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 September 30, 2002

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 ☐

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 October 31, 2002
Common stock, $.001 par value	237,280,166

TABLE OF CONTENTS

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:

Table of Contents

VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	September 30, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 212,650	$ 306,054
Short-term investments	114,386	420,643
Accounts receivable, net	206,000	314,923
Prepaid expenses and other current assets	74,721	48,939
Total current assets	607,757	1,090,559
Property and equipment, net	620,425	532,546
Goodwill	790,749	4,944,707
Other intangible assets, net	514,513	746,462
Long-term investments	55,024	201,781
Other assets, net	10,455	21,453
	$ 2,598,923	$ 7,537,508
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 297,307	$ 313,447
Accrued merger costs	14,791	49,069
Accrued restructuring costs	24,961	—
Deferred revenue	400,191	471,329
Total current liabilities	737,250	833,845
Long-term deferred revenue	126,409	150,727
Deferred taxes	91,878	26,553
Other long-term liabilities	26,060	20,309
Total long-term liabilities	244,347	197,589
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: 237,156,305 and 234,358,114 (excluding 1,690,000 shares held in treasury at September 30, 2002 and December 31, 2001)	237	234
Additional paid-in capital	23,070,527	23,051,546
Notes receivable from stockholders	—	(252)
Unearned compensation	(10,809)	(27,042)
Accumulated deficit	(21,440,795)	(16,518,878)
Accumulated other comprehensive income	(1,834)	466
Total stockholders' equity	1,617,326	6,506,074
	$ 2,598,923	$ 7,537,508

See accompanying notes to condensed consolidated financial statements

VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Revenues	$ 301,441	$ 255,155	$ 946,666	$ 699,765
Costs and expenses:				
Cost of revenues	140,086	83,518	436,084	238,166
Sales and marketing	60,792	65,803	197,392	195,591
Research and development	9,613	21,649	37,405	62,195
General and administrative	53,189	37,250	138,278	103,258
Restructuring and other	5,560	—	73,339	—
Amortization and write-down of goodwill and other intangible assets	56,201	459,724	4,827,243	13,103,529
Total costs and expenses	325,441	667,944	5,709,741	13,702,739
Operating loss	(24,000)	(412,789)	(4,763,075)	(13,002,974)
Other income (expense), net	(51,193)	16,556	(154,025)	(17,456)
Minority interest in net income of subsidiary	(237)	(405)	(575)	(924)
Loss before income taxes	(75,430)	(396,638)	(4,917,675)	(13,021,354)
Income tax benefit (expense)	(4,242)	9,903	(4,242)	66,512
Net loss	$ (79,672)	$ (386,735)	$ (4,921,917)	$ (12,954,842)
Net loss per share:				
Basic and diluted	$ (.34)	$ (1.91)	$ (20.83)	$ (64.34)
Shares used in per share computation:				
Basic and diluted	236,958	202,894	236,283	201,362

See accompanying notes to condensed consolidated financial statements

Table of Contents

VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2002	2001
Cash flows from operating activities:		
Net loss	$ (4,921,917)	$ (12,954,842)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	77,386	40,238
Amortization and write-down of goodwill and other intangible assets	4,827,243	13,103,529
Gain on sale of marketable securities	—	(2,114)
Write-down of investments	166,771	74,690
Non-cash restructuring and other	35,536	—
Reciprocal transactions for purchases of property and equipment	(6,375)	—
Minority interest in net income of subsidiary	575	924
Deferred income taxes	4,242	(66,512)
Amortization of unearned compensation	16,230	4,130
Loss on disposal of property and equipment	1,722	5,965
Changes in operating assets and liabilities:		
Accounts receivable	125,593	(85,746)
Prepaid expenses and other current assets	(41,240)	(1,293)
Accounts payable and accrued liabilities	(24,069)	17,211
Deferred revenue	(104,791)	31,351
Net cash provided by operating activities	156,906	167,531
Cash flows from investing activities:		
Purchases of investments	(89,164)	(1,118,782)
Proceeds from maturities and sales of investments	368,429	1,186,105
Purchases of property and equipment	(151,911)	(65,899)
Net cash paid in business combinations	(348,643)	(67,102)
Cash paid for merger costs	(53,602)	(18,721)
Other assets	5,944	1,231
Net cash used in investing activities	(268,947)	(83,168)
Cash flows from financing activities:		
Issuance of notes receivable from stockholders	—	(7)
Net proceeds from issuance of common stock	19,252	22,348
Net cash provided by financing activities	19,252	22,341
Effect of exchange rate changes	(615)	(1,349)
Net increase (decrease) in cash and cash equivalents	(93,404)	105,355
Cash and cash equivalents at beginning of period	306,054	460,362
Cash and cash equivalents at end of period	$ 212,650	$ 565,717
Supplemental cash flow disclosures:		
Non-cash investing and financing activities:		
Issuance of common stock for business combinations	$ —	$ 34,240
Unrealized gain (loss) on investments, net of tax	$ (1,685)	$ 4,788

See accompanying notes to condensed consolidated financial statements

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation

The accompanying interim unaudited condensed consolidated balance sheets, statements of operations and cash flows reflect all adjustments, consisting of normal recurring adjustments and other adjustments, that are, in the opinion of management, necessary for a fair presentation of the financial position of VeriSign, Inc. and its subsidiaries ("VeriSign" or "the Company"), at September 30, 2002, and the results of operations and cash flows for the interim periods ended September 30, 2002 and 2001.

The accompanying unaudited condensed consolidated financial statements have been prepared by VeriSign 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 and should be read in conjunction with VeriSign's financial statements for the year ended December 31, 2001 included in the annual report previously filed on Form 10-K.

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. The carrying amount of cash and cash equivalents, investments, accounts receivable, and accounts payable and accrued liabilities approximate their respective fair values.

Note 2. Business Combination

In February 2002, VeriSign completed its acquisition of H.O. Systems, Inc., a provider of billing and customer care solutions to wireless carriers. VeriSign paid approximately $350 million in cash for all of the outstanding stock of LiveWire Corp., H.O. Systems' parent company, for the purchase of H.O. Systems. As part of the purchase price, VeriSign recorded an accrual for merger-related costs of $17 million of which $1.8 million is in the accrued merger costs balance as of September 30, 2002. The total purchase price has been allocated to the tangible and intangible assets acquired and the liabilities assumed based on their respective fair values on the acquisition date. VeriSign recorded goodwill of approximately $213 million and other intangible assets of approximately $210 million as a result of this acquisition. In accordance with the provisions of SFAS No. 142, VeriSign evaluated goodwill and intangible assets for impairment during the second quarter of 2002. The results of this evaluation indicated the carrying value of its goodwill and other intangible assets exceeded their implied fair values and an impairment charge was recorded in the second quarter of 2002—see Note 5 to Condensed Consolidated Financial Statements. VeriSign has evaluated the remaining useful lives of H.O. Systems' intangible assets to determine if any adjustments to the useful lives were necessary or if any of these assets had indefinite lives and therefore, were not subject to amortization. VeriSign determined that no adjustments to the useful lives of its other intangible assets were necessary and its intangible assets would continue to be amortized over a six-year period. Goodwill is not amortized but will be tested for impairment at least annually. H.O. Systems' results of operations have been included in the consolidated financial statements from its date of acquisition.

In July 2002, VeriSign increased its equity ownership in VeriSign Australia Limited (formerly known as eSign Australia Limited) to approximately 51% of the total outstanding stock of VeriSign Australia, and as a result, has included their financial statements in our consolidated results as of the third quarter of 2002. These results are not considered significant or material to the consolidated financial statements.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 3. Restructuring and Other Costs

In April 2002, the Company announced plans to restructure its operations to rationalize, integrate and align the resources of the Company. This restructuring program included workforce reductions, closure of excess facilities, write-down of property and equipment and other charges. As a result of this restructuring program, in conformity with SEC Staff Accounting Bulletin ("SAB") No. 100 and Emerging Issues Task Force ("EITF") Issue No. 94-3, VeriSign recorded restructuring and other charges of $5.6 million classified as operating expenses during the quarter ended September 30, 2002 and $73.3 million in the nine-month period ended September 30, 2002. VeriSign expects to incur additional restructuring charges of approximately $15 to $20 million over the next two quarters related to the restructuring of our consulting services.

Workforce reduction

The restructuring program resulted in a workforce reduction of approximately 400 employees across certain business functions, operating units, and geographic regions. VeriSign recorded a workforce reduction charge of $900,000 during the quarter ended September 30, 2002 and $4.7 million during the first nine months of 2002, relating primarily to severance and fringe benefits.

Closure of excess facilities

VeriSign recorded charges of approximately $2.7 million during the quarter ended September 30, 2002 and $29.1 million during the first nine months of 2002 for abandoned or excess facilities relating to lease terminations and non-cancelable lease costs. To determine the lease loss, which is the loss after VeriSign's cost recovery efforts from subleasing a building, certain estimates were made related to the (1) time period over which the relevant building would remain vacant, (2) sublease terms, and (3) sublease rates, including common area charges. If market rates continue to decrease in these markets or if it takes longer than expected to sublease these facilities, the actual loss could exceed this estimate. Property and equipment that was disposed of or removed from operations resulted in a net charge of $20.2 million during the first nine months of 2002 and consisted primarily of computer software, leasehold improvements, and computer equipment.

Exit costs and other charges

VeriSign recorded other exit costs consisting of the write-down of prepaid license fees associated with products that were intended to be incorporated into the Company's product offerings but were subsequently abandoned as a result of the decision to restructure. These charges totaled approximately $400,000 during the quarter ended September 30, 2002 and $8.9 million during the first nine months of 2002. As part of the Company's efforts to rationalize, integrate and align its resources, VeriSign also recorded other charges of $1.6 million during the quarter ended September 30, 2002 and $10.5 million during the first nine months of 2002 relating primarily to the write-down of impaired prepaid marketing assets associated with discontinued advertising.

A summary of the restructuring and other costs recorded during the three-month and nine-month periods ended September 30, 2002 are as follows:

	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2002
	(In thousands)	
Workforce reduction	$ 900	$ 4,730
Excess facilities	2,680	29,050
Write-down of property and equipment	—	20,179
Exit costs and other charges	1,980	19,380
	$ 5,560	$ 73,339

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At September 30, 2002, the accrued liability associated with the restructuring and other related charges was $25.0 million and consisted of the following:

	Restructuring and Other Charges	Non-cash Restructuring and Other Charges	Cash Payments	Restructuring Accrual at September 30, 2002
		(In thousands)		
Workforce reduction	$ 4,730	$ —	$ (4,680)	$ 50
Excess facilities	29,050	—	(4,350)	24,700
Write-down of property and equipment	20,179	(20,179)	—	—
Exit costs and other charges	19,380	(15,357)	(3,812)	211
	$ 73,339	$ (35,536)	$ (12,842)	$ 24,961

The restructuring accrual is included on the balance sheet as accrued restructuring costs. Amounts related to the lease terminations due to the closure of excess facilities will be paid over the respective lease terms the longest of which extends through February 2008.

Note 4. Reciprocal Transactions

VeriSign did not enter into any new reciprocal transactions during the quarter ended September 30, 2002. There were approximately $1.4 million of revenues related to prior period transactions for the quarter ended September 30, 2002. Revenues recognized under reciprocal arrangements were approximately $11.1 million in the quarter ended September 30, 2001, of which all involved non-monetary transactions.

Reciprocal transactions entered into during the first nine months of 2002, accounted for approximately $7.2 million of revenues of which $4.5 million was non-monetary. An additional $5.4 million of revenues was recognized during the first nine months of 2002, which related to reciprocal transactions entered into in prior periods. Revenues recognized under reciprocal arrangements were approximately $20.6 million in the first nine months of 2001 all of which involved non-monetary transactions.

Note 5. Goodwill and Other Intangible Assets

VeriSign adopted Statement of Financial Accounting Standards (“SFAS”) No. 142 as of January 1, 2002. Under the provisions of SFAS No. 142, purchased goodwill and certain indefinite-lived intangibles are no longer amortized but are subject to testing for impairment upon adoption, and on at least an annual basis thereafter, or whenever events or changes in circumstances suggest the carrying amount may not be recoverable. The net book value of goodwill on January 1, 2002 was approximately $4.9 billion, which included approximately $10.9 million of intangible assets previously allocated to workforce in place that were subsumed into goodwill as of January 1, 2002 in accordance with the provisions of SFAS No. 141. As of January 1, 2002 VeriSign evaluated the remaining useful lives of its other intangible assets to determine if any adjustments to the useful lives were necessary or if any of these assets had indefinite lives and were therefore, not subject to amortization. VeriSign determined that no adjustments to the useful lives of its other intangible assets were necessary.

The provisions of SFAS No. 142 require that a two-step evaluation be performed to assess goodwill and other intangible assets for impairment. First, the fair value of each reporting unit is compared to its carrying value. If the fair value exceeds the carrying value, goodwill and other intangible assets are not impaired and proceeding to the second step is not required. If the carrying value of any reporting unit exceeds its fair value, then the implied fair value of the reporting unit’s goodwill must be determined and compared to the carrying

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

value of its goodwill (the second step). If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded. VeriSign performed its transitional impairment test with regard to the carrying value of goodwill as of January 1, 2002 and concluded no material impairment of the carrying value of goodwill existed at that date.

VeriSign performed its annual impairment test as of June 30, 2002. The fair value of VeriSign's reporting units was determined using a combination of the income and the market valuation approaches. Under the income approach, the fair value of the reporting unit is based on the present value of estimated future cash flows that the reporting unit is expected to generate over its remaining life. Under the market approach, the value of the reporting unit is based on an analysis that compares the value of the reporting unit to values of publicly traded companies in similar lines of business. Other intangible assets were valued using a combination of the income approach and cost approaches. Under the cost approach, fair value is based on an estimate of the current costs to replace the asset with an asset of similar utility. In the application of the income, market and cost valuation approaches, VeriSign was required to make estimates of future operating trends and judgments on discount rates and other variables. Actual future results and other assumed variables could differ from these estimates. As a result of the deterioration in the value of the Company since January 1, 2002, the results of this annual impairment test indicated the carrying value of goodwill and other intangible assets for certain reporting units exceeded their implied fair values and an impairment charge was recorded during the second quarter of 2002.

