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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2003

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 NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES NO

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

Class	Shares Outstanding October 31, 2003
Common stock, \$.001 par value	241,503,605

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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:

	<u>Financial Statement Description</u>	<u>Page</u>
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VERISIGN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	September 30, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 380,824	\$ 282,288
Short-term investments	218,014	103,180
Accounts receivable, net	99,660	134,124
Prepaid expenses and other current assets	56,121	56,618
Deferred tax assets	6,537	9,658
Total current assets	761,156	585,868
Property and equipment, net	578,692	609,354
Goodwill and other intangible assets, net	820,225	1,129,602
Restricted cash	18,371	18,436
Long-term investments	23,249	36,741
Other assets, net	13,235	11,317
Total long-term assets	1,453,772	1,805,450
Total assets	\$ 2,214,928	\$ 2,391,318
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 287,028	\$ 278,545
Accrued merger costs	—	5,015
Accrued restructuring costs	27,272	23,835
Deferred revenue	321,042	357,950
Total current liabilities	635,342	665,345
Long-term deferred revenue	185,532	125,893
Other long-term liabilities	13,732	20,655
Total long-term liabilities	199,264	146,548
Total liabilities	834,606	811,893
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: 241,081,385 and 237,510,063 (excluding 1,690,000 shares held in treasury at September 30, 2003 and December 31, 2002)	241	238
Additional paid-in capital	23,096,408	23,072,212
Unearned compensation	(3,254)	(8,086)
Accumulated deficit	(21,707,764)	(21,480,175)
Accumulated other comprehensive loss	(5,309)	(4,764)
Total stockholders' equity	1,380,322	1,579,425
Total liabilities and stockholders' equity	\$ 2,214,928	\$ 2,391,318

See accompanying notes to condensed consolidated financial statements

VERISIGN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Revenues	\$ 268,123	\$ 301,441	\$ 803,180	\$ 946,666
Costs and expenses:				
Cost of revenues	114,413	147,257	345,831	454,773
Sales and marketing	50,048	60,792	153,125	197,392
Research and development	13,820	9,613	40,850	37,405
General and administrative	41,036	46,018	130,156	119,589
Restructuring and other charges	—	5,560	31,416	73,339
Amortization and write-down of other intangible assets and goodwill	77,721	56,201	309,762	4,827,243
Total costs and expenses	297,038	325,441	1,011,140	5,709,741
Operating loss	(28,915)	(24,000)	(207,960)	(4,763,075)
Other income (expense), net	1,068	(51,430)	(10,510)	(154,600)
Loss before income taxes	(27,847)	(75,430)	(218,470)	(4,917,675)
Income tax expense	(3,456)	(4,242)	(9,119)	(4,242)
Net loss	\$ (31,303)	\$ (79,672)	\$ (227,589)	\$ (4,921,917)
Net loss per share:				
Basic and diluted	\$ (0.13)	\$ (0.34)	\$ (0.95)	\$ (20.83)
Shares used in per share computation:				
Basic and diluted	240,370	236,958	239,167	236,283

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2003	2002
Cash flows from operating activities:		
Net loss	\$ (227,589)	\$ (4,921,917)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	88,204	77,386
Amortization and write-down of other intangible assets and goodwill	309,762	4,827,243
Non-cash restructuring and other charges	9,260	35,536
Reciprocal transactions for purchases of property and equipment	—	(6,375)
Net loss on sale and write-down of investments	16,541	166,771
Deferred income taxes	3,321	4,242
Amortization of unearned compensation	6,764	16,230
Loss on disposal of property and equipment	—	1,722
Changes in operating assets and liabilities:		
Accounts receivable	34,464	125,593
Prepaid expenses and other current assets	497	(41,240)
Accounts payable and accrued liabilities	10,726	(23,494)
Deferred revenue	22,731	(104,791)
Net cash provided by operating activities	<u>274,681</u>	<u>156,906</u>
Cash flows from investing activities:		
Purchases of investments	(298,671)	(89,164)
Proceeds from maturities and sales of investments	181,947	368,429
Purchases of property and equipment	(67,497)	(151,911)
Net cash paid in business combinations	—	(348,643)
Merger related costs	(4,925)	(53,602)
Other assets	(1,911)	5,944
Net cash used in investing activities	<u>(191,057)</u>	<u>(268,947)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock from option exercises	22,268	19,252
Repayment of debt	(5,505)	—
Net cash provided by financing activities	<u>16,763</u>	<u>19,252</u>
Effect of exchange rate changes	(1,851)	(615)
Net increase (decrease) in cash and cash equivalents	98,536	(93,404)
Cash and cash equivalents at beginning of period	282,288	306,054
Cash and cash equivalents at end of period	<u>\$ 380,824</u>	<u>\$ 212,650</u>

See accompanying notes to condensed consolidated financial statements

VERISIGN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation

The accompanying interim unaudited condensed consolidated balance sheets, statements of operations and cash flows reflect all adjustments, consisting of normal recurring adjustments and other adjustments, that are, in the opinion of management, necessary for a fair presentation of the financial position of VeriSign, Inc. and its subsidiaries ("VeriSign" or "the Company"), at September 30, 2003, and the results of operations and cash flows for the interim periods ended September 30, 2003 and 2002.

The accompanying unaudited condensed consolidated financial statements have been prepared by VeriSign in accordance with the instructions for Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, therefore, do not include all information and notes normally provided in audited financial statements and should be read in conjunction with VeriSign's consolidated financial statements for the year ended December 31, 2002 included in the annual report previously filed on Form 10-K. Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 presentation.

The results of operations for any interim period are not necessarily indicative, nor comparable to the results of operations for any other interim period or for a full fiscal year. The carrying amount of cash and cash equivalents, investments, accounts receivable, and accounts payable and accrued liabilities approximate their respective fair values.

Note 2. Restructuring and Other Charges

VeriSign did not record any restructuring or other charges during the quarter ended September 30, 2003. VeriSign recorded restructuring and other charges of \$5.6 million during the quarter ended September 30, 2002, and \$31.4 million and \$73.3 million during the nine months ended September 30, 2003 and 2002, respectively.

Workforce reduction. Workforce reduction charges relate primarily to severance and fringe benefits. VeriSign did not record a workforce reduction charge during the quarter ended September 30, 2003 and recorded a workforce reduction charge of \$0.9 million during the quarter ended September 30, 2002. During the nine months ended September 30, 2003 and 2002, \$1.5 million and \$4.7 million of workforce reduction charges were recorded, respectively.

Excess facilities. Excess facilities charges are related to lease terminations and non-cancelable lease costs for facilities that were either abandoned or downsized. To determine the lease loss, which is the loss after VeriSign's cost recovery efforts from subleasing an abandoned building or separable portion thereof, certain estimates were made related to the (1) time period over which the relevant space would remain vacant, (2) sublease terms, and (3) sublease rates, including common area charges. VeriSign did not record an excess facilities charge during the quarter ended September 30, 2003 and recorded a charge of \$2.7 million during the quarter ended September 30, 2002. During the nine months ended September 30, 2003 and 2002, \$8.7 million and \$29.1 million of excess facilities charges were recorded, respectively.

Write-down of property and equipment. During the quarter and nine months ended September 30, 2003 and the quarter ended September 30, 2002, no write-downs of property and equipment were recorded. During the nine months ended September 30, 2002, property and equipment that was either disposed of or abandoned resulted in a net charge of \$20.2 million and consisted primarily of computer software, leasehold improvements, and computer equipment.

Exit costs. No exit costs were recorded during the quarter ended September 30, 2003. During the quarter and nine months ended September 30, 2002, VeriSign recorded other exit costs totaling \$0.4 million and

VERISIGN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

\$8.9 million, respectively, consisting of the write-down of prepaid license fees associated with products that were intended to be incorporated into the Company's product offerings but were subsequently abandoned as a result of the decision to restructure. During the nine months ended September 30, 2003, VeriSign recorded exit costs consisting mainly of contract termination fees totaling approximately \$1.0 million.

Other charges. No other charges were recorded during the quarter ended September 30, 2003. During the quarter and nine months ended September 30, 2002, VeriSign recorded other charges of \$1.6 million and \$10.5 million, respectively, relating primarily to the write-down of impaired prepaid marketing assets associated with discontinued advertising. During the nine months ended September 30, 2003, VeriSign recorded other charges of \$20.2 million including \$10.9 million paid for the termination of a lease and \$9.3 million for the write-off of computer software. Other charges resulted as part of VeriSign's efforts to rationalize, integrate and align resources.

A summary of the restructuring and other charges recorded during the periods ended September 30, 2003 and 2002 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(In thousands)			
Workforce reduction	\$ —	\$ 900	\$ 1,545	\$ 4,730
Excess facilities	—	2,680	8,694	29,050
Write-down of property and equipment	—	—	—	20,179
Exit costs	—	389	1,014	8,881
Subtotal	—	3,969	11,253	62,840
Other charges	—	1,591	20,163	10,499
Total restructuring and other charges	\$ —	\$ 5,560	\$31,416	\$73,339

At September 30, 2003, the accrued liability associated with the restructuring and other charges was \$27.3 million and consisted of the following:

	Accrued Restructuring Costs at December 31, 2002	Restructuring Charges	Cash Payments	Accrued Restructuring Costs at September 30, 2003
	(In thousands)			
Workforce reduction	\$ 113	\$ 1,545	\$ (1,658)	\$ —
Excess facilities	23,512	8,694	(5,287)	26,919
Exit costs	210	1,014	(871)	353
	\$ 23,835	\$ 11,253	\$ (7,816)	\$ 27,272

Amounts related to the lease terminations due to the abandonment of excess facilities will be paid over the respective lease terms, the longest of which extends through June 2010. Exit costs will be paid by December 31, 2004.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Future cash payments and anticipated sub-lease income, related to lease terminations due to the abandonment of excess facilities are expected to be as follows:

	Lease Payments	Sub-Lease Income	Net
	(In thousands)		
2003 (3 months)	\$ 2,468	\$ (572)	\$ 1,896
2004	9,835	(2,289)	7,546
2005	7,976	(1,961)	6,015
2006	5,246	(1,181)	4,065
2007	3,857	(552)	3,305
Thereafter	4,218	(126)	4,092
	<u>\$33,600</u>	<u>\$ (6,681)</u>	<u>\$26,919</u>

Note 3. Goodwill and Other Intangible Assets

Purchased goodwill and certain indefinite-lived intangibles are not amortized but are subject to testing for impairment on at least an annual basis.

A two-step evaluation to assess goodwill for impairment is required. First, the fair value of each reporting unit is compared to its carrying value. If the fair value exceeds the carrying value, goodwill and other intangible assets are not impaired and proceeding to the second step is not required. If the carrying value of any reporting unit exceeds its fair value, then the implied fair value of the reporting unit's goodwill and other intangible assets must be determined and compared to the carrying value of its goodwill and other intangible assets (the second step). If the carrying value of a reporting unit's goodwill and other intangible assets exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

VeriSign performed its annual impairment test as of June 30, 2003. The fair value of VeriSign's reporting units was determined using either the income or the market valuation approach or a combination thereof. Under the income approach, the fair value of the reporting unit is based on the present value of estimated future cash flows that the reporting unit is expected to generate over its remaining life. Under the market approach, the value of the reporting unit is based on an analysis that compares the value of the reporting unit to values of publicly traded companies in similar lines of business. Other intangible assets were valued using the income approach. In the application of the income and market valuation approaches, VeriSign was required to make estimates of future operating trends and judgments on discount rates and other variables. Actual future results related to assumed variables could differ from these estimates. As a result of the decline in the value of certain reporting units, due to changes in market conditions for acquisitions of the Company since June 30, 2002, the results of this annual impairment test indicated the carrying value of goodwill and other intangible assets for certain reporting units exceeded their implied fair values and an impairment charge was recorded in the second quarter of 2003.

The impairment charge to goodwill and other intangible assets from the annual impairment test resulted in a write-down in June 2003 as follows:

	Internet Services Group	Telecommunication Services Group	Network Solutions	Total Segments
	(In thousands)			
Goodwill	\$ 18,697	\$ 20,034	\$12,954	\$ 51,685
Technology in place	—	27,499	—	27,499
Customer lists	—	44,035	—	44,035
	<u>\$ 18,697</u>	<u>\$ 91,568</u>	<u>\$12,954</u>	<u>\$ 123,219</u>

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

VeriSign expects to close the sale of its Network Solutions business in the fourth quarter of 2003. The event triggered an evaluation of the carrying value of the goodwill assigned to Network Solutions. After considering the sales price of the assets and liabilities to be sold and the expenses associated with the divestiture, VeriSign determined that the carrying value exceeded the implied fair value of Network Solutions' goodwill. VeriSign recorded a write-down of goodwill of \$30.2 million in the three months ended September 30, 2003.

Goodwill and other intangible assets, net of accumulated amortization, totaled \$820.2 million at September 30, 2003, which was comprised of \$585.5 million of goodwill and \$234.7 million of other intangible assets. VeriSign's goodwill and other intangible assets, net of accumulated amortization includes balances relating to its Network Solutions business of \$191.3 million of goodwill and \$3.7 million of other intangible assets. VeriSign's consolidated goodwill and other intangible assets comprise:

As of September 30, 2003			
	Gross Carrying Value	Accumulated Amortization and Write-down	Net Carrying Value
(In thousands)			
Goodwill	\$ 21,310,089	\$ (20,724,568)	\$ 585,521
ISP hosting relationships	11,388	(11,388)	—
Customer relationships	260,597	(111,597)	149,000
Technology in place	148,243	(126,781)	21,462
Non-compete agreement	1,019	(1,019)	—
Trade name	76,314	(76,314)	—
Contracts with ICANN and customer lists	957,443	(893,201)	64,242
	\$ 22,765,093	\$ (21,944,868)	\$ 820,225

As of December 31, 2002			
	Gross Carrying Value	Accumulated Amortization and Write-down	Net Carrying Value
(In thousands)			
Goodwill	\$ 21,308,284	\$ (20,640,973)	\$ 667,311
ISP hosting relationships	11,388	(11,213)	175
Customer relationships	260,597	(84,669)	175,928
Technology in place	148,243	(87,519)	60,724
Non-compete agreement	1,019	(988)	31
Trade name	76,314	(76,289)	25
Contracts with ICANN and customer lists	957,403	(731,995)	225,408
	\$ 22,763,249	\$ (21,633,647)	\$ 1,129,602

For the three months ended September 30, 2003 and 2002, amortization of other intangible assets was \$47.5 million and \$56.2 million, respectively. Amortization of other intangible assets was \$156.3 million and \$228.6 million for the nine months ended September 30, 2003 and 2002, respectively.

VERISIGN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Estimated future amortization expense related to other intangible assets at September 30, 2003 is as follows:

	(In thousands)
2003 (3 months)	\$ 25,415
2004	56,204
2005	56,204
2006	49,462
2007	46,379
Thereafter	1,040
	\$ 234,704

Note 4. Stock Compensation Plans and Unearned Compensation

At September 30, 2003, VeriSign has four stock-based employee compensation plans, including two terminated plans under which options are outstanding but no further grants can be made, and two active plans. VeriSign accounts for these plans under the recognition and measurement principles of Accounting Principles Board (“APB”) Opinion No. 25, “*Accounting for Stock Issued to Employees.*” The following table illustrates the effect on net loss and net loss per share if VeriSign had applied the fair value recognition provisions of Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 123, “*Accounting for Stock-Based Compensation,*” to stock-based employee compensation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(In thousands, except per share data)			
Net loss, as reported	\$ (31,303)	\$ (79,672)	\$ (227,589)	\$ (4,921,917)
Add: Unearned compensation related to acquisitions included in reported net loss, net of tax	935	8,772	6,764	16,230
Deduct: Equity-based compensation determined under the fair value method for all awards, net of tax	(53,728)	(62,649)	(176,590)	(199,642)
Pro forma net loss	\$ (84,096)	\$ (133,549)	\$ (397,415)	\$ (5,105,329)
Basic and diluted net loss per share:				
As reported	\$ (0.13)	\$ (0.34)	\$ (0.95)	\$ (20.83)
Add: Unearned compensation	—	0.03	0.03	0.07
Deduct: Pro forma equity-based compensation	(0.22)	(0.26)	(0.74)	(0.85)
Pro forma basic and diluted net loss per share	\$ (0.35)	\$ (0.57)	\$ (1.66)	\$ (21.61)

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fair value of stock options and Employee Stock Purchase Plan options was estimated on the date of grant using the Black-Scholes option-pricing model. The following table sets forth the weighted-average assumptions used to calculate the fair value of the stock options and Employee Stock Purchase Plan options for each period presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Stock options:				
Volatility	103%	110%	104%	110%
Risk-free interest rate	2.67%	4.11%	2.37%	4.11%
Expected life	3.5 years	3.5 years	3.5 years	3.5 years
Dividend yield	zero	zero	zero	zero
Employee Stock Purchase Plan options:				
Volatility	81%	110%	93%	110%
Risk-free interest rate	1.59%	2.23%	1.49%	2.23%
Expected life	1.25 years	1.25 years	1.25 years	1.25 years
Dividend yield	zero	zero	zero	zero

The weighted-average fair value of stock options granted was \$8.92 and \$5.60 during the three months and nine months ended September 30, 2003, respectively.

