	
	<b>2007</b>	<b>March 31, 2006</b>
	<b>(In thousands)</b>	
Workforce reduction	\$	\$ (108)
Excess facilities	94	1,580
Exit costs		(12)
Total restructuring charges	\$ 94	\$ 1,460

**Table of Contents**

At March 31, 2007, the accrued restructuring costs associated with the 2003 and 2002 restructuring plans were approximately \$3.5 million and consisted of the following:

	Accrued Restructuring Costs at December 31, 2006	Reversals and Adjustments to Restructuring Charges	Cash Payments (In thousands)	Accrued Restructuring Costs at March 31, 2007
Excess facilities	\$ 4,613	\$ 94	\$ (1,319)	\$ 3,388
Exit costs	142			142
<b>Total accrued restructuring costs</b>	<b>\$ 4,755</b>	<b>\$ 94</b>	<b>\$ (1,319)</b>	<b>\$ 3,530</b>
Included in current portion of accrued restructuring costs	\$ 3,818			\$ 3,303
Included in long-term portion of accrued restructuring costs	\$ 937			\$ 227

Cash payments totaling approximately \$3.4 million related to the abandonment of excess facilities under both restructuring plans will be paid over the respective lease terms, the longest of which extends through 2008. The present value of future cash payments related to lease terminations due to the abandonment of excess facilities is expected to be as follows:

	Contractual Lease Payments	Anticipated Sublease Income (In thousands)	Net
2007 (remaining 9 months)	\$ 2,508	\$ (27)	\$ 2,481
2008	907		907
	<b>\$ 3,415</b>	<b>\$ (27)</b>	<b>\$ 3,388</b>

*Impairments and Other Charges*

The following table presents the impairments and other charges:

	Three Months Ended	
	March 31, 2007	2006 (In thousands)
Impairment of other intangible assets	\$	\$ 1,950
Other charges	2,237	(1)
<b>Total impairments and other charges</b>	<b>\$ 2,237</b>	<b>\$ 1,949</b>

*Impairment of other intangible assets*

During the three months ended March 31, 2006, VeriSign wrote off approximately \$2.0 million of other intangible assets specifically related to abandoned technology acquired for a specific customer. There were no impairments of other intangible assets during the three months ended March 31, 2007.

*Other Charges*

Other charges comprised of excess and obsolete property and equipment that were, disposed of or abandoned. During the three months ended March 31, 2007, VeriSign recorded a charge of approximately \$2.2 million for excess and obsolete property and equipment.

**Table of Contents****Note 7. Goodwill and Other Intangible Assets**

The following table summarizes the changes in the carrying amount of goodwill as allocated to the Company's operating segments during the three months ended March 31, 2007:

	<b>Internet</b>	<b>Communications</b>	
	<b>Services Group</b>	<b>Services Group</b>	<b>Total</b>
		<b>(In thousands)</b>	
Balance at December 31, 2006	\$ 415,792	\$ 1,033,701	\$ 1,449,493
Adjustment for divestiture of Jamba and discontinued operations of Jamba Services		(187,249)	(187,249)
Other adjustments	312	(205)	107
Balance at March 31, 2007	\$ 416,104	\$ 846,247	\$ 1,262,351

VeriSign's other intangible assets are comprised of:

	<b>Gross</b>	<b>As of March 31, 2007</b>	<b>Net</b>
	<b>Carrying</b>	<b>Amortization and</b>	<b>Carrying</b>
	<b>Value</b>	<b>Impairment</b>	<b>Value</b>
		<b>(In thousands)</b>	
Customer relationships	\$ 459,303	\$ (346,784)	\$ 112,519
Technology in place	236,251	(145,710)	90,541
Carrier relationships	36,300	(4,754)	31,546
Non-compete agreement	34,498	(11,970)	22,528
Trade name	16,644	(5,224)	11,420
Other	11,040	(2,828)	8,212
Total other intangible assets	\$ 794,036	\$ (517,270)	\$ 276,766

	<b>Gross</b>	<b>As of December 31, 2006</b>	<b>Net</b>
	<b>Carrying</b>	<b>Amortization and</b>	<b>Carrying</b>
	<b>Value</b>	<b>Impairment</b>	<b>Value</b>
		<b>(In thousands)</b>	
Customer relationships	\$ 459,088	\$ (331,279)	\$ 127,809
Technology in place	237,238	(138,866)	98,372
Carrier relationships	64,000	(15,345)	48,655
Non-compete agreement	40,196	(13,785)	26,411
Trade name	34,557	(11,480)	23,077
Other	11,250	(2,144)	9,106
Total other intangible assets	\$ 846,329	\$ (512,899)	\$ 333,430

Fully amortized other intangible assets are not included in the above tables. For the three months ended March 31, 2007 and 2006, amortization of other intangible assets was \$31.8 million and \$28.0 million, respectively. During the three months ended March 31, 2007, \$25.6 million of the

intangible assets decreased due to the divestiture of majority stake in Jamba as a result of the joint ventures with Fox.

**Table of Contents**

Estimated future amortization expense related to other intangible assets at March 31, 2007 is as follows:

	(In thousands)
2007 (remaining 9 months)	\$ 85,459
2008	55,095
2009	46,511
2010	34,685
2011	23,139
Thereafter	31,877
	\$ 276,766

**Note 8. Other Balance Sheet Items***Prepaid expenses and other current assets*

Prepaid expenses and other current assets consist of the following:

	March 31, 2007	December 31, 2006
	(In thousands)	
Prepaid expenses	\$ 31,011	\$ 73,375
Other current assets	65,525	63,821
Securities litigation receivable		80,000
Prepaid expenses and other current assets	\$ 96,536	\$ 217,196

Prepaid expenses as of March 31, 2007 excludes Jamba's prepaid expenses due to the divestiture of a majority stake in Jamba in January 2007 as a result of the joint ventures with Fox. The Company had recorded an \$80.0 million receivable to account for the settlement of the Securities Litigation and Derivative Litigation as of December 31, 2006. Under the terms of the settlement, liability insurers for the Company and its directors and officers paid \$80.0 million in settlement of the lawsuits during the three months ended March 31, 2007.

*Other Assets, net*

Other assets, net, consist of the following:

	March 31, 2007	December 31, 2006
	(In thousands)	
Long-term note receivable	\$ 15,000	\$
Long-term investments	9,269	11,234
Other	12,941	13,980
Other assets	\$ 37,210	\$ 25,214

Long-term note receivable as of March 31, 2007 included a working capital loan provided under a promissory note to an unconsolidated entity under the joint ventures described in Note 4, Joint Ventures, of the Notes to Condensed Consolidated Financial Statements. The promissory note bears an interest rate of 6% per annum and is receivable in December 2011. The promissory note may be optionally prepaid by the borrower at

any time before maturity.

