UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from ________________ to ________________

Commission File Number: 000-23593

VERISIGN, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-3221585 (I.R.S. Employer Identification No.)
487 East Middlefield Road, Mountain View, CA (Address of principal executive offices)	94043 (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 [X] 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 July 31, 2001
Common stock, $.001 par value	202,871,146

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PART I--FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

Financial Statement Description	Page
.Condensed Consolidated Balance Sheets as of June 30, 2001 and December 31, 2000	4
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VERISIGN, INC. AND SUBSIDIARIES

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

	June 30, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 450,014	$ 460,362
Short-term investments	348,160	565,913
Accounts receivable, net	189,622	128,011
Prepaid expenses and other current assets	29,065	32,146
Total current assets	1,016,861	1,186,432
Property and equipment, net	133,073	105,602
Goodwill and other intangible assets, net	5,067,158	17,656,641
Long-term investments	458,123	209,145
Deferred income taxes	63,429	--
Other assets, net	30,104	37,402
	$ 6,768,748	$19,195,222
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 222,655	$ 212,766
Deferred revenue	435,252	452,713
Total current liabilities	657,907	665,479
Long-term deferred revenue	134,750	55,575
Other long-term liabilities	3,637	3,560
Total long-term liabilities	138,387	59,135
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: 202,649,457 and 198,639,497 excluding 40,000 shares held in treasury	203	199
Additional paid-in capital	21,734,677	21,670,647
Notes receivable from stockholders	(252)	(245)
Unearned compensation	(34,286)	(36,365)
Accumulated deficit	(15,731,033)	(3,162,926)
Accumulated other comprehensive income (loss)	3,145	(702)
Total stockholders' equity	5,972,454	18,470,608
	$ 6,768,748	$19,195,222

See accompanying Notes to Condensed Consolidated Financial Statements

VERISIGN, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Revenues	$ 231,197	$ 70,254	$ 444,610	$ 104,325
Costs and expenses:				
Cost of revenues	80,308	22,570	154,648	35,032
Sales and marketing	65,337	28,885	129,788	42,518
Research and development	20,659	7,114	40,546	11,543
General and administrative	34,842	8,154	66,008	11,836
Write-off of acquired in-process research and development	--	54,000	--	54,000
Amortization and write-down of goodwill and other intangible assets	11,269,036	409,216	12,643,805	470,230
Total costs and expenses	11,470,182	529,939	13,034,795	625,159
Operating loss	(11,238,985)	(459,685)	(12,590,185)	(520,834)
Other income:				
Interest and investment income (loss)	19,165	6,871	(34,035)	42,107
Other income (expense), net	(14)	(67)	23	(456)
Total other income (expense)	19,151	6,804	(34,012)	41,651
Loss before income taxes and minority interest	(11,219,834)	(452,881)	(12,624,197)	(479,183)
Income tax benefit	29,413	--	56,609	--
Loss before minority interest	(11,190,421)	(452,881)	(12,567,588)	(479,183)
Minority interest in net (income) loss of subsidiary	(309)	(57)	(519)	90
Net loss	$ (11,190,730)	$ (452,938)	$ (12,568,107)	$ (479,093)
Net loss per share:				
Basic and diluted	$ (55.49)	$ (3.37)	$ (62.65)	$ (3.94)
Shares used in per share computation:				
Basic and diluted	201,675	134,437	200,624	121,586

See accompanying Notes to Condensed Consolidated Financial Statements

VERISIGN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Cash flows from operating activities:		
Net loss	$(12,568,107)	$ (479,093)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	24,488	7,905
Amortization and write-down of goodwill and other intangible assets	12,643,805	470,230
Write-off of acquired in-process research and development	--	54,000
Gain on sale of marketable securities	(2,114)	(32,623)
Write-down of investments	74,690	--
Minority interest in net income of subsidiary	519	(90)
Deferred income taxes	(56,609)	--
Amortization of unearned compensation	7,520	51
Loss on disposal of property and equipment	--	77
Changes in operating assets and liabilities:		
Accounts receivable	(60,206)	(14,023)
Prepaid expenses and other current assets	3,534	963
Accounts payable and accrued liabilities	9,757	32,872
Deferred revenue	38,269	26,788
Net cash provided by operating activities	115,546	67,057
Cash flows from investing activities:		
Purchases of short-term investments	(596,745)	(18,186)
Proceeds from maturities and sales of short-term investments	810,482	82,446
Purchases of long-term investments	(374,099)	(80,456)
Proceeds from maturities and sales of long-term investments	42,774	52,184
Purchases of property and equipment	(45,677)	(17,246)
Net cash (paid) acquired in business combinations	(12,210)	852,412
Transaction costs	(10,890)	(11,580)
Other assets	786	615
Net cash (used in) provided by investing activities	(185,579)	860,189
Cash flows from financing activities: (Issuance) collections on notes receivable from stockholders, net	(7)	511
Net proceeds from issuance of common stock	61,063	15,211
Net cash provided by financing activities	61,056	15,722
Effect of exchange rate changes on cash	(1,371)	177
Net (decrease) increase in cash and cash equivalents	(10,348)	943,145
Cash and cash equivalents at beginning of period	460,362	70,382
Cash and cash equivalents at end of period	$ 450,014	$ 1,013,527
Supplemental cash flow disclosures:		
Noncash investing and financing activities:		
Issuance of common stock for business combinations	$ --	$19,330,837
Unrealized gain on investments, net of tax	$ 5,218	$ 7,750

See accompanying Notes to Condensed Consolidated Financial Statements

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 June 30, 2001, and the results of operations and cash flows for the interim periods ended June 30, 2001 and 2000.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with the instructions for Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, therefore, do not include all information and notes normally provided in audited financial statements and should be read in conjunction with the financial statements of the Company for the year ended December 31, 2000, 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 approximate their respective fair values.

Note 2. Goodwill and Other Intangible Assets

During 2000, the Company completed several acquisitions, including the acquisitions of THAWTE Consulting (Pty) Limited ("THAWTE"), Signio, Inc. ("Signio") and Network Solutions, Inc. ("Network Solutions"). These acquisitions resulted in the recording of goodwill of approximately $21.3 billion. VeriSign reviews its goodwill and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The Company's policy is to assess the recoverability of goodwill using estimated undiscounted cash flows. Those cash flows include an estimated terminal value based on a hypothetical sale of an acquisition at the end of the related goodwill amortization period. Though the acquisitions have predominantly been performing at or above expectations, market conditions and attendant multiples used to estimate terminal values have continued to remain depressed. At June 30, 2000, the NASDAQ market index was at 3,966 points and has decreased 1,805 points, or 46%, to 2,161 points at June 30, 2001. This decline has affected the analysis used to assess the recoverability of goodwill. As a result, management has recorded an impairment charge in the quarter ended June 30, 2001, in the amount of $9.9 billion. Since these acquisitions were completed by issuing shares of the Company's common stock, the impairment should be considered a non-cash charge. At June 30, 2001, VeriSign had a remaining balance of $5.1 billion of goodwill and other intangible assets.

The impairment of goodwill and other intangible assets resulted in a write-off of the net book value as follows:

	THAWTE	Signio	Network Solutions	Other	Total
			(In thousands)		
Goodwill	$100,451	$447,442	$9,228,263	$63,064	$9,839,220
Trade names	--	2,501	49,535	--	52,036
	$100,451	$449,943	$9,277,798	$63,064	$9,891,256

Note 3. Long-term Investments

VeriSign invests in debt and equity securities of technology companies for business and strategic purposes. These investments are included in long-term investments. Investments in non-public companies are accounted for under the cost method. For these non-quoted investments, VeriSign regularly reviews the operating performance and cash flow forecasts in assessing each investment's carrying value. Investments in public companies are recorded at fair market value with the associated unrealized gain or loss included in accumulated other comprehensive income. VeriSign identifies and records impairment losses on its investments when circumstances indicate that a decline in the fair value of an investment is other than temporary. During the first quarter of 2001, the Company determined that the decline in value of certain of the Company's public and non-public equity investments was other than temporary and recorded a write-down of these investments totaling $74.7 million.