During the three months ended September 30, 2003, VeriSign issued 150,000 shares of restricted stock under its 1998 Equity Incentive Plan to certain executive officers. The stock vests on a two year cliff vesting basis, after which 2/3 of the shares may be sold. The remaining 1/3 may be sold at the end of the third year. The aggregate market value of the restricted stock at the date of issuance was \$1.9 million and was recorded as deferred compensation and will be amortized ratably over the two year vesting period.

Note 5. Investments

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

Investments in non-public companies where VeriSign owns less than 20% of the voting stock and have no indicators of significant influence are included in long-term investments in the consolidated balance sheets and are accounted for under the cost method. For these non-quoted investments, VeriSign regularly reviews the assumptions underlying the operating performance and cash flow forecasts based on information requested from these privately held companies. Generally, this information may be more limited, may not be as timely, and may be less accurate than information available from publicly traded companies. Assessing each investment’s carrying value requires significant judgment by management. If it is determined that an other-than-temporary decline exists in a non-public equity security, VeriSign writes down the investment to its fair value and records the related write-down as an investment loss in its consolidated statement of operations. Generally, if cash

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

balances are insufficient to sustain the investee's operations for a six-month period and there are no current prospects of future funding for the investee, VeriSign considers the decline in fair value to be other-than-temporary. During the three months ended September 30, 2003, no investment write-downs were recorded. During the three months ended September 30, 2002, VeriSign determined that the decline in value of certain of its public and non-public equity investments was other-than-temporary and recorded net write-downs of these investments totaling \$53.2 million. During the nine months ended September 30, 2003 and 2002, VeriSign recorded net write-downs of these investments totaling \$16.5 million and \$166.8 million, respectively. VeriSign reviews all of its public and non-public investments on a quarterly basis.

From time to time, VeriSign may recognize revenues from companies in which it also has made an investment. In addition to its normal revenue recognition policies, VeriSign also considers the amount of other third-party investments in the company, its earnings and revenue outlook, and its operational performance in determining the propriety and amount of revenues to recognize. If the investment is made in the same quarter that revenues are recognized, VeriSign looks to the investments of other third parties made at that time to establish the fair value of VeriSign's investment in the company as well as to support the amount of revenues recognized. VeriSign typically makes its investments with others where its investment is less than 50% of the total financing round. VeriSign's policy is not to recognize revenue in excess of other investors' financing of the company. These arrangements are independent relationships and are not terminable unless the terms of the agreements are violated. For the three months ended September 30, 2003 and 2002, VeriSign recognized revenues totaling \$2.1 million and \$6.3 million, respectively, and for the nine months ended September 30, 2003 and 2002, VeriSign recognized revenues totaling \$7.5 million and \$23.9 million, respectively, from customers, including VeriSign Affiliates, with whom it had previously participated in a private equity round of financing.

Note 6. Reciprocal Transactions

VeriSign did not enter into any reciprocal transactions during the nine months ended September 30, 2003. There were approximately \$0.8 million of revenues related to prior period transactions recognized during the quarter ended September 30, 2003. Revenues recognized under reciprocal arrangements were approximately \$1.4 million during the quarter ended September 30, 2002. Reciprocal transactions during the nine months ended September 30, 2003, all of which related to prior periods, accounted for approximately \$3.0 million of revenues. Revenues recognized under reciprocal arrangements were approximately \$7.2 million during the nine months ended September 30, 2002.

Note 7. Restricted Cash

As of September 30, 2003, VeriSign has pledged \$18.4 million classified as restricted cash as collateral for standby letters of credit that guarantee certain of its contractual obligations, primarily relating to its real estate lease agreements, the longest of which is expected to mature in 2013.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 8. Comprehensive Loss

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(In thousands)			
Net loss	\$ (31,303)	\$ (79,672)	\$ (227,589)	\$ (4,921,917)
Change in unrealized gain (loss) on investments, net of tax	(155)	(1,205)	1,094	(1,685)
Translation adjustments	920	(821)	(1,639)	(615)
Comprehensive loss	\$ (30,538)	\$ (81,698)	\$ (228,134)	\$ (4,924,217)

Note 9. Calculation of Net Loss Per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(In thousands, except per share data)			
Basic and diluted net loss per share:				
Net loss	\$ (31,303)	\$ (79,672)	\$ (227,589)	\$ (4,921,917)
Basic and diluted weighted-average common shares outstanding	240,370	236,958	239,167	236,283
Basic and diluted net loss per share	\$ (0.13)	\$ (0.34)	\$ (0.95)	\$ (20.83)

For the three months ended September 30, 2003 and 2002, VeriSign excluded 3,420,734 and 2,461,412 weighted-average common share equivalents, respectively, with a weighted-average exercise price of \$11.23 and \$4.20, respectively, because their effect would have been anti-dilutive. For the nine months ended September 30, 2003 and 2002, VeriSign excluded 2,417,514 and 7,623,842 weighted-average common share equivalents, respectively, with a weighted-average exercise price of \$8.07 and \$8.02, respectively, because their effect would have been anti-dilutive. Weighted-average common share equivalents do not include stock options with an exercise price that exceeded the average fair market value of VeriSign's common stock for the period.

Note 10. Commitments and Contingencies

Legal proceedings

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

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 11. Segment Information*Description of segments*

VeriSign is currently organized into three service-based lines of business: the Internet Services Group, the Telecommunication Services Group, and Network Solutions. The Internet Services Group consists of two business units: Security Services and Naming and Directory Services. VeriSign's Security Services business unit provides products and services to organizations who want to establish and deliver secure Internet-based services for their customers including: managed security and network services, Web trust services and payment services. VeriSign's Naming and Directory Services business unit acts as the exclusive registry of domain names in the .com and .net generic top-level domains ("gTLDs") and in the .tv and .cc country code top-level domains ("ccTLDs"). The Telecommunication Services Group provides specialized services to telecommunications carriers such as calling card validation, advanced intelligent network services, local number portability, wireless services, toll-free number database access, caller identification and advanced billing and customer care services to wireless carriers. Through its wholly owned subsidiary, Network Solutions, VeriSign provides digital identity through domain name registration services, and value-added services, such as e-mail, Web site creation tools, Web site hosting and other e-commerce enabling offerings.

The segments were determined based primarily on how the chief operating decision maker ("CODM") views and evaluates VeriSign's operations. VeriSign's Chief Executive Officer has been identified as the CODM as defined by SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." Other factors, including customer base, homogeneity of products, technology and delivery channels, were also considered in determining the reportable segments. The performance of each segment is measured based on several metrics, including gross margin.

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

	Internet Services Group	Telecommunication Services Group	Network Solutions	Other	Total Segments
(In thousands)					
Three months ended September 30, 2003:					
Total revenues	\$ 120,337	\$ 105,296	\$ 54,945	\$ —	\$ 280,578
Internal revenues	(12,455)	—	—	—	(12,455)
External revenues	\$ 107,882	\$ 105,296	\$ 54,945	\$ —	\$ 268,123
Total cost of revenues	\$ 28,292	\$ 58,151	\$ 30,841	\$ 9,584	\$ 126,868
Internal cost of revenues	—	—	(12,455)	—	(12,455)
External cost of revenues	\$ 28,292	\$ 58,151	\$ 18,386	\$ 9,584	\$ 114,413
Gross margin after eliminations	\$ 79,590	\$ 47,145	\$ 36,559	\$ (9,584)	\$ 153,710

VERISIGN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Internet Services Group	Telecommunication Services Group	Network Solutions	Other	Total Segments
(In thousands)					
Three months ended September 30, 2002:					
Total revenues	\$ 147,107	\$ 99,893	\$ 74,952	\$ —	\$ 321,952
Internal revenues	(20,511)	—	—	—	(20,511)
External revenues	\$ 126,596	\$ 99,893	\$ 74,952	\$ —	\$ 301,441
Total cost of revenues	\$ 59,324	\$ 56,698	\$ 44,420	\$ 7,326	\$ 167,768
Internal cost of revenues	—	—	(20,511)	—	(20,511)
External cost of revenues	\$ 59,324	\$ 56,698	\$ 23,909	\$ 7,326	\$ 147,257
Gross margin after eliminations	\$ 67,272	\$ 43,195	\$ 51,043	\$ (7,326)	\$ 154,184
(In thousands)					
Nine months ended September 30, 2003:					
Total revenues	\$ 356,486	\$ 306,946	\$ 180,256	\$ —	\$ 843,688
Internal revenues	(40,508)	—	—	—	(40,508)
External revenues	\$ 315,978	\$ 306,946	\$ 180,256	\$ —	\$ 803,180
Total cost of revenues	\$ 89,299	\$ 172,516	\$ 98,564	\$ 25,960	\$ 386,339
Internal cost of revenues	—	—	(40,508)	—	(40,508)
External cost of revenues	\$ 89,299	\$ 172,516	\$ 58,056	\$ 25,960	\$ 345,831
Gross margin after eliminations	\$ 226,679	\$ 134,430	\$ 122,200	\$ (25,960)	\$ 457,349
(In thousands)					
Nine months ended September 30, 2002:					
Total revenues	\$ 490,219	\$ 284,789	\$ 242,628	\$ —	\$ 1,017,636
Internal revenues	(70,970)	—	—	—	(70,970)
External revenues	\$ 419,249	\$ 284,789	\$ 242,628	\$ —	\$ 946,666
Total cost of revenues	\$ 207,378	\$ 156,799	\$ 140,093	\$ 21,473	\$ 525,743
Internal cost of revenues	—	—	(70,970)	—	(70,970)
External cost of revenues	\$ 207,378	\$ 156,799	\$ 69,123	\$ 21,473	\$ 454,773
Gross margin after eliminations	\$ 211,871	\$ 127,990	\$ 173,505	\$ (21,473)	\$ 491,893

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

VERISIGN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Reconciliation to VeriSign, as reported

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
(In thousands)				
Revenues:				
Total segments	\$280,578	\$321,952	\$ 843,688	\$ 1,017,636
Elimination of internal revenues	(12,455)	(20,511)	(40,508)	(70,970)
Revenues, as reported	\$268,123	\$301,441	\$ 803,180	\$ 946,666
Net loss:				
Segment gross margin	\$153,710	\$154,184	\$ 457,349	\$ 491,893
Operating expenses	182,625	178,184	665,309	5,254,968
Operating loss	(28,915)	(24,000)	(207,960)	(4,763,075)
Other income (expense), net	1,068	(51,430)	(10,510)	(154,600)
Income tax expense	(3,456)	(4,242)	(9,119)	(4,242)
Net loss, as reported	\$ (31,303)	\$ (79,672)	\$(227,589)	\$(4,921,917)

Geographic information

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
(In thousands)				
Revenues:				
United States	\$ 240,291	\$ 275,906	\$ 728,417	\$ 866,248
All other countries	27,832	25,535	74,763	80,418
Total	\$ 268,123	\$ 301,441	\$ 803,180	\$ 946,666

VeriSign operates in the United States, Europe, Australia, South Africa, South America, Asia and Canada. 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.

	September 30, 2003	December 31, 2002
	(In thousands)	
Long-lived assets:		
United States	\$ 1,383,854	\$ 1,725,876
All other countries	69,918	79,574
Total	\$ 1,453,772	\$ 1,805,450

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

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 12. Income Taxes

For the quarter and nine months ended September 30, 2003, VeriSign recorded tax expense of \$3.5 million and \$9.1 million, respectively. For the quarter ended September 30, 2003, tax expense was comprised of an expense of \$2.8 million for foreign income and withholding taxes and an expense of \$0.7 million for U.S. state taxes. For the nine months ended September 30, 2003, tax expense was comprised of \$6.9 million of foreign income and withholding taxes and \$2.2 million of U.S. federal and state taxes. For the quarter and nine months ended September 30, 2002, VeriSign recorded tax expense of \$4.2 million related to foreign income and withholding taxes.

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

Note 13. Recent Accounting Pronouncements

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 00-21, "*Revenue Arrangements with Multiple Deliverables*." Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of Issue No. 00-21 did not have a material effect on VeriSign's consolidated financial position, results of operations or cash flows.

In January 2003, the FASB issued Interpretation No. 46, "*Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin ("ARB") No. 51*." This Interpretation requires companies to include in their consolidated financial statements the assets, liabilities and results of activities of variable interest entities if the company holds a majority of the variable interests. The consolidation requirements of this Interpretation are effective for variable interest entities created after January 31, 2003 or for entities in which an interest is acquired after January 31, 2003. The consolidation requirements of this Interpretation are effective for the first interim or annual period ending after December 15, 2003 for all variable entities acquired before February 1, 2003. This Interpretation also requires companies that expect to consolidate a variable interest entity they acquired before February 1, 2003 to disclose the entity's nature, size, activities, and the company's maximum exposure to loss in financial statements issued after January 31, 2003. The adoption of FASB Interpretation No. 46 is not expected to have a material effect on its consolidated financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, "*Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*." SFAS No. 150 requires issuers to classify as liabilities (or assets in some circumstance) three classes of freestanding financial instruments that embody obligations for the issuer. Generally, the Statement is effective for financial instruments entered into or modified after May 31, 2003 and is

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

otherwise effective at the beginning of the first interim period beginning after June 15, 2003. VeriSign adopted the provisions of SFAS No. 150 on July 1, 2003. The adoption of SFAS No. 150 did not have a material effect on VeriSign's consolidated financial position, results of operations or cash flows.

Note 14. Subsequent Events

On October 16, 2003, VeriSign announced that it signed a definitive agreement to sell the Network Solutions business unit to Pivotal Private Equity. Under the terms of the agreement, VeriSign will receive approximately \$100 million of consideration, consisting of \$60 million in cash and a \$40 million senior subordinated note upon closing. The note will bear interest at 7% per annum for the first three years and 9% per annum thereafter and will mature five years from the date of closing. The principal and interest will become due upon maturity. VeriSign will also retain a 15% equity stake in the Network Solutions business. The transaction is subject to certain closing conditions. VeriSign expects to close the sale of the Network Solutions business in the fourth quarter of 2003.

The Network Solutions business provides domain name registrations, and value added services such as business e-mail, websites, hosting and other web presence services. This registrar business unit, which re-assumed the Network Solutions name in January of this year, constitutes the current Network Solutions business that is being sold. The registry business, which was recently renamed VeriSign Naming and Directory Services, is the exclusive registry of domain names within the .com and .net generic top-level domains and the .tv and .cc country code top-level domains and remains with VeriSign.

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 might 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 or Current Reports on Form 8-K that we file in 2003 and our Annual Report on Form 10-K for the period ended December 31, 2002, which was filed on March 31, 2003. 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, Inc. is a leading provider of critical infrastructure services that enable Web site owners, enterprises, communications service providers, e-commerce service providers and individuals to engage in secure digital commerce and communications. Our services include three core offerings: Internet security and naming and directory services, telecommunications services, and Web presence services. We market our products and services through our direct sales force, telesales operations, member organizations in our global affiliate network, value-added resellers, service providers, and our Web sites.

We are organized into three service-based lines of business: the Internet Services Group, the Telecommunication Services Group and Network Solutions.

The Internet Services Group consists of two business units: Security Services and Naming and Directory Services. Our Security Services business unit provides products and services to enterprises who want to establish and deliver secure Internet-based services for their customers including: managed security and network services, Web trust services and payment services. Our Naming and Directory Services business unit acts as the exclusive registry of domain names in the .com and .net generic top-level domains ("gTLDs") and the .tv and .cc country code top-level domains ("ccTLDs").

The Telecommunication Services Group provides specialized services to telecommunications carriers. Service offerings include the Signaling System 7, or SS7, network, as either part of the connectivity, switching and transport function of the SS7 network or as intelligent network services delivered over the SS7 network. SS7 is an industry-standard system of protocols and procedures that is used to control telephone communications and provide routing information in association with seamless roaming and vertical calling features, such as calling card validation, advanced intelligent network services, local number portability, wireless services, toll-free number database access and caller identification. The Telecommunication Services Group also offers advanced billing and customer care services to wireless carriers, and lawful intercept services.

Through our Network Solutions subsidiary, we provide digital identity through domain name registration services, and value-added services, such as e-mail, Web site creation tools, Web site hosting and other

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e-commerce enabling offerings. We register second-level domain names in the *.com*, *.net*, *.org*, *.biz* and *.info* gTLDs, as well as selected ccTLDs, such as *.uk* and *.tv*, around the world, enabling individuals, companies and organizations to establish a unique identity on the Internet. Our customers apply to register second-level domain names either directly through our Web sites or indirectly through our channel partner wholesalers, Internet service providers, telecommunications companies and others. We accept registrations and re-registrations in annual or multi-year increments for periods up to ten years.

Network Solutions Sale

On October 16, 2003, we announced the signing of a definitive agreement to sell the Network Solutions business unit to Pivotal Private Equity. Under the terms of the agreement, we will receive approximately \$100 million of consideration, consisting of \$60 million in cash and a \$40 million senior subordinated note upon closing. The note will bear interest at 7% per annum for the first three years and 9% per annum thereafter and will mature five years from the date of closing. The principal and interest will become due upon maturity. We will also retain a 15% equity stake in the Network Solutions business. The transaction is subject to certain closing conditions. We expect to close the sale of the Network Solutions business in the fourth quarter of 2003.