**Table of Contents***Accounts Payable and Accrued Liabilities*

Accounts payable and accrued liabilities consist of the following:

	March 31,	December 31,
	2007	2006
	(In thousands)	
Accounts payable	\$ 34,694	\$ 33,910
Employee compensation	60,121	109,775
Customer deposits	81,907	73,845
Taxes payable and other tax liabilities	30,220	225,727
Other accrued liabilities	94,769	151,848
Securities litigation payable (1)		80,000
	\$ 301,711	\$ 675,105

- (1) VeriSign recorded the \$80.0 million payable to account for the settlement of the In re VeriSign, Inc. Securities Litigation and In re VeriSign, Inc. Derivative Litigation. Under terms of the settlement, liability insurers for the Company and its directors and officers will pay \$80.0 million in settlement of the lawsuits. Under the terms of the settlement, liability insurers for the Company and its directors and officers paid \$80.0 million in settlement of the lawsuits during the three months ended March 31, 2007.

**Note 9. Comprehensive Income**

Comprehensive income consists of net income adjusted for unrealized gains and losses on marketable securities classified as available-for-sale and foreign currency translation adjustments.

	Three Months Ended	
	2007	March 31, 2006
	(As Restated) (1)	
	(In thousands)	
Net income	\$ 61,753	\$ 16,486
Change in unrealized gain on investments, net of tax	1,645	73
Foreign currency translation adjustments	1,619	1,032
Comprehensive income	\$ 65,017	\$ 17,591

- (1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

**Note 10. Credit Facility**

On June 7, 2006, VeriSign entered into a credit agreement (the *Credit Agreement*) with a syndicate of banks and other financial institutions related to a \$500 million senior unsecured revolving credit facility (the *Facility*), under which VeriSign, or certain designated subsidiaries may be borrowers. On February 28, 2007, the outstanding loan balance under the Facility of \$199 million was repaid. As of March 31, 2007, there were no outstanding borrowings under the Facility. Any borrowings under the Facility will be used for working capital, capital expenditures, permitted acquisitions and repurchases of VeriSign's common stock and other lawful corporate purposes. The terms of the Credit Agreement and Facility are more fully described in VeriSign's 2006 Form 10-K.





**Table of Contents****Note 11. Calculation of Net Income Per Share**

Basic net income per share is computed by dividing net income (numerator) by the weighted-average number of shares of common stock outstanding (denominator) during the period. Diluted net income per share gives effect to dilutive common equivalent shares, including unvested stock options, unvested restricted stock units, employee stock purchases and warrants using the treasury stock method.

The following table represents the computation of basic and diluted net income per share:

	Three Months Ended	
	2007	March 31, 2006 (As Restated) (1)
(In thousands, except per share data)		
<b>Net income:</b>		
Net income from continuing operations	\$ 60,413	\$ 15,368
Net income from discontinued operations, net of tax	1,340	1,118
Net income	\$ 61,753	\$ 16,486
<b>Weighted-average shares:</b>		
Weighted-average common shares outstanding	243,852	245,603
Weighted-average potential common shares outstanding:		
Stock options	3,767	2,370
Unvested restricted stock units	436	3
Other	302	107
Shares used to compute diluted net income per share	248,357	248,083
<b>Net income per share:</b>		
<b>Basic:</b>		
Net income from continuing operations	\$ 0.24	\$ 0.06
Net income from discontinued operations	0.01	0.01
	\$ 0.25	\$ 0.07
<b>Diluted:</b>		
Net income from continuing operations	\$ 0.24	\$ 0.06
Net income from discontinued operations	0.01	0.01
	\$ 0.25	\$ 0.07

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

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

Three Months Ended

March 31,

Edgar Filing: VERISIGN INC/CA - Form 10-Q

	2007	2006
	(In thousands, except per share data)	
Weighted-average stock options outstanding	18,901	23,787
Weighted-average exercise price	\$ 40.27	\$ 39.67

**Table of Contents****Note 12. Segment Information***Description of segments*

VeriSign operates its business in two reportable segments: the Internet Services Group and the Communications 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, 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 provides 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.

The segments were determined based primarily on how the chief operating decision maker ( CODM ) views and evaluates VeriSign's operations. VeriSign's Chief Executive Officer has been identified as the CODM as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. Other factors, including customer base, homogeneity of products, technology and delivery channels, were also considered in determining the reportable segments. Additionally, the performance of the Internet Services Group and the Communications Services Group is the measure used by the CODM for purposes of making decisions about allocating resources between the segments.

The following table reflects the results of VeriSign's reportable segments:

	<b>Internet Services Group</b>	<b>Communications Services Group</b>	<b>Unallocated Corporate Expenses</b>	<b>Total Segments</b>
	<b>(In thousands)</b>			
<b>Three months ended March 31, 2007:</b>				
Revenues	\$ 211,635	\$ 161,414	\$	\$ 373,049
Cost of revenues	38,413	95,506	16,721	150,640
Gross margin	\$ 173,222	\$ 65,908	\$ (16,721)	\$ 222,409
<b>Three months ended March 31, 2006 (As Restated) (1):</b>				
Revenues	\$ 175,571	\$ 194,538	\$	\$ 370,109
Cost of revenues	38,340	87,252	11,375	136,967
Gross margin	\$ 137,231	\$ 107,286	\$ (11,375)	\$ 233,142

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

A reconciliation of the totals reported for the reportable segments to the applicable line items in the Condensed Consolidated Financial Statements is as follows:

	Three Months Ended March 31,	
	2007	2006 (As Restated) (1)
	(In thousands)	
Gross margin from reportable segments	\$ 222,409	\$ 233,142
Operating expenses *	234,500	221,633
Operating (loss) income	(12,091)	11,509
Other income, net	81,387	28,721
Income from continuing operations before income taxes, earnings from unconsolidated entities and minority interest	\$ 69,296	\$ 40,230

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

\* Operating expenses include sales and marketing, research and development, general and administrative, restructuring, impairments and other charges, amortization of other intangible assets and acquired in-process research and development.

*Geographic information*

The following table presents a comparison of revenues by geographic regions:

	Three Months Ended March 31,	
	2007	2006 (As Restated) (1)
	(In thousands)	
<b>Americas:</b>		
United States	\$ 297,774	\$ 261,185
Other (2)	10,819	8,915
Total Americas	308,593	270,100
EMEA (3)	40,124	75,075
APAC (4)	24,332	24,934
Total revenues	\$ 373,049	\$ 370,109

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

(2) Canada and Latin America

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

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

VeriSign primarily operates in the United States, Canada, Latin America, Europe, Japan, Australia, South Africa, and India. In general, revenues are attributed to the country in which the contract originated. However, revenues from all digital certificates issued from the Mountain View, California facility and domain names issued from the Dulles, Virginia facility are attributed to the United States because it is impracticable to

determine the country of origin.

