# 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 June 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**<br>**(State or other jurisdiction of incorporation or organization)** | **94-3221585**<br>**(I.R.S. Employer Identification No.)** |
| **487 East Middlefield Road, Mountain View, CA**<br>**(Address of principal executive offices)** | **94043**<br>**(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 July 31, 2003 |
|---|---|
| Common stock, $.001 par value | 240,533,887 |

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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:

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**VERISIGN, INC. AND SUBSIDIARIES**

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

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 397,626 | $ 282,288 |
| Short-term investments | 114,577 | 103,180 |
| Accounts receivable, net | 101,122 | 134,124 |
| Prepaid expenses and other current assets | 63,471 | 56,618 |
| Deferred tax assets | 6,524 | 9,658 |
| Total current assets | 683,320 | 585,868 |
| Property and equipment, net | 591,448 | 609,354 |
| Goodwill and other intangible assets, net | 897,920 | 1,129,602 |
| Restricted cash | 18,371 | 18,436 |
| Long-term investments | 22,528 | 36,741 |
| Other assets, net | 12,824 | 11,317 |
| Total long-term assets | 1,543,091 | 1,805,450 |
| Total assets | $ 2,226,411 | $ 2,391,318 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 281,194 | $ 278,545 |
| Accrued merger costs | — | 5,015 |
| Accrued restructuring costs | 28,908 | 23,835 |
| Deferred revenue | 326,741 | 357,950 |
| Total current liabilities | 636,843 | 665,345 |
| Long-term deferred revenue | 175,055 | 125,893 |
| Other long-term liabilities | 16,002 | 20,655 |
| Total long-term liabilities | 191,057 | 146,548 |
| Total liabilities | 827,900 | 811,893 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock—par value $.001 per share<br>Authorized shares: 5,000,000<br>Issued and outstanding shares: none | — | — |
| Common stock—par value $.001 per share<br>Authorized shares: 1,000,000,000<br>Issued and outstanding shares: 239,321,909 and 237,510,063 (excluding 1,690,000 shares held in treasury at June 30, 2003 and December 31, 2002) | 239 | 238 |
| Additional paid-in capital | 23,083,064 | 23,072,212 |
| Unearned compensation | (2,257) | (8,086) |
| Accumulated deficit | (21,676,461) | (21,480,175) |
| Accumulated other comprehensive loss | (6,074) | (4,764) |
| Total stockholders' equity | 1,398,511 | 1,579,425 |
| Total liabilities and stockholders' equity | $ 2,226,411 | $ 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 June 30, 2003 | Three Months Ended June 30, 2002 | Six Months Ended June 30, 2003 | Six Months Ended June 30, 2002 |
|---|---|---|---|---|
| Revenues | $ 265,299 | $ 317,409 | $ 535,057 | $ 645,225 |
| Costs and expenses: | | | | |
| Cost of revenues | 115,589 | 152,549 | 231,418 | 307,516 |
| Sales and marketing | 50,515 | 69,281 | 103,077 | 136,600 |
| Research and development | 13,253 | 13,012 | 27,030 | 27,792 |
| General and administrative | 42,255 | 40,369 | 89,120 | 73,571 |
| Restructuring and other charges | 10,903 | 67,779 | 31,416 | 67,779 |
| Amortization and write-down of other intangible assets and goodwill | 177,139 | 4,686,119 | 232,041 | 4,771,042 |
| Total costs and expenses | 409,654 | 5,029,109 | 714,102 | 5,384,300 |
| Operating loss | (144,355) | (4,711,700) | (179,045) | (4,739,075) |
| Other income (expense), net | 2,316 | (90,835) | (11,578) | (103,170) |
| Loss before income taxes | (142,039) | (4,802,535) | (190,623) | (4,842,245) |
| Income tax expense | (811) | — | (5,663) | — |
| Net loss | $ (142,850) | $ (4,802,535) | $ (196,286) | $ (4,842,245) |
| Net loss per share: | | | | |
| Basic and diluted | $ (0.60) | $ (20.31) | $ (0.82) | $ (20.52) |
| Shares used in per share computation: | | | | |
| Basic and diluted | 238,898 | 236,435 | 238,555 | 235,940 |

See accompanying notes to condensed consolidated financial statements

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**VERISIGN, INC. AND SUBSIDIARIES**

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

| | Six Months Ended June 30, 2003 | Six Months Ended June 30, 2002 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (196,286) | $ (4,842,245) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization of property and equipment | 59,185 | 49,818 |
| Amortization and write-down of other intangible assets and goodwill | 232,041 | 4,771,042 |
| 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 | 113,540 |
| Deferred income taxes | 3,334 | — |
| Amortization of unearned compensation | 5,829 | 7,458 |
| Loss on disposal of property and equipment | — | 1,722 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 33,002 | 87,215 |
| Prepaid expenses and other current assets | (6,853) | (48,611) |
| Accounts payable and accrued liabilities | 7,117 | (28,658) |
| Deferred revenue | 17,953 | (69,637) |
| Net cash provided by operating activities | 181,123 | 70,805 |
| Cash flows from investing activities: | | |
| Purchases of investments | (163,207) | (52,188) |
| Proceeds from maturities and sales of investments | 150,796 | 345,474 |
| Purchases of property and equipment | (50,098) | (115,271) |
| Net cash paid in business combinations | — | (346,342) |
| Merger related costs | (4,925) | (47,004) |
| Other assets | (1,500) | (709) |
| Net cash used in investing activities | (68,934) | (216,040) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 10,853 | 16,267 |
| Repayment of debt | (4,915) | — |
| Net cash provided by financing activities | 5,938 | 16,267 |
| Effect of exchange rate changes | (2,789) | 207 |
| Net increase (decrease) in cash and cash equivalents | 115,338 | (128,761) |
| Cash and cash equivalents at beginning of period | 282,288 | 306,054 |
| Cash and cash equivalents at end of period | $ 397,626 | $ 177,293 |

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 June 30, 2003, and the results of operations and cash flows for the interim periods ended June 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 recorded restructuring and other charges of $10.9 million and $67.8 million during the quarter ended June 30, 2003 and 2002, respectively, and $31.4 million and $67.8 million during the six months ended June 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 June 30, 2003 and recorded a workforce reduction charge of $3.8 million during the quarter ended June 30, 2002. During the six months ended June 30, 2003 and 2002, $1.5 million and $3.8 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 our 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 June 30, 2003 and recorded a charge of $26.4 million during the quarter ended June 30, 2002. During the six months ended June 30, 2003 and 2002, $8.7 million and $26.4 million of excess facilities charges were recorded, respectively.