The Network Solutions business provides domain name registration, and value added services such as business e-mail, websites, hosting and other web presence services. This business unit, which re-assumed the Network Solutions name in January of this year, constitutes the current Network Solutions business that is being sold. The registry business, which was recently renamed VeriSign Naming and Directory Services, is the exclusive registry of domain names within the *.com* and *.net* generic top-level domains and the *.tv* and *.cc* country code top-level domains and remains with us.

Critical Accounting Policies and Significant Management Estimates

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

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

Revenue Recognition

We derive revenues from three primary categories of services: (i) Internet services, which include managed security and network services, Web trust services and payment services, and registry services; (ii) telecommunications services, which include connectivity, intelligent networks, wireless and clearinghouse services; and (iii) domain name registration services. The revenue recognition policy for each of these categories is as follows:

Internet Services

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 managed Public Key Infrastructure

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("PKI") services are deferred and recognized ratably over the term of the license, generally 12 to 36 months. Post-contract customer support ("PCS") is bundled with managed PKI services licenses and recognized over the license term.

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

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

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

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

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

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

We allocate revenues on software arrangements involving multiple elements to each element based on the relative fair value of each element. Our determination of fair value of each element in multiple element arrangements is based on vendor-specific objective evidence ("VSOE") of fair value. We limit our assessment of VSOE for each element to the price charged when the same element is sold separately. We have analyzed all of the elements included in our multiple-element arrangements and determined that we have sufficient VSOE to allocate revenues to PCS, professional services and training components of our perpetual license arrangements. We sell our professional services and training separately, and have established VSOE on this basis. VSOE for PCS is determined based upon the customer's annual renewal rates for these elements. Accordingly, assuming all other revenue recognition criteria are met, revenues from perpetual licenses are recognized upon delivery using the residual method in accordance with SOP 98-9.

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

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

Revenues from third-party product sales are recognized when title to the products sold passes to the customer. Our shipping terms generally dictate that the passage of title occurs upon shipment of the products to the customer.

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

Telecommunications Services

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

Clearinghouse services revenues are derived primarily from serving as a distribution and collection point for billing information and payment collection for services provided by one carrier to customers billed by another. Clearinghouse services revenues are earned based on the number of messages processed. Included in prepaid expenses and other current assets are amounts from customers that are related to our telecommunications services for third-party network access, data base charges and clearinghouse toll amounts that have been invoiced and remitted to the customer.

Domain Name Registration Services

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

Domain name registration renewal fees are estimated and recorded based on renewal and collection rates. Customers are notified of the expiration of their registration in advance, and we record the receivables and related deferred revenue for estimated renewal fees in the month preceding the anniversary date of their

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registration when we have a right to bill under the terms of our domain name registration agreements. The variance between the actual collections and the rate used to estimate the renewal fees is reflected in the setting of renewal rates for prospective periods. Fees for renewals and advance extensions to the existing term are deferred until the new incremental period commences. These fees are then recognized ratably over the new registration term, ranging from one to ten years.

Reciprocal Arrangements

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

We did not enter into any reciprocal transactions during the nine months ended September 30, 2003. There were approximately \$0.8 million of revenues related to prior period transactions recognized during the quarter ended September 30, 2003. Revenues recognized under reciprocal arrangements were approximately \$1.4 million during the quarter ended September 30, 2002. Reciprocal transactions during the nine months ended September 30, 2003, all of which related to prior periods, accounted for approximately \$3.0 million of revenues. Revenues recognized under reciprocal arrangements were approximately \$7.2 million during the nine months ended September 30, 2002.

Allowance for Doubtful Accounts

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

Investments

We invest in debt and equity securities of technology companies for business and strategic purposes. Some of these companies may be publicly traded and have highly volatile share prices. However, in most instances, these investments are in the form of equity and debt securities of private companies for which there is no public market. These companies are typically in the early stage of development and are expected to incur substantial

losses in the near-term. Therefore, these companies may never become publicly traded. Even if they do, an active trading market for their securities may never develop and we may never realize any return on these investments. Further, if these companies are not successful, we could incur charges related to write-downs or write-offs of these investments.

We review our investments in publicly traded companies on a regular basis to determine if any security has experienced an other-than-temporary decline in fair value. We consider the investee company's cash position, earnings and revenue outlook, stock price performance over the preceding six months, liquidity and changes in management's ownership, among other factors, in our review. If we determine that an other-than-temporary decline exists in a marketable equity security that is classified as available-for-sale, we record an investment loss in our consolidated statement of operations. For non-public companies, we review, on a quarterly basis, the assumptions underlying the operating performance and cash flow forecasts based on information requested from these privately held companies on at least a quarterly basis. This information may be more limited, may not be as timely and may be less accurate than information available from publicly traded companies. Assessing each investment's carrying value requires significant judgment by management. Generally, if cash balances are insufficient to sustain a company's operations for a six-month period, we consider the decline in its fair value to be other-than-temporary. If we determine that an other-than-temporary decline in fair value exists in a non-public equity security, we write-down the investment to its fair value and record the related write-down as an investment loss in our consolidated statement of operations.

During the three months ended September 30, 2003, no investment write-downs were recorded. During the three months ended September 30, 2002, we determined that the decline in value of certain of our public and non-public equity investments was other-than-temporary and recorded net write-downs of these investments totaling \$53.2 million. During the nine months ended September 30, 2003 and 2002, we recorded net write-downs of these investments totaling \$16.5 million and \$166.8 million, respectively. We review all of our public and non-public investments on a quarterly basis.

Valuation of Long-lived Intangible Assets Including Goodwill

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

Goodwill and other intangible assets, net of accumulated amortization, totaled \$820.2 million at September 30, 2003, which was comprised of \$585.5 million of goodwill and \$234.7 million of other intangible assets. Other intangible assets include customer relationships, technology in place, contracts with ICANN and customer lists. Factors we consider important which could trigger an impairment review include, but are not limited to, significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of our use of our acquired assets or the strategy for our overall business or significant negative economic trends. If this evaluation indicates that the value of an intangible asset may be impaired, an assessment of the recoverability of the net carrying value of the asset over its remaining useful life is made. If this assessment indicates that an intangible asset is not recoverable, based on the estimated undiscounted future cash flows or other comparable market valuations, of the entity or technology acquired over the remaining amortization period, the net carrying value of the related intangible asset will be reduced to fair value and the remaining amortization period may be adjusted. Any such impairment charge could be significant and could have a material adverse effect on our reported financial statements.

Recoverability of long-lived assets other than goodwill is measured by comparison of the carrying amount of an asset to estimated undiscounted cash flows expected to be generated by the asset. If the carrying amount of

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an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds its fair value.

We review, at least annually, goodwill resulting from purchase business combinations for impairment in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 142, “*Goodwill and Other Intangible Assets*.” We review long-lived assets, including certain identifiable intangibles, for impairment whenever events or changes in circumstances indicate that we will not be able to recover the asset’s carrying amount in accordance with SFAS No. 144, “*Accounting for the Impairment or Disposal of Long-Lived Assets*.”

Deferred Taxes

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

Employee Stock Options

Option Program Description

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

We recognize that stock options dilute existing shareholders and have attempted to control the number of options granted while remaining competitive with our compensation packages. The potential dilution percentage is calculated as the new option grants for the year, net of options forfeited by employees leaving the Company, divided by the total outstanding shares at the beginning of the year. Please refer to the table below for the maximum potential dilution from options granted year to date as of September 30, 2003 and for the years ended December 31, 2002 and 2001. This maximum potential dilution will only result if all options are exercised. Many

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of these options, which have up to a 10-year exercise period, have exercise prices substantially higher than the current market price. At September 30, 2003, approximately 65% of our stock options had exercise prices in excess of the current market price.

During the three months ended September 30, 2003, we issued 150,000 shares of restricted stock under our 1998 Equity Incentive Plan to certain executive officers. The stock vests on a two year cliff vesting basis, after which 2/3 of the shares may be sold. The remaining 1/3 may be sold at the end of the third year. The aggregate market value of the restricted stock at the date of issuance was \$1.9 million and was recorded as deferred compensation and will be amortized ratably over the two year vesting period.

All stock option grants to executive officers are made after a review by, and with the approval of the compensation committee of the Board of Directors. All stock option grants to non-executive officers are determined by VeriSign's Chief Executive Officer in accordance with guidelines approved by the compensation committee. All members of the compensation committee are independent directors, as defined in the applicable rules for issuers traded on The Nasdaq Stock Market. See the "Report of Compensation Committee" appearing in our proxy statement dated April 16, 2003 for further information concerning the policies of our compensation committee regarding the use of stock options.

Distribution and Dilutive Effect of Options

The following table provides information about stock options granted year to date as of September 30, 2003 and for the years ended December 31, 2002 and 2001, to our Chief Executive Officer and our four other most highly compensated executive officers as identified in our 2003 Proxy Statement. This group is referred to as the Named Executive Officers. Please refer to the section headed "Executive Options" below for the Named Executive Officers.

Employee and Executive Option Grants year to date as of September 30, 2003 and for the years ended December 31, 2002 and 2001 are as follows:

	Nine Months Ended September 30, 2003	2002	2001
		(Shares in thousands)	
Shares subject to options granted	12,366	12,850	15,789
Less options cancelled	(3,812)	(20,724)	(4,986)
Net shares subject to options granted (cancelled)	8,554	(7,874)	10,803
Common shares outstanding at beginning of period	237,510	234,358	198,639
Net options granted (cancelled) during the period as a percentage of outstanding common shares	3.6%	(3.4)%	5.4%
Options granted to Named Executive Officers during the period as a percentage of total options granted	0.7%	14.8%	11.3%
Options held by Named Executive Officers as a percentage of total options outstanding	19.3%	25.0%	13.4%

During the first nine months of 2003, we granted stock options to purchase approximately 12.4 million shares of our stock to our existing employees, of which approximately 6.8 million shares resulted from the option exchange described below. After deducting 3.8 million shares for options cancelled or otherwise terminated, the net grant was 8.6 million shares for the nine months ended September 30, 2003. Options granted to the Named Executive Officers varies from year to year depending on their achievements and future potential in leading the Company. For additional information about our employee stock option plan activity for the fiscal years 2001 and

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2002, please refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2002 filed March 31, 2003.

In November 2002, we offered all U.S. employees (excluding members of the Board of Directors and executive officers) holding options granted under the 2001 Plan between January 1, 2001 and May 24, 2002 the opportunity to cancel those options and to receive in exchange a new option to be granted not less than six months and one day after the cancellation date of the existing option. The number of shares granted under the new option was dependent on the exercise price of the original option, as follows:

Exercise Price Range of Original Option	Exchange Ratio
\$0.001–\$24.99	1 share subject to existing option for 1 share subject to exchanged option
\$25.00–\$49.99	2 shares subject to existing option for 1 share subject to exchanged option
\$50.00 and above	2.5 shares subject to existing option for 1 share subject to exchanged option

Under this program, employees tendered options to purchase approximately 11.4 million shares, which were cancelled effective December 26, 2002. In exchange, we granted options to purchase approximately 6.8 million shares at an exercise price of \$13.79 which was equal to the fair market value on the date of grant, June 30, 2003. Except for the exercise price, all terms and conditions of the new options are substantially the same as the cancelled option. In particular, the new option is vested to the same degree, as a percentage of the option, that the cancelled option would have been vested on the new option date if the cancelled option had not been cancelled and will continue to vest on the same schedule as the cancelled option.

General Option Information

Summary of Option Activity year to date as of September 30, 2003 and for the years ended December 31, 2002 and 2001 is as follows:

	Nine Months Ended September 30, 2003		2002		2001	
	Shares	Weighted- Average Exercise Price	Shares	Weighted- Average Exercise Price	Shares	Weighted- Average Exercise Price
Outstanding at beginning of period	26,960,479	\$ 47.41	37,340,507	\$ 52.50	28,639,917	\$ 59.65
Assumed in business combinations	—	—	—	—	3,550,832	15.16
Granted	12,365,996	13.22	12,850,130	16.69	15,789,042	39.12
Exercised	(1,453,569)	7.92	(2,506,354)	4.30	(5,653,134)	12.75
Cancelled	(3,811,665)	51.91	(20,723,804)	42.70	(4,986,150)	73.05
Outstanding at end of period	<u>34,061,241</u>	<u>36.20</u>	<u>26,960,479</u>	<u>47.41</u>	<u>37,340,507</u>	<u>52.50</u>
Exercisable at end of period	<u>17,548,936</u>	<u>48.17</u>	<u>13,874,208</u>	<u>52.94</u>	<u>12,074,142</u>	<u>44.53</u>
Weighted-average fair value of options granted during the period		\$ 13.12		\$ 11.97		\$ 26.42

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The following table sets forth a comparison of the numbers of shares subject to our options whose exercise prices were below the closing price of our common stock on September 30, 2003 (“In-the-Money” options) to the numbers of shares subject to options whose exercise prices were equal to or greater than the closing price of our common stock on such date (“Out-of-the-Money” options).

In-the-Money and Out-of-the-Money option information as of September 30, 2003:

	Exercisable		Unexercisable		Total	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
In-the-Money	3,798,401	\$ 9.66	8,143,883	\$ 10.29	11,942,284	\$ 10.09
Out-of-the-Money (1)	13,750,535	58.81	8,368,422	36.32	22,118,957	50.30
Total options outstanding	17,548,936	\$ 48.17	16,512,305	\$ 23.48	34,061,241	\$ 36.20

- (1) Out-of-the-Money options are those options with an exercise price of our common stock at or above the closing price of \$13.46 on September 30, 2003, as reported by the Nasdaq National Market.

Executive Options

The following table sets forth certain information regarding stock options granted year to date as of September 30, 2003 to our Named Executive Officers. All options were granted with an exercise price equal to the closing price of our common stock on the date of grant.

Summary of Option Activity as of September 30, 2003:

Name	Individual Grants (1)				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Terms (2)	
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in 2003 (3)	Exercise Price Per Share (4)	Expiration Date	5%	10%
Stratton D. Sclavos	—	—	\$ —	—	\$ —	\$ —
Dana L. Evan	80,000	0.653%	12.88	8/10/10	419,476	977,558
Quentin P. Gallivan	80,000	0.653%	12.88	8/10/10	419,476	977,558
Robert J. Korzeniewski	80,000	0.653%	12.88	8/10/10	419,476	977,558
F. Terry Kremian (5)	—	—	\$ —	—	\$ —	\$ —

- (1) All options granted in 2003 were granted under VeriSign’s 1998 Equity Incentive Plan Options and generally become exercisable with respect to 25% of the shares covered by the option on the first anniversary of the date of grant and with respect to an additional 6.25% of these shares each quarter thereafter. These options have a term of seven years. Upon certain changes in control of VeriSign, this vesting schedule will accelerate as to 50% of any shares that are then unvested for officers of VeriSign at the level of senior vice president and above and as to 100% of any shares that are then unvested for the President and Chief Operating Officer.
- (2) Potential realizable values are net of exercise price but before taxes, and are based on the assumption that the common stock of VeriSign appreciates at the annual rate shown, compounded annually, from the date of grant until the expiration of the seven-year term. These numbers are calculated based on Securities and Exchange Commission requirements and do not reflect VeriSign’s projection or estimate of future stock price growth.

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- (3) VeriSign granted options to purchase 12,365,996 shares of common stock to employees during the nine months ended September 30, 2003.
- (4) Options were granted at an exercise price equal to the fair market value per share of VeriSign common stock, as quoted on the Nasdaq National Market.
- (5) F. Terry Kremian left the Company effective June 6, 2003.

Option Exercises and Remaining Holdings as of September 30, 2003 of Named Executive Officers:

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at September 30, 2003		Values of Unexercised In-the-Money Options at September 30, 2003 (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Stratton D. Sclavos	—	\$ —	2,918,126	1,471,250	\$ 2,699,104	\$ 1,394,250
Dana L. Evan	—	—	544,029	273,123	562,562	220,680
Quentin P. Gallivan	—	—	510,478	279,686	463,631	220,680
Robert J. Korzeniewski	15,480	63,004	309,064	262,311	79,220	220,680
F. Terry Kremian (2)	165,540	\$ 1,543,314	—	—	\$ —	\$ —

- (1) Option values are based on the closing price of our common stock of \$13.46 as reported by the Nasdaq National Market on September 30, 2003, net of the option exercise price.
- (2) F. Terry Kremian left the Company effective June 6, 2003.

The following table sets forth information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of September 30, 2003.

Plan Category	Equity Compensation Plan Information		
	(A)	(B)	(C)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))
Equity compensation plans approved by stockholders	13,115,149	\$ 56.55	21,220,939(1)
Equity compensation plans not approved by stockholders	17,366,620(2)(3)	15.94	7,026,379
Total	30,481,769	\$ 33.41	28,247,318

- (1) Includes 6,032,486 shares available for purchase under VeriSign's 1998 Employee Stock Purchase Plan ("Purchase Plan"). The Purchase Plan contains an "evergreen" provision whereby the aggregate number of shares available for issuance increase automatically on January 1 of each year by 1% of VeriSign's outstanding shares of common stock on each immediately preceding December 31.
- (2) Includes securities to be issued upon exercise of outstanding options under VeriSign's 2001 Stock Incentive Plan ("Incentive Plan"). The Incentive Plan contains an "evergreen" provision whereby the aggregate number of shares available for issuance increase automatically on January 1 of each year by 2% of VeriSign's outstanding shares of common stock on each immediately preceding December 31.
- (3) Does not include options to purchase 3,579,472 shares of common stock with a weighted-average exercise price of \$59.94 that were assumed in business combinations.