The impairment charge to goodwill and other intangible assets from the annual impairment test resulted in a write-off of the net book value in the second quarter of 2002 as follows:

	Mass Markets Division	Enterprise and Service Provider Division	Total
		(In thousands)	
Goodwill	$ 2,026,375	$ 2,348,450	$ 4,374,825
Customer relationships	3,297	24,294	27,591
Technology in place	256	40,693	40,949
Trade name	—	3,205	3,205
Contracts with ICANN and customer lists	23,092	129,007	152,099
	$ 2,053,020	$ 2,545,649	$ 4,598,669

VeriSign's other intangible assets comprise:

	As of September 30, 2002		
	Gross Carrying Value	Accumulated Amortization and Write-down	Net Carrying Value
		(In thousands)	
ISP hosting relationships	$ 11,388	$ (10,689)	$ 699
Customer relationships	260,597	(75,450)	185,147
Technology in place	148,993	(82,091)	66,902
Non-compete agreement	1,019	(903)	116
Trade name	76,314	(76,212)	102
Contracts with ICANN and customer lists	953,589	(692,042)	261,547
	$ 1,451,900	$ (937,387)	$ 514,513

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	As of December 31, 2001		
	Gross Carrying Value	Accumulated Amortization and Write-down	Net Carrying Value
	(In thousands)		
ISP hosting relationships	$ 11,388	$ (9,116)	$ 2,272
Customer relationships	260,597	(15,408)	245,189
Technology in place	49,163	(20,943)	28,220
Non-compete agreement	1,019	(649)	370
Trade name	74,464	(72,514)	1,950
Contracts with ICANN and customer lists	826,390	(368,870)	457,520
Workforce in place	18,595	(7,654)	10,941
	$ 1,241,616	$ (495,154)	$ 746,462

For the three-month periods ended September 30, 2002 and 2001, amortization of other intangible assets was $56.2 million and $459.7 million, respectively. Amortization and write-down of goodwill and other intangible assets was $4.8 billion and $13.1 billion for the nine-month periods ended September 30, 2002 and 2001, respectively.

Estimated future amortization expense related to other intangible assets at September 30, 2002 is as follows:

	(In thousands)
2002 (3 months)	$ 55,905
2003	190,203
2004	69,556
2005	69,556
2006	65,019
Thereafter	64,274
	$ 514,513

Had the provisions of SFAS No. 142 been in effect for all periods presented, VeriSign's net loss would have been as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(In thousands, except per share data)			
Net loss:				
Net loss as reported	$ (79,672)	$ (386,735)	$ (4,921,917)	$ (12,954,842)
Add back amortization of goodwill and workforce in place	—	394,920	—	3,013,172
Net loss as adjusted	$ (79,672)	$ 8,185	$ (4,921,917)	$ (9,941,670)
Net loss per share:				
Basic and diluted as reported	$ (.34)	$ (1.91)	$ (20.83)	$ (64.34)
Add back amortization of goodwill and workforce in place	—	1.95	—	14.97
Basic and diluted as adjusted	$ (.34)	$ .04	$ (20.83)	$ (49.37)

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 6. Investments

VeriSign invests in debt and equity securities of technology companies for business and strategic purposes. Investments in public companies are classified as “available-for-sale” and are included in short-term investments in the condensed consolidated financial statements. These investments are carried at fair value based on quoted market prices. VeriSign reviews its marketable equity holdings in publicly traded companies on a regular basis to determine if any security has experienced an other-than-temporary decline in its fair value. VeriSign considers the investee company’s cash position, earnings and revenue outlook, stock price performance over the past six months, liquidity and management, among other factors, in its review. If it is determined that an other-than-temporary decline exists in a marketable equity security, VeriSign writes down the investment to its market value and records the related write-down as an investment loss in its consolidated statements of operations.

Investments in non-public companies are included in long-term investments in the condensed consolidated balance sheets and are accounted for under the cost method. For these non-quoted investments, VeriSign regularly reviews the assumptions underlying the operating performance and cash flow forecasts based on information requested from these privately held companies. Generally, this information may be more limited, may not be as timely and may be less accurate than information available from publicly traded companies. Assessing each investment’s carrying value requires significant judgment by management. If it is determined that an other-than-temporary decline exists in a non-public equity security, VeriSign writes down the investment to its fair value and records the related write-down as an investment loss in its consolidated statements of operations. Generally, if cash balances are insufficient to sustain the investee’s operations for a six-month period and there are no current prospects of future funding for the investee, VeriSign considers the decline in fair value to be other-than-temporary.

During the third quarter of 2002, VeriSign determined that the decline in value of certain of its public and non-public equity investments was other-than-temporary and recorded write-downs of these investments totaling $53.2 million. During the third quarter of 2001,VeriSign determined that no investment write-downs were necessary. During the first nine months of 2002 and 2001, VeriSign recorded write-downs of certain of its public and non-public equity investments totaling $166.8 million and $74.7 million, respectively. VeriSign reviews all of its public and non-public investments on a quarterly basis to determine if any other-than-temporary declines exist.

From time to time, VeriSign may recognize revenues from companies in which it also has made an investment. In addition to its normal revenue recognition policies, VeriSign also considers the amount of other third-party investments in the company, its earnings and revenue outlook, and its operational performance in determining the propriety and amount of revenues to recognize. If the investment is made in the same quarter that revenues are recognized, VeriSign looks to the investments of other third parties made at that time to establish the fair value of VeriSign’s investment in the company as well as to support the amount of revenues recognized. VeriSign typically makes its investments with others where its investment is less than 50% of the total financing round. VeriSign’s policy is not to recognize revenue in excess of other investors’ financing of the company. VeriSign recognized revenues totaling $6.3 million and $23.9 million in the third quarter and the first nine months of 2002, respectively, and recognized revenues totaling $10.6 million and $26.8 million in the third quarter and the first nine months of 2001, respectively, from customers, including VeriSign Affiliates, with whom it had previously participated in a private equity round of financing.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 7. Comprehensive Loss

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(In thousands)			
Net loss	$ (79,672)	$ (386,735)	$ (4,921,917)	$ (12,954,842)
Change in unrealized gain (loss) on investments, net of tax	(1,205)	(430)	(1,685)	4,788
Translation gain (loss) adjustments	(821)	22	(615)	(1,349)
Comprehensive loss	$ (81,698)	$ (387,143)	$ (4,924,217)	$ (12,951,403)

Note 8. Calculation of Net Loss per Share

Basic net loss per share is computed by dividing net loss (numerator) by the weighted average number of shares of common stock outstanding (denominator) during the period. Diluted net loss per share gives effect to stock options considered to be potential common shares, if dilutive. Potential common shares consist of shares issuable upon the exercise of stock options computed using the treasury stock method.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(In thousands, except per share data)			
Basic and diluted net loss per share:				
Net loss	$ (79,672)	$ (386,735)	$ (4,921,917)	$ (12,954,842)
Determination of basic and diluted shares:				
Weighted average shares outstanding	236,958	202,894	236,283	201,362
Basic and diluted average common shares outstanding	236,958	202,894	236,283	201,362
Basic and diluted net loss per share	$ (.34)	$ (1.91)	$ (20.83)	$ (64.34)

VeriSign has excluded potential common shares subject to outstanding stock options from the calculation of diluted net loss per share for all periods presented because their effect would have been anti-dilutive. At September 30, 2002, options to purchase 40,583,618 shares were outstanding and at September 30, 2001, options to purchase 29,202,143 shares were outstanding.

Table of Contents

Note 9. Commitments and Contingencies

Legal proceedings

VeriSign is engaged in complaints, lawsuits and investigations arising in the ordinary course of business. VeriSign believes that it has adequate legal defenses and that the ultimate outcome of these actions will not have a material effect on VeriSign's consolidated financial position and results of operations.

Note 10. Segment Information

Description of segments

VeriSign's business is organized into two reportable operating segments; the Enterprise and Service Provider Division and the Mass Markets Division. 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. The performance of each segment is measured based on several metrics, including gross margin.

The Mass Markets Division provides domain name registration, digital certificate and payment services and other value-added services to small and medium sized companies as well as to individual consumers. The Enterprise and Service Provider Division provides products and services to organizations that want to establish and deliver Internet-based and telecommunications-based services for their customers in both business-to-consumer and business-to-business environments.

The following table reflects the results of VeriSign's reportable segments under VeriSign's management system. The "Other" segment consists primarily of unallocated corporate expenses. These results are used by the CODM and by management, in evaluating the performance of, and in allocating resources to, each of the segments. Internal revenues and segment gross margin include transactions between segments that are intended to reflect an arm's length transfer at the best price available for comparable external transactions.

	Mass Markets Division	Enterprise and Service Provider Division	Other	Total Segments
		(In thousands)		
Three months ended September 30, 2002:				
Total revenues	$ 100,476	$ 221,476	$ —	$321,952
Internal revenues	—	(20,511)	—	(20,511)
Total external revenues	$ 100,476	$ 200,965	$ —	$301,441
Cost of revenues	$ 49,372	$ 103,899	$ 7,326	$160,597
Internal cost of revenues	(20,511)	—	—	(20,511)
Total cost of revenues	$ 28,861	$ 103,899	$ 7,326	$140,086
Segment gross margin after eliminations	$ 71,615	$ 97,066	$(7,326)	$161,355

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Mass Markets Division	Enterprise and Service Provider Division	Other	Total Segments
		(In thousands)		
Three months ended September 30, 2001:				
Total revenues	$ 142,779	$ 145,785	$ —	$ 288,564
Internal revenues	—	(33,409)	—	(33,409)
Total external revenues	$ 142,779	$ 112,376	$ —	$ 255,155
Cost of revenues	$ 71,915	$ 44,505	$ 507	$ 116,927
Internal cost of revenues	(33,409)	—	—	(33,409)
Total cost of revenues	$ 38,506	$ 44,505	$ 507	$ 83,518
Segment gross margin after eliminations	$ 104,273	$ 67,871	$ (507)	$ 171,637
Nine months ended September 30, 2002:				
Total revenues	$ 316,916	$ 700,720	$ —	$1,017,636
Internal revenues	—	(70,970)	—	(70,970)
Total external revenues	$ 316,916	$ 629,750	$ —	$ 946,666
Cost of revenues	$ 156,084	$ 329,497	$ 21,473	$ 507,054
Internal cost of revenues	(70,970)	—	—	(70,970)
Total cost of revenues	$ 85,114	$ 329,497	$ 21,473	$ 436,084
Segment gross margin after eliminations	$ 231,802	$ 300,253	$(21,473)	$ 510,582
Nine months ended September 30, 2001:				
Total revenues	$ 425,301	$ 375,446	$ —	$ 800,747
Internal revenues	—	(100,982)	—	(100,982)
Total external revenues	$ 425,301	$ 274,464	$ —	$ 699,765
Cost of revenues	$ 223,405	$ 109,283	$ 6,460	$ 339,148
Internal cost of revenues	(100,982)	—	—	(100,982)
Total cost of revenues	$ 122,423	$ 100,982	$ 6,460	$ 238,166
Segment gross margin after eliminations	$ 302,878	$ 165,181	$ (6,460)	$ 461,599

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Reconciliation to VeriSign, as reported

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(In thousands)			
Revenues:				
Total segments	$ 321,952	$ 288,564	$ 1,017,636	$ 800,747
Elimination of internal revenues	(20,511)	(33,409)	(70,970)	(100,982)
Revenues, as reported	$ 301,441	$ 255,155	$ 946,666	$ 699,765
Net loss:				
Segment gross margin	$ 161,355	$ 171,637	$ 510,582	$ 461,599
Operating expenses	185,355	584,426	5,273,657	13,464,573
Operating loss	(24,000)	(412,789)	(4,763,075)	(13,002,974)
Other income (expense)	(51,193)	16,556	(154,025)	(17,456)
Minority interest in net income of subsidiary	(237)	(405)	(575)	(924)
Loss before income taxes	(75,430)	(396,638)	(4,917,675)	(13,021,354)
Income tax benefit (expense)	(4,242)	9,903	(4,242)	66,512
Net loss, as reported	$ (79,672)	$ (386,735)	$ (4,921,917)	$ (12,954,842)

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

Geographic information

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(In thousands)			
Revenues:				
United States	$ 275,906	$ 216,231	$ 866,248	$ 607,008
All other countries	25,535	38,924	80,418	92,757
Total	$ 301,441	$ 255,155	$ 946,666	$ 699,765

VeriSign operates in the United States, Europe, South Africa, Asia, Australia and Canada. In general, revenues are attributed to the country in which the contract originated. However, revenues from all digital certificates issued from our Mountain View, California facility and domain names registered through or at our Herndon, Virginia facility are attributed to the United States because it is impracticable to determine the country of origin.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Long-lived assets consist primarily of goodwill and other intangible assets, property and equipment, long-term investments, and other long-term assets.

	As of September 30,	
	2002	2001
	(In thousands)	
Long-lived assets:		
United States	$ 1,915,484	$ 5,107,419
All other countries	75,682	236,438
Total	$ 1,991,166	$ 5,343,857

Note 11. Income Taxes

For the three and nine-month periods ended September 30, 2002, VeriSign recorded tax expense of $4.2 million relating to foreign withholding and income taxes. VeriSign recorded no tax benefit relating to domestic operations. This is due to the uncertainty of the realization of current net operating losses and certain deferred tax assets.

VeriSign's accounting for deferred taxes under SFAS No. 109, "Accounting for Income Taxes," involves the evaluation of a number of factors concerning the realizability of its deferred tax assets. In concluding that a valuation allowance is required to be applied to certain deferred tax assets, management considered such factors as VeriSign's history of operating losses, its uncertainty as to the projected long-term operating results, and the nature of its deferred tax assets. Although VeriSign's operating plans assume taxable and operating income in future periods, management's evaluation of all of the available evidence in assessing the realizability of the deferred tax assets indicated that such plans were not considered sufficient to overcome the available negative evidence. The possible future reversal of the valuation allowance will result in future income statement benefit to the extent the valuation allowance was applied to deferred tax assets generated through ongoing operations. To the extent the valuation allowance relates to deferred tax assets generated through stock compensation deductions, the possible future reversal of such valuation allowance will result in a benefit to additional paid in capital and will not result in future income statement benefit.

Note 12. Recent Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of an asset retirement obligation be recorded as a liability in the period in which the obligation is incurred. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. VeriSign will adopt SFAS No. 143 effective January 1, 2003. The effect of adopting SFAS No. 143 is not expected to have a material effect on VeriSign's consolidated financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Among other provisions, SFAS 145 rescinds SFAS 4, "Reporting Gains and Losses from Extinguishment of Debt." Accordingly, gains or losses from extinguishment of debt that do not meet the criteria of APB No. 30 should be reclassified to income from continuing operations in all prior periods presented. SFAS 145 is effective for fiscal years beginning after May 15, 2002. The Company plans to adopt SFAS 145 beginning in its fiscal year 2003. The effect of adopting SFAS 145 is not expected to have a material effect on VeriSign's consolidated financial position or results of operations.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In June 2002, the FASB, issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 eliminates Emerging Issues Task Force, or EITF, Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." Under SFAS No. 146, liabilities for costs associated with an exit or disposal activity are recognized when the liabilities are incurred, as opposed to being recognized at the date of entity's commitment to an exit plan under EITF No. 94-3. Furthermore, SFAS No. 146 establishes that fair value is the objective for initial measurement of the liabilities. This Statement will be effective for exit or disposal activities that are initiated after December 31, 2002. The effect of adopting SFAS 146 is not expected to have a material effect on VeriSign's consolidated financial position or results of operations. The effect on timing of recognition of liabilities could be significantly different from previous restructurings.