*Write-down of property and equipment.* During the quarter and six months ended June 30, 2003, no write-downs of property and equipment were recorded. During the quarter and six months ended June 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 June 30, 2003. During the quarter and six months ended June 30, 2002, VeriSign recorded other exit costs totaling $8.5 million consisting of the

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 six months ended June 30, 2003, VeriSign recorded other exit costs consisting mainly of contract termination fees totaling approximately $1.0 million.

*Other charges.* During the quarter ended June 30, 2003, VeriSign recorded other charges of $10.9 million related to cash paid for the termination of a lease. During the quarter and six months ended June 30, 2002, VeriSign recorded other charges of $8.9 million relating primarily to the write-down of impaired prepaid marketing assets associated with discontinued advertising. During the six months ended June 30, 2003, VeriSign also recorded other charges of $9.3 million which consisted primarily of 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 June 30, 2003 and 2002 is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (In thousands) | | | |
| Workforce reduction | $ — | $ 3,830 | $ 1,545 | $ 3,830 |
| Excess facilities | — | 26,370 | 8,694 | 26,370 |
| Write-down of property and equipment | — | 20,179 | — | 20,179 |
| Exit costs | — | 8,492 | 1,014 | 8,492 |
| Subtotal | — | 58,871 | 11,253 | 58,871 |
| Other charges | 10,903 | 8,908 | 20,163 | 8,908 |
| Total restructuring and other charges | $10,903 | $67,779 | $31,416 | $67,779 |

At June 30, 2003, the accrued liability associated with the restructuring and other charges was $28.9 million and consisted of the following:

| | Accrued Restructuring Costs at December 31, 2002 | Restructuring Charges | Cash Payments | Accrued Restructuring Costs at June 30, 2003 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Workforce reduction | $ 113 | $ 1,545 | $ (1,618) | $ 40 |
| Excess facilities | 23,512 | 8,694 | (3,734) | 28,472 |
| Exit costs | 210 | 1,014 | (828) | 396 |
| | $ 23,835 | $ 11,253 | $ (6,180) | $ 28,908 |

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. Other amounts will be paid by December 31, 2004.

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

| | (In thousands) |
|---|---|
| 2003 (6 months) | $ 3,792 |
| 2004 | 7,547 |
| 2005 | 6,020 |
| 2006 | 4,068 |
| 2007 | 3,306 |
| Thereafter | 3,739 |
| | $ 28,472 |

**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 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 |
| | $ 18,697 | $ 91,568 | $12,954 | $ 123,219 |

**VERISIGN, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Goodwill and other intangible assets, net of accumulated amortization, totaled $897.9 million at June 30, 2003, which was comprised of $615.7 million of goodwill and $282.2 million of other intangible assets. VeriSign's other intangible assets comprise:

| | As of June 30, 2003 | | |
|---|---|---|---|
| | Gross Carrying Value | Accumulated Amortization and Write-down | Net Carrying Value |
| | | (In thousands) | |
| ISP hosting relationships | $ 11,388 | $ (11,388) | $ — |
| Customer relationships | 260,597 | (102,657) | 157,940 |
| Technology in place | 148,243 | (125,507) | 22,736 |
| Non-compete agreement | 1,019 | (1,019) | — |
| Trade name | 76,314 | (76,314) | — |
| Contracts with ICANN and customer lists | 957,403 | (855,894) | 101,509 |
| | $ 1,454,964 | $(1,172,779) | $ 282,185 |

| | As of December 31, 2002 | | |
|---|---|---|---|
| | Gross Carrying Value | Accumulated Amortization and Write-down | Net Carrying Value |
| | | (In thousands) | |
| 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 |
| | $ 1,454,964 | $ (992,673) | $ 462,291 |

For the three months ended June 30, 2003 and 2002, amortization of other intangible assets was $53.9 million and $87.5 million, respectively. Amortization of other intangible assets was $108.8 million and $172.4 million for the six months ended June 30, 2003 and 2002, respectively.

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

| | (In thousands) |
|---|---|
| 2003 (6 months) | $ 72,669 |
| 2004 | 55,293 |
| 2005 | 55,293 |
| 2006 | 48,551 |
| 2007 | 45,468 |
| Thereafter | 4,911 |
| | $ 282,185 |

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**Note 4. Stock Compensation Plans and Unearned Compensation**

At June 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (In thousands, except per share data) | | | |
| Net loss, as reported | $(142,850) | $(4,802,535) | $(196,286) | $(4,842,245) |
| Add: Unearned compensation related to acquisitions included in reported net loss, net of tax | 1,571 | 3,727 | 5,829 | 7,458 |
| Deduct: Equity-based compensation determined under the fair value method for all awards, net of tax | (60,302) | (65,743) | (122,862) | (136,993) |
| Pro forma net loss | $(201,581) | $(4,864,551) | $(313,319) | $(4,971,780) |
| Basic and diluted net loss per share: | | | | |
| As reported | $ (0.60) | $ (20.31) | $ (0.82) | $ (20.52) |
| Pro forma equity-based compensation | (0.25) | (0.26) | (0.49) | (0.55) |
| Pro forma basic and diluted net loss per share | $ (0.85) | $ (20.57) | $ (1.31) | $ (21.07) |

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Stock options: | | | | |
| Volatility | 104% | 110% | 104% | 110% |
| Risk-free interest rate | 2.17% | 4.11% | 2.19% | 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 | — | — | 108% | 110% |
| Risk-free interest rate | — | — | 1.38% | 2.23% |
| Expected life | — | — | 1.25 years | 1.25 years |
| Dividend yield | — | — | zero | zero |

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

No Employee Stock Purchase Plan options were granted during the three months ended June 30, 2003 or 2002. The weighted-average fair value of stock options granted was $9.35 and $9.13 during the three months and six months ended June 30, 2003, respectively.