**Table of Contents**

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

	March 31,	December 31,
	2007	2006
	(In thousands)	
Americas:		
United States	\$ 559,357	\$ 575,321
Other	1,546	1,599
Total Americas	560,903	576,920
EMEA	4,178	11,780
APAC	16,265	16,592
Property and equipment, net	\$ 581,346	\$ 605,292

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

**Note 13. Other Income, Net**

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

	Three Months Ended	
	March 31,	
	2007	2006
	(As Restated) (1)	
	(In thousands)	
Interest income	\$ 8,577	\$ 7,574
Interest expense	(2,354)	(28)
Net gain on sale of investments	829	21,274
Net gain on divestiture of majority stake in Jamba	74,999	
Other, net	(664)	(99)
Total other income, net	\$ 81,387	\$ 28,721

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

**Note 14. Income Taxes**

For the three months ended March 31, 2007 and March 31, 2006, VeriSign recorded income tax expense from continuing operations of \$8.8 million and \$24.2 million respectively. The decrease in the tax expense is attributed primarily to decreased taxable income and the favorable tax regime in which the majority stake in Jamba was sold during the quarter ended March 31, 2007.

---

**Table of Contents**

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

The Company adopted the provisions of FIN 48 on January 1, 2007. The cumulative effect of adopting FIN 48 was a decrease in tax reserves of \$9.3 million, an increase in long-term deferred tax assets of \$28.7 million, and a decrease in the January 1, 2007 accumulated deficit balance of \$38.0 million. At the adoption date of January 1, 2007, the Company had an unrecognized tax benefit for income taxes associated with uncertain tax positions of \$87.6 million. Of this amount, \$86.2 million would impact the Company's effective tax rate if recognized.

In accordance with its accounting policy, the Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. At January 1, 2007, the Company had \$8.4 million of accrued interest and penalties. For the quarter ended March 31, 2007, the Company expensed an additional amount of \$1.1 million for interest and penalties related to income tax liabilities through income tax expense.

During the first quarter of 2006, the U.S. Internal Revenue Service commenced its audit of the Company's U.S. income tax returns for 2004. The Company is also under examination by various state and international taxing jurisdictions. Because the Company uses historic net operating loss carryforwards and other tax attributes to offset its taxable income in current and future years, such attributes can be adjusted by the IRS and other taxing authorities until the statute closes on the year in which such attribute was utilized. The Company does not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

**Note 15. Recent Accounting Pronouncements**

In February 2007, the FASB issued SFAS No. 159 ( SFAS 159 ), *The Fair Value Option for Financial Assets or Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. The objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of Statement No. 157 ( SFAS 157 ) *Fair Value Measurements* . The Company is currently evaluating the effect of SFAS 159, and the impact it will have on its financial position and results of operations.

In September 2006, the FASB issued SFAS 157, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company is currently evaluating the effect of SFAS 157, and the impact it will have on its financial position and results of operations.

**Note 16. Subsequent Events**

On July 9, 2007, VeriSign entered into a Consulting and Separation Agreement with Mr. Sclavos in connection with his resignation on May 27, 2007. Pursuant to the terms of the agreement, Mr. Sclavos will provide consulting services to the Company for a one-year period at the rate of \$5,000 per month and is



**Table of Contents**

prohibited from engaging in certain competitive activities or soliciting customers of the Company during such period. The Company will pay Mr. Slavos severance of \$1,969,380 within twenty-one days of the effective date of the agreement and \$1,969,380 on June 15, 2008, subject to his compliance with the terms of the agreement. In the event of a change-in-control of the Company, all severance payments will accelerate and become immediately due and payable.

The Company accelerated all of Mr. Slavos' outstanding options to purchase shares of the Company's common stock and restricted stock units that are scheduled to vest within twenty-four months after Mr. Slavos' resignation. Accordingly, vesting for restricted stock units with respect to approximately 156,000 shares of the Company's common stock and the following stock options were accelerated:

<b>Grant Date</b>	<b>Exercise Price</b>	<b># of Shares Accelerated</b>
10/29/03	\$ 15.87	86,340
11/1/05	\$ 23.46	192,650
8/1/06	\$ 17.94	400,813
	Total:	679,803

On May 31, 2007, in anticipation of entering into this agreement, the Company paid Mr. Slavos severance in the amount of \$1,031,580 and \$115,422 for all unpaid wages and unused paid time off accrued through his resignation date.

The Company will also pay Mr. Slavos \$5,459,430 within twenty-one days of the effective date of the agreement in connection with an option to purchase 300,000 shares of the Company's common stock that was previously granted to Mr. Slavos but was erroneously deleted from the Company's records as more fully described in the Explanatory Note appearing in the 2006 Form 10-K.

On July 10, 2007, Dana L. Evan, the Company's then-current Executive Vice President, Finance and Administration, and Chief Financial Officer resigned from her positions.

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

---

**Table of Contents**

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

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

*Except for historical information, this 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 the section titled *Risk Factors* in Part II, Item 1A. You should carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including the *Quarterly Reports on Form 10-Q* or *Current Reports on Form 8-K* that we file in 2007 and our *Annual Report on Form 10-K* for the year ended December 31, 2006, which was filed on July 12, 2007, which discuss our business in greater detail. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this *Quarterly Report on Form 10-Q*. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.*

The following information has been adjusted to reflect the restatement of our financial results, which is more fully described in the Explanatory Note immediately preceding Part I, Item 1 and in Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements of this Form 10-Q. All restated results included in Item 2 are for three months ended March 31, 2006. The net of tax impact of the restatements on our results of operations amounted to \$3.3 million in the first quarter of 2006.

**Overview**

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 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 2007, our business consists of two reportable segments: the Internet Services Group and the Communications 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, 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

## **Table of Contents**

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 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 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.

During the first quarter of 2007, the growth in the Internet Services Group was primarily due to an increase in domain name registrations and renewal rates and an increase in the sale of SSL certificates. The Internet Services Group recorded revenues of \$211.6 million during the first quarter, an increase of 21% from the same period last year.

Communications Services Group revenues for the three months ended March 31, 2007, were \$161.4 million; down 17% from the same period last year. The decline was primarily related to the divestiture of majority stake in Jamba which recorded revenues of \$24.6 million during the three months ended March 31, 2007, a decrease of 67% from the same period last year.