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Results of Operations

We have experienced substantial net losses in the past due to the charges we incurred for the amortization of acquired intangible assets related to our acquisitions. We expect to continue to report losses due to anticipated restructuring charges totaling between approximately \$75 million and \$100 million in the next several quarters primarily related to the sale of the Network Solutions business unit. As of September 30, 2003, we had an accumulated deficit of approximately \$21.7 billion, primarily due to \$21.9 billion of goodwill and other intangible asset write-downs and amortization related to our acquisitions.

Revenues

A comparison of revenues for the three-month and nine-month periods ended September 30, 2003 and 2002 is presented below.

	2003	2002	Change
(Dollars in thousands)			
Three-month period:			
Internet Services Group	\$ 107,882	\$ 126,596	(15)%
Telecommunication Services Group	105,296	99,893	5%
Network Solutions	54,945	74,952	(27)%
Total revenues	\$ 268,123	\$ 301,441	(11)%
Nine-month period:			
Internet Services Group	\$ 315,978	\$ 419,249	(25)%
Telecommunication Services Group	306,946	284,789	8%
Network Solutions	180,256	242,628	(26)%
Total revenues	\$ 803,180	\$ 946,666	(15)%

Internet Services Group

Internet Services Group revenues decreased 15% for the quarter ended September 30, 2003, and 25% for the nine months ended September 30, 2003 as compared to the 2002 periods. The decrease of \$18.7 million and \$103.3 million for the three and nine-month periods, respectively, was primarily due to our decision to significantly reduce the resale of third-party products. We expect Internet Services Group revenues to grow modestly on an absolute dollar basis in the fourth quarter of 2003.

Telecommunication Services Group

Telecommunication Services Group revenues increased 5% for the quarter ended September 30, 2003, and 8% for the nine months ended September 30, 2003 as compared to the 2002 periods. The increase of \$5.4 million for the three-month period reflects volume growth in our wireless services and clearinghouse products, which was offset by competitive price decreases in our Calling Name Delivery Service ("CNAM") product. The increase of \$22.2 million for the nine-month period reflects the inclusion of a full nine months of revenues related to H.O. Systems, which was acquired in February 2002, and volume growth in our wireless services and CNAM products, which was offset by competitive price decreases. We lost a large billing services customer to a competitor's billing platform at the end of the third quarter of 2003. We expect Telecommunication Services Group revenues to remain constant in the fourth quarter of 2003.

Network Solutions

Network Solutions revenues decreased 27% for the quarter ended September 30, 2003, and 26% for the nine months ended September 30, 2003 as compared to the 2002 periods. The decrease of \$20.0 million and

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\$62.4 million for the three and nine-month periods, respectively, was primarily due to the amount of deferred revenue recognized in 2003 from prior year sales compared to the amount of such deferred revenue recognized in the comparable 2002 periods. The cumulative impact of the decrease in the number of new names and the non-renewal of paid names, contributed to the decline in deferred revenue balances and the amount of deferred revenue recognized in the three and nine-month periods ended September 30, 2003. At September 30, 2003 and 2002, we had approximately 8.2 million and 9.7 million active domain names under management, respectively. We expect Network Solutions revenues to decrease between approximately \$4.0 and \$6.0 million in the fourth quarter of 2003. We expect to close the sale of the Network Solutions business in the fourth quarter of 2003.

International revenues

Revenues from international subsidiaries and affiliates accounted for approximately 10% and 8% of revenues during the three-month periods ended September 30, 2003 and 2002, respectively, and approximately 9% and 8% of revenues during the nine-month periods ended September 30, 2003 and 2002, respectively.

Reciprocal revenues

We did not enter into any reciprocal transactions during the nine months ended September 30, 2003. There were approximately \$0.8 million of revenues related to prior period transactions recognized during the quarter ended September 30, 2003. Revenues recognized under reciprocal arrangements were approximately \$1.4 million during the quarter ended September 30, 2002. Reciprocal transactions during the nine months ended September 30, 2003, all of which related to prior periods, accounted for approximately \$3.0 million of revenues. Revenues recognized under reciprocal arrangements were approximately \$7.2 million during the nine months ended September 30, 2002.

For the three months ended September 30, 2003 and 2002, we recognized revenues totaling \$2.1 million and \$6.3 million, respectively, and for the nine months ended September 30, 2003 and 2002, we recognized revenues totaling \$7.5 million and \$23.9 million, respectively, from customers with whom we have previously participated in a private equity round of financing, including several of the VeriSign Affiliates as well as various technology companies in a variety of related market areas. Typically in these relationships, we sell our products and services to a company and, under a separate agreement, participate with other investors in a private equity round financing of the company. We typically make our investments with others where our investment is less than 50% of the total financing round. Our policy is not to recognize revenue in excess of other investors' financing of the company. These arrangements are independent relationships and are not terminable unless the terms of the agreements are violated.

Costs and Expenses

Cost of revenues

Cost of revenues consists primarily of costs related to providing digital certificate enrollment and issuance services, payment services, operational costs for the domain name registration business, customer support and training, consulting and development services, carrier costs for our SS7 and IP-based networks 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, errors and omission insurance and the cost of software and hardware resold to customers.

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A comparison of cost of revenues for the three-month and nine-month periods ended September 30, 2003 and 2002 is presented below.

	<u>2003</u>	<u>2002</u>	<u>Change</u>
	(Dollars in thousands)		
Three-month period:			
Cost of revenues	\$ 114,413	\$ 147,257	(22)%
Percentage of revenues	43%	49%	
Nine-month period:			
Cost of revenues	\$ 345,831	\$ 454,773	(24)%
Percentage of revenues	43%	48%	

Cost of revenues decreased 22% for the quarter ended September 30, 2003 and 24% for the nine months ended September 30, 2003 as compared to the 2002 periods. The decrease of \$32.8 million and \$108.9 million for the three and nine-month periods, respectively, was primarily due to reduced revenues from the resale of third-party products which resulted in savings of \$24.0 million and \$98.7 million in the periods, respectively, and an overall decrease in revenues. Additionally, for the three and nine-month periods, we realized salary and benefit savings of \$2.3 million and \$10.1 million, respectively, from the reduction in force related to our restructuring begun in April 2002 and consulting fee savings of \$3.8 million and \$10.1 million, respectively, as we reduced our use of outsourcing. For the nine-month period, these cost savings were partially offset by increased depreciation of \$4.9 million from our telecommunication services group for purchases of network and product support equipment and additional expenses of \$9.2 million from our February 2002 purchase of H.O. Systems. We expect cost of revenues to decrease on an absolute dollar basis during the fourth quarter of 2003 due to the announced sale of Network Solutions. We expect to close the sale of the Network Solutions business in the fourth quarter of 2003.

Cost of revenues as a percentage of revenues decreased in the three and nine-month periods of 2003 compared to the three and nine-month periods of 2002 primarily due to reduced revenues from the resale of third-party products which have a higher cost of revenues compared to our other services. Revenues derived from our authentication services, domain name registration services, registry services, payment services, and our telecommunications services each have different cost structures, and our overall cost of revenues may fluctuate.

Sales and marketing

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

A comparison of sales and marketing expenses for the three-month and nine-month periods ended September 30, 2003 and 2002 is presented below.

	<u>2003</u>	<u>2002</u>	<u>Change</u>
	(Dollars in thousands)		
Three-month period:			
Sales and marketing	\$ 50,048	\$ 60,792	(18)%
Percentage of revenues	19%	20%	
Nine-month period:			
Sales and marketing	\$ 153,125	\$ 197,392	(22)%
Percentage of revenues	19%	21%	

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Sales and marketing expenses decreased 18% for the quarter ended September 30, 2003 and 22% for the nine months ended September 30, 2003 as compared to the 2002 periods. The decrease of \$10.7 million and \$44.3 million for the three and nine-month periods, respectively, was primarily due to advertising cost savings of \$6.1 million and \$19.9 million, respectively, and salary and benefit savings of \$5.9 million and \$16.1 million, respectively, from the reduction in force related to our restructuring begun in April 2002. For the nine-month period, consulting fee savings of \$6.6 million related to advertising placement, market research, and other sales and marketing services also contributed to the decrease. We expect sales and marketing costs to decrease on an absolute dollar basis during the fourth quarter of 2003 due to the announced sale of Network Solutions. We expect to close the sale of the Network Solutions business in the fourth quarter of 2003.

The decline in sales and marketing expenses as a percentage of revenues is primarily due to our cost reduction efforts begun in April 2002.

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 and nine-month periods ended September 30, 2003 and 2002 is presented below.

	<u>2003</u>	<u>2002</u>	<u>Change</u>
	(Dollars in thousands)		
Three-month period:			
Research and development	\$13,820	\$ 9,613	44%
Percentage of revenues	5%	3%	
Nine-month period:			
Research and development	\$40,850	\$37,405	9%
Percentage of revenues	5%	4%	

Research and development expenses increased 44% for the quarter ended September 30, 2003 and 9% for the nine months ended September 30, 2003 as compared to the 2002 periods. The increase of \$4.2 million and \$3.4 million for the three and nine-month periods, respectively, was primarily the result of increased salary and benefit expenses of \$3.1 million and \$8.0 million, respectively. For the nine-month period, equipment and software expenses increased \$0.8 million and depreciation expense increased \$0.6 million which were partially offset by consulting fee savings of \$6.6 million.

We believe that timely development of new and enhanced enterprise services, payment services, Web presence services and other technologies are necessary to maintain our position in the marketplace. Accordingly, we intend to continue to invest in research and development. We expect research and development expenses to remain constant during the fourth quarter of 2003. 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, information technology and human resources personnel, facilities, and computer and communications equipment, management information systems, support services, professional services fees, certain tax and license fees and bad debt expense.

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A comparison of general and administrative expenses for the three-month and nine-month periods ended September 30, 2003 and 2002 is presented below.

	<u>2003</u>	<u>2002</u>	<u>Change</u>
	(Dollars in thousands)		
Three-month period:			
General and administrative	\$ 41,036	\$ 46,018	(11)%
Percentage of revenues	15%	15%	
Nine-month period:			
General and administrative	\$ 130,156	\$ 119,589	9%
Percentage of revenues	16%	13%	

General and administrative expenses decreased 11% for the quarter ended September 30, 2003 and increased 9% for the nine months ended September 30, 2003 as compared to the 2002 periods. The decrease of \$5.0 million for the three-month period resulted primarily from a reduction in bad debt expense of \$9.4 million. The savings were partially offset by increased professional service fees of \$2.1 million primarily for consulting services related to strategic planning, Sarbanes-Oxley compliance and other initiatives, additional legal costs of \$2.5 million, mainly related to an increased number of lawsuits to which we are a party, and depreciation primarily related to our global Enterprise Resource Planning ("ERP") system implementation of \$2.1 million. The increase of \$10.6 million for the nine-month period primarily resulted from increased professional service fees of \$9.5 million primarily for consulting services related to strategic planning, Sarbanes-Oxley compliance and other initiatives, increased benefits costs of \$11.4 million, additional legal costs of \$6.1 million, mainly related to an increased number of lawsuits to which we are a party, depreciation primarily related to our global ERP system implementation of \$5.1 million, higher state and local taxes of \$3.1 million, and increased occupancy costs of \$2.6 million. For the nine-month period, these increases were partially offset by a reduction in bad debt expense of \$21.9 million, reduction of employee costs in conjunction with a reduction in headcount and increased allocations to other expense categories of \$6.5 million. We expect general and administrative costs to remain unchanged on an absolute dollar basis during the fourth quarter of 2003.

The increase in general and administrative expenses as a percentage of revenues for the three-month and nine-month periods ended September 30, 2003 is primarily due to the fact that absolute dollar expenses increased while revenues decreased.

Restructuring and other charges

No restructuring costs were recorded during the quarter ended September 30, 2003. During the quarter ended September 30, 2002, we recorded \$4.0 million of restructuring charges including workforce reduction charges of \$0.9 million, excess facilities of \$2.7 million, and exit costs of \$0.4 million. During the nine months ended September 30, 2003, we recorded restructuring charges of \$11.3 million including workforce reduction charges of \$1.5 million, excess facilities of \$8.7 million and exit costs of \$1.0 million. During the nine months ended September 30, 2002, we recorded restructuring charges of \$62.8 million including workforce reduction charges of \$4.7 million, excess facilities of \$29.1 million, write-down of property and equipment of \$20.2 million and exit costs of \$8.9 million.

No other charges were recorded during the quarter ended September 30, 2003. During the three and nine months ended September 30, 2002, we recorded other charges of \$1.6 million and \$10.5 million, respectively, relating primarily to the write-down of impaired prepaid marketing assets associated with discontinued advertising. During the nine months ended September 30, 2003, we recorded other charges of \$20.2 million which consisted of \$10.9 million related to cash paid for the termination of a lease and \$9.3 million which consisted primarily of the write-off of computer software. Other charges resulted as part of our efforts to rationalize, integrate and align resources.

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At September 30, 2003, the accrued liability associated with the restructuring was \$27.3 million. Amounts related to the lease terminations due to the abandonment of excess facilities totaling approximately \$26.9 million will be paid over the respective lease terms, the longest of which extends through June 2010. Other amounts will be paid by December 31, 2004. We expect to record restructuring charges totaling between approximately \$75 million and \$100 million in the next several quarters primarily related to the sale of the Network Solutions business unit.

Amortization of intangible assets

Purchased goodwill and certain indefinite-lived intangibles are not amortized but are subject to testing for impairment on at least an annual basis. We completed our annual impairment testing in June 2003.

Amortization and write-down of other intangible assets and goodwill was \$77.7 million and \$56.2 million for the quarter ended September 30, 2003 and 2002, respectively. For the nine months ended September 30, 2003, amortization and write-down of other intangible assets and goodwill was \$309.8 million compared to \$4.8 billion in the nine months ended September 30, 2002. The impairment charge to goodwill and other intangible assets from the annual impairment test resulted in a write-off of net book value totaling \$123.2 million and \$4.6 billion during the nine months ended September 30, 2003 and 2002, respectively.

We expect to close the sale of our Network Solutions business in the fourth quarter of 2003. The event triggered an evaluation of the carrying value of the goodwill assigned to Network Solutions. After considering the sales price of the assets and liabilities to be sold and the expenses associated with the divestiture, we determined that the carrying value exceeded the implied fair value of Network Solutions' goodwill. We recorded a write-down of goodwill of \$30.2 million in the three months ended September 30, 2003.

Other Income (Expense), net

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

A comparison of other income (expense), net for the three-month and nine-month periods ended September 30, 2003 and 2002 is presented below.

	<u>2003</u>	<u>2002</u>	<u>Change</u>
	(Dollars in thousands)		
Three-month period:			
Other income (expense), net	\$ 1,068	\$ (51,430)	102%
Percentage of revenues	—	(17)%	
Nine-month period:			
Other income (expense), net	\$(10,510)	\$(154,600)	93%
Percentage of revenues	(1)%	(16)%	

Other income, net for the quarter ended September 30, 2003 primarily consisted of \$1.1 million of interest income and other items, and for the quarter ended September 30, 2002, other expense, net primarily consisted of investment write-downs of \$53.2 million, partially offset by \$1.8 million of interest income and other items. Other expense, net for the nine months ended September 30, 2003 primarily consisted of investment write-downs of \$16.5 million, partially offset by \$6.0 million of interest income and other items, and for the nine months ended September 30, 2002, other expense, net primarily consisted of investment write-downs of \$166.8 million, partially offset by \$12.2 million of interest income and other items.

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Income Tax Expense

For the quarter and nine months ended September 30, 2003, we recorded tax expense of \$3.5 million and \$9.1 million, respectively. For the three-month period ended September 30, 2003, tax expense was comprised of an expense of \$2.8 million for foreign income and withholding taxes and an expense of \$0.7 million for U.S. state taxes. For the nine-month period ended September 30, 2003, tax expense was comprised of \$6.9 million of foreign income and withholding taxes and \$2.2 million of U.S. federal and state taxes. For the quarter and nine months ended September 30, 2002, we recorded tax expense of \$4.2 million related to foreign income and withholding taxes. For the fourth quarter of 2003, we anticipate foreign income and withholding tax expense of approximately \$1.0 to \$1.5 million. We anticipate a similar amount for federal and state tax expense.

Liquidity and Capital Resources

	September 30, 2003	December 31, 2002	Change
	(Dollars in thousands)		
Cash, cash equivalents and short-term investments	\$ 598,838	\$ 385,468	55%
Working capital	125,814	(79,477)	258%
Stockholders' equity	\$ 1,380,322	\$1,579,425	(13)%

At September 30, 2003, our principal source of liquidity was \$598.8 million of cash, cash equivalents and short-term investments, consisting principally of commercial paper, medium term corporate notes, corporate bonds and notes, market auction securities, U.S. government and agency securities and money market funds.