**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 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 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 June 30, 2003, no investment write-downs were recorded. During the three months ended June 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 $94.8 million. During the six months ended June 30, 2003 and 2002, VeriSign recorded net write-downs of these investments totaling $16.5 million and $113.5 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. For the three months ended June 30, 2003 and 2002, VeriSign recognized revenues totaling $3.0 million and $6.6 million, respectively, and for the six months ended June 30, 2003 and 2002, VeriSign recognized revenues totaling $5.4 million and $17.7 million, respectively, from customers, including VeriSign Affiliates, with whom it had previously participated in a private equity round of financing.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**Note 6. Reciprocal Transactions**

VeriSign did not enter into any reciprocal transactions during the quarter ended June 30, 2003. There were approximately $0.9 million of revenues related to prior period reciprocal transactions recognized during the quarter ended June 30, 2003. Revenues recognized under reciprocal arrangements were approximately $1.7 million during the quarter ended June 30, 2002. Reciprocal transactions during the six months ended June 30, 2003, all of which related to prior periods, accounted for approximately $2.2 million of revenues. Revenues recognized under reciprocal arrangements were approximately $11.2 million during the six months ended June 30, 2002.

**Note 7. Restricted Cash**

At June 30, 2003, we have pledged $18.4 million classified as restricted cash as collateral for standby letters of credit that guarantee certain of our contractual obligations, primarily relating to our real estate lease agreements.

**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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (In thousands) | | | |
| Net loss | $(142,850) | $(4,802,535) | $(196,286) | $(4,842,245) |
| Change in unrealized gain (loss) on investments, net of tax | 835 | 2,063 | 1,249 | (480) |
| Translation adjustments | (945) | (482) | (2,559) | 207 |
| Comprehensive loss | $(142,960) | $(4,800,954) | $(197,596) | $(4,842,518) |

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (In thousands, except per share data) | | | |
| Basic and diluted net loss per share: | | | | |
| Net loss | $(142,850) | $(4,802,535) | $(196,286) | $(4,842,245) |
| Determination of basic and diluted shares: | | | | |
| Weighted-average common shares outstanding | 238,898 | 236,435 | 238,555 | 235,940 |
| Potential common shares—dilutive stock options | — | — | — | — |
| Basic and diluted weighted-average common shares outstanding | 238,898 | 236,435 | 238,555 | 235,940 |
| Basic and diluted net loss per share | $ (0.60) | $ (20.31) | $ (0.82) | $ (20.52) |

For the three months ended June 30, 2003 and 2002, VeriSign excluded 2,797,947 and 2,945,251 weighted-average common share equivalents, respectively, with a weighted-average exercise price of $8.31 and $8.07, respectively, because their effect would have been anti-dilutive. For the six months ended June 30, 2003 and 2002, VeriSign excluded 1,881,706 and 4,345,599 weighted-average common share equivalents, respectively, with a weighted-average exercise price of $7.94 and $7.90, 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.

**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 Registry Services. The 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. The Registry

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Services business unit acts as the exclusive registry of domain names in the *.com* and *.net* generic top-level domains ("gTLDs") and certain 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 June 30, 2003: | | | | | |
| Total revenues | $ 118,354 | $ 101,048 | $ 59,181 | $ — | $ 278,583 |
| Internal revenues | (13,284) | — | — | — | (13,284) |
| External revenues | $ 105,070 | $ 101,048 | $ 59,181 | $ — | $ 265,299 |
| Total cost of revenues | $ 30,069 | $ 57,397 | $ 32,986 | $ 8,421 | $ 128,873 |
| Internal cost of revenues | — | — | (13,284) | — | (13,284) |
| External cost of revenues | $ 30,069 | $ 57,397 | $ 19,702 | $ 8,421 | $ 115,589 |
| Gross margin after eliminations | $ 75,001 | $ 43,651 | $ 39,479 | $ (8,421) | $ 149,710 |

| | Internet Services Group | Telecommunication Services Group | Network Solutions | Other | Total Segments |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Three months ended June 30, 2002: | | | | | |
| Total revenues | $ 160,838 | $ 101,513 | $ 78,865 | $ — | $ 341,216 |
| Internal revenues | (23,807) | — | — | — | (23,807) |
| External revenues | $ 137,031 | $ 101,513 | $ 78,865 | $ — | $ 317,409 |
| Total cost of revenues | $ 69,256 | $ 55,029 | $ 44,231 | $ 7,840 | $ 176,356 |
| Internal cost of revenues | — | — | (23,807) | — | (23,807) |
| External cost of revenues | $ 69,256 | $ 55,029 | $ 20,424 | $ 7,840 | $ 152,549 |
| Gross margin after eliminations | $ 67,775 | $ 46,484 | $ 58,441 | $ (7,840) | $ 164,860 |

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| | Internet Services Group | Telecommunication Services Group | Network Solutions | Other | Total Segments |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Six months ended June 30, 2003: | | | | | |
| Total revenues | $ 236,149 | $ 201,650 | $ 125,311 | $ — | $ 563,110 |
| Internal revenues | (28,053) | — | — | — | (28,053) |
| External revenues | $ 208,096 | $ 201,650 | $ 125,311 | $ — | $ 535,057 |
| Total cost of revenues | $ 61,007 | $ 114,364 | $ 67,724 | $ 16,376 | $ 259,471 |
| Internal cost of revenues | — | — | (28,053) | — | (28,053) |
| External cost of revenues | $ 61,007 | $ 114,364 | $ 39,671 | $ 16,376 | $ 231,418 |
| Gross margin after eliminations | $ 147,089 | $ 87,286 | $ 85,640 | $ (16,376) | $ 303,639 |

| | Internet Services Group | Telecommunication Services Group | Network Solutions | Other | Total Segments |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Six months ended June 30, 2002: | | | | | |
| Total revenues | $ 343,112 | $ 184,896 | $ 167,676 | $ — | $ 695,684 |
| Internal revenues | (50,459) | — | — | — | (50,459) |
| External revenues | $ 292,653 | $ 184,896 | $ 167,676 | $ — | $ 645,225 |
| Total cost of revenues | $ 148,079 | $ 100,101 | $ 95,648 | $ 14,147 | $ 357,975 |
| Internal cost of revenues | — | — | (50,459) | — | (50,459) |
| External cost of revenues | $ 148,079 | $ 100,101 | $ 45,189 | $ 14,147 | $ 307,516 |
| Gross margin after eliminations | $ 144,574 | $ 84,795 | $ 122,487 | $ (14,147) | $ 337,709 |