Note 13. Adoption of Stockholder Right Plan

On September 24, 2002, the Board of Directors adopted a stockholder rights plan designed to protect the long-term value of the Company for its stockholders during any future unsolicited acquisition attempt. Under the plan, the Board of Directors declared a dividend of one stock purchase right for each share of VeriSign's common stock outstanding on October 4, 2002. The rights will become exercisable only upon the occurrence of certain events specified in the plan, including the acquisition of 15% 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.

Note 14. Subsequent Event

On October 14, 2002, the Internet Corporation for Assigned Names and Numbers Board of Directors, or ICANN, selected the proposal of the Internet Society for negotiations toward an agreement with ICANN to become the successor operator of the *.org* top-level domain. If the negotiations are successful, the Internet Society will replace VeriSign as operator of the *.org* top-level domain when our agreement with ICANN expires December 31, 2002. Pursuant to the terms of our *.org* Registry Agreement, if the Internet Society is a non-profit entity we will pay to ICANN or ICANN's designee the sum of $5 million to be used to establish an endowment to be used to fund future operating costs of the successor operator of the *.org* registry. We have placed such sum in escrow for this purpose. The expiration of the *.org* Registry Agreement is expected to reduce revenues generated from the *.org* top-level domain name by approximately $4 million in 2003.

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

Forward-Looking Statements

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 may affect future results of operations and cause or contribute to such differences include, but are not limited to, those discussed in the section "Factors That May Affect Future Results of Operations." 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 that we have filed or will file in 2002 and our Annual Report on Form 10-K for the period ending December 31, 2001, which was filed on March 19, 2002. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

Overview

VeriSign is a leading provider of digital trust services that enable Web site owners, enterprises, communications service providers, electronic commerce service providers and individuals to engage in secure digital commerce and communications. Our digital trust services include three core offerings: managed security and network services, registry and telecommunications services, and Web presence and trust services. We market our services through our direct sales force, telesales operations, member organizations in our global affiliate network, value added resellers, service providers and our Web sites.

We are organized into two customer-focused lines of business: the Enterprise and Service Provider Division and the Mass Markets Division. The Enterprise and Service Provider Division delivers products and services to organizations that want to establish and deliver Internet-based and telecommunications-based services to customers in the business-to-consumer and business-to-business environments. The Mass Markets Division delivers products and services to small and medium size enterprises, as well as to consumers who wish to establish an online presence.

Mass Markets Division

The Mass Markets Division provides the following types of Web-related services: Web presence services, Web trust services and payment services.

Through our Web presence services, we provide digital identity through domain name registration services and value added services, such as email, Web site creation tools and other e-commerce enabling offerings. We register second-level domain names in the *.com*, *.net*, *.org*, *.biz* and *.info* global top-level domains, as well as selected country code top-level domains, such as *.us*, *.de* and *.tv*, around the world, enabling individuals, companies and organizations to establish a unique identity on the Internet.

Web trust services include our Web server digital certificate services, which enable merchants to implement and operate secure Web sites that utilize the Secure Sockets Layer, or SSL, or Wireless Transport Layer Security, or WTLS, protocols. These services provide merchants with the means to identify themselves to consumers and to encrypt communications between consumers and their Web site.

Our payment services provide Internet merchants with the ability to securely and digitally authorize, capture and settle a variety of payment types using our Internet payment gateway.

Enterprise and Service Provider Division

The Enterprise and Service Provider Division provides the following types of services: managed security and network services, registry services and telecommunications services.

Managed security and network services include our traditional public key infrastructure, or PKI, services for enterprises or members of our VeriSign Affiliate program, enterprise consulting and management services, digital brand management services and managed domain name services.

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

We provide specialized services to telecommunications carriers through our Illuminet Holdings and H.O. Systems subsidiaries. Illuminet's service offerings include the Signaling System 7, or SS7, network, as either part of the connectivity, switching and transport function of the SS7 network or as intelligent network services delivered over the SS7 network. SS7 is an industry-standard system of protocols and procedures that is used to control telephone communications and provide routing information in association with vertical calling features, such as calling card validation, advanced intelligent network services, local number portability, wireless services, toll-free number database access and caller identification. H.O. Systems offers advanced billing and customer care services to wireless carriers.

Acquisitions

In February 2002, we completed our acquisition of H.O. Systems, Inc., a provider of billing and customer care solutions to wireless carriers. We paid approximately $350 million in cash for all of the outstanding stock of LiveWire Corp., H.O. Systems' parent company, for the purchase of H.O. Systems. As part of the purchase price, we recorded an accrual for merger-related costs of $17 million. The total purchase price has been allocated to the tangible and intangible assets acquired and the liabilities assumed based on their respective fair values on the acquisition date. We recorded goodwill of approximately $213 million and other intangible assets of approximately $210 million as a result of this acquisition. In accordance with the provisions of SFAS No. 142, VeriSign evaluated H.O. Systems' goodwill and intangible assets for impairment during the second quarter of 2002. The results of this evaluation indicated the carrying value of their goodwill and other intangible assets exceeded their implied fair values and an impairment charge was recorded in the second quarter of 2002—see Note 5 to Condensed Consolidated Financial Statements. VeriSign has evaluated the remaining useful lives of H.O. Systems' intangible assets to determine if any adjustments to the useful lives were necessary or if any of these assets had indefinite lives and therefore, were not subject to amortization. VeriSign determined that no adjustments to the useful lives of its other intangible assets were necessary and its intangible assets would continue to be amortized over a six-year period. Goodwill will not be amortized but will be tested for impairment at least annually. H.O. Systems' results of operations have been included in the consolidated financial statements from its date of acquisition.

In July 2002, VeriSign increased its equity ownership in eSign Australia Limited to approximately 51% of the total outstanding stock of eSign, and as a result, has included their financial statements in our consolidated results as of the third quarter of 2002. These results are not considered significant or material to the consolidated financial statements.

We completed our acquisition of Illuminet Holdings in December 2001. In addition, during 2001, we completed acquisitions of or acquired certain assets of eleven other privately held companies, which were not significant, either individually or in the aggregate. Each of these transactions has been accounted for as a purchase and, accordingly, the results of the acquired companies' operations are included in our consolidated financial statements from their respective dates of acquisition.

Critical Accounting Policies

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

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

Revenue recognition

We derive revenues from three primary categories: Web presence and trust services, which include domain name registration services, Web trust services and payment services; managed security and network services, which include enterprise and affiliate PKI services and enterprise consulting services; and registry and telecommunications services, which include registry services, connectivity, intelligent networks, wireless and clearinghouse services. The revenue recognition policy for each of these areas is as follows:

Domain name registration revenues consist primarily of registration fees charged to customers and registrars for domain name registration services. Revenues from the sale or renewal of domain name registration services are deferred and recognized ratably over the registration term, generally one to two years and up to ten years.

Domain name registration renewal fees are estimated and recorded based on recent renewal and collection rates. Customers are notified of the expiration of their registration in advance, and we record the receivables for estimated renewal fees in the month preceding the anniversary date of their registration when we have a right to bill under the terms of domain name registration agreements. Currently, the vast majority of collections for renewals take place prior to the anniversary date of the registration. The remaining minor variance between actual collections and the rate used to estimate renewal fees at the end of a quarter is adjusted in the subsequent quarter. Fees for renewals and advance extensions to the existing term are deferred until the new incremental period commences. These fees are then recognized ratably over the new registration term, ranging from one to ten years.

Revenues from the licensing of digital certificate technology and business process technology are derived from arrangements involving multiple elements including post-contract customer support, training and other services. These licenses, which do not provide for right of return, are primarily perpetual licenses for which revenues are recognized up front once all criteria for revenue recognition have been met.

Revenues from the sale or renewal of digital certificates are deferred and recognized ratably over the life of the digital certificate, generally 12 months. Revenues from the sale of OnSite managed services are deferred and recognized ratably over the term of the license, generally 12 to 36 months. Maintenance is bundled with OnSite licenses and recognized over the license term.

We recognize revenues from issuances of digital certificates and business process licensing to VeriSign Affiliates in accordance with SOP 97-2, “Software Revenue Recognition,” as amended by SOP 98-9, and generally recognize revenues when all of the following criteria are met as set forth in paragraph 8 of SOP 97-2: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the fee is fixed or determinable and (4) collectibility is probable. We define each of these four criteria as follows:

Persuasive evidence of an arrangement exists. It is our customary practice to have a written contract, which is signed by both the customer and us, or a purchase order from those customers who have previously negotiated a standard license arrangement with us.

Delivery has occurred. Our software may be either physically or electronically delivered to the customer. Electronic delivery is deemed to have occurred upon download by the customer from an FTP server. If an arrangement includes undelivered products or services that are essential to the functionality of the delivered product, delivery is not considered to have occurred until these products or services are delivered.

The fee is fixed or determinable. It is our policy to not provide customers the right to a refund of any portion of its license fees paid. We may agree to extended payment terms with a foreign customer based on local customs. Generally, at least 80% of the arrangement fees are due within one year or less. Arrangements with payment terms extending beyond these customary payment terms are considered not to be fixed or determinable, and revenues from such arrangements are recognized as payments become due and payable.

Collectibility is probable. Collectibility is assessed on a customer-by-customer basis. We typically sell to customers for whom there is a history of successful collection. New customers are subjected to a credit review process that evaluates the customers' financial position and ultimately their ability to pay. If we determine from the outset of an arrangement that collectibility is not probable based upon our credit review process, revenues are recognized as cash is collected.

We allocate revenues on software arrangements involving multiple elements to each element based on the relative fair values of each element. Our determination of fair value of each element in multiple element arrangements is based on vendor-specific objective evidence, or VSOE. We limit our assessment of VSOE for each element to the price charged when the same element is sold separately. We have analyzed all of the elements included in our multiple-element arrangements and determined that we have sufficient VSOE to allocate revenues to maintenance and support service, professional services and training components of our perpetual license arrangements. We sell our professional services and training separately, and have established VSOE on this basis. VSOE for maintenance and support is determined based upon the customer's annual renewal rates for these elements. Accordingly, assuming all other revenue recognition criteria are met, revenues from perpetual licenses are recognized upon delivery using the residual method in accordance with SOP 98-9. We recognize revenues from licenses in which maintenance is bundled with the software license, such as for digital certificates, digital certificate provisioning and OnSite managed services ratably over the license term of one to three years.

Our consulting services generally are not essential to the functionality of the software. Our software products are fully functional upon delivery and implementation and do not require any significant modification or alteration. Customers purchase these consulting services to facilitate the adoption of our technology and dedicate personnel to participate in the services being performed, but they may also decide to use their own resources or appoint other consulting service organizations to provide these services. Software products are billed separately and independently from consulting services, which are generally billed on a time-and-materials or milestone-achieved basis. We generally recognize revenues from consulting services as the services are performed.

Revenues from consulting services are recognized using the percentage-of-completion method for fixed-fee development arrangements or as the services are provided for time-and-materials arrangements and training services. Revenues from third-party product sales are recognized when title to the products sold passes to the customer. Our shipping terms generally dictate that the passage of title occurs upon shipment of the products to the customer.

Revenues from payment services primarily consist of a set-up fee and a monthly service fee for the transaction processing services. In accordance with SEC Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," revenues from set-up fees are deferred and recognized ratably over the period that the fees are earned. Revenues from the service fees are recognized ratably over the periods in which the services are provided. Advance customer deposits received are deferred and allocated ratably to revenue over the periods the services are provided.

Revenues from telecommunications services are comprised of network connectivity revenues and intelligent network services revenues, and wireless billing and customer care services. Network connectivity revenues are derived from establishing and maintaining connection to our SS7 network and trunk signaling services. Revenues from network connectivity consist primarily of monthly recurring fees, and trunk signaling service revenues are charged monthly based on the number of switches to which a customer signals. The initial connection fee and related costs are deferred and recognized over the term of the arrangement. Intelligent network services, which include calling card validation, local number portability, wireless services, toll-free database access and caller identification are derived primarily from database administration and database query services and are charged on a per-use or per-query basis. Revenues from prepaid wireless account management services and unregistered wireless roaming services are based on the revenue we retain and recognized in the period in which we process such calls on a per-minute or per-call basis. Wireless billing and customer care services revenue represents a monthly recurring fee for every subscriber activated by our wireless carrier customer.

Clearinghouse services revenues are derived primarily from serving as a distribution and collection point for billing information and payment collection for services provided by one carrier to customers billed by another. Clearinghouse revenues are earned based on the number of messages processed. Included in prepaid expenses and other current assets are amounts from customers that are related to our telecommunications services for third-party network access, data base charges and clearinghouse toll amounts that have been invoiced but are not recognized as revenue.

On occasion, we have purchased goods or services for our operations from various organizations at or about the same time that we licensed our software to these organizations. These transactions are recorded at terms we consider to be fair value. For these reciprocal arrangements, we consider Accounting Principles Board (“APB”) Opinion No. 29, “Accounting for Non-monetary Transactions,” and Emerging Issues Task Force (“EITF”) Issue No. 01-02, “Interpretation of APB Opinion No. 29,” to determine whether the arrangement is a monetary or non-monetary transaction. Transactions involving the exchange of boot representing 25% or greater of the fair value of the reciprocal arrangement are considered monetary transactions within the context of APB Opinion No. 29 and EITF Issue No. 01-02. Monetary transactions and non-monetary transactions that represent the culmination of an earnings process are recorded at the fair value of the products delivered or products or services received, whichever is more readily determinable, providing the fair values are determinable within reasonable limits. In determining the fair values, we consider the recent history of cash sales of the same products or services in similar sized transactions. Revenues from such transactions may be recognized over a period of time as the products or services are received. For non-monetary reciprocal arrangements that do not represent the culmination of the earnings process, the exchange is recorded based on the carrying value of the products delivered, which is generally zero.

Allowance for doubtful accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We regularly review the adequacy of our accounts receivable allowance after considering the size of the accounts receivable balance, each customer’s expected ability to pay and our collection history with each customer. We review all significant invoices that are past due to determine if an allowance is appropriate based on the risk category using the factors described above. In addition, we maintain a general reserve for all invoices by applying a percentage based on the age category of the invoice. We also monitor our accounts receivable for any build up of concentration to any one customer, industry or geographic region. To date, our receivables have not had any particular concentrations that, if not collected, would have a significant impact on our operating income. We require all acquired companies to adopt our credit policies. The allowance for doubtful accounts represents our best estimate, but changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the future.