Working capital increased \$205.3 million during the nine months ended September 30, 2003 due primarily to an increase in cash, cash equivalents and short-term investments.

Net cash provided by operating activities was \$274.7 million in the nine months ended September 30, 2003 compared to \$156.9 million in the nine months ended September 30, 2002. The increase in the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002 was primarily due to increases in our deferred revenue balance as we receive payment in advance for many of our products and services, increases in accounts payable and accrued liabilities and decreases in prepaid expenses and other current assets. The increase was partially offset by decreases in accounts receivable.

Total cash outlays related to the restructuring program were \$7.8 million during the nine months ended September 30, 2003 and were primarily related to lease terminations.

Future cash payments and anticipated sub-lease income, related to lease terminations due to the abandonment of excess facilities are expected to be as follows:

	Lease Payments	Sub- Lease Income	Net
	(In thousands)		
2003 (3 months)	\$ 2,468	\$ (572)	\$ 1,896
2004	9,835	(2,289)	7,546
2005	7,976	(1,961)	6,015
2006	5,246	(1,181)	4,065
2007	3,857	(552)	3,305
Thereafter	4,218	(126)	4,092
	<u>\$33,600</u>	<u>\$(6,681)</u>	<u>\$26,919</u>

Net cash used in investing activities was \$191.1 million in the nine months ended September 30, 2003, primarily as a result of \$298.7 million used for purchases of investments, and \$67.5 million used for purchases of property and equipment, partially offset by proceeds of \$181.9 million from sales and maturities of investments.

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Net cash used in investing activities was \$268.9 million in the nine months ended September 30, 2002, primarily as a result of \$348.6 million used for acquisitions which includes \$346.3 million for the acquisition of H.O. Systems, \$53.6 million used for acquisition related costs, \$89.2 million for purchases of investments and \$151.9 million for purchases of property and equipment. In the nine months ended September 30, 2002, these purchases were partially offset by proceeds of \$368.4 million from maturities and sales of investments.

Net cash provided by financing activities was \$16.8 million in the nine months ended September 30, 2003 and \$19.3 million in the nine months ended September 30, 2002. The primary source of cash provided by financing activities in both periods was from the issuance of common stock resulting from stock option exercises. In the nine months ended September 30, 2003, the primary use of cash was for repayment of debt.

Our current planned capital expenditures for 2003 are approximately \$100.0 million, primarily for computer and communications equipment, computer software and leasehold improvements. Our most significant expenditures are focused on market development initiatives as well as productivity and cost improvement.

We have pledged our restricted cash as collateral for standby letters of credit that guarantee certain of our contractual obligations, primarily relating to our real estate lease agreements, the longest of which is expected to mature in 2013. As of September 30, 2003, the amount of restricted cash we have pledged pursuant to such agreements was approximately \$18.4 million.

On October 16, 2003, we announced that we signed a definitive agreement to sell the Network Solutions business unit to Pivotal Private Equity. Under the terms of the agreement, we will receive approximately \$100 million of consideration, consisting of \$60 million in cash and a \$40 million senior subordinated note upon closing. The note will bear interest at 7% per annum for the first three years and 9% per annum thereafter and will mature five years from the date of closing. The principal and interest will become due upon maturity. We will also retain a 15% equity stake in the Network Solutions business. The transaction is subject to certain closing conditions. We expect to close the sale of the Network Solutions business in the fourth quarter of 2003.

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

Factors That May Affect Future Results of Operations

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

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

Our operating results have varied and may fluctuate significantly in the future as a result of a variety of factors, many of which are outside our control. These factors include the following:

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

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- volume of domain name registrations and customer renewals through our Network Solutions business and our Registry Services business;
- competition in the domain name registration services business from competing registrars and registries;
- the mix of all our services sold during a period;
- our success in marketing and market acceptance of our managed security and network services, domain name registration and value added services, Web trust services, payment services and telecommunications services by our existing customers and by new customers;
- continued development of our direct and indirect distribution channels, both in the U.S. and abroad;
- a decrease in the level of spending for information technology-related products and services by enterprise customers;
- our success in assimilating the operations and personnel of any acquired businesses;
- the seasonal fluctuations in consumer use of telecommunications services;
- the impact of price changes in our managed security and network services, domain name registration and value added services, Web trust services, payment services and telecommunications services or our competitors' products and services;
- general economic and market conditions as well as economic and market conditions specific to IP network, telecommunications and Internet industries, and
- the pending sale of our Network Solutions business which we expect to close in the fourth quarter of 2003.

Our operating expenses may increase. If an increase in our expenses is not accompanied by a corresponding increase in our revenues, our operating results will suffer, particularly as revenues from many of our services are recognized ratably over the term of the service, rather than immediately when the customer pays for them, unlike our sales and marketing expenditures, which are expensed in full when incurred.

Due to all of the above factors, our revenues and operating results are difficult to forecast. Therefore, we believe that period-to-period comparisons of our operating results will not necessarily be meaningful, and you should not rely upon them as an indication of future performance. Also, operating results may fall below our expectations and the expectations of securities analysts or investors in one or more future periods. If this were to occur, the market price of our common stock would likely decline.

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

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

- reduced demand for our services as a result of a decrease in information technology and telecommunications spending by our customers;
- increased price competition for our products; and
- higher overhead costs as a percentage of revenues.

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

do not expect the trend of lower information technology and telecommunications spending among our customers to reverse itself in the near term.

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

We were incorporated in April 1995, and began introducing our services in June 1995. We completed several acquisitions in 2000 and 2001, including our acquisitions of Network Solutions and Illuminet Holdings, and in February 2002 we completed our acquisition of H.O. Systems. Network Solutions, Illuminet Holdings and H.O. Systems operated in different businesses from our then-current business. Therefore, we have only a limited operating history on which to base an evaluation of our consolidated business and prospects. Our success will depend on many factors, including, but not limited to, the following:

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

To address these risks we must, among other things:

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

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

Security services. 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

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smaller companies that provide products and services that are similar to some aspects of our security 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 security 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 security 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.

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

Registry services and Network Solutions. Seven new generic top-level domain registries, *.aero*, *.biz*, *.coop*, *.info*, *.museum*, *.name* and *.pro*, recently began, or soon are expected to begin, accepting domain name registrations. Since we do not act as a registry for these new top-level domains, we do not receive the annual registry fee for domain name registrations under these top-level domains. The commencement of registrations in these new top-level domains may reduce demand for *.com* and *.net* domain name registrations. If the new top-level domains reduce the demand for domain name registrations in *.com* and *.net*, our business could be materially harmed.

The domain name registration service market is extremely competitive and subject to significant pricing pressure. We currently face competition among registrars within the gTLDs like *.com*, *.net* and *.org* and we face competition among registrars within other top-level domains. Our competitors include BulkRegister.com, Deutsche Telekom, France Telecom/Transpac, Go-Daddy Software, Melbourne IT, Register.com and Tucows.com, Inc. that register second-level domain names in *.com*, *.net*, *.org* and the other gTLDs. We also face competition from third-level domain name providers such as Internet access providers and registrars of ccTLDs. We face substantial competition from other providers of value-added Web presence services such as e-mail providers, Web site designers, Internet service providers, Web site hosting companies and others. If Network Solutions is not able to compete effectively, our registrar business could be materially harmed.

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

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

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

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

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

- purchase and implement SS7 network services in phases;
- deploy SS7 connectivity across a variety of telecommunication switches and routes; and
- integrate our SS7 network with a number of legacy systems, third-party software applications and engineering tools.

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

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

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

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

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

- potentially inadequate development of network infrastructure;
- security concerns, particularly for online payments, including the potential for merchant or user impersonation and fraud or theft of stored data and information communicated over IP networks;
- privacy concerns, including the potential for third parties to obtain personally identifiable information about users or to disclose or sell data without notice to or the consent of such users;

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- other security concerns such as attacks on popular Web sites by “hackers;”
- inconsistent quality of service;
- lack of availability of cost-effective, high-speed systems and services;
- limited number of local access points for corporate users;
- inability to integrate business applications on IP networks;
- the need to operate with multiple and frequently incompatible products;
- limited bandwidth access;
- 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 industry markets are evolving, and if these markets fail to develop or if our products are not widely accepted in these markets, our business could suffer.

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

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

If the market for electronic commerce and communications over IP networks does not grow or our security services are not widely accepted in market, our business would be materially harmed.

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

The emerging nature of the Internet, digital certificate business, the domain name registration business and payment services business, and their rapid evolution, require us continually to improve the performance, features and reliability of our services, particularly in response to competitive offerings. We must also introduce any new services, as quickly as possible. The success of new 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 services that respond to competitive and technological developments and changing customer needs. This could harm our business.

The telecommunications network services industry is also characterized by rapid technological change and frequent new product and service announcements. Significant technological changes could make our technology

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obsolete. We must adapt to our rapidly changing market by continually improving the responsiveness, reliability and features of our network and by developing new network features, services and applications to meet changing customer needs. We cannot assure that we will be able to adapt to these challenges or respond successfully or in a cost-effective way to adequately meet them. Our failure to do so would adversely affect our ability to compete and retain customers or market share. We sell our SS7 network services primarily to traditional telecommunications companies that rely on traditional voice networks. Many emerging companies are providing convergent Internet protocol-based network services. Our future revenues and profits, if any, could depend upon our ability to provide products and services to these Internet protocol-based telephony providers.

We have experienced, and may continue to experience, declines in revenues from Network Solutions.

In 2000, the demand for new domain name registrations in our Network Solutions Web presence business increased substantially, in part as a result of our promotional programs, in which we accepted domain name registrations at significant discounts or without charge, and from registrations by entities who registered domain names with the hopes of reselling them. Many of those domain names have not been renewed after their two-year anniversary date. Further, many of the entrepreneurial and start-up businesses, begun in 2000 and earlier, have declined or failed. The future success of our Network Solutions business will depend, among other things, upon our customers' renewal of their domain name registrations and upon our ability to obtain new domain name registrations and to successfully market our value-added product and services to our domain name registrants. Registrants may choose to renew their domain names with other registrars or they may choose not to renew and pay for renewal of their domain names. Since we deactivate and delete domain name registrations that are not paid for, the inability to obtain domain name registration renewals or new registrations from customers could have an adverse effect on our revenues and our Network Solutions business.

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

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

- ICANN could adopt or promote policies, procedures or programs that are unfavorable to our role in the registration of domain names or that are inconsistent with our current or future plans;
- the DOC or ICANN could terminate our agreements to be the registry for the .com or .net gTLDs, or a registrar for existing and new gTLDs if they find that we are in violation of our agreements with them;
- if our agreements to be the registry for the .com or .net top-level domains, or a registrar for existing and new top-level domains are terminated, it could have an adverse impact on our business;
- the terms of the registrar accreditation contract could change, as a result of an ICANN-adopted policy, in a manner that is unfavorable to us;
- the DOC's or ICANN's interpretation of provisions of our agreements with either of them could differ from ours;
- the DOC could revoke its recognition of ICANN, as a result of which the DOC would take the place of ICANN for purposes of the various agreements described above, and could take actions that are harmful to us;
- 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 or registrar businesses could face legal or other challenges resulting from our activities or the activities of other registrars.

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

Risks we face from challenges by third parties, including other domestic and foreign governmental authorities, to our role in the ongoing privatization of the Internet include:

- legal, regulatory or other challenges could be brought, including challenges to the agreements governing our relationship with the DOC or ICANN, or to the legal authority underlying the roles and actions of the DOC, ICANN or us;
- Congress has held several hearings in which various issues about the domain name system and ICANN's practices have been raised and Congress could take action that is unfavorable to us;
- ICANN could fail to maintain its role, potentially resulting in instability in domain name system administration; and
- some foreign governments and governmental authorities have in the past disagreed with, and may in the future disagree with, the actions, policies or programs of ICANN, the U.S. Government and us relating to the domain name system. These foreign governments or governmental authorities may take actions or adopt policies or programs that are harmful to our business.

Revenues from the sale of our products to companies as part of broader business relationships have been significantly reduced and may continue to decline in the future.

We have purchased products and services from companies and participated in financings of companies with whom we have entered into separate contractual arrangements for the distribution and sale of our products and services. We derived less than 1% of our total revenues in the first nine months of 2003 and 2002 from reciprocal arrangements. Typically in these relationships, under separate agreements, we sell our products and services to a company and that company sells to us their products and services. We also derived approximately 1% of our total revenues in the first nine months of 2003 and approximately 2.5% of our total revenues in the first nine months of 2002 from customers with whom we have participated in a private equity round of financing, including several of the VeriSign Affiliates, as well as various technology companies in a variety of related market areas. If we continue to reduce the level of our participation in business relationships of this nature, revenues from these relationships will decline, negatively affecting our operating results.

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

We made several acquisitions in 2002, 2001 and 2000 and may pursue acquisitions in the future. We have experienced difficulty in, and in the future may face difficulties, integrating the personnel, products, technologies or operations of companies we acquire. Assimilating acquired businesses involves a number of other risks, including, but not limited to:

- the potential disruption of our ongoing business;
- the potential impairment of relationships with our employees, customers and strategic partners;
- unanticipated costs or the incurrence of unknown liabilities;
- the need to manage more geographically-dispersed operations, such as our offices in the states of Kansas, Illinois, Pennsylvania, Texas, Virginia, and Washington, and in Europe and South Africa;
- greater than expected costs and the diversion of management's resources from other business concerns involved in identifying, completing and integrating acquisitions;
- the inability to retain the employees of the acquired businesses;
- adverse effects on the existing customer relationships of acquired companies;
- the difficulty of assimilating the operations and personnel of the acquired businesses;

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- the potential incompatibility of business cultures;
- any perceived adverse changes in business focus;
- entering into markets and acquiring technologies in areas in which we have little experience;
- our inability to incorporate acquired technologies successfully into our operations infrastructure;
- the need to incur debt, which may reduce our cash available for operations and other uses, or issue equity securities, which may dilute the ownership interests of our existing stockholders; and
- the inability to maintain uniform standards, controls, procedures and policies.

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

Additionally, there is risk that we may incur additional expenses associated with a write-off of a portion of goodwill and other intangible assets, as was the case when we recorded a charge of approximately \$123.2 million in the second quarter of 2003 and \$4.6 billion in the second quarter of 2002 related to write-downs of goodwill due to changes in market conditions for acquisitions. Also, we expect to close the sale of our Network Solutions business in the fourth quarter of 2003. The event triggered an evaluation of the carrying value of the goodwill assigned to Network Solutions. After considering the sales price of the assets and liabilities to be sold and the expenses associated with the divestiture, we determined that the carrying value exceeded the implied fair value of Network Solutions' goodwill. We recorded a write-down of goodwill of \$30.2 million in the quarter ended September 30, 2003. Under generally accepted accounting principles, we are required to evaluate goodwill for impairment on an annual basis and to evaluate other intangible assets as events or circumstances indicate that such assets may be impaired. These evaluations could result in further write-downs of goodwill or other intangible assets.

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

Between December 31, 1995 and September 30, 2003, we grew from 26 to approximately 3,100 employees. This was achieved through internal growth, as well as acquisitions. During this time period, we opened new sales offices and significantly expanded our U.S. and non-U.S. operations. To successfully manage past growth and any future growth, we will need to continue to implement additional management information systems, continue the development of our operating, administrative, financial and accounting systems and controls and maintain close coordination among our executive, engineering, accounting, finance, marketing, sales and operations organizations. Any failure to manage growth effectively could harm our business.

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

We have investments in a number of companies. In most instances, these investments are in the form of equity and debt securities of private companies for which there is no public market. These companies are typically in the early stage of development and may be expected to incur substantial losses. Therefore, these companies may never become publicly traded. 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. During the three months ended September 30, 2003, no investment write-downs were recorded. During the three months ended September 30, 2002, VeriSign determined that the decline in value of certain of its public and non-public equity investments was other-than-temporary and recorded net write-downs of these investments totaling \$53.2 million. During the nine months ended September 30, 2003 and 2002, VeriSign recorded net write-downs of these investments totaling \$16.5 million and \$166.8 million, respectively. Due to the inherent risk associated with some of our investments and changing current stock market conditions, we may incur future losses on the sales, write-downs or write-offs of our investments.

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

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

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

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

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

A failure in the operation of our various registration systems, our domain name zone servers, the domain name root servers, or other events could result in the deletion of one or more domain names from the Internet for a period of time. A failure in the operation of our shared registration system could result in the inability of one or more other registrars to register and maintain domain names for a period of time. A failure in the operation or update of the master database that we maintain could result in the deletion of one or more top-level domains from the Internet and the discontinuation of second-level domain names in those top-level domains for a period of time. The inability of our registrar systems, including our back office billing and collections infrastructure, and telecommunications systems to meet the demands of a large number of domain name registration requests and corresponding customer e-mails and telephone calls, including speculative, otherwise abusive and repetitive e-mail domain name registration and modification requests, could result in substantial degradation in our customer support service and our ability to process, bill and collect registration requests in a timely manner.

If we experience security breaches, we could be exposed to liability and our reputation and business could suffer.