Note 4. Comprehensive Loss

Comprehensive loss consists of net loss and accumulated other comprehensive income (loss). The components of comprehensive loss are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	(In thousands)			
Net loss	$(11,190,730)	$(452,938)	$(12,568,107)	$(479,093)
Change in unrealized gain (loss) on investments, net of tax	357	(38,130)	5,218	(46,291)
Translation adjustments	239	87	(1,371)	177
Comprehensive loss	$(11,190,134)	$(490,981)	$(12,564,260)	$(525,207)

Note 5. Calculation of Net Loss per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed using the weighted-average number of common shares and, when dilutive, common equivalent shares from options to purchase common stock using the treasury stock method. In the periods where the Company has a net loss, net loss per share on a diluted basis is equivalent to basic net loss per share because the effect of converting outstanding stock options would be anti-dilutive. In addition, options to purchase shares of common stock were not included in the computation of diluted earnings per share in periods where the options exercise price was greater than the average market price of the common shares and therefore, the effect would be anti-dilutive. At June 30, 2001, options to purchase 28,567,148 shares of common stock were outstanding and at June 30, 2000, options to purchase 27,206,356 shares of common stock were outstanding.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	(In thousands, except per share data)			
Basic and diluted net loss per share:				
Net loss................	$(11,190,730)	$(452,938)	$(12,568,107)	$(479,093)
Determination of basic and diluted shares:				
Weighted average shares outstanding............	201,675	134,469	200,624	121,811
Weighted average shares issued and subject to repurchase agreements..	--	(32)	--	(225)
Basic and diluted average common shares outstanding..............	201,675	134,437	200,624	121,586
Basic and diluted net loss per share................	$ (55.49)	$ (3.37)	$ (62.65)	$ (3.94)

Note 6. Segment Information

Description of segments

Effective January 1, 2001, VeriSign organized its business into two reportable operating segments, the Mass Markets Division and the Enterprise and Service Provider Division. The segments were determined based primarily on how the Chief Operating Decision Maker views and evaluates VeriSign's operations. The Chief Executive Officer has been identified as the Chief Operating Decision Maker as defined by Statement of Financial Accounting Standards ("SFAS") No. 131. 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 similar products and services to larger enterprises and service providers who want to establish and deliver secure Internet-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, in part, by the Chief Operating Decision Maker and by management, in evaluating the performance of, and in allocating resources to, each of the segments. Internal revenues and 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. Prior to the acquisition of Network Solutions in June of 2000, all of VeriSign's revenues and expenses were included in the Enterprise and Service Provider Division, therefore information for the three-month period and six-month period ended June 30, 2000, is not relevant.

	Mass Markets Division	Enterprise and Service Provider Division	Other	Total Segments
	(In thousands)			
Three months ended June 30, 2001:				
External revenues..............	$145,845	$ 85,352	$ --	$231,197
Internal revenues..............	--	34,985	--	34,985
Total revenues...............	$145,845	$120,337	$ --	$266,182
Segment gross margin...........	$102,606	$ 50,129	$(1,846)	$150,889
Six months ended June 30, 2001:				
External revenues..............	$282,522	$162,088	$ --	$444,610
Internal revenues..............	--	67,573	--	67,573
Total revenues...............	$282,522	$229,661	$ --	$512,183
Segment gross margin...........	$198,605	$97,310	$(5,953)	$289,962

Assets are not tracked by segment and the Chief Operating Decision Maker does not evaluate segment performance based on asset utilization.

Reconciliation to VeriSign, as reported

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
	(In thousands)			
Revenues:				
Total segments...................	$ 266,182	$ 76,466	$ 512,183	$ 110,537
Elimination of internal revenues.......................	(34,985)	(6,212)	(67,573)	(6,212)
Revenues, as reported..........	$ 231,197	$ 70,254	444,610	104,325
Net loss:				
Segment gross margin.............	$ 150,889	$ 47,684	$ 289,962	$ 69,293
Operating expenses...............	11,389,874	507,369	12,880,147	590,127
Operating loss...................	(11,238,985)	(459,685)	(12,590,185)	(520,834)
Other income (loss)..............	19,151	6,804	(34,012)	41,651
Income tax benefit...............	29,413	--	56,609	--
Minority interest in net (income) loss of subsidiary.............	(309)	(57)	(519)	90
Net loss, as reported..........	$(11,190,730)	$(452,938)	$(12,568,107)	$(479,093)

Geographic information

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	(In thousands)			
Revenues:				
United States	$200,363	$55,356	$390,776	$ 78,927
All other countries	30,834	14,898	53,834	25,398
Total	$231,197	$70,254	$444,610	$104,325

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

	As of June 30,	
	2001	2000
	(In thousands)	
Long-lived assets:		
United States	$5,434,976	$19,760,873
All other countries	253,482	561,953
Total	$5,688,458	$20,322,826

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

Note 7. Income Taxes

Through the six months ended June 30, 2001, we have recorded a $56.6 million tax benefit for the pretax loss not attributable to the amortization of goodwill and other acquired intangible assets that are not deductible for tax purposes.

As of June 30, 2001, we had federal net operating loss carryforwards of approximately $416.8 million related to stock compensation expense and $358.8 million related to continuing operations. We also had state net operating loss carryforwards of approximately $236.3 million related to stock compensation expense and $200.4 million related to continuing operations. The federal net operating loss carryforwards will expire in 2010 through 2020 and the state net operating loss carryforwards will expire in 2004 through 2020. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of a corporation's ownership change, as defined in the Internal Revenue Code. Our ability to utilize net operating loss carryforwards may be limited if such ownership change occurs.

Our accounting for deferred taxes under Statement of Financial Accounting Standards 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 was required, we considered such factors as our history of operating losses and expected future losses 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 credit to additional paid in capital and will not result in future income statement benefit.

Note 8. Commitments and Contingencies

Legal Proceedings

The Department of Justice ("DOJ") Antitrust Division issued a Civil Investigative Demand ("CID") in January 2000, seeking information and documents concerning the then pending acquisition by VeriSign of THAWTE. VeriSign has complied with the information requests of the CID, and has provided additional information to the DOJ to alleviate their concerns about the potential competitive effects of the transaction. While management believes that the transaction does not violate the antitrust laws, it is possible that the DOJ may ultimately raise an objection. Formal objection could lead to further proceedings or litigation that could have an adverse material effect on VeriSign, and could include the licensing or divestiture of assets acquired in the transaction.

VeriSign is engaged in other 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 9. Recent Accounting Pronouncements

On July 20, 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations" and Statement No. 142, "Goodwill and Other Intangible Assets."

Statement 141 requires that all business combinations be accounted for under the purchase method. Use of the pooling-of-interests method is no longer permitted. Statement 141 requires that the purchase method be used for business combinations initiated after June 30, 2001. The Company will adopt the provisions of Statement 141 commencing July 1, 2001. To date, the Company has accounted for all of its business combinations as purchases and the adoption of Statement 141 is not expected to have a significant impact on the Company's financial position or results of operations.

Statement 142 requires that goodwill resulting from a business combination no longer be amortized to earnings, but instead be reviewed for impairment. The Company is required to adopt Statement No. 142 as of January 1, 2002. For goodwill resulting from business combinations prior to July 1, 2001, amortization of such goodwill will continue through December 31, 2001, but will cease commencing January 1, 2002. For business combinations occurring on or after July 1, 2001, the associated goodwill will not be amortized. Upon adoption of Statement 142, the Company is required to perform a transitional impairment test for all recorded goodwill within six months and, if necessary, determine the amount of an impairment loss by December 31, 2002. The effects of adopting Statement 142 are currently being determined.