Investments

We invest in debt and equity securities of technology companies for business and strategic purposes. Some of these companies are publicly traded and have highly volatile share prices. However, in most instances, these investments are in the form of equity and debt securities of private companies for which there is no public market. These companies are typically in the early stage of development and may be expected to incur substantial losses. Therefore, these companies may never become publicly traded companies. Even if they do, an active trading market for their securities may never develop and we may never realize any return on these investments. Further, if these companies are not successful, we could incur charges related to write-downs or write-offs of these types of assets.

We review our marketable equity holdings in publicly traded companies on a regular basis to determine if any security has experienced an other-than-temporary decline in fair value. We consider the investee company's cash position, earnings and revenue outlook, stock price performance over the past six months, liquidity and management, among other factors, in our review. If we determine that an other-than-temporary decline exists in a marketable equity security, we write-down the investment to its market value and record the related write-down as an investment loss in our consolidated statements of operations. For non-public companies, we regularly review the assumptions underlying the operating performance and cash flow forecasts based on information requested from these privately held companies. Generally, this information may be more limited, may not be as timely and may be less accurate than information available from publicly traded companies. Assessing each investment's carrying value requires significant judgment by management. If we determine that an other-than-temporary decline exists in a non-public equity security, we write-down the investment to its fair value and record the related write-down as an investment loss in our consolidated statements of operations. Generally, if cash balances are insufficient to sustain the company's operations for a six-month period and there are no current prospects of future funding for the investee, we consider the decline in fair value to be other-than-temporary. During the third quarter of 2002, we determined that the decline in value of certain of our public and non-public equity investments was other-than-temporary and recorded a write-down of these investments totaling $53.2 million. During the third quarter of 2001, we determined that no investment write-downs were necessary. During the nine-month periods ended September 30, 2002 and 2001, we recorded investment write-downs of $166.8 million and $74.7 million, respectively.

Long-lived assets

Our long-lived assets consist primarily of goodwill and other intangible assets and property and equipment and long-term investments. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such an asset may not be recoverable. Such events or circumstances include, but are not limited to, a significant decrease in the fair value of the underlying business, a significant decrease in the benefits realized from the acquired business, difficulty and delays in integrating the business or a significant change in the operations of the acquired business.

Recoverability of long-lived assets is measured by comparing the carrying amount of an asset to the estimated future undiscounted net cash flows it is expected to generate. Those cash flows include an estimated terminal value based on a hypothetical sale of an acquisition at the end of its amortization period. Estimating these cash flows and terminal values requires management to make judgments about the growth in demand for our services, sustainability of gross margins, our ability to integrate acquired companies and achieve economies of scale, and valuation multiples required by investors or buyers. Changes in these estimates could require us to further write-down the carrying amount of our long-lived assets. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the long-lived asset exceeds its fair value.

Effective January 1, 2002, goodwill is assessed for impairment in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142. SFAS No. 142 requires that a two-step evaluation be performed. First, the fair value of each of our reporting units is compared to its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further testing is performed. If the carrying value exceeds the fair value, then the implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference will be recorded. VeriSign selected June 30, 2002 as the date to conduct its annual impairment evaluation. VeriSign completed the two-step evaluation during the second quarter of 2002 and the results of this evaluation indicated the carrying value of goodwill and other intangible assets for certain reporting units exceeded their implied fair values and an impairment charge of approximately $4.6 billion was recorded in the second quarter of 2002.

Employee Stock Options

Option Program Description

Our stock option program is a broad-based, long-term retention program that is intended to contribute to the success of the Company by attracting, retaining and motivating talented employees and to align employee interests with the interests of our existing stockholders. Stock options are typically granted to employees when they first join VeriSign and on an annual basis thereafter. Stock options are also granted when there is a significant change in an employee's responsibilities and, occasionally, to achieve equity within a peer group. The compensation committee may, however, grant additional options to executive officers and key employees for other reasons. Currently, we grant options from three stock option plans: the 1998 Equity Incentive Plan and the 2001 Stock Incentive Plan which are broad-based plans, under which options may be granted to all employees, consultants, independent contractors and advisors of VeriSign other than non-employees directors, and the 1998 Directors Stock Plan, under which options are granted automatically under a pre-determined formula to non-employee directors. Under these plans the participants may be granted options to purchase shares of VeriSign stock and substantially all of our employees and directors participate in one of our plans. Options issued under the 1998 Directors Stock Option Plan vest as to 6.25% of the shares each quarter after the date of grant, provided the optionee continues as a director or, if VeriSign so specifies in the grant, as a consultant of VeriSign. Options issued under the 1998 Equity Incentive Plan and 2001 Stock Incentive Plan generally vest as to 25% of the shares on the first anniversary of the date of grant and as to 6.25% of the shares each of the next 12 quarters.

We recognize that stock options dilute existing shareholders and have attempted to control the number of options granted while remaining competitive with our compensation packages. The potential dilution percentage is calculated as the new option grants for the year, net of options forfeited by employees leaving the company, divided by the total outstanding shares at the beginning of the year. While 6% is the maximum potential dilution from options granted in fiscal years 2000, 2001, and in the first nine months of 2002, this maximum potential dilution will only result if all options are exercised. Many of these options, which have up to a 10-year exercise period, have exercise prices substantially higher than the current market price. At September 30, 2002, approximately 97% of our stock options had exercise prices in excess of the current market price.

All stock option grants to current executive officers are made after a review by, and with the approval of the compensation committee of the Board of Directors. All stock option grants to non-executive officers are determined by VeriSign's Chief Executive Officer in accordance with guidelines approved by the compensation committee. All members of the compensation committee are independent directors, as defined in the applicable rules for issuers traded on The Nasdaq Stock Market. See the "Report of Compensation Committee" appearing in our proxy statement dated April 10, 2002 for further information concerning the policies of our compensation committee regarding the use of stock options.

Distribution and Dilutive Effect of Options

The following table provides information about stock options granted for 2000, 2001, and year to date as of September 30, 2002, to our Chief Executive Officer and our four other most highly compensated executive officers as identified in our 2001 and 2002 Proxy Statements. This group is referred to as the Named Executive Officers. Please refer to the section headed "Executive Options" below for the Named Executive Officers.

Employee and Executive Option Grants in 2000, 2001, and Year to Date as of September 30, 2002:

	Nine Months Ended September 30, 2002	2001	2000
	(Shares in thousands)		
Shares subject to options granted	12,447	15,789	8,007
Less options cancelled	(7,316)	(4,986)	(1,750)
Net shares subject to options granted	5,131	10,803	6,257
Common shares outstanding at beginning of period	234,358	198,639	103,483
Net options granted during the period as a percentage of outstanding common shares	2.2%	5.4%	6.0%
Options granted to Named Executive Officers during the period as a percentage of total options granted	15.3%	11.3%	5.9%
Options held by Named Executive Officers as a percentage of total options outstanding	16.8%	13.4%	16.8%

During the first nine months of 2002, we granted stock options to purchase approximately 12.4 million shares of our stock to our existing employees, which resulted in a net grant of 5.1 million shares after deducting 7.3 million shares for options cancelled or otherwise terminated. For the first nine months of 2002, options granted to the Named Executive Officers as a percentage of all options granted was 15.3%. Options granted to the Named Executive Officers varies from year to year depending on their achievements and future potential in leading the Company. For additional information about our employee stock option plan activity for the fiscal years 2000 and 2001, and the pro forma earnings presentation as if we had expensed our stock option grants using the fair value method of accounting, please refer to our Annual Report on Form 10-K filed March 19, 2002 for the fiscal year ended December 31, 2001.

General option information

Summary of Option Activity as of September 30, 2002:

	Nine Months Ended September 30, 2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	37,340,507	$ 52.50	28,639,917	$ 59.65	17,835,362	$ 16.77
Assumed in business combinations	—	—	3,550,832	15.16	10,204,590	50.23
Granted	12,446,530	16.95	15,789,042	39.12	8,007,368	129.92
Exercised	(2,112,202)	4.28	(5,653,134)	12.75	(5,657,256)	11.70
Cancelled	(7,315,533)	57.35	(4,986,150)	73.05	(1,750,147)	49.36
Outstanding at end of period	40,359,302	43.27	37,340,507	52.50	28,639,917	59.65
Exercisable at end of period	16,633,156	49.35	12,074,142	44.53	6,297,793	17.40

The following table sets forth a comparison of the numbers of shares subject to our options whose exercise prices were below the closing price of our common stock on September 30, 2002 (“In-the-Money” options) to the numbers of shares subject to options whose exercise prices were equal to or greater than the closing price of our common stock on such date (“Out-of-the-Money” options).

In-the-Money and Out-of-the-Money option information as of September 30, 2002:

	Exercisable		Unexercisable		Total	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
In-the-Money	1,202,341	$ 2.04	34,872	$ 2.92	1,237,213	$ 2.07
Out-of-the-Money (1)	15,430,815	53.04	23,691,253	59.96	39,122,089	44.57
Total options outstanding	16,633,156	49.35	23,726,125	39.00	40,359,302	43.27

(1) Out-of-the-Money options are those options with an exercise price of our common stock at or above the closing price of $5.05 at September 30, 2002, as reported by the Nasdaq National Market.

Executive Options

The following table sets forth certain information regarding stock options granted year to date as of September 30, 2002 to our Named Executive Officers. All options were granted with an exercise price equal to the closing price of our common stock on the date of grant.

Summary of Option Activity as of September 30, 2002:

	Individual Grants (1)				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Terms (2)	
Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in 2002 (3)	Exercise Price Per Share (4)	Expiration Date	5%	10%
Stratton D. Sclavos	600,000	4.821%	$ 22.71	2/21/09	$ 5,547,150	$ 12,927,219
	600,000	4.821%	10.08	5/24/09	2,462,143	5,737,841
Dana L. Evan	100,000	0.803%	22.71	2/21/09	924,525	2,154,537
	75,000	0.603%	10.08	5/24/09	307,768	717,230
Quentin P. Gallivan	100,000	0.803%	22.71	2/21/09	924,525	2,154,537
	75,000	0.603%	10.08	5/24/09	307,768	717,230
Robert J. Korzeniewski	100,000	0.803%	22.71	2/21/09	924,525	2,154,537
	75,000	0.603%	10.08	5/24/09	307,768	717,230
Anil H.P. Pereira	100,000	0.803%	22.71	2/21/09	924,525	2,154,537
	75,000	0.603%	10.08	5/24/09	307,768	717,230
James P. Rutt (5)	—	—	—	—	—	—

(1) All options granted in 2002 were granted under VeriSign's 1998 Equity Incentive Plan, except with respect to an option to purchase 600,000 shares of VeriSign common stock that was granted to Stratton D. Sclavos on February 21, 2002, and an option to purchase 200,000 shares of VeriSign common stock that was granted to Stratton D. Sclavos on May 24, 2002, which were granted under the 2001 Stock Incentive Plan. Options generally become exercisable with respect to 25% of the shares covered by the option on the first anniversary of the date of grant and with respect to an additional 6.25% of these shares each quarter thereafter. These options have a term of seven years. Upon certain changes in control of VeriSign, this vesting schedule will accelerate as to 50% of any shares that are then unvested for officers of VeriSign at the level of senior vice president and above and as to 100% of any shares that are then unvested for the President and Chief Operating Officer.

(2) Potential realizable values are net of exercise price but before taxes, and are based on the assumption that the common stock of VeriSign appreciates at the annual rate shown, compounded annually, from the date of

grant until the expiration of the seven-year term. These numbers are calculated based on Securities and Exchange Commission requirements and do not reflect VeriSign's projection or estimate of future stock price growth.

(3) VeriSign granted options to purchase 12,446,530 shares of common stock to employees during the nine months ended September 30, 2002.

(4) Options were granted at an exercise price equal to the fair market value per share of VeriSign common stock, as quoted on the Nasdaq National Market.

(5) James P. Rutt left the Company effective March 31, 2001.

The following table sets forth certain information regarding stock options exercised by each of our Named Executive Officers during the nine months ended September 30, 2002.

Option Exercises and Remaining Holdings Year to Date as of September 30, 2002 of Named Executive Officers:

Name	Number of Shares Acquired on Exercise	Value Realized (1)	Number of Securities Underlying Unexercised Options at September 30, 2002		Values of Unexercised In-the-Money Options at September 30, 2002 (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Stratton D. Sclavos	46,474	$ 317,139	1,970,886	2,418,490	$166,416	—
Dana L. Evan	42,728	1,254,494	358,924	378,228	—	—
Quentin P. Gallivan	7,500	61,350	298,707	411,457	—	—
Robert J. Korzeniewski	—	—	180,793	326,062	—	—
Anil H.P. Pereira	—	—	158,753	289,582	6,731	—
James P. Rutt	—	—	—	—	—	—

(1) The "Value Realized" represents the difference between the closing price of the underlying shares of common stock and the exercise price of the stock options on the actual exercise date.

(2) Option values are based on the closing price of our common stock of $5.05 as reported by the Nasdaq National Market on September 30, 2002, net of the option exercise price.

The following table sets forth information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of September 30, 2002.

Plan Category	Equity Compensation Plan Information (A) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(B) Weighted average exercise price of outstanding options, warrants and rights	(C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))
Equity compensation plans approved by shareholders	18,391,528	$ 51.62	10,875,559
Equity compensation plans not approved by shareholders	16,652,777	29.85	2,949,811
Total (1)	35,044,305	41.27	13,825,370

(1) Does not include 5,314,997 options with a weighted average exercise price of $56.41 that were assumed in business combinations.

Pro Forma Financial Information

We prepare and release quarterly unaudited financial statements prepared in accordance with generally accepted accounting principles ("GAAP"). We also disclose and discuss certain pro forma financial information in the related earnings release and investor conference call. Our pro forma financial information does not include the amortization and write-down of goodwill and intangible assets related to acquisitions, stock-based compensation charges related to acquisitions, write-down of investments, restructuring and other charges, and benefit for income taxes. We believe the disclosure of the pro forma financial information helps investors more meaningfully evaluate the results of our ongoing operations. However, we urge investors to carefully review the GAAP financial information included as part of our Quarterly Reports on Form 10-Q, our Annual Reports on Form 10-K, and our quarterly earnings releases and compare that GAAP financial information with the pro forma financial results disclosed in our quarterly earning releases and investor calls.

Results of Operations

We have experienced substantial net losses in the past. As of September 30, 2002, we had an accumulated deficit of approximately $21.4 billion, primarily due to $21.6 billion of goodwill and other intangible asset write-downs and amortization related to our acquisitions.

Revenues

A comparison of revenues for the three-month periods and the nine-month periods ended September 30, 2002 and 2001 is presented below.