We retain certain confidential customer information in our secure data centers and various registration systems. It is critical to our business strategy that our facilities and infrastructure remain secure and are perceived by the marketplace to be secure. Our domain name registry operations also depend on our ability to maintain our computer and telecommunications equipment in effective working order and to reasonably protect our systems against interruption, and potentially depend on protection by other registrars in the shared registration system. The root zone servers and top-level domain name zone servers that we operate are critical hardware to our

registry services operations. Therefore, we may have to expend significant time and money to maintain or increase the security of our facilities and infrastructure.

Despite our security measures, our infrastructure may be vulnerable to physical break-ins, computer viruses, and attacks by hackers or similar disruptive problems. It is possible that we may have to expend additional financial and other resources to address such problems. Any physical or electronic break-in or other security breach or compromise of the information stored at our secure data centers and domain name registration systems may jeopardize the security of information stored on our premises or in the computer systems and networks of our customers. In such an event, we could face significant liability and customers could be reluctant to use our security 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.

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

Our signaling and network services success will depend on our network infrastructure, including the capacity leased from telecommunications suppliers. In particular, we rely on AT&T, MCI, Sprint and other telecommunications providers for leased long-haul and local loop transmission capacity. These companies provide the dedicated links that connect our network components to each other and to our customers. Our business also depends upon the capacity, reliability and security of the infrastructure owned by third parties that is used to connect telephone calls. Specifically, we currently lease capacity from regional partners on seven of the fourteen mated pairs of SS7 signal transfer points that comprise our network. We have no control over the operation, quality or maintenance of a significant portion of that infrastructure or whether or not those third parties will upgrade or improve their equipment. We depend on these companies to maintain the operational integrity of our connections. If one or more of these companies is unable or unwilling to supply or expand its levels of service to us in the future, our operations could be severely interrupted. In addition, rapid changes in the telecommunications industry have led to the merging of many companies. These mergers may cause the availability, pricing and quality of the services we use to vary and could cause the length of time it takes to deliver the services that we use to increase significantly. We rely on links, equipment and software provided to us from our vendors, the most important of which are gateway equipment and software from Tekelec and Agilent Technologies, Inc. We cannot assure you that we will be able to continue to purchase equipment from these vendors on acceptable terms, if at all. If we are unable to maintain current purchasing terms or ensure product availability with these vendors, we may lose customers and experience an increase in costs in seeking alternative suppliers of products and services.

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

As traffic from our telecommunication customers through our network increases, we will need to expand and upgrade our technology and network hardware and software. We may not be able to accurately project the rate of increase in usage on our network. In addition, we may not be able to expand and upgrade, in a timely manner, our systems and network hardware and software capabilities to accommodate increased traffic on our network. If we do not appropriately expand and upgrade our systems and network hardware and software, we may lose customers and revenues.

We 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 registry services business could be harmed if these volunteer operators fail to maintain these servers properly or abandon these servers, which would place additional capacity demands on the two root zone servers we operate.

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Further, our registry services business could be harmed if any of these volunteer operators fails to include or provide accessibility to the data that it maintains in the root zone servers that it controls. In the event and to the extent that ICANN is authorized to set policy with regard to an authoritative root server system, as provided in our registry agreement with ICANN, it is required to ensure that the authoritative root will point to the top-level domain zone servers designated by us. If ICANN does not do this, our business could be harmed.

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

We must establish and maintain strategic and other relationships.

One of our significant business strategies has been to enter into strategic or other similar collaborative relationships in order to reach a larger customer base than we could reach through our direct sales and marketing efforts. We may need to enter into additional relationships to execute our business plan. We may not be able to enter into additional, or maintain our existing, strategic relationships on commercially reasonable terms. If we fail to enter into additional relationships, we would have to devote substantially more resources to the distribution, sale and marketing of our security services, telecommunications services and Network Solutions 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 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 Network Solutions 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 domain name registration and value-added 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 services have lengthy sales and implementation cycles.

We market many of our Security 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 Security Services can be lengthy, potentially lasting from three to six months. Our quarterly and annual operating results could be materially harmed if orders forecasted for a specific customer for a particular quarter are not realized.

Undetected or unknown defects in our services could harm our business and future operating results.

Services as complex as those we offer or develop frequently contain undetected defects or errors. Despite testing, defects or errors may occur in our existing or new services, which could result in loss of or delay in

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revenues, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to our reputation, tort or warranty claims, increased insurance costs or increased service and warranty costs, any of which could harm our business. The performance of our services could have unforeseen or unknown adverse effects on the networks over which they are delivered as well as on third-party applications and services that utilize our services, which could result in legal claims against us, harming our business. Furthermore, we often provide implementation, customization, consulting and other technical services in connection with the implementation and ongoing maintenance of our services, which typically involves working with sophisticated software, computing and communications systems. Our failure or inability to meet customer expectations in a timely manner could also result in loss of or delay in revenues, loss of market share, failure to achieve market acceptance, injury to our reputation and increased costs.

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

Services offered by our Internet Services Group depend on public key cryptography technology. With public key cryptography technology, a user is given a public key and a private key, both of which are required to perform encryption and decryption operations. The security afforded by this technology depends on the integrity of a user's private key and that it is not lost, stolen or otherwise compromised. The integrity of private keys also depends in part on the application of specific mathematical principles known as "factoring." This integrity is predicated on the assumption that the factoring of large numbers into their prime number components is difficult. Should an easy factoring method be developed, the security of encryption products utilizing public key cryptography technology would be reduced or eliminated. Furthermore, any significant advance in techniques for attacking cryptographic systems could also render some or all of our existing PKI services obsolete or unmarketable. If improved techniques for attacking cryptographic systems were ever developed, we would likely have to reissue digital certificates to some or all of our customers, which could damage our reputation and brand or otherwise harm our business. In the past there have been public announcements of the successful attack upon cryptographic keys of certain kinds and lengths and of the potential misappropriation of private keys and other activation data. This type of publicity could also hurt the public perception as to the safety of the public key cryptography technology included in our digital certificates. This negative public perception could harm our business.

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

Revenues from international subsidiaries and affiliates accounted for approximately 10% and 8% of revenues during the three months ended September 30, 2003 and 2002, respectively, and approximately 9% and 8% of revenues during the nine months ended September 30, 2003 and 2002, respectively. We intend to expand our international operations and international sales and marketing activities. For example, we expect to expand our operations and marketing activities throughout Asia, Europe and Latin America. Expansion into these markets has required and will continue to require significant management attention and resources. We may also need to tailor our services for a particular market and to enter into international distribution and operating relationships. We have limited experience in localizing our services and in developing international distribution or operating relationships. We may not succeed in expanding our services into international markets. Failure to do so could harm our business. In addition, there are risks inherent in doing business on an international basis, including, among others:

- competition with foreign companies or other domestic companies entering the foreign markets in which we operate;
- regulatory requirements;
- legal uncertainty regarding liability and compliance with foreign laws;
- export and import restrictions on cryptographic technology and products incorporating that technology;

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- tariffs and other trade barriers and restrictions;
- difficulties in staffing and managing foreign operations;
- longer sales and payment cycles;
- problems in collecting accounts receivable;
- currency fluctuations, as all of our international revenues from VeriSign Japan, K.K. and VeriSign Australia Limited and our wholly-owned subsidiaries in South Africa and Europe are not denominated in U.S. Dollars;
- difficulty of authenticating customer information;
- political instability;
- failure of foreign laws to protect our U.S. proprietary rights adequately;
- more stringent privacy policies in foreign countries;
- additional vulnerability from terrorist groups targeting American interests abroad;
- seasonal reductions in business activity; and
- potentially adverse tax consequences.

Failure of VeriSign Affiliates to follow our security and trust practices or to maintain the privacy or security of confidential customer information could have an adverse impact on our revenues and business.

We have licensed to VeriSign Affiliates our Processing Center platform, which is designed to replicate our own secure data centers and allows the affiliate to offer back-end processing of PKI services for enterprises. The VeriSign Processing Center platform provides a VeriSign Affiliate with the knowledge and technology to offer PKI services similar to those offered by us. It is critical to our business strategy that the facilities and infrastructure used in issuing and marketing digital certificates remain secure and we are perceived by the marketplace to be secure. Although we provide the VeriSign Affiliate with training in security and trust practices, network management and customer service and support, these practices are performed by the affiliate and are outside of our control.

Any failure of a VeriSign Affiliate to maintain the privacy or security of confidential customer information could result in negative publicity and therefore, adversely affect the market's perception of the security of our services as well as the security of electronic commerce and communication over IP networks generally.

We cannot assure you that the European Union Directive on electronic signatures will stimulate acceptance of our security services or will not be amended or implemented in ways which may have an adverse impact on our revenues and business.

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

We rely on our intellectual property, and any failure by us to protect, or any misappropriation of, our intellectual property could harm our business.

Our success depends on our internally developed technologies and other intellectual property. Despite our precautions, it may be possible for a third party to copy or otherwise obtain and use our trade secrets or other forms of our intellectual property without authorization. Furthermore, the laws of foreign countries may not protect our proprietary rights in those countries to the same extent U.S. law protects these rights in the United States. In addition, it is possible that others may independently develop substantially equivalent intellectual property. If we do not effectively protect our intellectual property, our business could suffer. In the future, we may have to resort to litigation to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This type of litigation, regardless of its outcome, could result in substantial costs and diversion of management and technical resources.

We also license third-party technology, such as public key cryptography technology licensed from RSA and other technology that is used in our products, to perform key functions. These third-party technology licenses may not continue to be available to us on commercially reasonable terms or at all. Our business could suffer if we lost the rights to use these technologies. A third-party could claim that the licensed software infringes a patent or other proprietary right. Litigation between the licensor and a third-party or between us and a third-party could lead to royalty obligations for which we are not indemnified or for which indemnification is insufficient, or we may not be able to obtain any additional license on commercially reasonable terms or at all. The loss of, or our inability to obtain or maintain, any of these technology licenses could delay the introduction of our Internet infrastructure services until equivalent technology, if available, is identified, licensed and integrated. This could harm our business.

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

Infringement or other claims could be made against us in the future. Any claims, with or without merit, could be time-consuming, result in costly litigation and diversion of technical and management personnel, cause delays or require us to develop non-infringing technology or enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may not be available on acceptable terms or at all. If a successful claim of infringement were made against us and we could not develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis, our business could be harmed.

In addition, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights in Internet-related businesses are uncertain and still evolving. Because of the growth of the Internet and Internet-related businesses, patent applications are continuously and simultaneously being filed in connection with Internet-related technology. There are a significant number of U.S. and foreign patents and patent applications in our areas of interest, and we believe that there has been, and is likely to continue to be, significant litigation in the industry regarding patent and other intellectual property rights. For example, we have had complaints filed against us in February 2001 and September 2001 alleging patent infringement. (See Part II, Item 1, "Legal Proceedings.")

Compliance with new rules and regulations concerning corporate governance may be costly and could harm our business.

The Sarbanes-Oxley Act, which was signed into law in July 2002, mandates, among other things, that companies adopt new corporate governance measures and imposes comprehensive reporting and disclosure requirements, sets stricter independence and financial expertise standards for audit committee members and imposes increased civil and criminal penalties for companies, their chief executive officers and chief financial officers and directors for securities law violations. In addition, The Nasdaq National Market, on which our common stock is traded, is also considering the adoption of additional comprehensive rules and regulations

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relating to corporate governance. These laws, rules and regulations will increase the scope, complexity and cost of our corporate governance, reporting and disclosure practices, which could harm our results of operations and divert management's attention from business operations. We also expect these developments to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers, which could harm our business.

We depend on key personnel to manage our business effectively.

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

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

New and proposed regulations related to equity compensation could adversely affect our ability to attract and retain key personnel.

Since our inception, we have used stock options and other long-term equity incentives as a fundamental component of our employee compensation packages. We believe that stock options and other long-term equity incentives directly motivate our employees to maximize long-term stockholder value and, through the use of vesting, encourage employees to remain with VeriSign. The Financial Accounting Standards Board ("FASB"), among other agencies and entities, is currently considering changes to U.S. GAAP that, if implemented, would require us to record a charge to earnings for employee stock option grants. This proposal would negatively impact our earnings. For example, recording a charge for employee stock options under Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation*," would have increased after tax loss by approximately \$52.8 million and \$53.9 million for the three months ended September 30, 2003 and 2002, respectively, and by approximately \$169.8 million and \$183.4 million for the nine months ended September 30, 2003 and 2002, respectively. In addition, new regulations adopted by The Nasdaq Stock Market requiring shareholder approval for stock option plans could make it more difficult for us to grant options to employees in the future. To the extent that new regulations make it more difficult or expensive to grant options to employees, we may incur increased cash compensation costs or find it difficult to attract, retain and motivate employees, either of which could materially harm our business.

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

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

- our stockholders may take action only at a meeting and not by written consent;
- our board must be given advance notice regarding stockholder-sponsored proposals for consideration at annual meetings and for stockholder nominations for the election of directors;
- we have a classified board of directors, with the board being divided into three classes that serve staggered three-year terms;

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- vacancies on our board may be filled until the next annual meeting of stockholders only by majority vote of the directors then in office; and
- special meetings of our stockholders may be called only by the chairman of the board, the president or the board, and not by our stockholders.

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

- The rights will become exercisable only upon the occurrence of certain events specified in the plan, including the acquisition of 20% of VeriSign's outstanding common stock by a person or group.
- Each right entitles the holder, other than an "acquiring person," to acquire shares of VeriSign's common stock at a 50% discount to the then prevailing market price.
- VeriSign's Board of Directors may redeem outstanding rights at any time prior to a person becoming an "acquiring person," at a price of \$0.001 per right. Prior to such time, the terms of the rights may be amended by VeriSign's Board of Directors without the approval of the holders of the rights.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk profile has not changed significantly from that described in the 2002 Form 10-K.

Interest rate sensitivity

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we have invested in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline in value. If market interest rates were to increase or decrease immediately and uniformly by 10 percent from levels at September 30, 2003, this would not materially change the fair market value of our portfolio. To minimize market risk, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, medium-term notes, corporate bonds and notes, market auction securities, U.S. government and agency securities and money market funds. In general, money market funds are not subject to interest rate risk because the interest paid on such funds fluctuates with the prevailing interest rate. In addition, we generally invest in relatively short-term securities. As of September 30, 2003, 82% of our non-strategic investments mature in less than one year.

We do not hold any derivative financial instruments.

The following table presents the amounts of our cash equivalents and investments that are subject to market risk by range of expected maturity and weighted-average interest rates as of September 30, 2003. This table does not include money market funds because those funds are not subject to market risk.

	Maturing in			Total	Estimated Fair Value
	Six Months or Less	Six Months to One Year	More than One Year		
			(In thousands)		
Included in cash and cash equivalents	\$ 241,612	\$ —	\$ —	\$ 241,612	\$ 241,613
Weighted-average interest rate	1.16%	—	—		
Included in short-term investments	\$ 61,861	\$ 70,153	\$ 82,350	\$ 214,364	\$ 214,353
Weighted-average interest rate	1.66%	1.74%	1.63%		
Included in restricted cash	\$ —	\$ —	\$ 18,371	\$ 18,371	\$ 18,371
Weighted-average interest rate	—	—	1.66%		

Exchange rate risk

We consider our exposure to foreign currency exchange rate fluctuations to be minimal. All revenues derived from operations, other than VeriSign Japan K.K., THAWTE (South Africa), VeriSign Australia Limited, VeriSign Switzerland SA, Domainnames.com (U.K.), VeriSign Brazil Limitada, and our European digital brand management services business, are denominated in United States Dollars and, therefore, are not subject to exchange rate fluctuations. Revenues from international subsidiaries and affiliates accounted for approximately 9% and 8% of our revenues during the nine months ended September 30, 2003 and 2002, respectively.

Both the revenues and expenses of our majority-owned subsidiaries in Japan and Australia as well as our wholly owned subsidiaries and sales offices in South Africa, Europe, South America, 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. 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 invest in equity securities of technology companies for business and strategic purposes. Some of these companies may be publicly traded and have highly volatile share prices. We value these investments using the closing market value for the last day of each month. 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 loss” 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. During the three months ended September 30, 2003, no investment write-downs were recorded. During the three months ended September 30, 2002, we determined that the decline in value of certain of our public and non-public equity investments was other-than-temporary and recorded net write-downs of these investments totaling \$53.2 million. During the nine months ended September 30, 2003 and 2002, we recorded net write-downs of these investments totaling \$16.5 million and \$166.8 million, respectively. Due to the inherent risk associated with some of our investments, and in light of current stock market conditions, we may incur future losses on the sales, write-downs or write-offs of our investments. We do not currently hedge against equity price changes.

ITEM 4. EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. Our chief executive officer and our chief financial officer, after evaluating the effectiveness of VeriSign’s “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this quarterly report, have concluded that as of such date, our disclosure controls and procedures were adequate and designed to ensure that material information relating to us and our consolidated subsidiaries would be made known to them by others within those entities.

(b) Changes in internal controls over financial reporting. There was no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of October 27, 2003, VeriSign and its subsidiary Network Solutions, Inc., were defendants in approximately 16 active lawsuits involving customer contractual disputes over domain name registrations and related services. These matters, either alone or collectively, are not expected to have a material impact on our domain name registration business or our consolidated financial statements.