We derive the majority of our revenues and cash flows from a relatively small number of products and services sold primarily in the United States, Europe and Japan. In the Internet Services Group, more than 93% of the revenues during the first quarter of 2007 were derived from the sale of registry services, managed authentication and security services, and web certificates. In the Communications Services Group, approximately 87% of the revenues were derived from the sale of mobile and broadband content services, network connectivity services, intelligent database services and billing and payment services.

### ***Acquisitions and Dispositions***

On January 31, 2007, we finalized two joint venture agreements with Fox Entertainment ("Fox"), a subsidiary of News Corporation, to provide mobile entertainment to consumers on a global basis. Under the terms of the agreements, Fox owns a 51% interest and we 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 our contribution of the Jamba business and we paid Fox approximately \$4.9 million in cash for its contribution of Fox Mobile Entertainment assets. We recognized a gain of approximately \$75.0 million upon the divestiture of majority stake in Jamba.

### ***Critical Accounting Policies and Significant Management Estimates***

We have made no material changes to our critical accounting policies, which are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

We adopted FIN 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* on January 1, 2007. FIN 48 is an interpretation of FASB Statement 109, *Accounting for Income Taxes*, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. Under FIN 48, an entity may only recognize or continue to recognize tax positions that meet a more likely than not threshold. In accordance with our accounting policy, we recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense.

**Table of Contents****Recent Accounting Pronouncements**

In February 2007, the FASB issued SFAS No. 159 ( SFAS 159 ), *The Fair Value Option for Financial Assets or Financial Liabilities* which provides companies with an option to report selected financial assets and liabilities at fair value. The objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS 157, ( SFAS 157 ) **Fair Value Measurements** . We are currently evaluating the effect of SFAS 159 and the impact it will have on our financial position and results of operations.

In September 2006, the FASB issued SFAS 157, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided we have not yet issued financial statements, including for interim periods, for that fiscal year. We are currently evaluating the effect of SFAS 157 and the impact it will have on our financial position and results of operations.

**Results of Operations****Revenues**

We have two reportable segments: the Internet Services Group and the Communications Services Group. A comparison of revenues is presented below.

	Three Months Ended		% Change
	2007	March 31, 2006 (As Restated) (1)	
	(Dollars in thousands)		
Internet Services Group	211,635	175,571	21%
Communications Services Group	161,414	194,538	(17)%
<b>Total revenues</b>	<b>\$ 373,049</b>	<b>\$ 370,109</b>	<b>1%</b>

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.  
*Internet Services Group*

Internet Services Group revenues increased \$36.1 million for the three months ended March 31, 2007, as compared to the same period last year. Our security services revenues increased \$10.1 million during the three months ended March 31, 2007, as compared to the same period last year as a result of a higher installed base of digital certificates. Information services revenues increased by \$26.0 million in the United States during the three months ended March 31, 2007, as compared to the same period last year as a result of an increase in managed active domain names ending in .com and .net.

The following table compares active domain names ending in .com and .net managed by our information services business and the approximate installed base of Web site digital certificates in our commerce site services business as of March 31, 2007 and 2006:

	March 31,		% Change
	2007	2006	

Edgar Filing: VERISIGN INC/CA - Form 10-Q

Active domain names ending in <i>.com</i> and <i>.net</i>	69.2 million	54.0 million	28%
Installed base of Web site digital certificates	850,000	508,000	67%

**Table of Contents**

The GeoTrust acquisition in September 2006 increased our installed base of digital certificates by an additional 279,000 units. Excluding the GeoTrust acquisition, the installed base of digital certificates increased by 12% during the three months ended March 31, 2007, compared to the same period last year.

*Communications Services Group*

Communications Services Group revenues decreased approximately \$33.1 million for the three months ended March 31, 2007, respectively, as compared to the same period last year. Revenue from our Jamba business-to-consumer content services decreased \$46.3 million during the three months ended March 31, 2007, as compared to the same period last year as a result of the joint ventures with Fox and the related deconsolidation of Jamba in our consolidated financial statements during the quarter.

Communication and Commerce services revenues, which include our network services, intelligent database services, billing and payments services and clearing and settlement services, decreased approximately \$14.3 million for the three months ended March 31, 2007, as compared to the same period last year. Network services revenues decreased due to customer direct connects and pricing pressures. Intelligent database services revenues decreased due to pricing pressures and customer consolidations, partially offset by an increase of 8% or 1.2 billion in query volumes. Commerce revenues decreased due to key customer losses for the prepaid and clearing businesses. These declines were partially offset by increases in our mobile content and messaging services revenues and broadband content services revenues of \$22.8 million as a result of our business acquisitions over the past twelve months and an increase in the volume of short messaging and multimedia mobile messaging services. Professional and consulting services revenues increased by approximately \$13.6 million during the three months ended March 31, 2007, due to the acquisition of inCode Telecom Group, Inc. in November 2006.

The following table shows a comparison of the approximate number of quarterly short messages and multimedia mobile messages:

	Three Months Ended March 31,		% Change
	2007	2006	
Short messages and multimedia mobile messages	16.2 billion	7.4 billion	119%

*Revenues by Geographic Region*

The following tables show a comparison of our revenues by geographic region:

	Three Months Ended March 31,		% Change
	2007	2006 (As Restated) (1)	
(Dollars in thousands)			
Americas:			
United States	\$ 297,774	\$ 261,185	14%
Other (2)	10,819	8,915	21%
Total Americas	308,593	270,100	14%
EMEA (3)	40,124	75,075	(47)%
APAC (4)	24,332	24,934	(2)%
Total revenues	\$ 373,049	\$ 370,109	1%

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

(2) Canada and Latin America

30

**Table of Contents**

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

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

Revenues increased \$38.5 million in the Americas region in the three months ended March 31, 2007, compared to the same period last year, primarily due to our business acquisitions in the communication and security services group over the past twelve months, as well as increased information services revenues in the United States. Revenues in the EMEA region decreased \$35.0 million in the three months ended March 31, 2007, compared to the same period last year, due to decrease in content services primarily as a result of the divestiture of majority stake in Jamba during the quarter. APAC revenues decreased \$0.6 million during the three months ended March 31, 2007, compared to the same period last year, primarily due to the decrease in affiliate revenues partially offset by an increase in security services revenues in Japan and Australia.

*Cost of revenues*

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

A comparison of cost of revenues is presented below:

	Three Months Ended March 31,		% Change
	2007	2006 (As Restated) (1)	
	(Dollars in thousands)		
Cost of revenues	\$ 150,640	\$ 136,967	10%
Percentage of revenue	40%	37%	

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

Cost of revenues increased approximately \$13.7 million for the three months ended March 31, 2007 as compared to the same period last year. Salary and employee benefits increased \$8.8 million for the three months ended March 31, 2007 primarily as a result of an increase in headcount due to our business acquisitions during 2006 offset by a reduction in headcount due to the 2007 restructuring plan. Travel expenses increased \$2.7 million during the three months ended March 31, 2007 primarily due to professional services businesses acquired in 2006. Telecommunication expenses increased \$1.4 million primarily due to increased spending on capacity for global constellation sites. Expenses related primarily to redeployed employees of \$3.2 million were included in cost of revenues from the general and administrative expense category during the three months ended March 31, 2007, primarily due to the realignment of business divisions as a result of the 2007 restructuring plan.