	2002	2001	Change
	(Dollars in thousands)		
Three-month period:			
Web presence and trust services	$ 100,476	$ 142,779	(30)%
Subtotal—Mass Markets Division	100,476	142,779	(30)%
Managed security and network services	67,395	80,105	(16)%
Registry and telecommunications services	133,570	32,271	314%
Subtotal—Enterprise and Service Provider Division	200,965	112,376	79%
Total revenues	$ 301,441	$ 255,155	18%

	2002	2001	Change
	(Dollars in thousands)		
Nine-month period:			
Web presence and trust services	$ 316,916	$ 425,301	(25)%
Subtotal—Mass Markets Division	316,916	425,301	(25)%
Managed security and network services	244,280	190,884	28%
Registry and telecommunications services	385,470	83,580	361%
Subtotal—Enterprise and Service Provider Division	629,750	274,464	129%
Total revenues	$ 946,666	$ 699,765	35%

Total revenues increased 18% in the third quarter of 2002 from the third quarter of 2001 and increased 35% in the first nine months of 2002 compared to the first nine months of 2001 primarily due to the inclusion of telecommunications services revenues resulting from the acquisitions of Illuminet Holdings and H.O. Systems in December 2001 and February 2002, respectively.

Revenues for our Mass Markets Division decreased 30% in the third quarter of 2002 and decreased 25% in the first nine months of 2002 compared to the similar periods a year ago primarily due to the reduction in total active domain names under management, and lower registrations for new and renewed domain names and a reduction in the average selling price of domain names. We expect the revenues for our Mass Markets Division to continue to decrease through at least the first half of 2003 due to a reduction in domain name sales and a possible reduction in the average selling price of domain names.

Revenues for our Enterprise and Service Provider Division increased 79% or $88.6 million as compared to the quarter ended September 30, 2001. This increase is primarily due to the acquisitions of Illuminet Holdings and H.O. Systems which increased revenues approximately $101 million offset by a decrease in revenues from our international affiliates. Revenues increased 129% or $355.3 million in the first nine months of 2002 compared to the same period in 2001. This increase is primarily due to the acquisitions of Illuminet Holdings and H.O. Systems which increased revenues approximately $285 million, an increase in consulting services revenues which includes the resale of third party products of approximately $69 million, and an increase in our digital brand management service offerings, offset by a decrease in revenues from our international affiliates. We expect revenues for our Enterprise and Service Provider Division to decrease due to our decision to significantly reduce the resale of our third party products. We recognized approximately $23.2 million of revenue related to the resale of third party products in the quarter ended September 30, 2002.

VeriSign did not enter into any new reciprocal transactions during the quarter ended September 30, 2002. There were approximately $1.4 million of revenues related to prior period transactions for the quarter ended September 30, 2002. Revenues recognized under reciprocal arrangements were approximately $11.1 million in the third quarter of 2001 of which all involved non-monetary transactions.

Reciprocal transactions entered into during the first nine months of 2002, accounted for approximately $7.2 million of revenues of which $4.5 million was non-monetary. An additional $5.4 million of revenues was recognized during the first nine months of 2002, which related to reciprocal transactions entered into in prior periods. Revenues recognized under reciprocal arrangements were approximately $20.6 million in the first nine months of 2001 all of which involved non-monetary transactions.

We derived 2.1% in the third quarter of 2002 and 2.5% in the first nine months of 2002 of our total revenues from customers with whom we have previously participated in a private equity round of financing, compared to 4.2% in the third quarter of 2001 and 3.8% in the first nine months of 2001. These customers include several of the VeriSign Affiliates as well as various technology companies in a variety of related market areas. Typically in these relationships, under separate agreements, we sell our products and services to a company and, under a separate agreement, participate with other investors in a private equity round financing of the company. We typically make our investments with others where our investment is less than 50% of the total financing round. Our policy is not to recognize revenue in excess of other investors' financing of the company. These arrangements are independent relationships and are not terminable unless the terms of the agreements are violated.

Mass Markets Division

In the three and nine-month periods ended September 30, 2002, revenues from Web presence and trust services decreased 30% and 25% over the comparable periods in 2001 primarily due to a decrease in domain names under management. Our domain name registrar business managed approximately 33% fewer domain names at September 30, 2002, compared to September 30, 2001.

During the third quarter of 2002, we registered approximately 500,000 gross new domain names and renewed or extended an additional 700,000 domain names bringing the total active domain names under management by our domain name registrar business to approximately 9.7 million at September 30, 2002, a decrease of approximately 600,000 from the previous quarter and a decrease of 4.8 million from September 30, 2001. During the first nine months of 2002 we registered approximately 1,600,000 gross new domain names and renewed or extended an additional 1,900,000 domain names. Due to the changing market in domain names, we have experienced lower total active domain names under management and expect this trend to continue.

Our Mass Markets Division and our Enterprise and Service Provider Division combined issued approximately 95,000 new and renewed Web site digital certificates in the third quarter of 2002 compared to approximately 98,000 in the third quarter of 2001. We increased our total installed base to over 400,000 certificates at September 30, 2002, compared to our installed base of approximately 348,000 certificates at

September 30, 2001. During the first nine months of 2002 our Mass Markets Division and our Enterprise and Service Provider Division issued approximately 300,000 new and renewed certificates compared to approximately 283,000 new and renewed certificates in the first nine months of 2001. In addition, due to increased competition in the Web trust services market, we have experienced moderate pricing pressure for our services. We expect that this pricing pressure will continue.

Enterprise and Service Provider Division

In the third quarter of 2002 revenues from our managed security and network services product line decreased 16% from the third quarter of 2001 primarily due to decreased revenue from our international affiliates. In the first nine months of 2002 revenues from the managed security and network services product line increased 28% over the comparable period in 2001 primarily due to an overall increase in revenues related to prior year acquisitions and from consulting services which included the resale of third party products. Additionally, we experienced a moderate increase in the demand for our other enterprise managed service offerings offset by a decrease in revenue from our international affiliates in the first nine months of 2002. We expect revenues from our managed security and network services product line to decrease due to our decision to significantly reduce the resale of third party products.

Revenues from registry and telecommunications services increased 314% in the third quarter of 2002 and increased 361% in the first nine months of 2002 compared to the similar periods of 2001 due to our acquisitions of Illuminet Holdings and H.O. Systems in December 2001 and February 2002, respectively. The VeriSign Global Registry Services group managed approximately 27.5 million domain names at September 30, 2002 in the active zone file for all domain names ending in *.com*, *.net* and *.org*. The Global Registry Services group also processed 2.7 million new domain names during the third quarter of 2002 and processed 8.1 million new domain names during the first nine months of 2002. Pursuant to our agreement with ICANN, we will terminate our management of the *.org* top-level domain at the end of 2002. We expect the expiration of this *.org* Registry Agreement will reduce revenues generated from the *.org* top-level domain name by approximately $4 million in 2003.

VeriSign's Illuminet Holdings subsidiary added 19 new signaling points in the third quarter of 2002, bringing its total number of signaling points to 1,004, up from 919 at September 30, 2001. In addition, Illuminet Holdings saw the number of queries on its database increase to 7.9 billion during the third quarter of 2002, up from 7.2 billion in the second quarter of 2002 and 6.6 billion in the first quarter of 2002. We expect revenues from our registry and telecommunications services to increase slightly.

International revenues

Revenues from international subsidiaries and affiliates accounted for 8% of revenues in the third quarter of 2002 and 8% of revenues in the first nine months of 2002 compared to 15% of revenues in the third quarter of 2001 and 13% of revenues in the first nine months of 2001. The percentage decrease in revenues from international subsidiaries and affiliates during the periods presented was primarily related to the acquisitions of Illuminet Holdings in December 2001 and H.O. Systems in February 2002 whose revenues are primarily attributable to the United States. Additionally, we have reduced the number of participants in our international affiliate program in an effort to terminate under performing partners as we refocus and transition our overall international strategy and enter certain markets directly.

In 1998, we began our international affiliate program under which we signed agreements with local telecommunications companies, financial institutions and others to promote, sell and distribute our PKI services in international markets around the world. These affiliate program members typically require significant capital development, the cost of which is borne by the affiliate. Our strategy from time to time also includes investing in certain affiliates in strategic markets that represent advantageous economic opportunities for a minority interest of less than 20%. As a result we have invested in several international affiliates. Revenues from affiliates in which we have invested accounted for approximately 1.1% of total revenues in the third quarter of 2002 and 1.8% in the first nine months of 2002 compared to 1.7% in the third quarter of 2001 and 2.0% in the first nine months of 2001.

Costs and Expenses

Cost of revenues

Cost of revenues consists primarily of costs related to providing digital certificate enrollment and issuance services, payment services, domain name registration services, SS7 network and database services, wireless billing and customer care services, customer support and training, consulting and development services and costs of facilities and computer equipment used in these activities. In addition, with respect to our digital certificate services and telecommunications services, cost of revenues also includes fees paid to third parties to verify certificate applicants' identities, telecom network infrastructure and billing services, insurance premiums for our service warranty plan, errors and omission insurance and the cost of software and hardware resold to customers.

A comparison of cost of revenues for the three-month periods and the nine-month periods ended September 30, 2002 and 2001 is presented below.

	2002	2001	Change
		(Dollars in thousands)	
Three-month period:			
Cost of revenues	$ 140,086	$ 83,518	68%
Percentage of revenues	46%	33%	
Nine-month period:			
Cost of revenues	$ 436,084	$ 238,166	83%
Percentage of revenues	46%	34%	

Cost of revenues increased on an absolute dollar basis and as a percentage of revenue in the third quarter and the first nine months of 2002 over the comparable periods in 2001 primarily due to the acquisitions of Illuminet Holdings and H.O. Systems in our Enterprise and Service Provider Division. The results of operations for Illuminet Holdings and H.O. Systems' have been included in our consolidated statements of operations since their respective acquisition dates which were subsequent to the year ago periods presented. Excluding Illuminet Holdings and H.O. Systems, our Enterprise and Service Provider Division experienced an increase in costs as a percentage of revenues in 2002 compared to 2001, primarily due to the substantial growth we have realized in our consulting services business, which includes the resale of third party products which are generally made at lower margins than our other Enterprise products. Our Mass Markets Division's costs as a percentage of revenues remained generally constant over all periods presented. Any future acquisitions, further expansion into international markets and introductions of additional products may result in further increases in cost of revenues, due to additional personnel and related expenses and other factors.

Certain of our services, such as consulting and training, require greater initial personnel involvement and therefore, have higher costs than other types of services. In addition, revenues derived from our authentication services, domain name registration services, registry services, payment services and our telecommunications services each have different cost structures. We expect cost of revenues to decrease in absolute dollars and as a percentage of revenues as a result of our decision to significantly reduce the resale of third party products.

Sales and marketing

Sales and marketing expenses consist primarily of costs related to sales and marketing, and policy activities. These expenses include salaries, sales commissions 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 and print advertising.

A comparison of sales and marketing expenses for the three-month periods and the nine-month periods ended September 30, 2002 and 2001 is presented below.

	2002	2001	Change
	(Dollars in thousands)		
Three-month period:			
Sales and marketing	$ 60,792	$ 65,803	(8)%
Percentage of revenues	20%	26%	
Nine-month period:			
Sales and marketing	$ 197,392	$ 195,591	1%
Percentage of revenues	21%	28%	

Sales and marketing expenses decreased on an absolute dollar basis and as a percentage of revenues in the third quarter of 2002 from the comparable period in 2001 primarily due to a reduction in expenditures for advertising and related promotional activities and from a decrease in allocated lease expenses. Advertising and related promotional expenditures have declined due to a heightened effort to monitor and control spending in conjunction with our restructuring program announced in April 2002. The decrease in allocated lease expenses is a result of our purchase of our headquarters complex in Mountain View, California in October of 2001. On an absolute dollar basis, our acquisitions of Illuminet Holdings and H.O. Systems in December 2001 and February 2002, respectively, partially offset the decrease in spending for advertising and related promotional activities and allocated lease expenses in the third quarter of 2002.

Expenses for sales and marketing increased on an absolute dollar basis in the first nine months of 2002 primarily due to our acquisitions of Illuminet Holdings and H.O. Systems and due to the expansion of our international sales force. During the second half of 2001, we established our digital branding operations in Europe in alignment with our international expansion plans. The decline in sales and marketing expenses as a percentage of revenues in the first nine months of 2002 is primarily due to an increase in recurring revenues from existing Enterprise and Service Provider Division customers, which tend to have lower acquisition costs, and to the decrease in advertising and related promotional expenditures as a result of our heightened efforts to monitor and control spending in conjunction with our restructuring program. Additionally, sales and marketing expenses decreased as a percentage of revenues in the first nine months of 2002 due to our acquisitions of Illuminet Holdings and H.O. Systems, which incur relatively low selling and marketing expenses compared to our existing product offerings as a group. We expect that sales and marketing expense as a percentage of revenues will continue to decrease.

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.

A comparison of research and development expenses for the three-month periods and the nine-month periods ended September 30, 2002 and 2001 is presented below.

	2002	2001	Change
	(Dollars in thousands)		
Three-month period:			
Research and development	$ 9,613	$ 21,649	(56)%
Percentage of revenues	3%	8%	
Nine-month period:			
Research and development	$ 37,405	$ 62,195	(40)%
Percentage of revenues	4%	9%	

Research and development expenses decreased in both the third quarter and the first nine months of 2002 from the comparable periods in 2001 in absolute dollars and as a percentage of revenues. The absolute dollar decrease is related to a substantial decrease in allocated lease expenses resulting from our purchase of our headquarters complex in Mountain View, California in October 2001, and from benefits realized as a result of our restructuring program. Additionally, we incurred overall higher expenses for the design, testing and deployment of our Internet trust service offerings during the first nine months of 2001 compared to 2002. The decrease in research and development expenses as a percentage of revenues in the third quarter and the first nine months of 2002 is largely due to the overall decrease in research and development spending along with a decrease in allocated lease expense in 2002 and from the benefits realized from the restructuring program.

We believe that timely development of new and enhanced enterprise services, payment services, Web presence services and other technologies are necessary to maintain our position in the marketplace. Accordingly, we intend to continue to recruit experienced research and development personnel and to make other investments in research and development.

General and administrative

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

A comparison of general and administrative expenses for the three-month periods and the nine-month periods ended September 30, 2002 and 2001 is presented below.

	2002	2001	Change
		(Dollars in thousands)	
Three-month period:			
General and administrative	$ 53,189	$ 37,250	43%
Percentage of revenues	18%	15%	
Nine-month period:			
General and administrative	$ 138,278	$ 103,258	34%
Percentage of revenues	15%	15%	

General and administrative expenses increased in the third quarter of 2002 over the comparable period in 2001 primarily due to our acquisitions of Illuminet Holdings and H.O. Systems in December 2001 and February 2002, respectively. Illuminet Holdings added $10.9 million and H.O. Systems added $2.3 million. Also, depreciation expense increased modestly in the third quarter of 2002 resulting from our property and equipment expenditures during 2002. In addition, we incurred an increase in bad debt expense in the third quarter of 2002 compared to the third quarter of 2001, primarily as a result of increased revenues and the continued deterioration in the overall economy. Increases in our general and administrative expenses were partially offset by decreases in lease expenses resulting from the purchase of our headquarters complex in Mountain View, California in October 2001, and benefits realized from our restructuring program announced in April 2002.