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 or will file in 2001 and our Annual Report on Form 10-K for the period ended December 31, 2000, which was filed on March 28, 2001. 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 trusted infrastructure services to website owners, enterprises, electronic commerce service providers and individuals. Our domain name registration, digital certificate, global registry and payment services provide the critical web identity, authentication and transaction infrastructure that online businesses need to establish their web identities and to conduct secure e-commerce and communications. Our services support businesses and consumers from the moment they first establish an Internet presence through the entire lifecycle of e-commerce activities.

Our core authentication service offerings were established as the cornerstone of the business in 1995 with the introduction of website digital certificates. Through our secure online infrastructure we sell our website digital certificates to online businesses, large enterprises, government agencies and other organizations. We have established strategic relationships with industry leaders, including British Telecommunications plc, Cisco, Microsoft, RSA Security and VISA, to enable widespread utilization of our digital certificate services and to assure interoperability with a wide variety of applications and network equipment. We also offer VeriSign OnSite, a managed service that allows an organization to leverage our trusted data processing infrastructure to develop and deploy customized digital certificate services for use by employees, customers and business partners.

We market our authentication services worldwide through multiple distribution channels, including the Internet, direct sales, telesales, value added resellers, systems integrators and member organizations in our international network of affiliates. A significant portion of our authentication services revenues to date have been generated through sales from our website, but we intend to continue to expand our direct sales force, both in the United States and abroad, and to continue to expand our other distribution channels. We continue to build an international network of affiliates ("VeriSign Trust Network") who provide our trust services under licensed co-branding relationships using our proprietary technology and business practices. The VeriSign Trust Network now consists of 38 member organizations including British Telecommunications plc in the United Kingdom, Canadian Imperial Bank of Commerce of Canada, Certplus of France, eSign of Australia, HiTrust of Taiwan, Roccade of The Netherlands, and Telia in Sweden. These international service providers utilize common technology, operating practices and infrastructure to deliver interoperable trust services for a specific geographic region or vertical market.

We market our payment services worldwide through multiple distribution channels, including the Internet, direct sales, telesales, value added resellers, and systems integrators. A significant portion of our payment services revenues to date has been generated through sales from our website, but we intend to continue to expand our direct sales force, both in the United States and abroad, and to continue to expand our other distribution channels.

Our registry business, now VeriSign Global Registry Service ("Registry"), is the exclusive registry for second level domain names within the .com, .net and .org top-level domains under agreements with the Internet Corporation for Assigned Names and Numbers ("ICANN") and the Department of Commerce ("DOC"). Internet domain names are unique identities that enable businesses, other organizations and individuals to communicate and conduct commerce on the Internet. As a registry, VeriSign Global Registry Service maintains the master directory of all second level domain names in the .com, .net and .org top-level domains. VeriSign Global Registry Service owns and maintains the shared registration system that allows all registrars, including our own, 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. As of June 30, 2001, the VeriSign Global Registry Service had approximately 32.4 million domain names under management in its authoritative database of domain names ending in .com, .net and .org.

Our Web Presence Services business markets second level domain name registration services, through our registrar ("Registrar"), and other value-added services that enable our customers to establish their identities on the web. The Registrar markets its services through a number of distribution channels, including the Internet, premier partner and business account partner programs, and strategic alliances. As of June 30, 2001, the Registrar had approximately 16.0 million domain names under management in the .com, .net and .org top-level domains.

In December 1992, Network Solutions entered into the Cooperative Agreement with the National Science Foundation under which Network Solutions was to provide Internet domain name registration services for five top-level domains: .com, .net, .org, .edu and .gov. These registration services include the initial two-year domain name registration and annual re-registration, and throughout the registration term, maintenance of and unlimited modifications to individual domain name records and updates to the master file of domain names. In September 1998, the DOC took over the administration of the Cooperative Agreement from the National Science Foundation. In October 1998, the Cooperative Agreement was amended to extend its term until September 30, 2000, and to transition to a shared registration system.

On November 10, 1999, Network Solutions, the DOC and ICANN entered into a series of wide-ranging agreements relating to the domain name system. Under these agreements, Network Solutions recognized ICANN as the not-for-profit corporation described in the Cooperative Agreement as amended, became an ICANN-accredited registrar and agreed to operate the registry in accordance with the provisions of the registry agreement and the consensus policies established by ICANN in accordance with the terms of that agreement. Our Registrar will be an accredited registrar through November 9, 2004, with a right to renew indefinitely in accordance with the Cooperative Agreement. Our Registry charges registrars $6 per domain name registration per year unless increased to cover increases in registry costs under circumstances described in the Cooperative Agreement.

In May 2001, the DOC approved agreements between the Company and ICANN and certain amendments to the Cooperative Agreement with the DOC that outline new terms for the continuation of our role as both the registry and a registrar for the .com, .net and .org top-level domains ("TLDs"). Under the terms of the new agreements, we will continue to operate the .com registry until at least 2007 and the .net registry until at least June 30, 2005; we will continue to operate both registries beyond these dates under certain conditions as set forth in the agreements. The Company's continued operation of the .net registry through June 30, 2005, is subject to adjustment if certain market measurements indicate that competition in the registry or registrar market is not growing or meeting established goals. Depending on whether the share of registered names in the .biz, .info, .name, and .pro TLDs reaches certain specified levels as of December 31, 2002, and whether the Registrar's share of the net increase in new registered names in .com and .net during the year 2002 exceeds certain specified levels, the expiration date for the .net registry may be adjusted to November 10, 2003, or the expiration date may remain unchanged but a subsequent measurement may be required on March 31, 2004. If an additional measurement is required to be made on March 31, 2004, the expiration date for the .net registry may be adjusted to January 1, 2005, or may remain unchanged depending on whether the market measurements specified in the .net registry agreement are met. Additional terms of the agreements allow us to continue to operate our registrar business under the .com, .net and .org top-level domains. The existing structural separation between our registry and registrar businesses will remain in effect throughout the 2007 term with the Company agreeing to an independent audit of our registry/registrar structural separation annually. We will continue to operate the .org registry through December 2002 at which point that registry will return to its status for use by non-profit organizations around the world. We have further agreed to ensure an orderly transition of the .org registry and contribute a nominal endowment toward a new non-profit organization that will operate the .org registry.

Results of Operations

We have experienced substantial net losses in the past and we expect to continue to report losses due to the charges we incur for the amortization of acquired goodwill and other intangible assets related to our acquisitions. As of June 30, 2001, we had an accumulated deficit of approximately $15.7 billion, primarily due to the amortization and write-down of goodwill and other intangible assets related to our acquisitions of approximately $15.8 billion.

Revenues

The Company recognizes revenue on software arrangements in accordance with SOP 97-2, "Software Revenue Recognition," as modified by SOP 98-9. SOP 97-2, as modified, generally requires revenue earned on software arrangements involving multiple elements such as software products, upgrades, enhancements, post contract customer support ("PCS"), installation, training, etc. to be allocated to each element based on the relative fair values of the elements. The fair value of an element must be based on evidence that is specific to the vendor. If evidence of fair value does not exist for all elements of a license agreement and PCS is the only undelivered element, then all revenue for the license arrangement is recognized ratably over the term of the agreement. If evidence of fair value of all undelivered elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred, and the remaining portion of the arrangement fee is recognized as revenue.

Revenues from authentication services consist of fees for the issuance of digital certificates, fees for digital certificate service provisioning, fees for technology and business process licensing to affiliates and fees for consulting, implementation, training, support and maintenance services. Each of these sources of revenue has different revenue recognition methods. 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 months.

Revenues from the licensing of digital certificate technology and business process technology are sold in arrangements involving multiple elements including PCS, training and other services. PCS can be renewed annually for an additional fee. The Company uses the PCS renewal rate as evidence of fair value of PCS. The Company establishes evidence of fair value for training and other services through the price charged when the same element is sold separately. Since the Company has established evidence of fair value for all undelivered elements of these arrangements, revenue is recognized under the residual method. The fair value of PCS is recognized over the PCS term, training and other service revenue is recognized when delivered and the remaining portion of the arrangement fee is recognized after the execution of a license agreement and the delivery of these products to the customer, provided that there are no uncertainties surrounding the product acceptance, fees are fixed and determinable, collectibility is probable, and the Company has no remaining obligations other than the delivery of PCS.