As a percentage of revenues, cost of revenues increased for the three months ended March 31, 2007 compared to the same period last year primarily as a result of increased expenses due to new business acquisitions and a decline in revenue from our content services business units.

*Sales and marketing*

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



**Table of Contents**

A comparison of sales and marketing expenses is presented below:

	Three Months Ended March 31,		%
	2007	2006 (As Restated) (1)	
	(Dollars in thousands)		
Sales and marketing	\$ 78,950	\$ 90,550	(13)%
Percentage of revenue	21%	24%	

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements. Sales and marketing expenses decreased \$11.6 million for the three months ended March 31, 2007 as compared to the same period last year. Advertising and marketing expenses decreased \$23.6 million during the three months ended March 31, 2007 primarily due to a reduction in spending in our content services business as a result of the divestiture of majority stake in Jamba. Salary and employee benefit costs increased \$10.6 million for the three months ended March 31, 2007 primarily as a result of an increase in headcount due to our business acquisitions during 2006 offset by a reduction in headcount due to the 2007 restructuring plan. Expenses related to redeployed employees of \$1.3 million were included in sales and marketing from the general and administrative expense category during the three months ended March 31, 2007, primarily due to the realignment of business divisions as a result of the 2007 restructuring plan.

As a percentage of revenues, sales and marketing expenses decreased for the three months ended March 31, 2007 primarily due to decreases in advertising for our content services, which were partially offset by increased salary and employee benefit costs as a result of additional headcount due to our new business acquisitions and the increase in stock-based compensation expense.

*Research and development*

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

We believe that continued development of new and enhanced services and technologies are necessary to maintain our leadership position in the marketplace. Accordingly, we intend to continue to recruit experienced research and development personnel both domestically and internationally and to make other investments in research and development.

A comparison of research and development expenses is presented below:

	Three Months Ended March 31,		%
	2007	2006 (As Restated) (1)	
	(Dollars in thousands)		
Research and development	\$ 45,162	\$ 28,259	60%
Percentage of revenue	12%	8%	

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements. Research and development expenses increased approximately \$16.9 million for the three months ended March 31, 2007 as compared to the same period last year. Salary and employee benefit expenses increased \$7.9 million for the three months ended March 31, 2007 primarily as a result of an increase in headcount due to

**Table of Contents**

our business acquisitions during 2006 offset by a reduction in headcount due to the 2007 restructuring plan. Contract and professional services expenses increased \$3.2 million for the three months ended March 31, 2007 primarily due to increased use of outside services to support new product initiatives. Expenses related to redeployed employees of \$4.2 million were included in research and development from the general and administrative expense category during the three months ended March 31, 2007, primarily due to the realignment of business divisions as a result of the 2007 restructuring plan.

As a percentage of revenues, research and development expenses increased for the three months ended March 31, 2007 compared to the same period last year primarily due to an increase in headcount as a result of acquisitions.

*General and administrative*

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

A comparison of general and administrative expenses is presented below:

	Three Months Ended March 31,		%
	2007	2006 (As Restated) (1)	Change
	(Dollars in thousands)		
General and administrative	\$ 51,589	\$ 60,515	(15)%
Percentage of revenue	14%	16%	

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

General and administrative expenses decreased approximately \$8.9 million for the three months ended March 31, 2007 as compared to the same period last year. Salary and employee benefit costs increased approximately \$2.8 million during the three months ended March 31, 2007 due to an increase in headcount as a result of business acquisitions in 2006. Expenses related to redeployed employees of \$8.7 million were included in general and administrative into the other expense categories during the three months ended March 31, 2007, primarily due to the realignment of business divisions as a result of the 2007 restructuring plan. Bad debt expense decreased approximately \$1.9 million during the three months ended March 31, 2007, compared to the same period last year, primarily due to recoveries.

As a percentage of revenues, general and administrative expenses decreased for the three months ended March 31, 2007 compared to the same period last year primarily due to the reclassification of expenses allocated to other cost categories.

*Restructuring, impairments and other charges*

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

	Three Months Ended March 31,	
	2007	2006
	(Dollars in thousands)	
2007 restructuring plan charges	\$ 24,681	\$
2002 and 2003 restructuring plan charges	94	1,460
Total restructuring charges	24,775	1,460
Impairments and other charges	2,237	1,949
Total restructuring, impairments and other charges	\$ 27,012	\$ 3,409



**Table of Contents***2007 Restructuring Plan*

In January 2007, we initiated a restructuring plan to execute a company-wide reorganization replacing our 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 and other charges as described in Note 6, Restructuring, Impairments and Other Charges, of the Notes to Condensed Consolidated Financial Statements.

*2003 Restructuring Plan*

In November 2003, we initiated a restructuring plan related to the sale of our Network Solutions business and the realignment of other business units.

*2002 Restructuring Plan*

In April 2002, we initiated a plan to restructure our operations to rationalize, integrate and align resources.

*Impairments and Other Charges*

During the three months ended March 31, 2006, VeriSign wrote off approximately \$2.0 million of other intangible assets specifically related to abandoned technology acquired for a specific customer. There were no impairments of other intangible assets during the three months ended March 31, 2007.

Other charges comprised of excess and obsolete property and equipment that were disposed of or abandoned. During the three months ended March 31, 2007, VeriSign recorded a charge of approximately \$2.2 million for excess and obsolete property and equipment.

*Amortization of other intangible assets*

A comparison of amortization of other intangible assets is presented below:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Dollars in thousands)</b>	
<b>Amortization of other intangible assets</b>	<b>\$ 31,787</b>	<b>\$ 28,000</b>

Amortization of other intangible assets increased approximately \$3.8 million for the three months ended March 31, 2007 as compared to the same period last year primarily due to amortization related to intangible assets acquired from our business acquisitions over the past twelve months.

*Acquired in-process research and development*

During the three months ended March 31, 2006, we wrote off \$10.9 million of in-process research and development ( IPR&D ). The IPR&D was primarily related to our acquisition of Kontiki. At the date of the acquisition, the projects associated with the IPR&D efforts had not yet reached technological feasibility and the research and development in process had no alternative future uses. Accordingly, these amounts were charged to expense on the acquisition date.