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

*Reconciliation to VeriSign, as reported*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (In thousands) | | | |
| Revenues: | | | | |
| Total segments | $ 278,583 | $ 341,216 | $ 563,110 | $ 695,684 |
| Elimination of internal revenues | (13,284) | (23,807) | (28,053) | (50,459) |
| Revenues, as reported | $ 265,299 | $ 317,409 | $ 535,057 | $ 645,225 |
| Net loss: | | | | |
| Segment gross margin | $ 149,710 | $ 164,860 | $ 303,639 | $ 337,709 |
| Operating expenses | 294,065 | 4,876,560 | 482,684 | 5,076,784 |
| Operating loss | (144,355) | (4,711,700) | (179,045) | (4,739,075) |
| Other income (expense), net | 2,316 | (90,835) | (11,578) | (103,170) |
| Income tax expense | (811) | — | (5,663) | — |
| Net loss, as reported | $(142,850) | $(4,802,535) | $(196,286) | $(4,842,245) |

*Geographic information*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (In thousands) | | | |
| Revenues: | | | | |
| United States | $ 241,738 | $ 292,082 | $ 488,127 | $ 590,342 |
| All other countries | 23,561 | 25,327 | 46,930 | 54,883 |
| Total | $ 265,299 | $ 317,409 | $ 535,057 | $ 645,225 |

VeriSign operates in the United States, Europe, South Africa, 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.

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| | (In thousands) | |
| Long-lived assets: | | |
| United States | $ 1,478,560 | $ 1,725,876 |
| All other countries | 64,531 | 79,574 |
| Total | $ 1,543,091 | $ 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.

**Note 12. Income Taxes**

For the quarter and six months ended June 30, 2003, VeriSign recorded tax expense of $0.8 million and $5.7 million, respectively. For the quarter ended June 30, 2003, tax expense was comprised of a benefit of $0.4 million for foreign income and withholding taxes and an expense of $1.2 million for U.S. federal and state taxes. For the six months ended June 30, 2003, tax expense was comprised of $4.1 million of foreign income and withholding taxes and $1.5 million of U.S. federal and state 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.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**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. VeriSign does not believe that the adoption of Issue No. 00-21 will have a material effect on its 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 June 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. VeriSign has determined that FASB Interpretation No. 46 will not 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 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. VeriSign did not enter into any financial instruments within the scope of SFAS No. 150 during June 2003. VeriSign has determined that the adoption of SFAS No. 150 is not expected to have a material effect on its consolidated financial position, results of operations or cash flows.

### 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 registry 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 Registry Services. Our 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. Our Registry Services business unit acts as the exclusive registry of domain names in the *.com* and *.net* generic top-level domains ("gTLDs") and certain 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 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.

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 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.

***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 and long-lived assets. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying 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 PKI services are deferred and recognized ratably over the term of the license, generally 12 to 36 months. 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 post-contract customer support, or 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 of fair value, or VSOE. We limit our assessment of VSOE for each element to the price charged when the same element is sold separately. We have analyzed all of the elements included in our multiple-element arrangements and determined that we have sufficient VSOE to allocate revenues to 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.

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.

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.

*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 for estimated renewal fees in the month preceding the anniversary date of their registration when we have a right to bill under the terms of 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 quarter ended June 30, 2003. There were approximately $0.9 million of revenues related to prior period reciprocal transactions recognized during the quarter ended June 30, 2003. Revenues recognized under reciprocal arrangements were approximately $1.7 million during the quarter ended June 30, 2002. Reciprocal transactions during the six months ended June 30, 2003, all of which related to prior periods, accounted for approximately $2.2 million of revenues. Revenues recognized under reciprocal arrangements were approximately $11.2 million during the six months ended June 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 are publicly traded and have highly volatile share prices. However, in most instances, these investments are in the form of equity and debt securities of private companies for which there is no public market. These companies are typically in the early stage of development and 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 June 30, 2003, no investment write-downs were recorded. During the three months ended June 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 $94.8 million. During the six months ended June 30, 2003 and 2002, VeriSign recorded net write-downs of these investments totaling $16.5 million and $113.5 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 $897.9 million at June 30, 2003, which was comprised of $615.7 million of goodwill and $282.2 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 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."*

***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 a percentage of eligible employees. 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 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 reference the table below for the maximum potential dilution from options granted year to date as of June 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 of these options, which have up to a 10-year exercise period, have exercise prices substantially higher than the current market price. At June 30, 2003, approximately 49% of our stock options had exercise prices in excess of the current market price.

All stock option grants to current executive officers are made after a review by, and with the approval of the compensation committee of the Board of Directors. All stock option grants to non-executive officers are determined by VeriSign's Chief Executive Officer in accordance with guidelines approved by the compensation committee. All members of the compensation committee are independent directors, as defined in the applicable rules for issuers traded on The Nasdaq Stock Market. See the "Report of Compensation Committee" appearing in our proxy statement dated April 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 June 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 June 30, 2003 and for the years ended December 31, 2002 and 2001 are as follows:

| | Six Months Ended June 30, 2003 | 2002 | 2001 |
|---|---|---|---|
| | (Shares in thousands) | | |
| Shares subject to options granted | 7,770 | 12,850 | 15,789 |
| Less options cancelled | (2,846) | (20,724) | (4,986) |
| Net shares subject to options granted (cancelled) | 4,924 | (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 | 2.1% | (3.4)% | 5.4% |
| Options granted to Named Executive Officers during the period as a percentage of total options granted | — | 14.8% | 11.3% |
| Options held by Named Executive Officers as a percentage of total options outstanding | 20.7% | 25.0% | 13.4% |

During the first six months of 2003, we granted stock options to purchase approximately 7.8 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 2.8 million shares for options cancelled or otherwise terminated, the net grant was 4.9 million shares for the six months ended June 30, 2003. For the first six months of 2003, no options were granted to the Named Executive Officers. 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 2002 and 2001, 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, VeriSign 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, VeriSign 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.