Revenues from consulting and training 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.

Revenues from payment services primarily consist of a set-up fee and a monthly service fee for the transaction processing services. In accordance with the SEC Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," revenues from the set-up fee 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.

On occasion, the Company has purchased goods or services for the Company's operations from vendors at or about the same time that the Company has licensed its software to these organizations. These transactions are separately negotiated and recorded at terms the Company considers to be arm's length.

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, ranging one to ten years. Domain name registration revenues consist primarily of registration fees charged to customers and registrars for domain name registration services. We defer revenues from the sale or renewal of domain name registration services and recognize these revenues ratably over the registration term.

We accounted for all of our acquisitions in 2000 as purchase business combinations. Accordingly, the acquired companies' revenues have been included in our results of operations beginning with their dates of acquisition. As a result of our acquisitions of THAWTE and Signio in February 2000, and Network Solutions in June 2000, comparisons of revenues for the three-month periods and six-month periods ended June 30, 2001 and 2000 may not be relevant, as the businesses of the combined company were not equivalent. The year-ago results reflect approximately four months of activity from THAWTE and Signio, and only 22 days of activity from Network Solutions, which was acquired June 8, 2000. See our annual report filed on Form 10-K for the period ended December 31, 2000.

A comparison of revenues for the three-month periods and six-month periods ended June 30, 2001 and 2000 is presented below.

	2001	2000	Change
	(Dollars in thousands)		
Three-month period:			
Revenues	$231,197	$ 70,254	229%
Six-month period:			
Revenues	$444,610	$104,325	326%

Revenues increased significantly from the prior year primarily due to the acquisition of Network Solutions in June 2000. In addition, we increased sales of our authentication services, particularly our website digital certificates, and VeriSign OnSite services, expanded our international network of affiliates and delivered more training and consulting services.

In the second quarter of 2001, VeriSign issued approximately 95,000 new and renewed certificates compared to 64,000 new and renewed certificates issued in the second quarter of 2000, an increase of over 48%. During the first six months of 2001 the VeriSign website digital certificate business issued approximately 185,000 new and renewed certificates, bringing the total installed base to over 327,000 certificates. In particular, the Mass Market website certificate base grew to 238,000 up 28,000 from year-end 2000. VeriSign also added three new service providers in the first six months of 2001 bringing the total member organizations in our international network of affiliates to 38, up from 28 at June 30, 2000.

A small portion of our revenue mix is from payment transaction services through VeriSign Payment Services. At June 30, 2001, the customer base for these services had grown to more than 52,000 online merchants using VeriSign Payment Services to payment-enable their online stores and business-to-business commerce activities. VeriSign Payment Services acquired approximately 27,000 customers resulting from an acquisition in the second quarter of 2001. On a standalone basis, the Payment Services business added approximately 17,500 customers since June 30, 2000, representing an increase of 236%, and added approximately 9,900 in the first six months of 2001, representing an increase of 66% since year-end 2000.

During the first six months of 2001 the Registrar increased domain names under management by approximately 1.0 million bringing the total domain names under management to approximately 16.0 million domain names at June 30, 2001, up from 11.8 million at June 30, 2000.

VeriSign Global Registry Service added 2.8 million net new domain names during the second quarter of 2001, bringing total domain names under management to 32.4 million, an increase of 68%, over 19.3 million names at June 30, 2000, and an increase of 15% since year-end 2000. VeriSign Global Registry Service also processed the renewal, extension or transfer of an additional 3.0 million domain names during the second quarter of 2001, bringing the total number of paid domain name transactions during the quarter to 5.8 million and 11.6 million in the first six months of 2001.

Revenues from international subsidiaries and affiliates accounted for 13% of revenues in the second quarter of 2001 and 12% of revenues in the first six months of 2001 compared to 21% of revenues in the second quarter of 2000 and 24% of revenues in the first six months of 2000. The percentage decrease in revenues from international subsidiaries and affiliates in 2001 was primarily related to the acquisition of Network Solutions whose revenue is attributable to the United States.

Costs and Expenses

All of our acquisitions in 2000 were accounted for as purchase business combinations and accordingly, the acquired companies' costs and expenses have been included in our results of operations beginning with their dates of acquisition. Therefore, comparisons of costs and expenses for the three-month periods and six-month periods ended June 30, 2001 and 2000 may not be relevant, as the businesses of the combined company were not equivalent.

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, 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, cost of revenues also includes fees paid to third parties to verify certificate applicants' identities, insurance premiums for our service warranty plan and errors and omission insurance and the cost of software resold to customers.

A comparison of cost of revenues for the three-month periods and six-month periods ended June 30, 2001 and 2000 is presented below.

	2001	2000	Change
	(Dollars in thousands)		
Three-month period:			
Cost of revenues	$ 80,308	$22,570	256%
Percentage of revenues	35%	32%	
Six-month period:			
Cost of revenues	$154,648	$35,032	341%
Percentage of revenues	35%	34%	

Growth of revenues was the primary factor in the increase of cost of revenues during the three and six-month periods ended June 30, 2001, from the prior year. We hired more employees to support the growth of demand for our products and services and to support the growth of our security consulting and training activities. We incurred increased expenses for access to third-party databases, higher support charges for our external disaster recovery program, increased customer service costs related to our larger customer base and increased expenses related to the cost of software products resold to customers as part of network security solution implementations. Our acquisitions of THAWTE, Signio and Network Solutions have resulted in an increase in our cost of revenues since their acquisitions in 2000. Future acquisitions, further expansion into international markets and introductions of additional products will result in further increases in cost of revenues, due to additional personnel and related expenses and other factors. We anticipate that cost of revenues will continue to increase in absolute dollars as a result of continued growth in all of our lines of business.

Cost of revenues as a percentage of revenues increased in both the second quarter and the first six months of 2001 primarily due to the cost structures of Network Solutions' product mix.

Certain of our services, such as implementation consulting and training, require greater initial personnel involvement and therefore have higher costs than other types of services. As a result, we anticipate that cost of revenues as a percentage of revenues will vary in future periods depending on the mix of services sold.

Sales and marketing

Sales and marketing expenses consist primarily of costs related to sales, marketing, and external affair activities. These expenses include salaries, sales commissions and other personnel-related expenses, travel and related expenses, 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 six-month periods ended June 30, 2001 and 2000 is presented below.

	2001	2000	Change
	(Dollars in thousands)		
Three-month period:			
Sales and marketing	$ 65,337	$28,885	126%
Percentage of revenues	28%	41%	
Six-month period:			
Sales and marketing	$129,788	$42,518	205%
Percentage of revenues	29%	41%	

The Network Solutions acquisition in June 2000 was the primary reason for the increase in sales and marketing expenses during the second quarter and the first six months of 2001. The Web Presence Services group incurs expenses promoting the value of the .com, .net and .org web addresses as well as value-added services including web site design tools and other enhanced service offerings. The remainder of the increase during the three and six-month periods ended June 30, 2001, was driven by lead and demand generation activities in our authentication businesses, expansion of our sales force and an increase in international sales expenses.

While the absolute dollar spending increased for sales and marketing expenses in both the second quarter and the first six months of 2001, we continue to realize a decline in sales and marketing expenses as a percentage of revenues. This is primarily due to the increase in recurring revenues from existing customers, which tend to have lower acquisition costs and the increase in the productivity of the direct and inside sales forces.

We expect sales and marketing expenses to continue to increase on an absolute dollar basis in the future, although at a slower rate than in previous quarters, primarily related to an expanded sales force, expanded marketing and demand generation activities, development and enhancement of partner and distribution channels and promotional activities for Web Presence Services and products.

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 six-month periods ended June 30, 2001 and 2000 is presented below.