*Other income, net*

Other income, net consists primarily of interest earned on our cash, cash equivalents, and investments, interest expense related to our borrowings, gains and losses on the sale or impairment of equity investments, gains and losses on divestiture of subsidiary, and the net effect of foreign currency gains and losses.



**Table of Contents**

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

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(As Restated) (1)</b>	
	<b>(Dollars in thousands)</b>	
Interest income	\$ 8,577	\$ 7,574
Interest expense	(2,354)	(28)
Net gain on sale of investments, net of impairments	829	21,274
Net gain on divestiture of majority stake in Jamba	74,999	
Other, net	(664)	(99)
 Total other income, net	 \$ 81,387	 \$ 28,721

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

Other income, net, increased approximately \$52.7 million during the three months ended March 31, 2007 as compared to the same period last year. Interest income increased approximately \$1.0 million during the three months ended March 31, 2007 primarily as a result of higher cash balances as compared to the same period last year. Interest expense increased approximately \$2.3 million for the three months ended March 31, 2007 due to interest related to our borrowings under the credit facility as described in Note 10, Credit Facility, of the Notes to Condensed Consolidated Financial Statements. During the three months ended March 31, 2007, we recorded a gain of \$75.0 million upon the divestiture of majority stake in our wholly owned subsidiary, Jamba. The net gain on sale of investments for the three months ended March 31, 2006 included approximately \$21.3 million of gain on sale of our remaining equity stake in Network Solutions that was previously written off.

***Earnings from unconsolidated entities, net of tax***

Earnings from unconsolidated entities, net of tax, represents the net income earned from the joint ventures entered into with Fox during the three months ended March 31, 2007, as described in Note 4, Joint Ventures, of the Notes to Condensed Consolidated Financial Statements. We recorded earnings of approximately \$0.4 million from the joint ventures during the three months ended March 31, 2007.

***Minority interest, net of tax***

Minority interest, net of tax, represents the portion of net income belonging to minority shareholders of our consolidated subsidiaries.

A comparison of minority interest, net of tax, is presented below:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Dollars in thousands)</b>	
Minority interest, net of tax	\$ (569)	\$ (647)

Minority interest, net of tax, decreased during the three months ended March 31, 2007 as compared to the same period last year primarily from a decrease in net income from our VeriSign Japan subsidiary for the respective period.

***Income tax expense***

For the three months ended March 31, 2007, we recorded income tax expense of \$8.8 million, compared to an income tax expense of \$24.2 million for the three months ended March 31, 2006. The decrease in the tax expense is attributed primarily to decreased taxable income and the favorable tax jurisdiction in which the majority stake in Jamba was sold during the quarter ended March 31, 2007.



**Table of Contents**

We apply a valuation allowance to certain deferred tax assets which we do not believe that it is more likely than not that they will be realized. These deferred assets consist primarily of investments with differing book and tax bases and net operating losses related to certain foreign operations.

We adopted the provisions of FIN 48 on January 1, 2007. The cumulative effect of adopting FIN 48 was a decrease in tax reserves of \$9.3 million, an increase in long-term deferred tax assets of \$28.7 million, and a decrease in the January 1, 2007 accumulated deficit balance of \$38.0 million. At the adoption date of January 1, 2007, the unrecognized tax benefit for income taxes associated with uncertain tax positions was \$87.6 million. Interest and penalties related to income tax liabilities are included in income tax expense. At January 1, 2007, we had \$8.4 million of accrued interest and penalties. For the quarter ended March 31, 2007, we expensed an additional amount of \$1.1 million for interest and penalties related to income tax liabilities through income tax expense.

**Liquidity and Capital Resources**

	March 31,	December 31,
	2007	2006
	(Dollars in thousands)	
Cash and cash equivalents	\$ 523,024	\$ 478,749
Short-term investments	147,929	198,656
Subtotal	670,953	677,405
Restricted cash and investments	48,976	49,437
Total	\$ 719,929	\$ 726,842

At March 31, 2007, our principal source of liquidity was \$671.0 million of cash, cash equivalents and short-term investments, consisting principally of commercial paper, medium term investment-grade corporate notes, corporate bonds and notes, U.S. government and agency securities and money market funds.

*Net cash provided by operating activities*

Net cash provided by operating activities of approximately \$44.0 million for the three months ended March 31, 2007 consisted of net income of \$61.8 million plus non-cash items totaling \$32.0 million, which primarily included depreciation of property and equipment of approximately \$28.2 million, amortization of other intangible assets of approximately \$31.8 million, restructuring charges of approximately \$27.0 million, stock-based compensation of \$16.7 million, and deferred income taxes of approximately \$5.1 million, primarily offset by a gain on the divestiture of majority stake in Jamba of approximately \$75.0 million. Changes in operating assets and liabilities decreased operating cash flow by \$49.7 million.

*Net cash provided by investing activities*

Net cash provided by investing activities of approximately \$194.7 million for the three months ended March 31, 2007 was primarily attributed to net proceeds from the divestiture of majority stake in Jamba, net of cash contributed thereon, of \$152.6 million, net proceeds from the maturities and sales of investments of \$56.0 million, partially offset by purchases of property and equipment of \$15.1 million and a decrease in other assets of \$1.1 million.

*Net cash used in financing activities*

Net cash used in financing activities of approximately \$199.0 million for the three months ended March 31, 2007 was primarily related to repayment of long-term debt.



---

**Table of Contents**

*Net cash used in discontinued operations*

Net cash used in operating activities from discontinued operations of approximately \$0.2 million for the three months ended March 31, 2007 was primarily from net income and changes in operating assets and liabilities.

*Other Liquidity and Capital Resources Information*

On June 7, 2006, we entered into a \$500 million senior unsecured revolving credit facility (the Facility), as described in Note 10, Credit Facility, of our Notes to Condensed Consolidated Financial Statements, under which VeriSign, or certain designated subsidiaries may be borrowers. On February 28, 2007, the outstanding loan balance under the Facility of \$199.0 million was repaid. As of March 31, 2007, there were no outstanding borrowings under the Facility. Any borrowings under the Facility will be used for working capital, capital expenditures, permitted acquisitions and repurchases of VeriSign's common stock and other lawful corporate purposes. As of the date of the filing of this report, we are not in compliance with certain covenants under our Credit Agreement that requires 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 20, 2007.

In addition, in order to manage our working capital needs, we may enter into transactions under repurchase agreements with financial institutions. These repurchase agreements are collateralized short-term loans for which the collateral may be a Treasury security or federal agency security held by us.

Our planned property and equipment expenditures for 2007 are anticipated to total approximately \$200 million, of which we spent approximately \$15.1 million during the three months ended March 31, 2007, primarily for computer and communications equipment and computer software within all areas of our businesses.