On February 2, 2001, Leon Stambler filed a complaint against VeriSign in the United States District Court for the District of Delaware. Mr. Stambler alleged that VeriSign, and RSA Security, Inc., infringed various claims of his patents, U.S. Patent Nos. 5,793,302, 5,974,148 and 5,936,541. Mr. Stambler sought a judgment declaring that the defendants had infringed the asserted claims of the patents-in-suit, an injunction, damages for the alleged infringement, treble damages for alleged willful infringement, and attorney fees and costs. One defendant, Omnisky, Inc., subsequently declared bankruptcy and Mr. Stambler settled the case against three other defendants: Openwave Systems, Inc., Certicom Corp. and First Data Corporation before trial. The trial began on February 24 and concluded with a jury verdict on March 7, 2003. On March 7, 2003, the jury returned a unanimous verdict for RSA Security Inc. and VeriSign and against Mr. Stambler on the four remaining patent claims in suit. The court had ruled earlier in the case on two other claims, also finding in favor of VeriSign and RSA Security, Inc. On April 17, 2003 the Court entered final judgment for defendants VeriSign and RSA Security and against Mr. Stambler on all of his claims of patent infringement. On May 16, 2003 Mr. Stambler filed alternative motions with the trial court, seeking to overturn the judgment and obtain either judgment in his favor or a new trial. Defendants have opposed these motions, which are still pending. Mr. Stambler has stated his intention to appeal the judgment, if the trial court denies his motions.

On September 7, 2001, NetMoneyIN, an Arizona corporation, filed a complaint styled as a First Amended Complaint alleging patent infringement against VeriSign and several other previously-named defendants in the United States District Court for the District of Arizona asserting infringement of U.S. patent Nos. 5,822,737 and 5,963,917. NetMoneyIN filed a second amended complaint on October 15, 2002, alleging infringement by VeriSign and several other defendants of a third U.S. patent (No. 6,381,584) in addition to the two patents previously asserted. The second amended complaint dropped some of the originally-named defendants and added others. On August 27, 2003, Net MoneyIN filed a third amended complaint alleging direct infringement of the same three patents by VeriSign and several other previously-named defendants. In this complaint, Net MoneyIN dropped its claim of active inducement of infringement by VeriSign. Some of the other current defendants include IBM, Citibank, BA Merchant Services, Wells Fargo Bank, American Express Financial Advisors, Cardservice Int'l. and Paymentech. VeriSign has filed an answer denying any infringement and asserting that the three asserted patents are invalid. A few defendants have been dismissed from the case. Discovery has commenced. The complaint alleges that VeriSign's Payflow Payment Services directly infringe certain claims of NetMoneyIN's three patents and requests the Court to enter judgment in favor of NetMoneyIN, a permanent injunction against the defendants' alleged infringing activities, an order requiring defendants to provide an accounting for NetMoneyIN's damages, to pay NetMoneyIN such damages and three times that amount for any willful infringers, and an order awarding NetMoneyIN attorney fees and costs. While we cannot predict the outcome of this matter, we believe that the allegations are without merit.

On June 30, 2003, IDN Technologies, LLC filed a complaint alleging patent infringement against VeriSign in the United States District Court for the Northern District of California asserting infringement of U.S. patent no. 6,182,148 B1. IDN Technologies filed an amended complaint on August 6, 2003, alleging infringement of the same patent but adding an additional VeriSign service. VeriSign has filed an answer denying any infringement and asserting that the patent is invalid. An Order Setting Case Management Conference has been issued. The complaint alleges that certain VeriSign software that assists in the resolution and conversion of domain names in non-ASCII format infringes IDN Technologies' patent. The complaint requests judgment in favor of IDN Technologies, a permanent injunction from infringement, treble damages, and attorneys' fees and costs. While we cannot predict the outcome of this matter, we believe the allegations are without merit.

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Beginning in May of 2002, several class action complaints were filed against VeriSign and certain of its current and former officers and directors in the United States District Court for the Northern District of California. These actions were consolidated under the heading *In re VeriSign, Inc. Securities Litigation*, Case No. C-02-2270 JW(HRL), on July 26, 2002. The consolidated action seeks unspecified damages for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, on behalf of a class of persons who purchased VeriSign stock from January 25, 2001 through April 25, 2002. An amended consolidated complaint was filed on November 8, 2002. On April 14, 2003 the court granted in part and denied in part the defendants' motion to dismiss the amended and consolidated complaint.

Parallel derivative actions have also been filed against certain of VeriSign's current and former officers and directors in state courts in California and Delaware. VeriSign is named as a nominal defendant in these actions. Several of these derivative actions were filed in Santa Clara County Superior Court of California, and these actions have since been consolidated under the heading *In re VeriSign, Inc. Derivative Litigation*, Case No. CV 807719. The consolidated derivative action seeks unspecified damages for alleged breaches of fiduciary duty and violations of the California Corporations Code. Defendants' demurrer to these claims was granted with leave to amend on February 4, 2003. Plaintiffs have indicated their intention to file an amended complaint. Another derivative action was filed in the Court of Chancery New Castle County, Delaware, Case No. 19700-NC, alleging similar breaches of fiduciary duty. Defendants' motion to dismiss these claims was granted by the Court of Chancery with prejudice on September 30, 2003.

VeriSign and the individual defendants dispute all of these claims.

On July 31, 2002, VeriSign received a Civil Investigative Demand (CID) from the U.S. Federal Trade Commission (FTC) for information to determine whether or not the Company's domain name registration business may have violated Section 5 of the FTC Act. The CID requested information on the company's registrar's relationship with Interland, Inc., the registrar's direct mail offer which began in April 2002, the registrar's transfer practices, and the deletion of domain names. On September 12, 2003, the Federal District Court for the District of Columbia approved a consent order resolving the investigation. The resolution of the matter was not material.

VeriSign is a defendant in four lawsuits filed since September 18, 2003, relating to VeriSign's Site Finder service. Two of these lawsuits were brought by alleged competitors of VeriSign. The remaining suits, one class action suit and one representative suit, were filed on behalf of consumers. VeriSign filed a motion to dismiss one of the alleged competitor lawsuits on October 20, 2003. Responses in the other suits are not yet due. While we cannot predict the outcome of these cases, we believe the allegations are without merit.

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

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Index to Exhibits

Exhibit Number	Exhibit Description	Filed Herewith
10.1	Form of 1998 Equity Incentive Plan Restricted Stock Purchase Agreement.	X
31.1	Certification of Chief Executive Officer, President and Chairman of the Board, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
31.2	Certification of Executive Vice President of Finance and Administration and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
32.1	Certification of Chief Executive Officer, President, and Chairman of the Board, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
32.2	Certification of Executive Vice President of Finance and Administration and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X

(b) Reports on Form 8-K

- Current Report on Form 8-K filed July 24, 2003 pursuant to Item 12 (Results of Operations and Financial Condition), announcing Registrant's financial results for the quarter ended June 30, 2003 and certain other information.

SIGNATURES

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

VERISIGN, INC.

Date: November 14, 2003

By: /s/ STRATTON D. SCLAVOS

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

Date: November 14, 2003

By: /s/ DANA L. EVAN

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

EXHIBITS

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

Exhibit Number	Exhibit Description
10.1	Form of 1998 Equity Incentive Plan Restricted Stock Purchase Agreement.
31.1	Certification of Chief Executive Officer, President and Chairman of the Board, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President of Finance and Administration and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, President and Chairman of the Board, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Executive Vice President of Finance and Administration and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

VERISIGN, INC.

1998 EQUITY INCENTIVE PLAN

RESTRICTED STOCK PURCHASE AGREEMENT

This Restricted Stock Purchase Agreement (the "Agreement") is made and entered into as of August __, 2003 (the "Effective Date") by and between VeriSign, Inc., a Delaware corporation (the "Company"), and the purchaser named below (the "Purchaser"). Capitalized terms not defined herein shall have the meaning ascribed to them in the Company's 1998 Equity Incentive Plan (the "Plan").

Purchaser: _____

Social Security Number: _____

Address: _____

Total Number of Shares: _____

Purchase Price Per Share: \$0.001

Total Purchase Price: _____

1. Purchase of Shares.

1.1 Purchase of Shares. On the Effective Date and subject to the terms and conditions of this Agreement and the Plan, Purchaser hereby purchases from the Company, and the Company hereby sells to Purchaser, the Total Number of Shares set forth above (the "Shares") of the Company's Common Stock at the Purchase Price Per Share as set forth above (the "Purchase Price Per Share") for a Total Purchase Price as set forth above (the "Purchase Price"). As used in this Agreement, the term "Shares" includes the Shares purchased under this Agreement and all securities received (i) in replacement of the Shares, (ii) as a result of stock dividends or stock splits with respect to the Shares, and (iii) in replacement of the Shares in a merger, recapitalization, reorganization or similar corporate transaction.

1.2 Title to Shares. The exact spelling of the name(s) under which Purchaser will take title to the Shares is:

Purchaser desires to take title to the Shares as follows:

- Individual, as separate property
- Husband and wife, as community property
- Joint Tenants

1.3 **Payment.** Purchaser hereby delivers payment of the Purchase Price as follows (check and complete as appropriate):

- in cash (by check) in the amount of \$_____, receipt of which is acknowledged by the Company;
- by cancellation of indebtedness of the Company owed to Purchaser in the amount of \$_____;
- by delivery of _____ fully-paid, nonassessable and vested shares of the Common Stock of the Company owned by Purchaser for at least six (6) months prior to the date hereof (which have been paid for within the meaning of SEC Rule 144 and, if purchased by use of a promissory note, such note has been fully paid with respect to such vested shares), or obtained by Purchaser in the open public market, and owned free and clear of all liens, claims, encumbrances or security interests, valued at the current Fair Market Value of \$_____ per share; or
- by the waiver hereby of compensation due or accrued for services rendered in the amount of \$_____.

1.4 **Stock Withholding.** The Company may withhold from the Shares to be issued that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld, determined on the date that the amount of tax to be withheld is to be determined, in satisfaction of Purchaser's federal, state and local tax liability for which the Purchaser is obligated to pay to the Company in connection with the purchase or vesting of any Shares that is subject to tax withholding.

2. Delivery.

2.1 **Deliveries by Purchaser.** Purchaser hereby delivers to the Company (i) two signed copies of this Agreement (including the Spousal Consent attached hereto as Exhibit 1); (ii) two signed copies of the Stock Power and Assignment Separate from Stock Certificate in the form of Exhibit 2 ("**Stock Powers**") attached hereto; and (iii) payment of the Purchase Price, receipt of which is acknowledged by the Company. The Company will issue duly executed stock certificates evidencing the Shares in the name(s) indicated by Purchaser, as Purchaser elects above in Section 1.2. The certificates shall be placed in escrow as provided in Section 7 below until such Shares are no longer subject to forfeiture, as described in Section 5 below.

2.2 **Deliveries by the Company.** Upon its receipt of the Purchase Price and all the documents to be executed and delivered by Purchaser to the Company under Section 2.1, the Company will issue a duly executed stock certificate evidencing the Shares in the name(s) indicated by Purchaser, as Purchaser elects above in Section 1.2.

3. Representations and Warranties of Purchaser. Purchaser represents and warrants to the Company that Purchaser has received a copy of the Plan and this Agreement, has read and understands the terms of the Plan and this Agreement, and agrees to be bound by their terms and conditions. Purchaser acknowledges that there may be adverse tax consequences upon purchase and disposition of the Shares, as discussed in Section 9 below, and that Purchaser should consult a tax adviser prior to such purchase or disposition.

4. Restrictions on Transfers. Purchaser shall not transfer, assign, grant a lien or security interest in, pledge, hypothecate, encumber or otherwise dispose of any of the Shares which are subject to forfeiture (as described in Section 5 below), except as permitted by this Agreement.

5. Forfeiture of Unvested Shares.

5.1 **Forfeiture.** If Purchaser is Terminated (as defined in the Plan) for any reason, or no reason, including without limitation Purchaser's death, Disability (as defined in the Plan), voluntary resignation or termination by the Company with or without Cause (as defined in the Plan), then Purchaser's Unvested Shares (as defined in Section 5.1 below) shall be immediately and automatically forfeited to the Company.

5.2 Unvested and Vested Shares. Shares that are vested pursuant to this Section 5.1 are “**Vested Shares**.” Shares that are not vested pursuant to this Section 5.1 are “**Unvested Shares**.” Unvested Shares may not be sold or otherwise transferred by Purchaser without the Company’s prior written consent. On the Effective Date all of the Shares will be Unvested Shares. Subject to the terms and conditions of the Plan and this Agreement, Shares shall vest as follows: (a) if Purchaser has continuously provided services to the Company, or any Parent or Subsidiary of the Company, then on the second anniversary of the Effective Date (the “**Vesting Date**”), one hundred percent (100%) of the Shares shall vest; provided, however, that with respect to one-third of such Shares, Purchaser shall not transfer, assign, grant a lien or security interest in, pledge, hypothecate, encumber or otherwise dispose of any of such Shares until the third anniversary of the Effective Date except as otherwise provided in Section 1.4. No Shares will become Vested Shares after the Termination Date. The number of Shares that are Vested Shares or Unvested Shares will be proportionally adjusted for any stock split or similar change in the capital structure of the Company as set forth in Section 2.2 of the Plan.

5.3 Right of Termination Unaffected. Nothing in this Agreement shall be construed to limit or otherwise affect in any manner whatsoever the right or power of the Company (or any Parent or Subsidiary of the Company) to terminate Purchaser’s employment or other relationship with the Company (or any Parent or Subsidiary of the Company) at any time for any reason or no reason, with or without Cause.

6. Rights as a Shareholder. Subject to the terms and conditions of this Agreement, Purchaser will have all of the rights of a shareholder of the Company with respect to the Shares from and after the date that Purchaser delivers payment of the Purchase Price until such time as Purchaser disposes of the Shares or, as applicable, the Unvested Shares are forfeited as set forth in Section 5 above. Purchaser will have no further rights as a holder of the Shares with respect to any Unvested Shares which are forfeited as set forth in Section 5 above.

7. Escrow. As security for Purchaser’s faithful performance of this Agreement, Purchaser agrees that the stock certificate(s) evidencing the Shares shall be retained by the Secretary of the Company or other designee of the Company (the “**Escrow Holder**”), who is hereby appointed to hold such certificate(s), together with the Stock Powers executed by Purchaser and by Purchaser’s spouse, if any (with the date and number of Shares left blank), s in escrow and to take all such actions and to effectuate all such transfers and/or releases of such Shares as are in accordance with the terms of this Agreement. Escrow Holder will act solely for the Company as its agent and not as a fiduciary. Purchaser and the Company agree that Escrow Holder will not be liable to any party to this Agreement (or to any other party) for any actions or omissions unless Escrow Holder is grossly negligent or intentionally fraudulent in carrying out the duties of Escrow Holder under this Agreement. Escrow Holder may rely upon any letter, notice or other document executed with any signature purported to be genuine and may rely on the advice of counsel and obey any order of any court with respect to the transactions contemplated by this Agreement. Once the Shares are no longer subject to forfeiture, as set forth in Section 5 above, the Shares will be released from escrow.

8. Restrictive Legends and Stop-Transfer Orders.

Legends. Purchaser understands and agrees that the Company may place the legends set forth below or similar legends on any stock certificate(s) evidencing the Shares, together with any legends that may be required by state or federal securities laws and the Company’s Certificate of Incorporation or Bylaws:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO FORFEITURE AS SET FORTH IN A RESTRICTED STOCK PURCHASE AGREEMENT BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES. THE SECURITIES MAY NOT BE TRANSFERRED EXCEPT AS PERMITTED UNDER THE AGREEMENT. A COPY OF THE AGREEMENT MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER.

8.2 Stop-Transfer Instructions. Purchaser agrees that, to ensure compliance with the restrictions imposed by this Agreement, the Company may issue appropriate “stop-transfer” instructions to its transfer agent. The Company will not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as the owner of such Shares, or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares have been transferred in violation of any of the provisions of this Agreement.

8.3 **Refusal to Transfer.** The Company will not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares, or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares have been so transferred.