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*General Option Information*

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

| | Six Months Ended June 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 | 7,770,383 | 13.40 | 12,850,130 | 16.69 | 15,789,042 | 39.12 |
| Exercised | (919,479) | 6.57 | (2,506,354) | 4.30 | (5,653,134) | 12.75 |
| Cancelled | (2,845,763) | 49.63 | (20,723,804) | 42.70 | (4,986,150) | 73.05 |
| Outstanding at end of period | 30,965,620 | 39.89 | 26,960,479 | 47.41 | 37,340,507 | 52.50 |
| Exercisable at end of period | 17,529,055 | 47.87 | 13,874,208 | 52.94 | 12,074,142 | 44.53 |
| Weighted-average fair value of options granted during the period | | $ 9.13 | | $ 11.97 | | $ 26.42 |

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 June 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 June 30, 2003:

| | Exercisable | | Unexercisable | | Total | |
|---|---|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| In-the-Money | 6,994,900 | $ 10.75 | 8,739,749 | $ 11.22 | 15,734,649 | $ 11.01 |
| Out-of-the-Money (1) | 10,534,155 | 72.52 | 4,696,816 | 63.44 | 15,230,971 | 69.72 |
| Total options outstanding | 17,529,055 | $ 47.87 | 13,436,565 | $ 29.47 | 30,965,620 | $ 39.89 |

(1) Out-of-the-Money options are those options with an exercise price of our common stock at or above the closing price of $13.79 at June 30, 2003, as reported by the Nasdaq National Market.

*Executive Options*

For the first six months of 2003, no options were granted to the Named Executive Officers.

The following table sets forth certain information regarding stock options exercised by each of our Named Executive Officers during the six months ended June 30, 2003.

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

| Name | Number of Shares Acquired on Exercise | Value Realized | Number of Securities Underlying Unexercised Options at June 30, 2003 | | Values of Unexercised In-the-Money Options at June 30, 2003 (1) | |
|---|---|---|---|---|---|---|
| | | | Exercisable | Unexercisable | Exercisable | Unexercisable |
| Stratton D. Sclavos | — | $ — | 2,730,315 | 1,659,061 | $ 3,061,456 | $ 1,669,500 |
| Dana L. Evan | — | — | 505,799 | 231,353 | 580,461 | 208,688 |
| Quentin P. Gallivan | — | — | 464,645 | 245,519 | 475,890 | 208,688 |
| Robert J. Korzeniewski | — | — | 302,147 | 204,708 | 113,835 | 208,688 |
| F. Terry Kremian (2) | 165,540 | $ 1,543,314 | 58,776 | — | $ — | $ — |

(1) Option values are based on the closing price of our common stock of $13.79 as reported by the Nasdaq National Market on June 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 June 30, 2003.

| Plan Category | Equity Compensation Plan Information | | |
|---|---|---|---|
| | (A) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (B) Weighted-average exercise price of outstanding options, warrants and rights | (C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A)) |
| Equity compensation plans approved by stockholders | 13,271,869 | $ 58.43 | 22,381,686(1) |
| Equity compensation plans not approved by stockholders | 13,805,280(2)(3) | 16.70 | 10,937,618 |
| Total | 27,077,149 | $ 37.15 | 33,319,304 |

(1) Includes 7,106,872 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 3,888,471 shares of common stock with a weighted-average exercise price of $58.94 that were assumed in business combinations.

**Results of Operations**

We have experienced substantial net losses in the past and we expect to continue to report losses due to the charges we incur for the amortization of acquired intangible assets related to our acquisitions. As of June 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 six-month periods ended June 30, 2003 and 2002 is presented below.

| | 2003 | 2002 | Change |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Three-month period: | | | |
| Internet Services Group | $ 105,070 | $ 137,031 | (23)% |
| Telecommunication Services Group | 101,048 | 101,513 | — |
| Network Solutions | 59,181 | 78,865 | (25)% |
| Total revenues | $ 265,299 | $ 317,409 | (16)% |
| Six-month period: | | | |
| Internet Services Group | $ 208,096 | $ 292,653 | (29)% |
| Telecommunication Services Group | 201,650 | 184,896 | 9% |
| Network Solutions | 125,311 | 167,676 | (25)% |
| Total revenues | $ 535,057 | $ 645,225 | (17)% |

*Internet Services Group*

Internet Services Group revenues decreased 23% for the quarter ended June 30, 2003, and 29% for the six months ended June 30, 2003 as compared to the 2002 periods. The decrease of $32.0 million and $84.6 million for the three and six-month periods, respectively, was primarily due to our decision to significantly reduce the resale of third-party products, as well as the decrease in VeriSign Affiliate revenues and revenues from reciprocal transactions. We expect Internet Services Group revenues to grow modestly in absolute dollars throughout 2003.

*Telecommunication Services Group*

Telecommunication Services Group revenues remained constant for the quarter ended June 30, 2003, and increased 9% for the six months ended June 30, 2003 as compared to the 2002 periods. The increase of $16.8 million for the six-month period reflects the inclusion of a full quarter of revenues related to H.O. Systems, which was acquired in February 2002, and volume growth in our Calling Name Delivery Service (“CNAM”) and wireless services products, which was offset by competitive price decreases. We expect Telecommunication Services Group revenues to grow modestly in absolute dollars throughout 2003. We have been informed by a large customer that they will be leaving our billing platform at the end of December 2003.

*Network Solutions*

Network Solutions revenues decreased 25% for the quarter and six months ended June 30, 2003 as compared to the 2002 periods. The decrease of $19.7 million and $42.4 million for the three and six-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 six-month periods ended June 30, 2003. At June 30, 2003 and 2002, we had approximately 8.6 million and 10.3 million active domain names under management, respectively. We expect Network Solutions revenues to decrease between approximately $5.0 and $8.0 million in each of the remaining 2003 quarters.

*International revenues*

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

*Reciprocal revenues*

We did not enter into any reciprocal transactions during the quarter ended June 30, 2003. There were approximately $0.9 million of revenues related to prior period reciprocal transactions recognized during the quarter ended June 30, 2003. Revenues recognized under reciprocal arrangements were approximately $1.7 million during the quarter ended June 30, 2002. Reciprocal transactions during the six months ended June 30, 2003, all of which related to prior periods, accounted for approximately $2.2 million of revenues. Revenues recognized under reciprocal arrangements were approximately $11.2 million during the six months ended June 30, 2002.