General and administrative expenses increased in the first nine months of 2002 over the comparable period in 2001. The increase was primarily due to our acquisitions of Illuminet Holdings and H.O. Systems, which added $30.1 million and $6.0 million in expenses in the first nine months of 2002, respectively. In addition, our bad debt expense increased $10.4 million in the first nine months of 2002 primarily as a result of increased revenues and the continued deterioration in the overall economy. Additionally, we incurred an increase in depreciation expense in the first nine months of 2002 compared to the first nine months of 2001 resulting from our property and equipment expenditures during 2002. Increases in our general and administrative expenses were partially offset by decreases in lease expenses resulting from the purchase of our headquarters complex in

Mountain View, California in October 2001, and benefits realized from our restructuring program announced in April 2002. We expect general and administrative expenses to decrease in absolute dollars over the next several quarters.

Restructuring and other costs

In April 2002, VeriSign announced plans to restructure its operations to rationalize, integrate and align the resources of the company. This restructuring program includes workforce reductions, closure of excess facilities, write-down of property and equipment and other charges. As a result of this restructuring program, we recorded restructuring and other costs of $5.6 million classified as operating expenses during the quarter ended September 30, 2002 and $73.3 million in the first nine months of 2002. VeriSign expects to incur additional restructuring charges of approximately $15 to $20 million over the next two quarters related to the restructuring of our consulting services.

Workforce reduction

The restructuring program resulted in a workforce reduction of approximately 400 employees across certain business functions, operating units, and geographic regions. We recorded a workforce reduction charge of $900,000 during the quarter ended September 30, 2002 and $4.7 million during the first nine months of 2002, relating primarily to severance and fringe benefits.

Closure of excess facilities

VeriSign recorded charges of approximately $2.7 million during the quarter ended September 30, 2002 and $29.1 million during the first nine months of 2002 for abandoned or excess facilities relating to lease terminations and non-cancelable lease costs. To determine the lease loss, which is the loss after VeriSign's cost recovery efforts from subleasing a building, certain estimates were made related to the (1) time period over which the relevant building would remain vacant, (2) sublease terms, and (3) sublease rates, including common area charges. If market rates continue to decrease in these markets or if it takes longer than expected to sublease these facilities, the actual loss could exceed this estimate. Property and equipment that was disposed of or removed from operations resulted in a net charge of $20.2 million and consisted primarily of computer software, leasehold improvements, and computer equipment.

Exit costs and other charges

VeriSign recorded other exit costs consisting of the write-down of prepaid license fees associated with products that were intended to be incorporated into the Company's product offerings but were subsequently abandoned as a result of the decision to restructure. These charges totaled approximately $400,000 during the quarter ended September 30, 2002 and $8.9 million during the first nine months of 2002. As part of the Company's efforts to rationalize, integrate and align its resources, VeriSign also recorded other charges of $1.6 million during the quarter ended September 30, 2002 and $10.5 million during the first nine months of 2002 relating primarily to the write-down of impaired prepaid marketing assets associated with discontinued advertising.

A summary of the restructuring and other costs recorded during the three-month and nine-month periods ended September 30, 2002 are as follows:

	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2002
	(in thousands)	
Workforce reduction	$ 900	$ 4,730
Excess facilities	2,680	29,050
Write-down of property and equipment	—	20,179
Exit costs and other charges	1,980	19,380
Total restructuring and other	$ 5,560	$ 73,339

The restructuring accrual is included on the balance sheet as accrued restructuring costs. Amounts related to the net lease expense due to the closure of facilities will be paid over the respective lease terms the longest of which extends through February 2008. We expect to substantially complete the implementation of the restructuring program during the first quarter of 2003.

Amortization and write-down of goodwill and other intangible assets

VeriSign adopted Statement of Financial Accounting Standards ("SFAS") No. 142 as of January 1, 2002. Under the provisions of SFAS No. 142, purchased goodwill and certain indefinite-lived intangibles will no longer be amortized but are subject to testing for impairment upon adoption, and on at least an annual basis thereafter. The results of this testing indicated the carrying value of goodwill and other intangible assets for certain reporting units exceeded their implied fair values and a write-down (impairment charge) of $4.6 billion was recorded in the second quarter of 2002. Previously, during the first half of 2001 VeriSign had assessed the recoverability of its goodwill using estimated undiscounted cash flows and the result of this assessment was an impairment charge to goodwill in the second quarter of 2001 in the amount of $9.9 billion.

Amortization of goodwill and other intangible assets was $56.2 million in the third quarter of 2002 compared to $459.7 million in the third quarter of 2001. During the first nine months of 2002 the amortization and write-down of goodwill and other intangible assets was $4.8 billion compared to $13.1 billion in the first nine months of 2001. Excluding the impairment charges to goodwill and other intangible assets, amortization expense was $228.6 million and $3.2 billion in the first nine months of 2002 and 2001, respectively. The decrease in amortization expense is primarily due to the discontinuance of goodwill amortization in accordance with the provisions of SFAS No. 142. Amortization expense is expected to amount to approximately $55.9 million in the fourth quarter of 2002 and $190.2 million for 2003.

Other Income (Expense), net

Other income (expense) consists primarily of interest earned on our cash, cash equivalents and short-term and long-term investments, gains or losses on sales or write-downs of equity investments, the net effect of foreign currency transaction gains and losses, and other miscellaneous expenses.

A comparison of other income (expense) for the three-month periods and nine-month periods ended September 30, 2002 and 2001 is presented below.

	2002	2001	Change
	(Dollars in thousands)		
Three-month period:			
Other income (expense)	$ (51,193)	$ 16,556	(409)%
Percentage of revenues	(17)%	6%	
Nine-month period:			
Other income (expense)	$ (154,025)	$ (17,456)	(782)%
Percentage of revenues	(16%)	(2)%	

Other expense in the third quarter of 2002 consisted of investment write-downs of $53.2 million partially offset by $2.0 million of interest income on our cash, cash equivalents and investments. Other income in the third quarter of 2001 consisted of $16.6 million of interest income. Other expense in the first nine months of 2002 consisted of investment write-downs of $166.8 million partially offset by $12.8 million of interest income. In the first nine months of 2001 other expense included write-downs of investments totaling $74.7 million partially offset by $57.2 million of interest income. VeriSign reviews its marketable equity holdings in publicly traded companies on a regular basis to determine if any security has experienced an other-than-temporary decline in its fair value. As of September 30, 2002 and 2001, we determined that the decline in value of certain of our public and non-public equity securities investments was other-than-temporary. We may from time to time recognize gains or losses from the sales, write-downs or write-offs of our equity investments.

Deferred Income Taxes

For the three and nine-month periods ended September 30, 2002, VeriSign recorded tax expense of $4.2 million relating to foreign withholding and income taxes. VeriSign recorded no tax benefit relating to domestic operations. This is due to the uncertainty of the realization of current net operating losses and certain deferred tax assets.

Our accounting for deferred taxes under SFAS No. 109, "Accounting for Income Taxes," involves the evaluation of a number of factors concerning the realizability of our deferred tax assets. In concluding that a valuation allowance is required to be applied to certain deferred tax assets, we considered such factors as our history of operating losses, our uncertainty as to the projected long-term operating results, and the nature of our deferred tax assets. Although our operating plans assume taxable and operating income in future periods, our evaluation of all of the available evidence in assessing the realizability of the deferred tax assets indicated that such plans were not considered sufficient to overcome the available negative evidence. The possible future reversal of the valuation allowance will result in future income statement benefit to the extent the valuation allowance was applied to deferred tax assets generated through ongoing operations. To the extent the valuation allowance relates to deferred tax assets generated through stock compensation deductions, the possible future reversal of such valuation allowance will result in a benefit to additional paid in capital and will not result in future income statement benefit.

Minority Interest in Net Income of Subsidiaries

Minority interest in the net income of our majority owned subsidiaries, which include VeriSign Japan K.K. and VeriSign Australia Limited, was $237,000 in the third quarter of 2002 and $575,000 for the first nine months of 2002 compared to $405,000 in the third quarter of 2001 and $924,000 in the first nine months of 2001. The change is primarily due to a decrease in VeriSign Japan's gross margin as a result of product mix and pricing pressures. As the VeriSign Japan and the VeriSign Australia businesses continue to develop and evolve, we expect that the minority interest in net income of subsidiaries will fluctuate.

Recent Developments

On October 14, 2002, the Internet Corporation for Assigned Names and Numbers Board of Directors, or ICANN, selected the proposal of the Internet Society for negotiations toward an agreement with ICANN to become the successor operator of the *.org* top-level domain. If the negotiations are successful, the Internet Society will replace VeriSign as operator of the *.org* top-level domain when our agreement with ICANN expires December 31, 2002. Pursuant to the terms of our *.org* Registry Agreement, if the Internet Society is a non-profit entity we will pay to ICANN or ICANN's designee the sum of $5 million to be used to establish an endowment to be used to fund future operating costs of the successor operator of the *.org* registry. We have placed such sum in escrow for this purpose. The impact from this agreement is expected to reduce revenues generated from the *.org* top-level domain name by approximately $4 million in 2003.

In October 2002, VeriSign announced plans to restructure its consulting services and significantly reduce the resale of third party products.

Factors That May Affect Future Results of Operations

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.

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

We were incorporated in April 1995, and began introducing our digital trust services in June 1995. In addition, we completed several acquisitions in 2000 and 2001, including our acquisitions of Network Solutions and Illuminet Holdings, and in February 2002 we completed our acquisition of H.O. Systems, Inc. Network Solutions, Illuminet Holdings and H.O. Systems 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, including, but not limited to, the following:

- the successful integration of the acquired companies;
- the rate and timing of the growth and use of Internet protocol, or IP, networks for electronic commerce and communications;
- the timing and execution of individual customer contracts, particularly large contracts;
- the extent to which digital certificates and domain names are used for electronic commerce or communications;
- the continued growth in the number of Web sites;
- the growth in demand for our services;
- the continued evolution of electronic commerce as a viable means of conducting business;
- the competition for any of our services;
- the perceived security of electronic commerce and communications over IP networks;
- the perceived security of our services, technology, infrastructure and practices;
- the significant lead times before a product or service begins generating revenues;
- the varying rates at which telecommunications companies, telephony resellers and Internet service providers use our services;
- the loss of customers through industry consolidation, or customer decisions to deploy in-house technology; and
- our continued ability to maintain our current, and enter into additional, strategic relationships.

To address these risks we must, among other things:

- successfully market our digital trust services to new and existing customers;
- attract, integrate, train, retain and motivate qualified personnel;
- respond to competitive developments;
- successfully introduce new digital trust services; and
- successfully introduce enhancements to our digital trust services to address new technologies and standards and changing market conditions.

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

Our future success substantially depends on the 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 continue to 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 payments, 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;
- lack of availability of cost-effective, high-speed systems and services;
- limited number of local access points for corporate users;
- inability to integrate business applications on IP networks;
- the need to operate with multiple and frequently incompatible products;
- government regulation; and
- a lack of tools to simplify access to and use of IP networks.

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.

We have sold our products to companies as part of broader business relationships and revenues from these contracts may not be indicative of future revenues.

We have purchased products and services from companies and participated in financings of companies with whom we have entered into separate contractual arrangements for the distribution and sale of our products and services. We derived approximately 1.3% of our total revenues in the first nine months of 2002 and approximately 2.9% of our total revenues in the first nine months of 2001 from reciprocal arrangements. Typically in these relationships, under separate agreements, we sell our products and services to a company and that company sells to us their products and services or we, under a separate agreement, participate with other investors in a private equity round financing of the company. We also derived approximately 2.5% of our total revenues in the first nine months of 2002 and approximately 3.8% of our total revenues in the first nine months of 2001 from customers with whom we have participated in a private equity round of financing, including several of the VeriSign Affiliates, as well as various technology companies in a variety of related market areas. We may not be able to sustain the revenue growth we have experienced in recent periods if we do not continue to participate in business relationships of this nature. In addition, past revenue growth may not be indicative of future operating results.

We may not be able to sustain the revenue growth we have experienced in the past from our Web presence services, which depends in part upon our ability to renew domain name registrations.

In 2000, the demand for new domain name registrations in our Web presence business increased substantially as a result of our promotional programs, in which we accepted domain name registrations at significant discounts, and from registrations by entities who registered domain names with the hopes of reselling them. Many of those domain names have not been renewed as of their two-year anniversary date. Further, many of the entrepreneurial and start-up businesses, begun in 2000, have declined. The future success of our Web presence services business will depend, among other things, upon our customers' renewal of their domain name registrations and upon our ability to obtain new domain name registrations and to successfully market our value-added product and services to our domain name registrants. Registrants may choose to renew their domain names with other registrars or they may choose not to renew and pay for renewal of their domain names. Since we deactivate and delete domain name registrations that are not paid for, our inability to obtain domain name registration renewals from our customers could have an adverse effect on our revenue growth and our business.

Our failure to achieve or sustain market acceptance of our signaling and intelligent network services at desired pricing levels could impact our ability to maintain profitability or positive cash flow.

The telecommunications industry is characterized by significant price competition. Competition and industry consolidation in our telecommunications 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 may not be able 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. We believe that the business of providing network connectivity and related network services will likely 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.

Issues arising from implementing agreements with ICANN and the Department of Commerce could harm our domain name registration business.

The Department of Commerce, or DOC, has adopted a plan for a phased transition of the DOC's responsibilities for the domain name system to the Internet Corporation for Assigned Names and Numbers, or ICANN. We face risks from this transition, including the following:

- ICANN could adopt or promote policies, procedures or programs that are unfavorable to our role in the registration of domain names or that are inconsistent with our current or future plans;
- the DOC or ICANN could terminate our agreements to be the registry or a registrar in the *.com*, *.net* and *.org* top-level domains if they find that we are in violation of our agreements with them;
- if our agreements to be the registry for the *.com*, *.org* or *.net* top-level domains, or a registrar for existing and new top-level domains are terminated, we may not be able to sustain the revenue growth we experienced in recent periods;
- the terms of the registrar accreditation contract could change, as a result of an ICANN-adopted policy, in a manner that is unfavorable to us;
- 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 would take the place of ICANN for purposes of the various agreements described above, and could take actions that are harmful to us;
- ICANN has approved new top-level domains and we may not be permitted to act as a registrar with respect to some of those top-level domains;
- 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 the activities of registrars.

Challenges to ongoing privatization of Internet administration could harm our Web presence services business.

Risks we face from challenges by third parties, including other domestic and foreign governmental authorities, 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;
- Congress has held several hearings in which various issues about the domain name system and ICANN's practices have been raised and 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 foreign governments and governmental authorities 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.