	2001	2000	Change
	(Dollars in thousands)		
Three-month period:			
Research and development	$20,659	$ 7,114	190%
Percentage of revenues	9%	10%	
Six-month period:			
Research and development	$40,546	$11,543	251%
Percentage of revenues	9%	11%	

Research and development expenses increased in absolute dollars in both the second quarter and the first six months of 2001 compared to the similar periods in 2000 primarily due to the acquisition of Network Solutions in June 2000. The increases relate to the development and enhancement of new registry products related to multilingual domain names and managed domain name system services. In addition, the increase is due to continued investment in the design, testing and deployment of, and technical support for our expanded Internet trust service offerings and technology. The absolute dollar increase reflects the expansion of our engineering staff and related costs required to support our continued emphasis on developing new products and services as well as enhancing existing products and services. The decrease in research and development expenses as a percentage of revenues in both the three and six-month periods ended June 30, 2001, compared to the similar periods in 2000 is largely due to the different cost structures related to our acquisitions and efficiencies we realize as our business matures.

We believe that timely development of new and enhanced authentication services, transaction services, Web Presence Services and 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. As a result, we expect research and development expenses will continue to increase in absolute dollars. To date, we have expensed all research and development expenditures as incurred.

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, support services and professional services fees.

A comparison of general and administrative expenses for the three-month periods and six-month periods ended June 30, 2001 and 2000 is presented below.

	2001	2000	Change
	(Dollars in thousands)		
Three-month period:			
General and administrative	$34,842	$ 8,154	327%
Percentage of revenues	15%	12%	
Six-month period:			
General and administrative	$66,008	$11,836	458%
Percentage of revenues	15%	11%	

The increase in general and administrative expenses for the second quarter, as well as the first six months of 2001, over the second quarter and first six months of 2000 was primarily related to the acquisition of Network Solutions in June 2000. Expenses also increased due to additional staffing levels required to manage and support our expanded operations, the implementation of additional management information systems, and the expansion of our corporate headquarters.

We anticipate that general and administrative expenses will continue to increase on an absolute dollar basis in the future as we expand our administrative and executive staff, add infrastructure, expand facilities and assimilate acquired technologies and businesses.

Amortization of goodwill and other intangible assets

During 2000 the Company completed several acquisitions including THAWTE, Signio and Network Solutions. These acquisitions resulted in the recording of goodwill and other intangible assets in the amount of $21.3 billion. The Company's policy is to assess the recoverability of goodwill using estimated undiscounted cash flows. Those cash flows include an estimated terminal value based on a hypothetical sale of an acquisition at the end of its goodwill amortization period. Though the acquisitions have been predominantly performing at or above expectations, market conditions and attendant multiples used to estimate terminal values have continued to remain depressed. At June 30, 2000, the NASDAQ market index was at 3,966 points and has decreased 1,805 points, or 46%, to 2,161 points at June 30, 2001. This decline has affected the analysis used to assess the recoverability of goodwill. As a result, management has recorded an impairment charge in the quarter ended June 30, 2001, in the amount of $9.9 billion. Since the most significant acquisitions were completed by issuing shares of the Company's common stock, the impairment should be considered a non-cash charge.

The amortization of goodwill and other intangible assets was approximately $1.4 billion in the second quarter of 2001 compared to $409 million in the second quarter of 2000 and was approximately $2.7 billion in the first six months of 2001 compared to $470 million the first six months of 2000. The increase was primarily due to our purchase acquisition of Network Solutions in June 2000, which accounted for approximately $19.3 billon of additional goodwill and other intangible assets. We expect to recognize goodwill and other intangible asset amortization charges related to our acquisitions of approximately $460 million per quarter for the third and fourth quarters of 2001. In accordance with the transitional provisions of FASB Statement 142, goodwill will no longer be amortized to earnings commencing January 1, 2002, but instead goodwill will be reviewed for impairment. Amortization of other intangible assets is expected to be approximately $63 million per quarter thereafter.

Other Income

Other income consists primarily of interest earned on our cash, cash equivalents and short-term and long-term investments and gains or losses on sales or write-downs of equity investments, as well as the net effect of foreign currency transaction gains and losses. Other income also includes charges for any gains or losses on the disposal of property and equipment and other miscellaneous expenses.

A comparison of other income for the three-month periods and six-month periods ended June 30, 2001 and 2000 is presented below.

	2001	2000	Change
	(Dollars in thousands)		
Three-month period:			
Other income	$ 19,151	$ 6,804	181%
Percentage of revenues	8 %	10%	
Six-month period:			
Other (expense) income	$(34,012)	$41,651	(182)%
Percentage of revenues	(8)%	40%	

The change in other income in the second quarter of 2001 compared to the second quarter of 2000 was primarily due $19.2 million of interest and investment income in the second quarter of 2001 compared to $6.8 million of interest and investment income in the second quarter of 2000. Our average invested cash balances were higher in the second quarter of 2001 compared to the second quarter of 2000 due to our acquisition of Network Solutions in June 2000, which added over $925 million of cash and investments.

The change in other income in the first six months of 2001 compared to the first six months of 2000 was primarily due to a write-down of investments totaling $74.7 million on certain public and non-public equity security investments offset by $40.7 million of interest and other income in the first six months of 2001 compared to a realized gain of $32.6 million from the sale of shares of Keynote Systems, Inc., and interest and other income of $9.0 million in the first six months of 2000. During the first six months of 2001, we determined that the decline in value of certain of our public and non-public equity securities investments was other than temporary and recorded a write-down of these investments totaling $74.7 million. We had previously valued certain of these investments at the then fair market value as part of the Network Solutions acquisition. We may from time to time recognize gains or losses from the sales, write-downs or write-offs of our equity investments. Our cash and investments base increased significantly through the acquisition of Network Solutions in June 2000, while our invested balances returned relatively lower rates due to lower market interest rates in the first six months of 2001 as compared to 2000.

Deferred Income Taxes

Through the six months ended June 30, 2001, we have recorded a $56.6 million tax benefit for the pretax loss not attributable to the amortization of goodwill and other acquired intangible assets that are not deductible for tax purposes.

As of June 30, 2001, we had federal net operating loss carryforwards of approximately $416.8 million related to stock compensation expense and $358.8 million related to continuing operations. We also had state net operating loss carryforwards of approximately $236.3 million related to stock compensation expense and $200.4 million related to continuing operations. The federal net operating loss carryforwards will expire in 2010 through 2020 and the state net operating loss carryforwards will expire in 2004 through 2020. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of a corporation's ownership change, as defined in the Internal Revenue Code. Our ability to utilize net operating loss carryforwards may be limited if such ownership change occurs.

Our accounting for deferred taxes under Statement of Financial Accounting Standards 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 was required, we considered such factors as our history of operating losses and expected future losses 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 credit to additional paid in capital and will not result in future income statement benefit.

Minority Interest in Net (Income) Loss of Subsidiary

Minority interest in the net (income) loss of VeriSign Japan K.K. was $(309) thousand in the second quarter of 2001 and $(519) thousand in the first six months of 2001 compared to $(57) thousand in the second quarter of 2000 and $90 thousand in the first six months of 2000. The change is primarily due to VeriSign

Japan's increased revenue as compared to the second quarter and the first six months of 2000. As the VeriSign Japan business continues to develop and evolve, we expect that the minority interest in net (income) loss of subsidiary will fluctuate.

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.

We have a limited operating history under our current business structure.