For the three months ended June 30, 2003 and 2002, we recognized revenues totaling $3.0 million and $6.6 million, respectively, and for the six months ended June 30, 2003 and 2002, we recognized revenues totaling $5.4 million and $17.7 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.

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

| | 2003 | 2002 | Change |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Three-month period: | | | |
| Cost of revenues | $115,589 | $152,549 | (24)% |
| Percentage of revenues | 44% | 48% | |
| Six-month period: | | | |
| Cost of revenues | $231,418 | $307,516 | (25)% |
| Percentage of revenues | 43% | 48% | |

Cost of revenues decreased 24% for the quarter ended June 30, 2003 and 25% for the six months ended June 30, 2003 as compared to the 2002 periods. The decrease of $37.0 million and $76.1 million for the three and six-month periods, respectively, was primarily due to reduced revenues from the resale of third-party products which resulted in savings of $34.4 million and $74.6 million in the periods, respectively, and an overall decrease in revenues. Additionally, for the three and six-month periods, we realized salary and benefit savings of $3.8 million and $7.8 million, respectively, from the reduction in force related to our restructuring begun in April 2002 and consulting fee savings of $3.0 million and $6.3 million, respectively, as we reduced our use of outsourcing. These cost savings were partially offset by increased depreciation of $3.7 million and $5.2 million, respectively, from our telecommunication services group for purchases of network and product support equipment and for the six-month period, offset by additional expenses of $9.2 million from our February 2002 purchase of H.O. Systems. We expect cost of revenues to increase modestly in absolute dollars for the remaining quarters of 2003.

Cost of revenues as a percentage of revenues decreased in the three and six-month periods of 2003 compared to the three and six-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 six-month periods ended June 30, 2003 and 2002 is presented below.

| | 2003 | 2002 | Change |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Three-month period: | | | |
| Sales and marketing | $ 50,515 | $ 69,281 | (27)% |
| Percentage of revenues | 19% | 22% | |
| Six-month period: | | | |
| Sales and marketing | $103,077 | $136,600 | (25)% |
| Percentage of revenues | 19% | 21% | |

Sales and marketing expenses decreased 27% for the quarter ended June 30, 2003 and 25% for the six months ended June 30, 2003 as compared to the 2002 periods. The decrease of $18.8 million and $33.5 million for the three and six-month periods, respectively, was primarily due to advertising cost savings of $7.2 million and $13.8 million, respectively, salary and benefit savings of $7.4 million and $10.2 million, respectively, from the reduction in force related to our restructuring begun in April 2002 and consulting fee savings of $2.8 million and $6.9 million, respectively, related to advertising placement, market research, and other sales and marketing services. We expect sales and marketing costs to increase modestly in absolute dollars throughout 2003 due to our expectations to expand our sales and marketing efforts and distribution channels.

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 six-month periods ended June 30, 2003 and 2002 is presented below.

| | 2003 | 2002 | Change |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Three-month period: | | | |
| Research and development | $13,253 | $13,012 | 2% |
| Percentage of revenues | 5% | 4% | |
| Six-month period: | | | |
| Research and development | $27,030 | $27,792 | (3)% |
| Percentage of revenues | 5% | 4% | |

Research and development expenses increased 2% for the quarter ended June 30, 2003 and decreased 3% for the six months ended June 30, 2003 as compared to the 2002 periods. The increase of $0.2 million and decrease of $0.8 million for the three and six-month periods, respectively, was primarily the result of professional services savings of $2.2 million and $5.0 million, respectively, from reduced use of outside services, offset by increased salary and benefit expenses of $2.2 million and $3.2 million, respectively.

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. As a result, we expect research and development expenses to increase modestly in absolute dollars and on a percentage basis throughout 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 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.

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

| | 2003 | 2002 | Change |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Three-month period: | | | |
| General and administrative | $42,255 | $40,369 | 5% |
| Percentage of revenues | 16% | 13% | |
| Six-month period: | | | |
| General and administrative | $89,120 | $73,571 | 21% |
| Percentage of revenues | 17% | 11% | |

General and administrative expenses increased 5% for the quarter ended June 30, 2003 and 21% for the six months ended June 30, 2003 as compared to the 2002 periods. The increase of $1.9 million and $15.5 million for the three and six-month periods, respectively, was the result of increased professional service fees of $3.6 million and $11.8 million, respectively, additional legal costs of $1.2 million and $3.6 million, respectively, mainly related to an increased number of lawsuits to which we are a party, increased occupancy costs of $2.6 million and $2.3 million, respectively, and depreciation related to our accounting and other administrative systems of $1.9 million and $2.9 million, respectively. These increases were partially offset by a reduction in bad debt expense of $9.3 million and $12.5 million, for the three and six-month periods, respectively. For the six-month period, employee bonus increases of $4.7 million and higher medical insurance premiums of $3.5 million also contributed to the increase. We expect general and administrative costs to remain unchanged on an absolute dollar basis in the remaining quarters of 2003.

The increase in general and administrative expenses as a percentage of revenues for the three-month and six-month periods ended June 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 June 30, 2003. During the quarter and six months ended June 30, 2002, we recorded $58.9 million of restructuring charges including workforce reduction charges of $3.8 million, excess facilities of $26.4 million, write-down of property and equipment of $20.2 million and exit costs of $8.5 million. During the six months ended June 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.

We recorded other charges of $10.9 million during the quarter ended June 30, 2003 related to cash paid for the termination of a lease. During the three and six months ended June 30, 2002, we recorded other charges of $8.9 million relating primarily to the write-down of impaired prepaid marketing assets associated with discontinued advertising. During the six months ended June 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.

At June 30, 2003, the accrued liability associated with the restructuring was $28.9 million. Amounts related to the lease terminations due to the abandonment of excess facilities totaling approximately $28.5 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.

*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 write-down of goodwill was $177.1 million for the quarter ended June 30, 2003 compared to $4.7 billion for the quarter ended June 30, 2002. For the six months ended June 30, 2003, amortization and write-down of other intangible assets and write-down of goodwill was $232.0 million compared to $4.8 billion in the first six months ended June 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 three months ended June 30, 2003 and 2002, respectively.

