UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from to

Commission File Number: 000-23593

VERISIGN, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-3221585**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
487 East Middlefield Road, Mountain View, CA	**94043**
(Address of principal executive offices)	**(Zip Code)**

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

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 x

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 x 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 x

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 30, 2007**
Common stock, $.001 par value	243,838,287

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Explanatory Note

In this Form 10-Q, we are restating our condensed consolidated balance sheet as of December 31, 2005, the related consolidated statements of income for the three and nine months ended September 30, 2005, and condensed consolidated statements of cash flows for the nine months ended September 30, 2005. In our Form 10-K for the year ended December 31, 2006 to be filed with the SEC (the 2006 Form 10-K), we are restating our consolidated balance sheet as of December 31, 2005 and the related consolidated statements of income, stockholders equity, comprehensive income and cash flows for the years ended December 31, 2005 and 2004, and the related quarters for 2005.

This Form 10-Q also reflects the restatement of Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 2 for the three and nine months ended September 30, 2005. The decision to restate was based on the results of an independent review (the Review) into our historical stock option granting practices that was conducted under the direction of an ad hoc group of our independent directors who had not served on our Compensation Committee before 2005 (Ad Hoc Group).

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

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

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

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

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

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

On July 10, 2007, Ms. Dana L. Evan our then-current Executive Vice President of Finance and Administration and Chief Financial Officer resigned from the Company.

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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.

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

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

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

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

Measurement Date Hierarchy

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

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

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

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

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

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

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

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

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

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

Director Grants

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

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

Executive Grants

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

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

Acquisition Grants

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

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

Annual Refresh Grants

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

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

Extended Grants

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

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

Retention and Off-Cycle Grants

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

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

New Hire and Promotion Grants

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

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

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

whereby the expiration dates were extended (Extended Grants). All references to the number of option shares, option exercise prices, and share prices have been adjusted for all subsequent stock splits.

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

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

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

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

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

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

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

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

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

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

Grants to Executive Officers and Other Executives: We determined that 68 grants of options for a total of 4,631,000 shares to executive officers and other executives were finalized on April 10, 2002 rather than the stated grant date of February 21, 2002. The Review Team was unable, after review of detailed documentation, including multiple draft versions of the February 12, 2002 Compensation Committee minutes, approval forms

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

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

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

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

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

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

$7.5 million, net of reversals, of additional stock-based compensation expense has been recorded for the periods between 2002 and 2006.

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

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

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

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

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

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

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

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

Other: We and the Review Team also determined that the former CEO received an option grant in October 1998 for 100,000 shares (95,928 non-qualified stock options (NQSOs) and 4,072 incentive stock options (ISOs), which split to options for 200,000 shares in May 1999 and then split again to options for 400,000 shares in November 1999 when we announced a stock split during those respective periods. The account statements and monthly reporting statements for November 1 and December 1, 2000 showed that the former CEO held options for 400,000 shares at the split-adjusted price of $7.67. However, the Ad Hoc Group determined that sometime between December 1, 2000 and January 1, 2001, we erroneously changed the former CEO s options to reflect the pre-split amount of 100,000 shares instead of 400,000 shares, but at the post-split price of $7.67. The error was never subsequently corrected. Therefore, the former CEO did not receive the benefit of the additional 300,000 options arising from the two stock splits, which expired in 2005. Based on a determination by the Board of Directors after the Ad Hoc Group s Review in May 2007, we have agreed to pay the former CEO $5,459,430, reflecting the gain he would have realized from the exercise of these options prior to their expiration, based on the weighted-average price of stock options exercised by the former CEO in August 2005.

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

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

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

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

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

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

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

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

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

- We should develop and implement detailed written grant policies.

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

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

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

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

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

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

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

(1) Pre-tax expense adjustments are through March 31, 2006 and represent amounts being reported pursuant to FAS123R whereas all other amounts are reported pursuant to APB 25.
(2) Includes $0.8 million of other stock-based compensation adjustments that were unrelated to past stock option grants.

Additionally, the pro forma expense under SFAS No. 123 in Note 1 in the Notes to Condensed Consolidated Financial Statements of this Form 10-Q has been restated to reflect the impact of these adjustments for the three and nine months ended September 30, 2005.

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

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

Tax Implications

We evaluated the impact of the restatements on our global tax provision and have determined that a portion of the tax benefit relating to stock-based compensation expense formerly associated with stock option deductions is attributable to continuing operations. We identified deferred tax assets totaling $16.3 million at December 31, 2005 which reflect the benefit of tax deductions from future employee stock option

exercises. We have not realized this or any other deferred tax asset relating to taxing jurisdictions within the United States as of

December 31, 2005. See Note 15 of Notes to Condensed Consolidated Financial Statements regarding our realization of United States-based deferred tax assets.