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

Our quarterly operating results have varied 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 digital trust services and the timing and execution of individual customer contracts;
- volume of domain name registrations and customer renewal rates through our Web presence services business and our Global Registry Service business;
- competition in the domain name registration services business from competing registrars and registries;
- the mix of all our offered services sold during a quarter;
- our success in marketing and market acceptance of our enterprise services, network services, Web presence services and Web trust services by our existing customers and by new customers;
- continued development of our direct and indirect distribution channels, both in the U.S. and abroad;
- a decrease in the level of spending for information technology related products and services by enterprise customers;
- our success in assimilating the operations and personnel of any acquired businesses;
- the seasonal fluctuations in consumer use of telecommunications services;
- the impact of price changes in our enterprise services, network services, Web presence services, Web trust services or our competitors' products and services; and
- general economic and market conditions as well as economic and market conditions specific to IP network, 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 many 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 quarterly 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 quarters. If this were to occur, the market price of our common stock would likely decline.

In addition, the terrorist acts of September 11, 2001 have created an uncertain economic environment and we cannot predict the impact of these events, any subsequent terrorist acts or of any related military action, on our customers or business. We believe that, in light of these events, some businesses may curtail spending on information technology, which could also affect our quarterly results in the future.

Our industry is highly competitive and, if we do not compete effectively, we may suffer price reductions, reduced gross margins and loss of market share.

We anticipate that the market for services that enable trusted and secure electronic commerce and communications over IP networks will remain intensely competitive. We compete with larger and smaller companies that provide products and services that are similar to some aspects of our digital trust services. Our competitors may develop new technologies in the future that are perceived as being more secure, effective or cost efficient than the technology underlying our digital trust services. We expect that competition will increase in the near term, and that our primary long-term competitors may not yet have entered the market.

Increased competition could result in pricing pressures, reduced margins or the failure of our digital trust services to achieve or maintain market acceptance, any of which could harm our business. Several of our current and potential competitors have longer operating histories and significantly greater financial, technical, marketing and other resources. As a result, we may not be able to compete effectively.

We face competition from large, well-funded regional providers of SS7 network services and related products, such as regional Bell operating companies, TSI and Southern New England Telephone, a unit of SBC Communication. The prepaid wireless account management and unregistered user services of National Telemanagement Corporation, a subsidiary of ours, faces competition from Boston Communications Group, Priority Call, InterVoice-Brite and TSI. We are also aware of major Internet service providers, software developers and smaller entrepreneurial companies that are focusing significant resources on developing and marketing products and services that will compete directly with ours.

In connection with our first round of financing, RSA contributed certain technology to us and entered into a non-competition agreement with us under which RSA agreed that it would not compete with our certificate authority business for a period of five years. This non-competition agreement expired in April 2000. RSA has recently entered the digital certificate market and our business could be materially harmed.

Seven new global top-level domain registries, *.aero*, *.biz*, *.coop*, *.info*, *.museum*, *.name* and *.pro*, have begun or are expected to begin accepting domain name registrations in the near future. Since we will not serve as a registry for these new top-level domains, we will not receive the annual registry fee for domain name registrations under these top-level domains. The commencement of registrations in these new top-level domains could have the effect of reduced demand for *.com* and *.net* domain name registrations. If the new top-level domains reduce the demand for domain name registrations in *.com* and *.net*, our business could be materially harmed.

The agreements among ICANN, the DOC, us and other registrars permit flexibility in pricing for and term of registrations. Our revenues, therefore, could be reduced due to pricing pressures, bundled service offerings and variable terms from our competitors. Some registrars and resellers in the *.com*, *.net* and *.org* top-level domains are already charging lower prices for registration services in those domains. In addition, other entities are bundling, and may in the future bundle, domain name registrations with other products or services at reduced rates or for free.

We may face difficulties assimilating and may incur costs associated with our acquisition of Illuminet Holdings, Inc. and any other future acquisitions.

We made several acquisitions in 2000 and 2001. In December 2001, we acquired Illuminet Holdings, Inc., which recently completed several acquisitions of its own, and in February 2002 we completed our acquisition of H.O. Systems, Inc. We could experience difficulty in integrating the personnel, products, technologies or operations of these companies. Assimilating acquired businesses involves 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;
- unanticipated costs or the incurrence of unknown liabilities;
- the need to manage more geographically-dispersed operations, such as our offices in Virginia, North Carolina, Washington, Kansas, South Carolina, South Africa and Europe;
- greater than expected costs and the diversion of management's resources from other business concerns involved in identifying, completing and integrating acquisitions;
- the inability to retain the employees of the acquired businesses;
- adverse effects on the existing customer relationships of acquired companies;
- the difficulty of assimilating the operations and personnel of the acquired businesses;
- the potential incompatibility of business cultures;
- any perceived adverse changes in business focus;
- entering into markets and acquiring technologies in areas in which we have little experience;
- our inability to incorporate acquired technologies successfully into our operations infrastructure;
- 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, our business could be harmed.

Additionally, there is risk that we may incur additional expenses associated with a write-off of a portion of goodwill and other intangible assets, as was the case when we recorded a non-cash charge of approximately $4.6 billion in the second quarter of 2002 and $9.9 billion in the second quarter of 2001 related to write-downs of goodwill due to changes in market conditions for acquisitions made with our common stock. 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 write-downs of goodwill or other intangible assets.

Our telecommunications services business depends on the acceptance of our SS7 network and the telecommunications market's continuing use of SS7 technology.

Our future growth depends, in part, on the commercial success and reliability of our SS7 network, which we recently acquired through our merger with Illuminet Holdings, Inc. Our SS7 network is a vital component of our intelligent network services, which had been an increasing source of revenues for Illuminet Holdings. Our network 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.

Our industry markets are evolving, and if these markets fail to develop or if our products are not widely accepted in these markets, our business could suffer.

We target our digital trust services at the market for trusted and secure electronic commerce and communications over IP networks. This is a rapidly evolving market that may not continue to grow.

Accordingly, the demand for our digital trust services is very uncertain. Even if the market for electronic commerce and communications over IP networks grows, our digital trust services may not be widely accepted. The factors that may affect the level of market acceptance of digital certificates and, consequently, our digital trust services include the following:

- market acceptance of products and services based upon authentication technologies other than those we use;
- public perception of the security of digital certificates and IP networks;
- the ability of the Internet infrastructure to accommodate increased levels of usage; and
- government regulations affecting electronic commerce and communications over IP networks.

Even if digital certificates achieve market acceptance, our digital trust services may fail to address the market's requirements adequately. If digital certificates do not sustain or increase their acceptance, or if our digital trust services in particular do not achieve or sustain market acceptance, our business would be materially harmed.

The telecommunications network services industry is also characterized by rapid technological change and frequent new product and service announcements. Significant technological changes could make our technology obsolete. We must adapt to our rapidly changing market by continually improving the responsiveness, reliability and features of our network and by developing new network features, services and applications to meet changing customer needs. 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. 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 revenues and profits, if any, could depend upon our ability to provide products and services to these Internet protocol-based telephony providers.

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

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

- power loss, transmission cable cuts and other telecommunications failures;
- damage or interruption caused by fire, earthquake, and other natural disasters;
- computer viruses or software defects; and
- physical or electronic break-ins, sabotage, intentional acts of vandalism, terrorist attacks and other events beyond our control.

Most of our systems are located at, and most of our customer information is stored in, our facilities in Mountain View, California and Kawasaki, Japan, both of which are susceptible to earthquakes, Dulles and Herndon, Virginia, Lacey, Washington and Overland Park, Kansas. Though we have back-up power resources, our California locations are susceptible to electric power shortages similar to those experienced during 2001. All of our domain name registration services systems, including those used in our domain name registry and registrar business are located at our Dulles and Herndon, Virginia facilities. Any damage or failure that causes interruptions in any of these facilities or our other computer and communications systems could materially harm our business.

In addition, our ability to issue digital certificates and register domain names depends on the efficient operation of the Internet connections from customers to our secure data centers and our various registration systems as well as from customers to our registrar and from our registrar and other registrars to the shared registration system. These connections depend upon the efficient operation of Web browsers, Internet service providers and Internet backbone service providers, all of which have had periodic operational problems or experienced outages in the past. Any of these problems or outages could decrease customer satisfaction, which could harm our business.

A failure in the operation of our various registration systems, 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. The inability of our registrar systems, including our back office billing and collections infrastructure, and telecommunications systems to meet the demands of a large number of domain name registration requests and corresponding customer e-mails and telephone calls, including speculative, otherwise abusive and repetitive e-mail domain name registration and modification requests, could result in substantial degradation in our customer support service and our ability to process, bill and collect registration requests in a timely manner.

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 depends 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, and 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 digital trust 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.

We rely on a continuous power supply to conduct our operations, and an energy crisis such as occurred in California in 2001 could disrupt our operations and increase our expenses.

One of our secure data centers and one of our customer support call centers are located in Mountain View, California. In the summer of 2001, California experienced an energy crisis and could again face an energy crisis that could disrupt our operations and increase our expenses. In the event of an acute power shortage, that is, when power reserves for the State of California fall below 1.5%, California has on some occasions implemented, and may in the future continue to implement, rolling blackouts throughout the state. If blackouts interrupt our power supply, we may be temporarily unable to operate. Any such interruption in our ability to continue operations could delay the development of our products. Future interruptions could damage our reputation, harm our ability to retain existing customers and to obtain new customers, and could result in lost revenue, any of which could substantially harm our business and results of operations.

Furthermore, the deregulation of the energy industry instituted in 1996 by the California government and shortages in wholesale electricity supplies have caused power prices to increase. If wholesale prices continue to increase, our operating expenses will likely increase, as our headquarters and many of our employees are based in California.

Some of our investments in other companies have resulted in losses and may result in losses in the future.

We have investments in a number of companies. In most instances, these investments are in the form of equity and debt securities of private companies for which there is no public market. These companies are typically in the early stage of development and may be expected to incur substantial losses. Therefore, these companies may never become publicly traded companies. Even if they do, an active trading market for their securities may never develop and we may never realize any return on these investments. Further, if these companies are not successful, we could incur charges related to write-downs or write-offs of these types of assets. Due to the recent volatility in the stock market in general, and the market prices of securities of technology companies in particular, during 2001 we determined that the decline in value of some of our public and private equity security investments was other-than-temporary and recognized a loss of $89.1 million related to the decline in value of these investments, $74.7 of which was recognized in the first nine months of 2001. During the third quarter of 2002 we wrote-off investments totaling $53.2 million and during the first nine months of 2002 we recorded investment write-downs of $166.8 million. As of September 30, 2002 we held investments totaling $169.4 million, which included both publicly and non-publicly traded securities. Due to the inherent risk associated with some of our investments, and in light of current stock market conditions, we may incur future losses on the sales, write-downs or write-offs of our investments.

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

Our inability to introduce and implement technological changes in our industry could harm our business.

The emerging nature of the Internet, digital certificate business, the domain name registration business and payment services business, and their rapid evolution, require us continually to improve the performance, features and reliability of our digital trust services, particularly in response to competitive offerings. We must also introduce any new digital trust services, as quickly as possible. The success of new digital trust services depends on several factors, including proper new service definition and timely completion, introduction and market acceptance. We may not succeed in developing and marketing new digital trust services that respond to competitive and technological developments and changing customer needs. This could harm our business.

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.

As traffic from our telecommunication 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 accurately project the rate of increase in usage on our network. In addition, 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 have experienced significant growth in our business and our failure to manage this growth or any future growth could harm our business.

Our historical growth has placed, and any further growth is likely to continue to place, a significant strain on our resources. We have grown from 26 employees at December 31, 1995 to over 3,100 employees at September 30, 2002. In addition to internal growth, our employee base grew through acquisitions. We have also opened additional sales offices and have significantly expanded our operations, both in the U.S. and abroad, during this time period. To be successful, we will need 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.

We depend on key personnel to manage our business effectively.

We depend on the performance of our senior management team and other key employees. Our success will also depend 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.

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 13 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 global 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 global registry services business could be harmed if any of these volunteer operators fails to include or provide accessibility to the data that it maintains in the root zone servers that it controls. In the event and to the extent that ICANN is authorized to set policy with regard to an authoritative root 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.

Our Web presence services and registry services businesses also could be harmed if a significant number of Internet service providers decided not to route Internet communications to or from domain names registered by us or if a significant number of Internet service providers decided to provide routing to a set of domain name servers that did not point to our domain name zone servers.

Our signaling and network services reliance on third party communications infrastructure, hardware and software exposes us to a variety of risks we cannot control.

Our signaling and network services success will depend on our network infrastructure, including the capacity leased from telecommunications suppliers. In particular, we rely on AT&T, WorldCom, 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 partners on seven 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. We 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.

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 enterprise services, telecommunications services and Web presence services than we would otherwise.

Our success in obtaining results from these relationships will depend both on the ultimate success of the other parties to these relationships, particularly in the use and promotion of IP networks for trusted and secure electronic commerce and communications, and on the ability of these parties to market our enterprise 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, particularly with respect to our Web presence services business. To do this we must maintain relationships with Internet access providers and other third parties. Failure of one or more of our strategic relationships to result in the development and maintenance of a market for our Web presence services could harm our business. Many of our existing relationships do not, and any future relationships may not, afford us any exclusive marketing or distribution rights. In addition, the other parties may not view their relationships with us as significant for their own businesses. Therefore, they could reduce their commitment to us at any time in the future. These parties could also pursue alternative technologies or develop alternative products and services either on their own or in collaboration with others, including our competitors. If we are unable to maintain our relationships or to enter into additional relationships, this could harm our business.

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

We market many of our enterprise services directly to large companies and government agencies. 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 enterprise services can be lengthy, potentially lasting from three to six 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.

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. 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.

Our enterprise and affiliate PKI services and Web trust services rely on public key cryptography technology that may compromise our system's security.

Our enterprise and affiliate PKI services 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.

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

Revenues from international subsidiaries and affiliates accounted for approximately 8% of our revenues in the third quarter of 2002 and 8% in the first nine months of 2002 compared to approximately 15% in the third quarter of 2001 and 13% in the first nine months of 2001. We intend to expand our international operations and international sales and marketing activities. For example, in addition to our past acquisitions of THAWTE with operations in South Africa, Network Solutions with operations in Asia and Europe, we have continued to focus on expanding our operations and marketing activities throughout Asia, Europe and Latin America. Expansion into these markets has required and will continue to require significant management attention and resources. We may also need to tailor our digital trust 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. 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;
- 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;
- currency fluctuations, as all of our international revenues from VeriSign Japan, K.K. and our wholly owned subsidiaries in South Africa and Europe are not denominated in U.S. dollars;
- difficulty of authenticating customer information;
- 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 American interests abroad;
- seasonal reductions in business activity; and
- potentially adverse tax consequences.

We have licensed to VeriSign Affiliates our Processing Center platform, which is designed to replicate our own secure data centers and allows the affiliate to offer back-end processing of enterprise PKI services. The VeriSign Processing Center platform provides a VeriSign Affiliate with the knowledge and technology to offer enterprise 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.