***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 six-month periods ended June 30, 2003 and 2002 is presented below.

| | 2003 | 2002 | Change |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Three-month period: | | | |
| Other income (expense), net | $ 2,316 | $ (90,835) | 103% |
| Percentage of revenues | 1% | (29)% | |
| Six-month period: | | | |
| Other income (expense), net | $(11,578) | $(103,170) | 89% |
| Percentage of revenues | (2)% | (16)% | |

Other income, net for the quarter ended June 30, 2003 consisted of $2.3 million of interest income and other items, and for the quarter ended June 30, 2002, other expense, net consisted of investment write-downs of $94.8 million, partially offset by $4.0 million of interest income and other items. Other expense, net for the six months ended June 30, 2003 consisted of investment write-downs of $16.5 million, partially offset by $4.9 million of interest income and other items, and for the six months ended June 30, 2002, other expense, net consisted of investment write-downs of $113.5 million, partially offset by $10.3 million of interest income and other items. We review our investments in publicly traded and non-publicly traded companies on a regular basis to determine if any security has experienced an other-than-temporary decline in its fair value. As of March 31, 2003 and June 30, 2002, we determined that the decline in value of certain of our public and non-public equity securities investments was other-than-temporary. No write-down was made during the quarter ended June 30, 2003. We may from time to time recognize gains or losses from the sales, write-down or write-off of our equity investments.

***Income Tax Expense***

For the quarter and six months ended June 30, 2003, we recorded tax expense of $0.8 million and $5.7 million, respectively. For the quarter ended June 30, 2003, tax expense was comprised of a benefit of $0.4 million for foreign income and withholding taxes and an expense of $1.2 million for U.S. federal and state taxes. For the six months ended June 30, 2003, tax expense was comprised of $4.1 million of foreign income and withholding taxes and $1.5 million of U.S. federal and state taxes. For the remainder of the year, we anticipate foreign income and withholding tax expense of approximately $1.0 to $1.5 million per quarter. We anticipate federal and state tax expense of approximately $1.0 to $1.5 million per quarter.

**Liquidity and Capital Resources**

| | June 30, 2003 | December 31, 2002 | Change |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Cash, cash equivalents and short-term investments | $ 512,203 | $ 385,468 | 33% |
| Working capital | 46,477 | (79,477) | 158% |
| Stockholders' equity | $ 1,398,511 | $1,579,425 | (11)% |

At June 30, 2003, our principal source of liquidity was $512.2 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 $126.0 million during the six months ended June 30, 2003 due primarily to an increase in cash, cash equivalents and short-term investments.

Net cash provided by operating activities was $181.1 million in the six months ended June 30, 2003 compared to $70.8 million in the six months ended June 30, 2002. The increase in the six months ended June 30, 2003 compared to the six months ended June 30, 2002 was primarily due to increases in our deferred revenue balance in which 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 and net income after adjustments for non-cash items such as amortization and the write-down of goodwill and other intangible assets, depreciation of property and equipment and the write-down of certain investments.

Total cash outlays related to the restructuring program were $6.2 million during the six months ended June 30, 2003 and were primarily related to lease terminations.

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

| | (In thousands) |
|---|---|
| 2003 (6 months) | $ 3,792 |
| 2004 | 7,547 |
| 2005 | 6,020 |
| 2006 | 4,068 |
| 2007 | 3,306 |
| Thereafter | 3,739 |
| | $ 28,472 |

Net cash used in investing activities was $68.9 million in the six months ended June 30, 2003, primarily as a result of $163.2 million used for purchases of investments, and $50.1 million used for purchases of property and equipment, partially offset by proceeds of $150.8 million from sales and maturities of investments. Net cash used in investing activities was $216.0 million in the six months ended June 30, 2002, primarily as a result of $346.3 million used for the acquisition of H.O. Systems, $47.0 million used for acquisition related costs, $52.2 million for purchases of investments and $115.3 million for purchases of property and equipment. In the six months ended June 30, 2002, these purchases were partially offset by proceeds of $345.5 million from maturities and sales of investments.

Net cash provided by financing activities was $5.9 million in the six months ended June 30, 2003 and $16.3 million in the six months ended June 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 six months ended June 30, 2003, the primary use of cash was for repayment of debt.

Our planned capital expenditures for 2003 are approximately $120.0 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. At June 30, 2003, the amount of restricted cash we have pledged pursuant to such agreements was approximately $18.4 million.

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

**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;
- 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; and
- general economic and market conditions as well as economic and market conditions specific to IP network, telecommunications and Internet industries.

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

Due to all of the above factors, our 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 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 could have the effect of reduced demand for *.com* and *.net* domain name registrations. If the new top-level domains reduce the demand for domain name registrations in *.com* and *.net*, our business could be materially harmed.

The 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;
- 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 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 six months of 2003 and approximately 1.7% of our total revenues in the first six months of 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 six months of 2003 and approximately 2.7% of our total revenues in the first six 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;
- 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. 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 June 30, 2003, we grew from 26 to almost 3,200 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 June 30, 2003, no investment write-downs were recorded. During the three months ended June 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 $94.8 million. During the six months ended June 30, 2003 and 2002, VeriSign recorded net write-downs of these investments totaling $16.5 million and $113.5 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.

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

**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.

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 Internet Services Group 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 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 9% and 8% of revenues during the three months ended June 30, 2003 and 2002, respectively, and approximately 9% of revenues during the six months ended June 30, 2003 and 2002. 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;
- 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 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 $58.7 million and $62.0 million for the three months ended June 30, 2003 and 2002, respectively, and by approximately $117.0 million and $129.5 million for the six months ended June 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;
- 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 June 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 June 30, 2003, 79% 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 June 30, 2003. This table does not include money market funds because those funds are not subject to market risk.

| | Maturing in | | | | |
|---|---|---|---|---|---|
| | Six Months or Less | Six Months to One Year | More than One Year | Total | Estimated Fair Value |
| | | | (In thousands) | | |
| Included in cash and cash equivalents | $ 222,215 | $ — | $ — | $ 222,215 | $ 222,235 |
| Weighted-average interest rate | 1.33% | — | — | | |
| Included in short-term investments | $ 30,991 | $ 25,467 | $ 55,009 | $ 111,467 | $ 111,900 |
| Weighted-average interest rate | 1.67% | 2.04% | 2.16% | | |
| 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, Domainnames.com (U.K.) 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% of our revenues during the six months ended June 30, 2003 and 2002.