9. Tax Consequences. PURCHASER UNDERSTANDS THAT PURCHASER MAY SUFFER ADVERSE TAX CONSEQUENCES AS A RESULT OF PURCHASER'S PURCHASE OR DISPOSITION OF THE SHARES. PURCHASER REPRESENTS (i) THAT PURCHASER HAS CONSULTED WITH ANY TAX ADVISER THAT PURCHASER DEEMS ADVISABLE IN CONNECTION WITH THE PURCHASE OR DISPOSITION OF THE SHARES AND (ii) THAT PURCHASER IS NOT RELYING ON THE COMPANY FOR ANY TAX ADVICE. Purchaser hereby acknowledges that Purchaser has been informed that, unless an election is filed by the Purchaser with the Internal Revenue Service (and, if necessary, the proper state taxing authorities) within 30 days of the purchase of the Shares to be effective, electing pursuant to Section 83(b) of the Internal Revenue Code (and similar state tax provisions, if applicable) to be taxed currently on any difference between the Purchase Price of the Shares and their Fair Market Value on the date of purchase, there will be a recognition of taxable income to the Purchaser, measured by the excess, if any, of the Fair Market Value of the Vested Shares, at the time they cease to be Unvested Shares, over the Purchase Price for such Shares. Purchaser represents that Purchaser has consulted any tax advisers Purchaser deems advisable in connection with Purchaser's purchase of the Shares and the filing of the election under Section 83(b) and similar tax provisions. A form of Election under Section 83(b) (including a form of Transmittal Letter) and an explanatory letter regarding such election are attached hereto as Exhibit 3 and Exhibit 4, respectively, for reference. **PURCHASER HEREBY ASSUMES ALL RESPONSIBILITY FOR FILING SUCH ELECTION AND PAYING ANY TAXES RESULTING FROM SUCH ELECTION OR FROM FAILURE TO FILE THE ELECTION AND PAYING TAXES RESULTING FROM THE LAPSE OF THE FORFEITURE RESTRICTIONS ON THE UNVESTED SHARES.**

10. Compliance with Laws and Regulations. The issuance and transfer of the Shares will be subject to and conditioned upon compliance by the Company and Purchaser with all applicable state and federal laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer.

11. Successors and Assigns. The Company may assign any of its rights under this Agreement. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement will be binding upon Purchaser and Purchaser's heirs, executors, administrators, legal representatives, successors and assigns.

12. Governing Law; Severability. This Agreement shall be governed by and construed in accordance with the internal laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within California, excluding that body of laws pertaining to conflict of laws. If any provision of this Agreement is determined by a court of law to be illegal or unenforceable, then such provision will be enforced to the maximum extent possible and the other provisions will remain fully effective and enforceable.

13. Notices. Any notice required to be given or delivered to the Company shall be in writing and addressed to the Corporate Secretary of the Company at its principal corporate offices. Any notice required to be given or delivered to Purchaser shall be in writing and addressed to Purchaser at the address indicated above or to such other address as Purchaser may designate in writing from time to time to the Company. All notices shall be deemed effectively given upon personal delivery, (i) three (3) days after deposit in the United States mail by certified or registered mail (return receipt requested), (ii) one (1) business day after its deposit with any return receipt express courier (prepaid), or (iii) one (1) business day after transmission by rapifax or telecopier.

14. Further Instruments. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

15. Headings. The captions and headings of this Agreement are included for ease of reference only and will be disregarded in interpreting or construing this Agreement. All references herein to Sections will refer to Sections of this Agreement.

16. Entire Agreement. The Plan and this Agreement, together with all its Exhibits, constitute the entire agreement and understanding of the parties with respect to the subject matter of this Agreement, and supersede all prior understandings and agreements, whether oral or written, between the parties hereto with respect to the specific subject matter hereof.

[Remainder of this Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in triplicate by its duly authorized representative and Purchaser has executed this Agreement in triplicate as of the Effective Date.

VERISIGN, INC.

PURCHASER

By: _____

(Signature)

(Please print name)

(Please print name)

(Please print title)

[Signature page to VeriSign, Inc. Restricted Stock Purchase Agreement]

LIST OF EXHIBITS

- Exhibit 1: Spousal Consent
- Exhibit 2: Stock Power and Assignment Separate from Stock Certificate
- Exhibit 3: Election under Section 83(b) of the Internal Revenue Code (and form of Transmittal Letter)
- Exhibit 4: Explanatory Letter regarding an Election under Section 83(b) of the Internal Revenue Code

EXHIBIT 1
SPOUSAL CONSENT

Spousal Consent

The undersigned spouse of _____ (the "**Purchaser**") has read, understands, and hereby approves the Restricted Stock Purchase Agreement between Purchaser and the Company (the "**Agreement**"). In consideration of the Company's granting my spouse the right to purchase the Shares as set forth in the Agreement, the undersigned hereby agrees to be irrevocably bound by the Agreement and further agrees that any community property interest shall similarly be bound by the Agreement. The undersigned hereby appoints Purchaser as my attorney-in-fact with respect to any amendment or exercise of any rights under the Agreement.

Date: _____

(Please print name)

(Please print title)

Print Name of Purchaser's Spouse

Signature of Purchaser's Spouse

Address: _____

Check this box if you do not have a spouse.

EXHIBIT 2

STOCK POWER AND ASSIGNMENT SEPARATE FROM STOCK CERTIFICATE

Stock Power and Assignment
Separate from Stock Certificate

FOR VALUE RECEIVED and pursuant to that certain Restricted Stock Purchase Agreement dated as of _____ (the "**Agreement**"), the undersigned hereby sells, assigns and transfers unto _____, _____ (_____) shares of the Common Stock of VeriSign, Inc., a Delaware corporation (the "**Company**"), standing in the undersigned's name on the books of the Company represented by Certificate No(s). _____ delivered herewith, and does hereby irrevocably constitute and appoint the Secretary of the Company, as the undersigned's attorney-in-fact, with full power of substitution, to transfer said stock on the books of the Company. THIS ASSIGNMENT MAY ONLY BE USED AS AUTHORIZED BY THE AGREEMENT AND ANY EXHIBITS THERETO.

Dated: _____

PURCHASER

Name:

Instructions to Purchaser: Please do not fill in any blanks other than the signature line. The purpose of this Stock Power and Assignment is to enable the Company and/or its assignee(s) to acquire Unvested Shares upon their forfeiture, as set forth in Section 5 of the Agreement between you and the Company, without requiring additional signatures from you.

EXHIBIT 3

ELECTION UNDER SECTION 83(b) OF THE INTERNAL REVENUE CODE

(AND TRANSMITTAL LETTER)

Election Under Section 83(b) of the Internal Revenue Code

The undersigned Taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code, as amended, to include in gross income for the Taxpayer's current taxable year the excess, if any, of the fair market value of the property described below at the time of transfer over the amount paid for such property, as compensation for services.

1. TAXPAYER'S NAME: _____

TAXPAYER'S ADDRESS: _____

SOCIAL SECURITY NUMBER: _____

2. The property with respect to which the election is made is described as follows: _____ shares of Common Stock of VeriSign, Inc., a Delaware corporation (the "**Company**"), which is Taxpayer's employer or the corporation for whom the Taxpayer performs services.
3. The date on which the shares were transferred was _____, ____ and this election is made for calendar year _____.
4. The shares are subject to the following restrictions: The shares, to the extent unvested at the time of Taxpayer's termination of employment or services, will be immediately and automatically forfeited to the Company.
5. The fair market value of the shares (without regard to restrictions other than restrictions which by their terms will never lapse) was \$ _____ per share at the time of transfer.
6. The amount paid for such shares was \$ _____ per share.
7. The Taxpayer has submitted a copy of this statement to the Company.

THIS ELECTION MUST BE FILED WITH THE INTERNAL REVENUE SERVICE ("**IRS**"), AT THE OFFICE WHERE THE TAXPAYER FILES ANNUAL INCOME TAX RETURNS, **WITHIN 30 DAYS** AFTER THE DATE OF TRANSFER OF THE PROPERTY, AND MUST ALSO BE FILED WITH THE TAXPAYER'S INCOME TAX RETURNS FOR THE CALENDAR YEAR. THE ELECTION CANNOT BE REVOKED WITHOUT THE CONSENT OF THE IRS.

Dated: _____

Taxpayer's Signature

BY CERTIFIED OR REGISTERED MAIL NO. _____

RETURN RECEIPT REQUESTED

Internal Revenue Service
[5045 East Butler Avenue
Fresno, CA 93888*]

Re: Section 83(b) Election
Name:
SSN:

Dear Sir/Madam:

Enclosed please find the original and one copy of a Section 83(b) Election for filing on behalf of the above-referenced taxpayer.

Please acknowledge your receipt of this filing by signing or stamping and dating the copy of the Election Form and returning it to the undersigned. A self-addressed, stamped envelope is provided for your convenience.

Very truly yours,

Enclosures

cc: [Employee]
VeriSign, Inc.

* **Make sure filing in Fresno is permitted. Please see attached listing of filing locations which comes from IRS form 1040, page 2096.**

EXHIBIT 4

**EXPLANATORY LETTER REGARDING AN ELECTION UNDER SECTION 83(b) OF THE
INTERNAL REVENUE CODE**

[Address]

Re: Section 83(b) Election

Dear _____:

This letter is in reference to your purchase of _____ shares of common stock of VeriSign, Inc. (the "**Company**") under a Restricted Stock Purchase Agreement dated _____, (the "**Agreement**").

As you know, the Agreement provides that the shares you are purchasing under the Agreement will be subject to forfeiture to the Company if your employment or arrangement to provide services with the Company terminates for any or no reason within a stated period of time. This "vesting" restriction should be considered a "substantial risk of forfeiture" within the meaning of Section 83 of the Internal Revenue Code of 1986, as amended ("**IRC**").

As a result of this restriction on your shares, you would normally be taxed, when the restriction lapses on each portion of the shares (i.e. when they "vest"), on an amount equal to the excess of the fair market value of the shares that vest and become free of the restriction (with such fair market value being measured as of the date the restriction lapses) over the amount you paid for those shares. If the shares appreciate in value between now and the time the restriction lapses, you would be required to include the appreciation in your Federal and California, if applicable, taxable gross income. This amount would be taxable at the full ordinary rates (presently up to a maximum marginal rate of 38.6% for Federal income tax purposes and 9.3% for California income tax purposes) as compensation, when the restriction lapses, even if you continue to hold the shares. This could result in an unexpected (and possibly substantial) tax to you in future years.

However, under IRC Section 83(b) you may elect instead to be taxed this year on the excess, if any, of the fair market value of the shares (determined without regard to the restrictions mentioned above) on the date you buy the shares over the amount you paid for the shares. If you file such an election, any subsequent appreciation (or decline) in the value of the shares would be taxed as a capital gain (or loss) when you eventually dispose of the shares. This gain will be a long-term capital gain or loss provided you hold such shares for more than twelve (12) months.

If you decide to make the election, it must be filed with the Internal Revenue Service (at the same office with which you file your annual tax return) within 30 days of your purchase of the shares. **Please verify at the bottom of this letter, the IRS office with which you file your annual tax return, based upon the information provided on Exhibit A to this letter. TIMELY FILING OF THE ELECTION IS VERY IMPORTANT!** Once made, the election cannot be revoked without the consent of the Internal Revenue Service. If you would like advice on the advisability of making the election, please consult your tax advisor immediately.

If you do make the election, we recommend you send the election form with the cover letter to the IRS by certified or registered mail *WITHIN 30 DAYS OF YOUR PURCHASE OF THE SHARES*. Enclosed is a form of cover letter to the Internal Revenue Service ("**IRS**") for you to use when filing the signed and completed Section 83(b) election form. **Please note that you are responsible for the timely filing of this form. Please send me a copy of the letter you send to the IRS along with a copy of the signed 83(b) election form for the Company's records.** You must also file a copy of the election

form with your tax return for this year. You should keep a copy of the signed 83(b) election form for your records.

Please confirm your receipt and understanding of this letter by (i) signing a copy of this letter in the space indicated below, (ii) placing a check mark in the relevant box to indicate your choice of action, and (iii) returning one signed copy to me.

Very truly yours,

Jeffrey K. Bergmann

I have read and understood the foregoing explanation of the 83(b) election set forth in this letter this ____ day of _____, _____. I have decided to:

- Not file the election form.
- File the election form.

Signature of Shareholder

Enclosures:

Exhibit A

Election forms are to be filed at the applicable IRS address below which is where the individual filing the 83(b) form files his or her tax returns.

This information was last revised and updated on December 31, 2002.

IF You Live In _____ mail to Internal Revenue Service Center at:

Florida, Georgia, Mississippi, North Carolina, South Carolina, West Virginia	Atlanta, GA 39901-0002
New York (<i>New York City and counties of Nassau, Rockland, Suffolk, and Westchester</i>)	Holtsville, NY 00501-0002
New York (<i>all other counties</i>), Maine, Massachusetts, Michigan, New Hampshire, Rhode Island, Vermont	Andover, MA 05501-0002
Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Utah, Wisconsin	Kansas City, MO 64999-0002
Connecticut, Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania	Philadelphia, PA 19255-0002
Colorado, Kentucky, Louisiana, Montana, New Mexico, Oklahoma, Texas, Wyoming	Austin, TX 73301-0002
Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Washington	Fresno, CA 93888-0002
Alabama, Arkansas, Ohio, Tennessee, Virginia	Memphis, TN 37501-0002
All APO (Army Post Office) and FPO (Fleet Post Office) addresses, American Samoa, nonpermanent residents of Guam or the Virgin Islands*, Puerto Rico (<i>or if excluding income under Internal Revenue Code section 933</i>), <i>dual-status aliens</i> , a foreign country: U.S. citizens and those filing Form 2555, 2555-EZ, or 4563	Philadelphia, PA 19255-0215 USA

* Permanent residents of Guam should use:

Department of Revenue and Taxation,
Government of Guam,
P.O. Box 23607,
GMF, GU 96921;

*Permanent residents
of Virgin Islands should use:

V.I. Bureau of
Internal Revenue,
9601 Estate Thomas,
Charlotte Amalie,
St. Thomas,
VI 00802.

Section 83(b) Election Frequently Asked Questions

Q Do I have to make the Section 83(b) election?

A No.

Q What happens if I do not make the Section 83(b) election?

A Normally, when an employee is provided the opportunity to acquire company stock at a discount, the difference between the fair market value of the stock and the price the employee pays is taxable as ordinary compensation income on the date of purchase. However, where the stock is subject to substantial risk of forfeiture (as is the case here), the employee generally will not recognize income until those restrictions lapse. When the stock becomes fully vested, the employee is taxed on the excess of the fair market value of the stock at that date over the price paid by the employee. For example, an employee is granted the right to acquire 10,000 shares of company stock (with a two year cliff vesting) at 1 cent per share when the stock was valued at \$14 per share. The employee chooses to not make the Section 83(b) election and the stock is worth \$20 when it becomes fully vested on the second anniversary date. The employee would not recognize income on the purchase of the shares, but would recognize \$199,900¹ as ordinary compensation income in year 2 when the stock becomes fully vested.

Q What happens if I do make the election?

A If the employee makes the election, the stock they receive is treated as though there are no substantial risks of forfeiture. This means that the excess of the fair market value of the stock, (disregarding any restrictions that will lapse over time) over the price the employee pays will be taxable at the date of purchase as ordinary compensation income. Any future appreciation or depreciation in relation to the fair market value at the date of purchase would be taxable as capital gain or loss when the stock is finally sold. Assuming the same facts as above and the stock is finally sold for \$30 per share, (1) the employee would recognize \$139,900² of ordinary income at the date the stock is acquired, (2) no taxable event occurs when the stock becomes fully vested, and (3) the employee would recognize \$160,000³ of long-term capital gain⁴ when the stock is sold.

Q What happens if I make the election and I forfeit the stock before it vests?

¹ \$200,000 – \$100

² \$140,000 – \$100

³ \$300,000 – \$140,000

⁴ Assuming the stock is held more than 1 year before it is sold.

A If the employee makes the election and the property with respect to which the election is made is ultimately forfeited pursuant to restrictions attached to the property, the statute imposes an additional cost to the election. No deduction is available to the employee with respect to any income inclusion that results from the Section 83(b) election. In the above example, the employee would recognize \$139,900 of compensation income at grant and recognize a \$100 capital loss when the stock is forfeited.

Q What happens if I make the election and the stock goes down in value once I am fully vested?

A The employee would recognize a capital loss equal to the difference between the fair market value on the date the stock was acquired over the sales price of the stock sold. Using the previous facts, if the stock was sold for \$10 per share in year 2, the employee would have a loss of \$40,000⁵. This would be a capital loss and subject to the limitations on capital losses. Generally, federal and state tax laws limit the use of capital losses to offset capital gains plus a nominal amount each year (\$3,000 for federal purposes and \$1,000 for CA purposes)⁶.

Q Should I make the election?

A The answer to this question will depend on your tolerance for risk and how you view the general stock market as well as the future appreciation potential of VeriSign, Inc. stock and the likelihood you will not forfeit the stock. There clearly is no one answer fits all here. You should consult with your personal tax advisor and consider carefully the risks and rewards for making such an election. There is no risk in not making the election, just the lost opportunity of qualifying for a reduced capital gain tax (20% vs. 38.6%) on the future appreciation over the fair market value on the date of grant.

⁵ \$100,000 – \$140,000

⁶ Individuals cannot carryback capital losses, but can carry them forward indefinitely.

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stratton D. Sclavos, certify that:

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

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

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

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

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

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 14, 2003

By: /s/ STRATTON D. SCLAVOS

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

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dana L. Evan, certify that:

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

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

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

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

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

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 14, 2003

By: /s/ DANA L. EVAN

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of VeriSign, Inc. (the "Company") for the quarterly period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stratton D. Sclavos, President, Chief Executive Officer and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

VERISIGN, INC.

Date: November 14, 2003

By: /s/ STRATTON D. SCLAVOS

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of VeriSign, Inc. (the "Company") for the quarterly period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dana L. Evan, Executive Vice President of Finance and Administration and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

VERISIGN, INC.

Date: November 14, 2003

By: /s/ DANA L. EVAN

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