In July 2001, we enhanced our managed public key infrastructure services processes in order to satisfy the European Union Directive on electronic signatures, which we hope will stimulate the acceptance of digital signatures in Europe. We cannot guarantee that our enhancements to the services will be accepted by, or introduced and marketed successfully in, the European markets. Nor can we guarantee that member nations of the European Union will implement the Directive in a manner that furthers acceptance of our services. In addition, we cannot predict whether the European Union Commission will amend or alter the directive or introduce new legislation, nor can we predict the impact such a change in legislation could have on our international business and operations.

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 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, such as public key cryptography technology licensed from RSA and other technology that is used in our products, 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.

Our services employ technology that may infringe the proprietary rights of others, and we may be liable for significant damages as a result.

Infringement or other claims could be made against us in the future. 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 and 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. For example, we have had two complaints filed against us in February 2001 and September 2001 alleging patent infringement. (See Part II, Item 1, “Legal Proceedings.”)

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

Our amended and restated certificate of incorporation and bylaws contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. These provisions include:

- our stockholders may take action only at a meeting and not by written consent;
- our board must be given advance notice regarding stockholder-sponsored proposals for consideration at annual meetings and for stockholder nominations for the election of directors;
- we have a classified board of directors, with the board being divided into three classes that serve staggered three-year terms;
- 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, 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 Board of Directors declared a dividend of one stock purchase right for each share of VeriSign's common stock outstanding on October 4, 2002:

- The rights will become exercisable only upon the occurrence of certain events specified in the plan, including the acquisition of 15% 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.

Liquidity and Capital Resources

	September 30, 2002	December 31, 2001	Change
	(Dollars in thousands)		
Cash, cash equivalents and short-term investments	$ 327,036	$ 726,697	(55)%
Working capital	$ (129,493)	$ 256,714	(150)%
Stockholders' equity	$ 1,617,326	$ 6,506,074	(75)%

At September 30, 2002, our principal source of liquidity was $327.0 million of cash, cash equivalents and short-term investments, consisting principally of commercial paper, medium term corporate notes, corporate bonds and notes, market auction securities, U.S. government and agency securities and money market funds. In addition, we hold $55.0 million of long-term investments, consisting primarily of debt and equity securities of non-public companies, which have no ready market.

Net cash provided by operating activities was $156.9 million in the first nine months of 2002 compared to $167.5 million in the first nine months of 2001. The decrease was primarily due to a decrease in our deferred revenue balance in which we receive payment in advance for many of our products and services. The decrease in cash provided by operating activities was partially offset by a decrease in accounts receivable during the first nine months of 2002.

As part of the restructuring announced in April 2002, VeriSign will pay cash for severance of employees, lease terminations and other contract terminations. Total cash outlays related to the restructuring program were $5.8 million in the third quarter of 2002 and $12.8 million in the first nine months of 2002.

Table of Contents

We anticipate the restructuring program will result in the following future net cash outflows at September 30, 2002:

	Workforce Reduction	Lease Obligations	Total
		(In thousands)	
2002 (3 months)	$ 50	$ 1,961	$ 2,011
2003	—	6,255	6,255
2004	—	5,937	5,937
2005	—	4,462	4,462
2006	—	3,040	3,040
Thereafter	—	3,045	3,045
	$ 50	$ 24,700	$ 24,750

Net cash used in investing activities was $268.9 million in the first nine months of 2002, primarily as a result of $348.6 million used for acquisitions which includes $346.3 million for the acquisition of H.O. Systems. $56.3 million was used in acquisition related costs for the first nine months of 2002. Additionally, we used $89.2 million for purchases of short and long-term investments and $151.9 million for purchases of property and equipment. These purchases were partially offset by proceeds of $368.4 million from maturities and sales of short and long-term investments. In the first nine months of 2001 net cash used in investing activities was $83.2 million primarily as a result of $1.1 billion used for purchases of short and long-term investments, $65.9 million used for purchases of property and equipment and $85.8 million paid, net of cash acquired, in business combinations and related merger costs partially offset by proceeds of $1.2 billion from sales and maturities of short and long-term investments.

Net cash provided by financing activities was $19.3 million in first nine months of 2002 and $22.3 million in the first nine months of 2001. The primary source of cash provided by financing activities in both periods was from the issuance of common stock resulting from stock option exercises and the purchase of common stock by employees through the employee stock purchase plan.

As of September 30, 2002, we had commitments under non-cancelable operating leases for our facilities for various terms through 2011.

The Company has pledged a portion of its short-term investments as collateral for standby letters of credit that guarantee certain of its contractual obligations, primarily relating to its real estate lease agreements. As of September 30, 2002, the amount of short-term investments the Company has pledged pursuant to such agreements is approximately $19 million.

We believe our existing cash, cash equivalents and short-term investments and operating cash flows, will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. An increase in the number of significant acquisitions or investments to be funded with cash may require us to raise additional funds through public or private financing, strategic relationships or other arrangements. This additional funding, if needed, might not be available on terms attractive to us, or at all. Failure to raise capital when needed could materially harm our business. If we raise additional funds through the issuance of equity securities, the percentage of our stock owned by our then-current stockholders will be reduced. Furthermore, these equity securities might have rights, preferences or privileges senior to those of our common stock.

Our Illuminet Holdings subsidiary entered into an agreement with Bank of America effective June 1, 2000 to provide a capital expenditure loan facility. The capital expenditure loan facility is a $15 million unsecured loan with a five-year term. As of September 30, 2002, $800,000 was outstanding under this capital expenditure loan facility.

In October 2001, we filed a shelf registration statement with the Securities and Exchange Commission to offer an indeterminate number of shares of common stock that may be issued at various times and at indeterminate prices, with a total public offering price not to exceed $750 million. To date, no shares have been issued under this registration statement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate sensitivity

The primary objective of VeriSign's investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we have invested in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline in value. If market interest rates were to increase immediately and uniformly by 10 percent from levels at September 30, 2002, this would not materially change the fair market value of our portfolio. To minimize this risk, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, medium-term notes, corporate bonds and notes, market auction securities, U.S. government and agency securities and money market funds. In general, money market funds are not subject to interest rate risk because the interest paid on such funds fluctuates with the prevailing interest rate. In addition, we generally invest in relatively short-term securities. As of September 30, 2002, 75% of our non-strategic investments mature in less than one year.

The following table presents the amounts of our cash equivalents and investments that are subject to market risk by range of expected maturity and weighted-average interest rates as of September 30, 2002. This table does not include money market funds because those funds are not subject to market risk.

	Maturing in				
	Six Months or Less	Six Months to One Year	More than One Year	Total	Estimated Fair Value
	(Dollars in thousands)				
Included in cash and cash equivalents	$ 68,650	$ —	$ —	$68,650	$ 68,652
Weighted-average interest rate	1.93%	—	—		
Included in short-term investments	$ 28,278	$ 13,840	$ 36,678	$78,796	$ 79,366
Weighted-average interest rate	4.30%	3.48%	3.87%		

Exchange rate risk

We consider our exposure to foreign currency exchange rate fluctuations to be minimal. All revenues derived from operations other than our operations in Japan, South Africa, Europe and the United Kingdom are denominated in United States dollars and, therefore, are not subject to exchange rate fluctuations.

Both the revenues and expenses of our majority-owned subsidiaries in Japan and Australia, as well as our wholly owned subsidiaries and sales offices in South Africa, Europe, Hong Kong, and Canada are denominated in local currencies. In these regions, we believe this serves as a natural economic hedge against exchange rate fluctuations because although an unfavorable change in the exchange rate of the foreign currency against the United States dollar will result in lower revenues when translated to United States Dollars, operating expenses will also be lower in these circumstances. Because of our minimal exposure to foreign currencies, we have not engaged in any hedging activities, although if future events or changes in circumstances indicate that hedging activities would be beneficial, we may consider such activities.

Equity price risk

We own shares of common stock of several public companies. We value these investments using the closing market value for the last day of each month. These investments are subject to market price volatility. We reflect these investments on our balance sheet at their market value, with the unrealized gains and losses excluded from earnings and reported in the "Accumulated other comprehensive income" component of stockholders' equity except in instances where we have concluded that an other than temporary decline has occurred. We have also invested in equity instruments of several privately held companies, many of which can still be considered in the startup or development stages, and therefore, carry a high level of risk. Due to the inherent risk associated with some of our investments, and in light of current stock market conditions, we may incur future losses on the sales, write-downs or write-offs of our investments. We do not currently hedge against equity price changes.

ITEM 4. EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. Our chief executive officer and our chief financial officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15-d-14(c)) as of a date (the "Evaluation Date") within 90 days before the filing date of this quarterly report, have concluded that as of the Evaluation Date, our disclosure controls and procedures were adequate and designed to ensure that material information relating to us and our consolidated subsidiaries would be made known to them by others within those entities.

(b) Changes in internal controls. There were no significant changes in our internal controls or to our knowledge, in other factors that could significantly affect our disclosure controls and procedures subsequent to the Evaluation Date.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of September 30, 2002, VeriSign and its subsidiary Network Solutions, Inc., were defendants in approximately 16 active lawsuits involving customer contractual disputes over domain name registrations and related services. These matters, either alone or collectively, are not expected to have a material impact on our domain name registration business or our financial statements.

On February 2, 2001, Leon Stambler filed a complaint against VeriSign in the United States District Court for the District of Delaware, and on September 24, 2001, Mr. Stambler amended his complaint. Mr. Stambler alleges that VeriSign, RSA Security, Inc., and First Data Corporation have infringed various claims of his patents, U.S. Patent Nos. 5,793,302, 5,974,148 and 5,936,541. Mr. Stambler has recently settled the case against two other defendants: Openwave Systems Inc., and Certicom Corp. Mr. Stambler seeks a judgment declaring that the defendants have infringed the asserted claims of the patents-in-suit, an injunction, damages for the alleged infringement, treble damages for any willful infringement, and attorney fees and costs. Following the close of discovery, the parties exchanged expert reports. Summary judgment motions and claim construction briefs have recently been filed. The trial is scheduled for February, 2003. While we cannot predict the outcome of this matter, we believe that the allegations are without merit.

On September 7, 2001, NetMoneyIN, an Arizona corporation, filed a complaint alleging patent infringement against us in the United States District Court for the District of Arizona. NetMoneyIN named thirty-three other defendants, including Mellon Financial Corporation, Bankcard Center Inc., FMT Corp., American Express Financial Advisors, Inc., Bank One Corp., Citibank, N.A. and Wells Fargo & Co. NetMoneyIN filed a second amended complaint on October 15, 2002, and motions to dismiss are likely to follow. The complaint alleges that part of VeriSign’s credit card approval process for purchases made on the Internet infringe certain claims of NetMoneyIN’s patents, U.S. Patent Nos. 5,822,737 and 5,963,917. The complaint requests the Court to enter judgment in favor of NetMoneyIN, a permanent injunction against the defendants from infringing the asserted claims, an order requiring the defendants to provide an accounting for NetMoneyIN’s damages, to pay NetMoneyIN such damages and three times that amount, and an order awarding NetMoneyIN attorney fees and costs. While we cannot predict the outcome of this matter, we believe 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 is expected to be filed by November 8, 2002. 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. VeriSign and the other Santa Clara County defendants demurred to these claims on October 9, 2002. 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 moved to dismiss these claims on November 4, 2002. VeriSign and the individual defendants dispute all of these claims, and intend to vigorously defend themselves against the allegations outlined herein.

We were a defendant in eleven lawsuits filed since April 2, 2002, related to a direct mail offer sent by our Internet domain name registrar to registrant-customers of other domain name registrars. Seven of these lawsuits were brought by or on behalf of domain name registrants. The remaining four were brought by or on behalf of domain name registrars or domain name registration intermediaries. Two of these registrar actions have been settled and dismissed, *BulkRegister, Inc. v. VeriSign, Inc.* and *Go Daddy Software, Inc. v. VeriSign, Inc.* While none of these cases, taken separately, is material, the collective effect could become material and or affect our domain name registration business.

On July 31, 2002, the company received a Civil Investigative Demand (CID) from the U.S. Federal Trade Commission (FTC) for information to determine whether or not the company's domain name registration business may have violated Section 5 of the FTC Act. More specifically, the CID requests information on the company's registrar's relationship with Interland, Inc., the registrar's direct mail offer which began in April 2002, the registrar's transfer practices, and the deletion of domain names.

We are involved in various other investigations, claims and lawsuits arising in the normal conduct of our business, none of which, in our opinion will harm our business. We cannot assure that we will prevail in any litigation. Regardless of the outcome, any litigation may require us to incur significant litigation expense and may result in significant diversion of management attention.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Index to Exhibits

Exhibit Number	Exhibit Description	Filed Herewith
99.1	Certification of President/CEO/Chairman of the Board, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X
99.2	Certification of Executive VP of Finance and Administration/CFO, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X

(b) Reports on Form 8-K

- Current Report on Form 8-K filed September 30, 2002 pursuant to Item 5 (Other Events), announcing the adoption VeriSign's Stockholder Rights Plan.

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: November 13, 2002	By:	/s/ STRATTON D. SCLAVOS
		Stratton D. Sclavos President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)
Date: November 13, 2002	By:	/s/ DANA L. EVAN
		Dana L. Evan Executive Vice President of Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)

Table of Contents

CERTIFICATIONS

I, Stratton D. Sclavos, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VeriSign, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 13, 2002

By: /s/ STRATTON D. SCLAVOS

Stratton D. Sclavos
President, Chief Executive Officer and
Chairman of the Board

I, Dana L. Evan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VeriSign, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 13, 2002

By: /s/ DANA L. EVAN

Dana L. Evan
Executive Vice President of Finance and
Administration and Chief Financial Officer

Table of Contents

EXHIBITS

As required under Item 6—Exhibits and Reports on Form 8-K, the exhibits filed as part of this report are provided in this separate section. The exhibits included in this section is as follows:

Exhibit Number	Exhibit Description
99.1	Certification of President/CEO/Chairman of the Board, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Executive VP of Finance and Administration/CFO, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of VeriSign, Inc. (the "Company") for the quarterly period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stratton D. Sclavos, President, Chief Executive Officer and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

VERISIGN, INC.

Date: November 13, 2002

By: /s/ STRATTON D. SCLAVOS

Stratton D. Sclavos
President, Chief Executive Officer
and Chairman of the Board
(Principal Executive Officer)

EXHIBIT 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of VeriSign, Inc. (the "Company") for the quarterly period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dana L. Evan, Executive Vice President of Finance and Administration and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

VERISIGN, INC.

Date: November 13, 2002

By: /s/ DANA L. EVAN

Dana L. Evan
Executive Vice President of
Finance and Administration
and Chief Financial Officer
(Principal Financial and Accounting Officer)