We were incorporated in April 1995, and we began introducing our trusted infrastructure services in June 1995. In addition, we completed several acquisitions in 2000. Therefore, we have only a limited operating history on which to base an evaluation of our consolidated business and prospects. Our prospects must be considered in light of the risks and uncertainties encountered by companies in the early stages of development. These risks and uncertainties are often worse for companies in new and rapidly evolving markets and for companies integrating many businesses. 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 ("IP") networks for electronic commerce and communications;
- the extent to which digital certificates and domain names are used for these communications or e-commerce;
- the continued growth in the number of web sites;
- the growth in demand for our payment services;
- the continued evolution of electronic commerce as a viable means of conducting business;
- the demand for our Internet infrastructure services, digital certificates and Web Presence Services;
- 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; 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 Internet infrastructure services, our digital certificates and our Web Presence Services to new and existing customers;
- attract, integrate, train, retain and motivate qualified personnel;
- respond to competitive developments;
- successfully introduce new Internet infrastructure services and Web Presence Services; and
- successfully introduce enhancements to our existing Internet infrastructure services, digital certificates and Web Presence Services to address new technologies and standards and changing market conditions.

We cannot be certain that we will successfully address these risks.

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 obtaining personally identifiable information about users to disclose or sell data without notice to or the consent of such users;
- other security concerns such as attacks on popular websites by "hackers;"
- inconsistent quality of service;
- lack of availability of cost-effective, high-speed systems and service;
- 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.

Our near-term success depends, in part, on the growth of the Web Presence Services business.

We may not be able to sustain the revenue growth we have experienced in recent periods. In addition, past revenue growth may not be indicative of future operating results. If we do not successfully maintain our current position as a leading provider of domain name registration services or develop or market additional value-added Web Presence Services and products, our business could be harmed.

Our Web Presence Services will account for a significant portion of our revenue in at least the near term. Our future success will depend largely on:

- continued new domain name registrations;
- re-registration rates of our customers;
- our ability to maintain our current position as a leading registrar of domain names;
- the successful development, introduction and market acceptance of new Web Presence Services that address the demands of Internet users;
- our ability to provide robust domain name registration systems; and
- our ability to provide a superior customer service infrastructure for our Web Presence Services.

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

The Department of Commerce ("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 ("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, or a registrar for existing and new top-level domains are terminated, we may not be able to sustain the revenue growth we have 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 described above 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, including challenges to the agreements governing our relationship with, or to the legal authority underlying the roles and actions of, the DOC, ICANN or us, could be brought;

- 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;

- Congress has issued a Conference Report directing the General Accounting Office to review the relationship between the DOC and ICANN and the adequacy of security arrangements under existing DOC cooperative agreements. An adverse report could cause Congress to take action that is unfavorable to us or the stability of the domain name system;

- 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:

- continued market acceptance of our trusted infrastructure services;
- the long sales and implementation cycles for, and potentially large order sizes of, some of our Internet trust services and the timing and execution of individual contracts;
- volume of domain name registrations through our Web Presence Services business and our Global Registry Service business;
- customer renewal rates for our Internet infrastructure services and Web Presence Services;
- competition in the Web Presence Services business from competing registrars and registries;
- the introduction of additional alternative Internet naming systems;
- the timing of releases of new versions of Internet browsers or other third-party software products and networking equipment that include our digital certificate service interface technology;
- the mix of all our offered services sold during a quarter;
- our success in marketing other Internet infrastructure services and web presence value-added services to our existing customers and to new customers;
- continued development of our direct and indirect distribution channels, both in the U.S. and abroad;
- market acceptance of our Internet infrastructure services and new service offerings or our competitors' products and services;
- a decrease in the level of spending for IT related products and services by enterprise customers;
- our ability to expand operations;
- our success in assimilating the operations and personnel of any acquired businesses;
- the amount and timing of expenditures related to expansion of our operations;
- the impact of price changes in our Internet infrastructure services and Web Presence Services or our competitors' products and services; and
- general economic and market conditions as well as economic and market conditions specific to IP network and Internet industries.

In addition, we expect a significant increase in our operating expenses as we:

- increase our sales and marketing operations and activities; and
- continue to update our systems and infrastructure.

If the 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.

We face significant competition.

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 Internet infrastructure 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 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 Internet 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.

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. We believe that, because RSA, which is now a wholly-owned subsidiary of RSA Security, has already developed expertise in the area of cryptography, its barriers to entry would be lower than those that would be encountered by our other potential competitors should RSA choose to enter any of our markets. If RSA were to enter into the digital certificate market, our business could be materially harmed.

Seven new top-level domain registries (.aero, .biz, .coop, .info, .museum, .name and .pro) are expected to begin accepting domain name registrations in the near future. 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 do 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 resulting from increased competition. Some registrars and resellers in the .com, .net and .org top-level domains are already charging lower prices for Web Presence 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.

Our Internet infrastructure services market is new and evolving.

We target our Internet infrastructure services at the market for trusted and secure electronic commerce and communications over IP networks. This is a new and rapidly evolving market that may not continue to grow. Accordingly, the demand for our Internet infrastructure services is very uncertain. Even if the market for electronic commerce and communications over IP networks grows, our Internet infrastructure services may not be widely accepted. The factors that may affect the level of market acceptance of digital certificates and, consequently, our Internet infrastructure 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 Internet infrastructure services may fail to address the market's requirements adequately. If digital certificates do not sustain or increase their acceptance, or if our Internet infrastructure services in particular do not achieve or sustain market acceptance, our business would be materially harmed.

System interruptions and security breaches could harm our business.

We depend on the uninterrupted operation of our various domain name registration systems, secure data centers and our other computer and communications systems. We must protect these systems from loss, damage or interruption caused by fire, earthquake, power loss, telecommunications failure or 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, and Dulles, Virginia. Though we have back-up power resources, our California locations are susceptible to recent electric power shortages. All of our Web Presence 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 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.

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 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 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 the increasing 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 registration 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 on such maintenance and 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 web presence 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-ins or other security breaches or compromises 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 Internet infrastructure services and Web Presence 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 California's current energy crisis could disrupt our operations and increase our expenses.

California is in the midst of 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.

Acquisitions could harm our business.

We made several significant acquisitions in 2000. We could experience difficulty in integrating the personnel, products, technologies or operations of these companies. In addition, assimilating acquired businesses involves a number of other risks, including, but not limited to:

- the potential disruption of our business;
- the potential impairment of relationships with our employees, customers and strategic partners;
- the additional expenses associated with the amortization of goodwill and other intangible assets;
- the additional expense associated with a write-off of a portion of goodwill and other intangible assets due to changes in market condition, the U.S. and global economy or the economy in the markets in which we compete or because acquisitions are not providing the benefits expected;
- unanticipated costs or the incurrence of unknown liabilities;
- the need to manage more geographically-dispersed operations, such as our offices in Virginia, North Carolina, South Africa and in Europe;
- diversion of management's resources from other business concerns;
- the inability to retain the employees of the acquired businesses;
- adverse effects on existing customer relationships of acquired companies;
- the difficulty of assimilating the operations and personnel of the acquired businesses;
- our inability to incorporate acquired technologies successfully into our Internet infrastructure services; 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.

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

We have equity and debt 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. In the first quarter of 2001 we determined that the decline in value of certain of our public and private equity security investments was other than temporary and we recognized a loss of $74.7 million related to the decline in value of these investments in the first quarter of 2001. 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.

Technological changes will affect 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 Internet infrastructure services and Web Presence Services, particularly in response to competitive offerings. We must also introduce any new Internet infrastructure services and Web Presence Services, as quickly as possible. The success of new Internet infrastructure services and Web Presence 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 Internet infrastructure services and Web Presence Services that respond to competitive and technological developments and changing customer needs. This could harm our business.

We must manage our growth and expansion.

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 2,355 employees at June 30, 2001. 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.

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. There is intense competition for these personnel. 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 us at any time. In addition, we do not maintain key person life insurance for any of our officers or key employees other than our President and Chief Executive Officer. 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 such servers properly or abandon such servers which would place additional capacity 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 the registry agreement between ICANN and the Company, it is required to ensure that the authoritative root will point to the top-level domain zone servers designated by it. If ICANN does not do this, our business could be harmed.

Our Web Presence Services 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 it 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.

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. Examples of these types of relationships include our arrangements with Cisco, Microsoft and RSA Security. 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 Internet infrastructure 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 Internet infrastructure 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 Internet infrastructure services or 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 Internet trust services have lengthy sales and implementation cycles.