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

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

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

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PART I 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:

Financial Statement Description	**Page**
Condensed Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005	15
Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2006 and 2005	16
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2006 and 2005	17
Notes to Condensed Consolidated Financial Statements	18

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VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2006 (Unaudited)	December 31, 2005 (As Restated) (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 439,250	$ 476,826
Short-term investments	220,564	378,006
Accounts receivable, net of allowance for doubtful accounts of $15,408 and $11,559 at September 30, 2006 and December 31, 2005, respectively	326,844	279,766
Prepaid expenses and other current assets	229,795	78,008
Deferred tax assets	123,954	15,907
Current assets of discontinued operations	5,689	5,295
Total current assets	1,346,096	1,233,808
Property and equipment, net	591,626	558,272
Goodwill	1,441,923	1,068,963
Other intangible assets, net	325,859	225,302
Restricted cash and investments	48,962	50,972
Long-term note receivable		26,419
Long-term deferred tax assets	206,603	
Other assets, net	22,139	16,985
Total long-term assets	2,637,112	1,946,913
Total assets	$ 3,983,208	$ 3,180,721
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 691,036	$ 567,848
Accrued restructuring costs	4,529	7,440
Deferred revenue	436,874	371,566
Short-term debt	199,000	
Short-term deferred tax liabilities	1,975	
Current liabilities of discontinued operations	4,997	6,822
Total current liabilities	1,338,411	953,676
Long-term deferred revenue	154,455	127,175
Long-term accrued restructuring costs	1,751	10,876
Other long-term liabilities	5,159	4,995
Long Term deferred tax liabilities	25,694	19,072
Total long-term liabilities	187,059	162,118
Total liabilities	1,525,470	1,115,794
Commitments and contingencies		
Minority interest in subsidiaries	47,442	41,485
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: 243,828,646 and 246,418,940 (excluding 35,456,975 and 28,981,444 shares held in treasury at September 30, 2006 and December 31, 2005, respectively)	244	246
Additional paid-in capital	23,318,396	23,368,460
Unearned compensation		(24,199)
Accumulated deficit	(20,899,965)	(21,308,512)
Accumulated other comprehensive loss	(8,379)	(12,553)
Total stockholders equity	2,410,296	2,023,442
Total liabilities and stockholders equity	$ 3,983,208	$ 3,180,721

(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.

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VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005 (As Restated) (1)	2006	2005 (As Restated) (1)
Revenues	$ 399,513	$ 401,113	$ 1,163,021	$ 1,223,446
Costs and expenses:				
Cost of revenues	144,480	126,858	430,663	383,654
Sales and marketing	95,164	113,333	279,010	376,000
Research and development	33,188	24,866	92,509	69,842
General and administrative	69,094	39,526	188,990	125,256
Restructuring, impairment, and other (reversals) charges, net	(84)	537	(4,279)	(3,821)
Amortization of other intangible assets	30,977	26,235	90,809	73,896
Acquired in-process research and development	1,200	1,800	16,700	6,100
Total costs and expenses	374,019	333,155	1,094,402	1,030,927
Operating income	25,494	67,958	68,619	192,519
Non-operating income:				
Minority interest	(719)	(1,221)	(2,124)	(3,397)
Other income, net	4,755	14,390	38,858	43,285
Income from continuing operations before income taxes	29,530	81,127	105,353	232,407
Income tax expense (benefit)	14,423	29,212	(302,127)	90,692
Net income from continuing operations	15,107	51,915	407,480	141,715
Net income from discontinued operations, net of tax	167	4,934	1,067	13,343
Net income	$ 15,274	$ 56,849	$ 408,547	$ 155,058
Basic net income per share from:				
Continuing operations	$ 0.06	$ 0.20	$ 1.67	$ 0.55
Discontinued operations		0.02		0.05
	$ 0.06	$ 0.22	$ 1.67	$ 0.60
Diluted net income per share from:				
Continuing operations	$ 0.06	$ 0.20	$ 1.65	$ 0.53
Discontinued operations		0.01		0.05
	$ 0.06	$ 0.21	$ 1.65	$ 0.58
Shares used in per share computation:				
Basic	243,536	260,369	244,620	259,259

Diluted	245,657	266,079	247,005	266,107

(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.