Future operating lease payments include payments related to leases on excess facilities included in our restructuring plans. The restructuring liability is included on the balance sheet as accrued restructuring costs. Amounts related to the lease terminations due to the abandonment of excess facilities will be paid over the respective lease terms, the longest of which extends through 2011. If sublease rates decrease in these markets, or if it takes longer than expected to sublease these facilities, the actual lease expense could exceed this estimate by an additional \$2.9 million over the next five years relating to our restructuring plans. Cash payments totaling approximately \$7.7 million related to the abandonment of excess facilities will be paid over the next five years. See Note 6, Restructuring, Impairments and Other Charges, of our Notes to Condensed Consolidated Financial Statements.

On May 16, 2006, our Board of Directors authorized a \$1 billion stock repurchase program to repurchase shares of our common stock on the open market, or in negotiated or block trades. During the three months ended March 31, 2007, no shares were repurchased. At March 31, 2007, approximately \$984.7 million remained available for future repurchases under this program.

We believe existing cash and short-term investments, together with funds generated from operations should be sufficient to meet our working capital and capital expenditure requirements. Our philosophy regarding the maintenance of a balance sheet with a large component of cash, cash equivalents and short-term investments reflects our views on potential future capital requirements relating to expansion of our businesses, acquisitions, and share repurchases. We regularly assess our cash management approach and activities in view of our current and potential future needs.

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our market risk profile has not changed significantly from that described in our annual report on Form 10-K for the fiscal year ended December 31, 2006.

**Equity investments**

We invest in debt and equity securities of technology companies for investment purposes. In most instances, we invest in the equity and debt securities of private companies for which there is no public market, and therefore, carry a high level of risk. These companies are typically in the early stage of development and are expected to incur substantial losses in the near-term. Therefore, these companies may never become publicly traded. Even if they do, an active trading market for their securities may never develop and we may never realize any return on these investments. During the three months ended March 31, 2007 and 2006, we determined that there were no other-than-temporary declines in the value of our non-public equity investments. Due to the inherent risks associated with investments, we may incur future losses on the sale or impairment of our investments.

**Interest rate sensitivity**

The primary objective of our short-term investment management activities is to preserve principal with the additional goals of maintaining appropriate liquidity and driving after-tax returns. We manage our interest rate risk by maintaining an investment portfolio generally consisting of debt instruments of high credit quality and relatively short maturities. We invest in a variety of securities, including commercial paper, medium-term notes, corporate bonds and notes, U.S. government and agency securities and money market funds. In general, money market funds are not considered to be subject to interest rate risk because the interest paid on such funds fluctuates with the prevailing interest rate. As of March 31, 2007, 62% of our investments subject to interest rate risk mature in less than one year.

Notwithstanding our efforts to manage interest rate risks, there can be no assurance that we will be adequately protected against risks associated with interest rate fluctuations. At any time, a sharp change in interest rates could have a significant impact on the fair value of our investment portfolio. The following table presents the hypothetical changes in fair value of our fixed income securities in our short-term investments portfolio as of March 31, 2007, arising from potential changes in interest rates. The modeling technique estimates the change in fair value from immediate hypothetical parallel shifts in the yield curve of plus or minus 25 basis points ( BPS ), 50 BPS, 100 BPS, and 150 BPS.

Uniform decrease in interest rates				Uniform increase in interest rates				
-1.50%	-1.00%	-0.50%	-0.25%	0.00%	0.25%	0.50%	1.00%	1.50%
1,747	1,164	582	291		(291)	(582)	(1,164)	(1,747)

The following table presents the amounts of our cash equivalents and short-term investments that are subject to interest rate risk by range of expected maturity and weighted-average interest rates as of March 31, 2007. This table does not include money market funds because those funds are not considered to be subject to interest rate risk.

	Maturing in		More than		Total	Estimated Fair Value
	Six Months or Less	Six Months to One Year	One Year	(Dollars in thousands)		
Included in cash and cash equivalents	\$ 18,785	\$	\$		\$ 18,785	\$ 18,785
Weighted-average interest rate	5.10%					
Included in short-term investments	\$ 82,003	\$ 32,712	\$ 34,214		\$ 148,929	\$ 147,929
Weighted-average interest rate	3.99%	3.97%	3.85%			
Included in restricted cash	\$	\$	\$ 48,976		\$ 48,976	\$ 48,976
Weighted-average interest rate			4.65%			

**Table of Contents**

**Foreign exchange risk management**

We conduct business throughout the world and transact in multiple foreign currencies. As we continue to expand our international operations, we are increasingly exposed to currency exchange rate risks. In the fourth quarter of 2003, we initiated a foreign currency risk management program designed to mitigate foreign exchange risks associated with the monetary assets and liabilities of our operations that are denominated in non-functional currencies. The primary objective of this hedging program is to minimize the gains and losses resulting from fluctuations in exchange rates. We do not enter into foreign currency transactions for trading or speculative purposes, nor do we hedge foreign currency exposures in a manner that entirely offsets the effects of changes in exchange rates. The program may entail the use of forward or option contracts and, in each case, these contracts are limited to a duration of less than 12 months.

At March 31, 2007, we held forward contracts in notional amounts totaling approximately \$51.2 million to mitigate the impact of exchange rate fluctuations associated with certain foreign currencies. All forward contracts are recorded at fair market value. We attempt to limit our exposure to credit risk by executing foreign exchange contracts with high-quality financial institutions.

---

**Table of Contents**

**ITEM 4. CONTROLS AND PROCEDURES**

As discussed in Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements, 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 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. We are restating previously filed financial statements in this quarterly report on Form 10-Q for the three months ended March 31, 2006.

Details of the restatement and its underlying circumstances are discussed in the Explanatory Note and in Note 2, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements reporting our 2006 Form 10-K.

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) as of March 31, 2007. We determined that our disclosure controls and procedures were not effective to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC because of the material weakness in our internal control over financial reporting. Our management, based upon the substantial work performed during the preparation of this report and the related restatement of historical financial information, has concluded that our condensed consolidated financial statements for the periods covered by and included in this report are prepared in accordance with the instruction for Form 10-Q pursuant to the rules and regulations of the SEC and are a fair presentation of our financial position, results of operations and cash flows for each of the periods presented herein.

**Changes in Internal Control over Financial Reporting**

Subsequent to March 31, 2007, our Board of Directors approved additional internal control policies and procedures intended to remediate the material weakness. As of the date of this filing, we have implemented or are in the process of implementing the following corrective actions:

Develop and implement detailed equity-based grant policies and procedures and related compensation and human resources practices, including procedures to ensure accurate and timely communication of Compensation Committee actions.

Validation of critical stock administration data fields including employee termination dates and stock option cancellation dates.