We market many of our Internet infrastructure 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 Internet trust 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.

Our services could have unknown defects.

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.

Public key cryptography technology is subject to risks.

Our Internet infrastructure 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 Internet trust 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.

Our international operations are subject to certain risks.

Revenues from international subsidiaries and affiliates accounted for approximately 13% of our revenues in the second quarter of 2001 and approximately 12% of our revenues in the first six months of 2001. We intend to expand our international operations and international sales and marketing activities. For example, with our acquisition of THAWTE we have additional operations in South Africa and with our acquisition of Network Solutions we have additional operations in Asia and Europe. Expansion into these markets has required and will continue to require significant management attention and resources. We may also need to tailor our Internet infrastructure trust services and Web Presence 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 we are in;
- 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;
- 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;
- seasonal reductions in business activity; and
- potentially adverse tax consequences.

We have licensed to our affiliates the VeriSign Processing Center platform, which is designed to replicate our own secure data centers and allows the affiliate to offer back-end processing of Internet infrastructure services. The VeriSign Processing Center platform provides an affiliate with the knowledge and technology to offer Internet infrastructure 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 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 an affiliate to maintain the privacy 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. For further information, please see "System interruptions and security breaches could harm our business."

All of our international revenues from sources other than VeriSign Japan K.K., THAWTE (South Africa), Registrars.com (Canada) and Domainnames.com, Limited (U.K.)are denominated in U.S. dollars. If additional portions of our international revenues were to be denominated in foreign currencies, we could become subject to increased risks relating to foreign currency exchange rate fluctuations.

Our Internet infrastructure services could be affected by government regulation.

Exports of software products utilizing encryption technology are generally restricted by the United States and various non-United States governments. Although we have obtained approval to export our Global Server digital certificate service, and none of our other Internet infrastructure services are currently subject to export controls under United States law, the list of products and countries for which export approval is required could be revised in the future to include more digital certificate products and related services. If we do not obtain required approvals we may not be able to sell specific Internet infrastructure services in international markets. There are currently no federal laws or regulations that specifically control certificate authorities, but a limited number of states have enacted legislation or regulations with respect to certificate authorities. If the market for digital certificates grows, the United States federal or state or non-United States governments may choose to enact further regulations governing certificate authorities or other providers of digital certificate products and related services. These regulations or the costs of complying with these regulations could harm our business.

In July 2000, the Electronic Signatures in Global and National Commerce Act, or "E-Sign," was signed into law. E-Sign is intended to render digital signatures legally equivalent to those signed on paper. The execution of E-Sign could materially and adversely affect our digital certificates services business. For example, there may be an increasing demand for digital signatures and certificates as a result of the new E-Sign law. However, due to competition or other reasons, our services may not be adopted. If we cannot meet market expectations or demand for our products and services does not increase, our business may be materially and adversely affected. Furthermore, a successful implementation of E-Sign may further encourage competitors to enter the marketplace because of the possible increase in demand for digital signatures and certificates. This could effectively lower barriers to entry and increasingly flood the marketplace with competitors, which could, among other things, result in price erosion. While we cannot assure you that E-Sign will be effectively implemented or how this implementation will affect our business, we must continue to meet the demand and expectations of our customers, and our failure to do so could materially and adversely harm our business.

We face risks related to intellectual property rights.

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. 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.

From time to time, we have received, and may receive in the future, notice of claims of infringement of other parties' proprietary rights. 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 product shipment 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 product 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.

We have implemented anti-takeover provisions.

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 only take action 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 only be called by the Chairman of the Board, the President or by the board, not by our stockholders.

While we believe these provisions provide for an opportunity to receive a higher bid by requiring potential acquirors to negotiate with our board of directors, these provisions may apply even if the offer may be considered beneficial by some stockholders.

Liquidity and Capital Resources

	June 30, 2001	December 31, 2000	Change
	(Dollars in thousands)		
Cash, cash equivalents and short-term investments	$ 798,174	$ 1,026,275	(22)%
Working capital	$ 358,954	$ 520,953	(31)%
Stockholders' equity	$5,972,454	$18,470,608	(68)%

At June 30, 2001, our principal source of liquidity was approximately $798.2 million of cash, cash equivalents and short-term investments, consisting principally of commercial paper, medium term notes, corporate bonds and notes, market auction securities, United States government agency securities and money market funds. In addition, we held $139.4 million of long-term equity minority investments and $318.7 million of long-term corporate debt securities and other investments at June 30, 2001.

Net cash provided by operating activities was $115.5 million in the first six months of 2001 compared to $67.1 million in the first six months of 2000. The increase was primarily due to an overall increase in net income after adjustment for non-cash items such as depreciation and amortization and an overall increase in our deferred revenue balance in which we receive payment in advance for many of our products and services. The increase in cash provided by operating activities was partially offset by increases in accounts receivable and deferred income taxes.

Net cash used by investing activities was $185.6 million in the first six months of 2001 primarily as a result of $970.8 million used for purchases of short and long-term investments and $45.7 million used for purchases of property and equipment partially offset by proceeds of $853.3 million from sales and maturities of short and long-term investments. Net cash provided by investing activities in the first six months of 2000 was $860.2 million and was primarily the result of cash acquired in our acquisitions of THAWTE, Signio and Network Solutions, partially offset by costs relating to these acquisitions. As of June 30, 2001, we also had commitments under noncancelable operating leases for our facilities for various terms through 2011.

Net cash provided by financing activities was $61.1 million in first six months of 2001 and $15.7 million in the first six months of 2000. The primary source of cash provided by financing activities in both periods was from the issuance of common stock resulting from stock option exercises.

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. However, at some time, we may need 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.

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. 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 market 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 June 30, 2001, 69% 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 June 30, 2001. 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..	$158,012	$ --	$ --	$158,012	$158,041
Weighted-average interest rate.........	4.50%	--	--		
Included in short-term investments.....	$313,521	$33,448	$ --	$346,969	$347,483
Weighted-average interest rate.........	5.00%	5.11%	--		
Included in long-term investments......	$ 30,207	$20,815	$246,665	$297,687	$298,596
Weighted-average interest rate.........	7.13%	4.71%	5.30%		

Exchange rate risk

VeriSign considers its exposure to foreign currency exchange rate fluctuations to be minimal. All revenues derived from affiliates other than VeriSign Japan K.K., THAWTE (South Africa), Registrars.com (Canada) and Domainnames.com, Limited (U.K.) are denominated in United States dollars and, therefore, are not subject to exchange rate fluctuations.

Both the revenues and expenses of our majority-owned subsidiary in Japan as well as our wholly owned subsidiaries in South Africa, Sweden and the United Kingdom are denominated in local currencies. In these regions, we believe this serves as a natural 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. 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. In the first quarter of 2001 we determined the decline in value of certain public and non-public equity investments was other than temporary and the Company recognized a $74.7 million impairment loss. 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. Currently we do not hedge against equity price changes.

Intangible Asset Risk

We have a substantial amount of intangible assets. Although at June 30, 2001, we believe our intangible assets are recoverable, changes in the economy, the business in which we operate and our own relative performance could change the assumptions used to evaluate intangible asset recoverability. We continue to monitor those assumptions and their consequent effect on the estimated recoverability of our intangible assets.

PART II--OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of July 31, 2001, through our Network Solutions subsidiary, we were a defendant in fifteen active lawsuits involving domain name disputes between trademark owners and domain name holders. We are drawn into such disputes, in part, as a result of claims by trademark owners that we are legally required, upon request by a trademark owner, to terminate the contractual right we granted to a domain name holder to register a domain name which is alleged to be similar to the trademark in question. On October 25, 1999, however, the Ninth Circuit Court of Appeals ruled in our favor and against Lockheed Corporation, holding that our services do not make us liable for contributory infringement to trademark owners. Since that time, the frequency of this type of suit has continued to decline. The holders of the domain name registrations in dispute have, in turn, questioned our right, absent a court order, to take any action that affects their contractual rights to the domain names in question. Although 85 of these kinds of situations over the past seven years have resulted in suits actually naming Network Solutions as a defendant, as of July 31, 2001, no adverse judgment has been rendered and no award of damages has ever been made. We intend to vigorously defend ourselves against these claims.