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VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2006	**2005 (As Restated) (1)**
Cash flows from operating activities:		
Net income	$ 408,547	$ 155,058
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	78,272	64,930
Amortization of other intangible assets	90,809	73,896
Acquired in-process research and development	16,700	6,100
Provision for doubtful accounts	1,576	1,249
Stock-based compensation and other	49,044	(14,674)
Restructuring, impairment, and other reversals, net	(4,279)	(3,821)
Net gain on sale and impairment of investments	(21,260)	(8,265)
Minority interest in net income of subsidiary	2,124	3,397
Tax benefit associated with stock options		19,538
Deferred income taxes	(299,137)	(8,519)
Loss on disposal of property and equipment		186
Changes in operating assets and liabilities:		
Accounts receivable	16,677	(69,798)
Prepaid expenses and other current assets	(94,059)	(34,337)
Accounts payable and accrued liabilities	5,307	85,740
Deferred revenue	80,781	75,243
Net cash provided by operating activities	331,102	345,923
Cash flows from investing activities:		
Purchases of investments	(536,569)	(256,967)
Proceeds from maturities/sales of investments	693,731	231,136
Purchases of property and equipment	(139,044)	(79,673)
Cash paid in business combinations, net of cash acquired	(543,821)	(66,653)
Net proceeds received on long-term note receivable and investment	47,786	16,609
Other assets	125	(5,683)
Net cash used in investing activities	(477,792)	(161,231)
Cash flows from financing activities:		
Proceeds from issuance of common stock from option exercises and employee stock purchase plan	52,668	56,644
Repurchase of common stock	(135,000)	(256,819)
Change in net assets of subsidiary	332	605
Proceeds from drawdown of credit facility, net	299,000	
Debt issuance costs	(3,381)	
Repayment of debt and long-term liabilities	(102,362)	(1,650)
Net cash provided by (used in) financing activities	111,257	(201,220)
Effect of exchange rate changes on cash and cash equivalents	1,020	(4,169)
Net decrease in cash and cash equivalents	(34,413)	(20,697)

Cash and cash equivalents at beginning of period	478,660	330,641
Cash and cash equivalents at end of period	444,247	309,944
Cash and cash equivalents of discontinued operations	(4,997)	(2,491)
	$ 439,250	$ 307,453
Cash flows from discontinued operations:		
Net cash provided by operating activities	$ 3,162	$ 17,181
Supplemental cash flow disclosures:		
Cash paid for income taxes, net of refunds received	$ 20,367	$ 19,140

(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.

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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 condensed consolidated financial statements have been prepared by VeriSign, Inc. and its subsidiaries (VeriSign or 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 condensed consolidated financial statements and the accompanying notes should be read in conjunction with the Company s annual consolidated financial statements and the notes thereto for the year ended December 31, 2006 included in the 2006 Annual Report on Form 10-K to be filed with the SEC (the 2006 Form 10-K).

Reclassifications

VeriSign accounted for the November 2005 sale of its payment gateway business as a discontinued operation in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* (SFAS 144). Accordingly, the Condensed Consolidated Financial Statements have been reclassified for all periods presented to reflect its payment gateway business as discontinued operations. Unless noted otherwise, discussions in the notes to Condensed Consolidated Financial Statements pertain to continuing operations.

Stock-based Compensation

Prior to January 1, 2006, VeriSign accounted for stock-based awards under the intrinsic value method, which followed the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations. The intrinsic value method of accounting resulted in compensation expense for restricted stock awards at fair value on date of grant based on the number of shares granted and the quoted price of the Company s common stock, and for stock options to the extent option exercise prices were set below market prices on the date of grant. To the extent stock awards were forfeited prior to vesting, the corresponding previously recognized expense was reversed as an offset to operating expenses.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R, *Share-Based Payment* (SFAS 123R). SFAS 123R replaced SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123) and superseded APB 25. VeriSign elected the modified prospective application method, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. For stock-based awards granted on or after January 1, 2006, the Company will amortize stock-based compensation expense on a straight-line basis over the requisite service period, which is the vesting period. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period under the pro forma provisions of SFAS 123.

VeriSign recognized incremental stock-based compensation expense of $5.4 million and $28.5 million during the three and nine months ended September 30, 2006, respectively, as a result of the adoption of SFAS 123R. See Note 3, Stock-Based Compensation for further information regarding stock-based compensation assumptions and expenses.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The Financial Accounting Standards Board s (FASB) Staff Position No. 123R-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards* (FSP 123R-3), provides an elective method for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123R. FSP 123R-3 provides that an entity may make a one-time election to adopt the transition method. An entity may take up to one year from its initial adoption of SFAS 123R to make the election. During the second quarter of 2006, VeriSign elected the short-cut transition method described in FSP 123R-3, and analyzed its effect on the Company s Condensed Consolidated Financial Statements for the periods presented. The election of the transition method did not have a material impact on VeriSign s condensed consolidated financial statements.

The following table illustrates the effect on net income and net income per share on the Company s condensed consolidated statements of income, if VeriSign had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation:

	Three months ended September 30, 2005 As Restated (1)	Nine months ended September 30, 2005 As Restated (1)