Designation of individuals in the legal and accounting departments to oversee the documentation of, and accounting for, equity-based grants.

Additional training for our finance, human resource, stock administration, and legal personnel concerning the equity grant process and the accounting and financial reporting for equity awards and modifications of such awards.

Awarding equity-based grants (new hire, promotion, and annual performance) at pre-determined dates, with all required approvals documented and finalized on or before those dates.

**Table of Contents**

Improving the coordination and communication among the human resources, accounting and legal departments to identify, in advance, accounting issues relating to equity-based awards, and to ensure that those awards are properly accounted for under generally accepted accounting principles.

Additionally, we are investing in ongoing efforts to continuously improve our internal control over financial reporting and have committed considerable resources to the improvement of the design, implementation, documentation, testing and monitoring of our internal controls.

As of the date of this filing, we believe that we have made substantial progress in the implementation of the corrective actions noted above and toward remediation of the material weakness.

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

**Table of Contents****PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

On September 7, 2001, NetMoneyIN, an Arizona corporation, filed a complaint alleging patent infringement against VeriSign and several other previously-named defendants in the United States District Court for the District of Arizona asserting infringement of 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. During July, 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

---

**Table of Contents**

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 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

---

**Table of Contents**

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 .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.



**Table of Contents**

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 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

---

**Table of Contents**

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 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.

**Table of Contents**

On June 7, 2007, plaintiffs Michael and Michele Hardin, on behalf of themselves and a nationwide class of consumers, filed a complaint against VeriSign, Inc. and other defendants alleging that defendants collectively operate various "gambling games" in violation of Georgia state law. Plaintiffs allege that interactive television promotions contained in various broadcasts, including NBC's "Deal or No Deal," wrongly permit participants to incur premium text message charges in order to participate in the promotions to win a prize. The lawsuit is pending in the United States District Court for the Northern District of Georgia, Gainesville Division. While 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.

**Table of Contents**

**ITEM 1A. RISK FACTORS**

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

*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;

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.

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.

## **Table of Contents**

### **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;

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;

## Edgar Filing: VERISIGN INC/CA - Form 10-Q

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;

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.

---

**Table of Contents**

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-Q, we are restating the unaudited quarterly financial information and 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 the 2006 Form 10-K.

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 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.

**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.**



## Edgar Filing: VERISIGN INC/CA - Form 10-Q

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 Part I, Item 4, Controls and Procedures . 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 and the date of this report, our disclosure controls and procedures were not effective.

---

**Table of Contents**

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.

We have 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 \$27.0 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.**

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;

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;

**Table of Contents**

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. 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.

## Edgar Filing: VERISIGN INC/CA - Form 10-Q

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

## **Table of Contents**

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;

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

tariffs and other trade barriers and restrictions;

difficulties in staffing and managing foreign operations;

longer sales and payment cycles;

problems in collecting accounts receivable;

## Edgar Filing: VERISIGN INC/CA - Form 10-Q

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;

**Table of Contents**

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 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; 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.

*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 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.





---

## **Table of Contents**

*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, O<sub>2</sub>, 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.

*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

## **Table of Contents**

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;

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 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.

---

**Table of Contents**

**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 in 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, 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 carrier, 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;

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;

## Table of Contents

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;

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 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.

## **Table of Contents**

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.

### **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.

## Table of Contents

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;

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.

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



## Edgar Filing: VERISIGN INC/CA - Form 10-Q

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

## **Table of Contents**

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 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 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

---

**Table of Contents**

AT&T, 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.

**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

---

## **Table of Contents**

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.**

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 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.

---

## **Table of Contents**

### **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.

### **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.

## **Table of Contents**

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 personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers, which could harm our business.

### **We have anti-takeover protections that may 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;

**Table of Contents**

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.

**Table of Contents**

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

On February 8, 2007, a holder of an outstanding warrant exercised its right to purchase 39,328 shares of our common stock at \$14.16 per share on a cashless exercise basis. The fair market value of our common stock on the date of exercise was \$24.37. As a result of the cashless exercise, we issued 16,476 shares of our common stock and withheld issuing 22,852 shares of our common stock in satisfaction of the exercise price under the warrants. We did not receive any proceeds from the exercise of the warrant.

The shares of our common stock issued upon exercise of the warrant were issued in a transaction exempt from registration pursuant to Section 4(2) under the Securities Act of 1933.



**Table of Contents****ITEM 6. EXHIBITS**

## (a) Index to Exhibits

<b>Exhibit</b>		<b>Filed</b>
<b>Number</b>	<b>Exhibit Description</b>	<b>Herewith</b>
10.01	Registrant's 1998 Employee Stock Purchase Plan, as amended through January 30, 2007.	X
10.02	Agreement between the Registrant and Judy Lin dated February 16, 2007.	X
10.03	Limited Liability Company Agreement by and among Fox US Mobile Holdings, Inc., News Corporation, VeriSign U.S. Holdings, Inc. and US Mobile Holdings, LLC, dated January 31, 2007.	X
31.01	Certification of President and Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a).	X
31.02	Certification of Executive Vice President, Finance and Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a).	X
32.01	Certification of President and Chief Executive Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350). *	X
32.02	Certification of Executive Vice President, Finance and Chief Financial Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350). *	X

Certain portions of this exhibit have been omitted and have been filed separately with the SEC pursuant to a request for confidential treatment under Rule 24b-2 as promulgated under the Securities Exchange Act of 1934.

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

**Table of Contents**

**SIGNATURES**

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

**VERISIGN, INC.**

Date: July 16, 2007

By:

/s/ WILLIAM A. ROPER, JR.  
**William A. Roper Jr.**

**President and Chief Executive Officer**

**(Principal Executive Officer)**

Date: July 16, 2007

By:

/s/ ALBERT E. CLEMENT  
**Albert E. Clement**

**Executive Vice President, Finance and**

**Chief Financial Officer**

**(Principal Financial and Accounting Officer)**

**Table of Contents****EXHIBITS**

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

<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.01	Registrant's 1998 Employee Stock Purchase Plan, as amended through January 30, 2007.
10.02	Agreement between the Registrant and Judy Lin dated February 16, 2007.
10.03	Limited Liability Company Agreement by and among Fox US Mobile Holdings, Inc., News Corporation, VeriSign U.S. Holdings, Inc. and US Mobile Holdings, LLC, dated January 31, 2007.
31.01	Certification of President and Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a).
31.02	Certification of Executive Vice President, Finance and Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a).
32.01	Certification of President and Chief Executive Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).*
32.02	Certification of Executive Vice President, Finance and Chief Financial Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).*

Certain portions of this exhibit have been omitted and have been filed separately with the SEC pursuant to a request for confidential treatment under Rule 24b-2 as promulgated under the Securities Exchange Act of 1934.

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