On February 2, 2001, Leon Stambler filed a complaint against us alleging patent infringement in the United States District Court for the District of Delaware. The other co-defendants in the suit are RSA Security Inc., First Data Corporation, Openwave Systems Inc., and Omnisky Corporation. The complaint alleges that our Secure Site service infringes claim 12 of Mr. Stambler's U.S. Patent No. 5,793,302 and that our Payflow products infringe claims 1, 28, and 34 of Mr. Stambler's U.S. Patent No. 5,974,148. The complaint seeks judgment declaring that the defendants have infringed the asserted claims of the patents-in-suit, preliminary and permanent injunctions against the defendants from infringing the asserted claims, an order requiring the defendants to pay damages to compensate Mr. Stambler for the alleged infringement, and an order awarding Mr. Stambler treble damages for any willful infringement as well as attorney fees and costs. All of the defendants filed their answers to the complaint on March 28, 2001. While we cannot predict the outcome of this matter presently, we believe that the claims against us are without merit and we intend to vigorously defend ourselves against these claims.

On June 15, 2000, plaintiff David Moran filed a putative shareholder derivative complaint on behalf of himself and others similarly situated against Charles Stuckey, Jr., James Bidzos, Richard L. Earnest, Dr. Taher Elgamal, James K. Sims, Joseph B. Lassiter III, Robert P. Badavas, and against us as a nominal defendant. The case is captioned Moran v. Stuckey, et.al., No. 1810 NC (Del. Ch. 2000). The complaint alleges, among other things, that the directors of RSA Security mismanaged RSA's business, failed to protect its intellectual property or enforce the terms of its license agreement with us, and that we violated the terms of the licensing agreement and competed against RSA. On August 2, 2000, a second shareholder complaint was filed against us and the aforementioned directors of RSA Security, Inc. by plaintiff James V. Biglan. That case is captioned Biglan v. Stuckey, et al. Civ. Action No. 18190NC (Del. Ch. 2000). On September 25, 2000 the Court ordered the cases consolidated under the Moran caption and named lead counsel for plaintiffs in this matter. We filed a Motion to Dismiss on November 20, 2000. While we cannot ascertain the outcome of this matter presently, we currently believe that the claims against us are without merit and we intend to vigorously defend ourselves against these claims.

On March 15, 2000, a group of eight plaintiffs filed suit against the U.S. Department of Commerce, the National Science Foundation and us in the United States District Court for the Northern District of California. The case, entitled William Hoefer et al. v. U.S. Department of Commerce, et al., Civil Action No. 000918-VRW, challenges the lawfulness of the registration fees that we were authorized to charge for domain name registrations from September 1995 to November 1999. The suit purports to be brought on behalf of all domain name registrants who paid registration fees during that period and seeks approximately $1.7 billion in damages. On June 19, 2000, the plaintiffs filed their first amended complaint, adding two additional plaintiffs.

All of the defendants filed motions to transfer the suit to Federal District Court in the District of Columbia and the court granted those motions on June 28, 2000. The same attorney who unsuccessfully challenged us in a similar action, known as Thomas, et al. v. Network Solutions, et al., has filed this new action on behalf of eight former and current domain name registrants. The suit contains eight causes of action against the defendants based on alleged violations of Art. I, (S) 8 and the Fifth Amendment of the U.S. Constitution, the Independent Offices Appropriations Act (31 U.S.C. (S) 9701), the Administrative Procedures Act, the Sherman Act, and the California Unfair Competition Act, (S) 17200. The case was docketed with the Federal District Court in the District of Columbia on July 28, 2000 and on August 4, 2000 the plaintiffs dismissed the case. Four days later, the same attorney refiled the same case in the United States District Court for the Eastern District of Virginia. We filed a motion to dismiss the case and the plaintiffs responded by filing a First Amended Complaint on September 7, 2000. The current suit contains fourteen causes of action alleging violations of the Appropriations Act (31 U.S.C. 9701), the Administrative Procedures Act, the Sherman Act, and the Chief Financial Officer's Act (31 U.S.C. 902). On October 10, 2000, we filed another motion to dismiss the case. On October 24, 2000, the National Science Foundation filed a motion to transfer the case back to the Federal District Court in the District of Columbia. A hearing on the motion to transfer the case back to the Federal District Court for the District of Columbia was held on November 17, 2000. The Court ruled from the bench that the case should be transferred back to the District of Columbia. Our pending motion to dismiss the complaint also was transferred under the Order. No judge has been appointed to the matter, and no hearing date has yet been set on our motion to dismiss.

On January 13, 2000, the Department of Justice ("DOJ") Antitrust Division issued a Civil Investigative Demand ("CID") seeking information and documents concerning the then-pending acquisition by us of THAWTE. We provided certain information and documents to the DOJ, and closed the THAWTE transaction on February 1, 2000. We completed our initial response to the CID on March 1, 2000, and a supplemental production of documents was completed May 9, 2000. On September 14, 2000, we were notified that senior officials at the DOJ had reviewed a report by the investigatory staff regarding the transaction, and that the DOJ had concerns about the potential competitive effects of the transaction. Our representatives met with and provided additional information to the DOJ during October 2000. While we believe that the transaction does not violate the antitrust laws, it is possible that the DOJ may ultimately raise an objection. Formal objection could lead to further proceedings or litigation that could have an adverse material effect on us, and could include the licensing or divestiture of assets acquired in the transaction.

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. An unfavorable outcome may have a material adverse effect on our financial position or results of operations.

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

The 2001 Annual Meeting of Stockholders was held on May 24, 2001 at our corporate offices, located at 1350 Charleston Road, Mountain View, California. Three proposals were voted on at the meeting. The results of each proposal are as follows.

Proposal No. 1 to elect two (2) Class III directors to serve for a three-year term expiring at the Annual Meeting of Stockholders in 2004 was approved by the stockholders. The nominees received the following votes:

	For	Withheld
D. James Bidzos	168,625,511	927,327
William L. Chenevich	168,985,897	566,941

Incumbent Class I directors Scott G. Kriens, Stratton D. Sclavos and Timothy Tomlinson are currently serving for a term expiring at the Annual Meeting of Stockholders in 2002. Incumbent Class II directors Kevin R. Compton, David J. Cowan and Greg L. Reyes are currently serving for a term expiring at the Annual Meeting of Stockholders in 2003.

Proposal No. 2 to approve an amendment to VeriSign's 1998 Equity Incentive Plan to increase the number of shares reserved and authorized for issuance by 8,000,000 shares was approved by the stockholders. The proposal received the following votes:

	Votes
For	95,609,246
Against	73,684,594
Abstain	237,457

In addition, in Proposal No. 3 stockholders ratified the appointment of KPMG LLP as independent auditors of VeriSign for the fiscal year ended December 31, 2001. This proposal received the following votes:

	Votes
For	169,083,869
Against	385,000
Abstain	83,969

Abstentions and broker non-votes were included in the determination of the number of shares represented at the meeting for purposes of determining the presence of a quorum at the Annual Meeting of Stockholders. Abstentions had the same effect as a vote against a proposal, for Proposals No. 2 and 3.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(b) Reports on Form 8-K

The following reports were filed on Form 8-K or Form 8-K/A during the quarter ended June 30, 2001:

- Current Report on Form 8-K dated May 25, 2001 and filed June 1, 2001 pursuant to Item 5 (Other Events), announcing agreements relating to the operation of the domain name registries for .com, .net and .org.

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: August 13, 2001

By: /s/ Stratton D. Sclavos

Stratton D. Sclavos
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 13, 2001

By: /s/ Dana L. Evan

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