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, 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 own shares of common stock of public companies. We value these investments using the closing market value for the last day of each month. These investments are subject to market price volatility. We reflect these investments on our balance sheet at their market value, with the unrealized gains and losses excluded from earnings and reported in the "Accumulated other comprehensive 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 June 30, 2003, no investment write-downs were recorded. During the three months ended June 30, 2002, we 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 $94.8 million. During the six months ended June 30, 2003 and 2002, we recorded net write-downs of these investments totaling $16.5 million and $113.5 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 July 15, 2003, VeriSign and its subsidiary Network Solutions, Inc., were defendants in approximately 18 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 alleging patent infringement against VeriSign and several other 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. Some of the other current defendants include IBM, Citibank, Bank One, Wells Fargo Bank, American Express Financial Advisors, Cardservice Int’l. and Paymantech. VeriSign has filed an answer denying any infringement and asserting that the patents are invalid. A few of the defendants have been dismissed from the case and others have filed motions to dismiss on procedural grounds. No discovery has begun, pending resolution of the pending motions. The court recently set a scheduling conference for August 8, 2003 to discuss pretrial discovery and scheduling. The complaint alleges that part of VeriSign’s credit card approval process for purchases made on the Internet infringe certain claims of NetMoneyIN’s three patents. The complaint requests the Court to enter judgment in favor of NetMoneyIN, a permanent injunction against the defendants from infringing the asserted claims, an order requiring the defendants to provide an accounting for NetMoneyIN’s damages, to pay NetMoneyIN such damages and three times that amount, and an order awarding NetMoneyIN attorney fees and costs. While we cannot predict the outcome of this matter, we believe that the allegations are without merit.

Beginning in May of 2002, several class action complaints were filed against VeriSign and certain of its current and former officers and directors in the United States District Court for the Northern District of California. These actions were consolidated under the heading In re VeriSign, Inc. Securities Litigation, Case No. C-02-2270 JW(HRL), on July 26, 2002. The consolidated action seeks unspecified damages for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, on behalf of a class of persons who purchased VeriSign stock from January 25, 2001 through April 25, 2002. An amended consolidated complaint 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 and proceedings in the action are temporarily stayed. Another derivative action was filed in the Court of Chancery New Castle County, Delaware, Case No. 19700-NC, alleging similar breaches of fiduciary duty. Defendants moved to dismiss these claims on November 4, 2002.

VeriSign and the individual defendants dispute all of these claims.

VeriSign was a defendant in eleven lawsuits filed since April 2, 2002, related to a direct mail offer sent by VeriSign's Internet domain name registrar to registrant-customers of other domain name registrars. Seven of these lawsuits were brought by or on behalf of domain name registrants. These seven domain name registrant cases were resolved in part through a settlement that received final approval on March 14, 2003. The remaining four were brought by or on behalf of domain name registrars or domain name registration intermediaries. All four were settled and dismissed. The remaining issues are not material.

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 requests information on the company's registrar's relationship with Interland, Inc., the registrar's direct mail offer which began in April 2002, the registrar's transfer practices, and the deletion of domain names.

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.

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

The 2003 Annual Meeting of Stockholders was held on May 22, 2003 at our corporate offices, located at 487 East Middlefield Road, Mountain View, California. Three proposals were voted on at the meeting. The results of each proposal are as follows.

Proposal No. 1 to elect three (3) Class II directors to serve for a three-year term expiring at the Annual Meeting of Stockholders in 2006 was approved by the stockholders. The nominees received the following votes:

| | For | Withheld |
|---|---|---|
| Kevin R. Compton | 197,614,806 | 9,785,068 |
| David J. Cowan | 191,861,872 | 15,538,002 |
| Roger H. Moore | 198,409,685 | 8,990,189 |

Incumbent Class III directors D. James Bidzos, William L. Chenevich and Gregory L. Reyes are currently serving for a term expiring at the Annual Meeting of Stockholders in 2004. Incumbent Class I directors Scott G. Kriens and Stratton D. Sclavos are currently serving for a term expiring at the Annual Meeting of Stockholders in 2005.

Proposal No. 2 to approve an amendment to VeriSign's 1998 Directors Stock Option Plan to increase the number of shares issuable thereunder by an aggregate of 500,000 shares was approved by the stockholders. The proposal received the following votes:

| | Votes |
| --- | --- |
| For | 114,741,303 |
| Against | 92,237,229 |
| Abstain | 421,342 |

In addition, in Proposal No. 3 stockholders ratified the appointment of KPMG LLP as independent auditors of VeriSign for the fiscal year ending December 31, 2003. This proposal received the following votes:

| | Votes |
| --- | --- |
| For | 200,003,589 |
| Against | 7,257,898 |
| Abstain | 138,387 |

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

[Table of Contents](#)

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Index to Exhibits

| Exhibit Number | Filed Exhibit Description | Filed Herewith |
|---|---|---|
| 10.1 | Employment Offer Letter from the Registrant to Vernon Irvin dated May 22, 2003. | X |
| 10.2 | Severance Agreement between the Registrant and Terry Kremian dated June 6, 2003. | X |
| 10.3 | Bonus and Retention Agreement between the Registrant and W. G. Champion Mitchell dated May 20, 2003.* | 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 |

* Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.

(b) Reports on Form 8-K

- Current Report on Form 8-K filed April 24, 2003 pursuant to Item 12 (Results of Operations and Financial Condition), announcing Registrant’s financial results for the quarter ended March 31, 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: | August 14, 2003 | By: | /s/ STRATTON D. SCLAVOS |
| | | | **Stratton D. Sclavos**<br>**Chief Executive Officer,**<br>**President**<br>**and Chairman of the Board**<br>**(Principal Executive Officer)** |
| Date: | August 14, 2003 | By: | /s/ DANA L. EVAN |
| | | | **Dana L. Evan**<br>**Executive Vice President of**<br>**Finance and Administration and**<br>**Chief Financial Officer**<br>**(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 | Employment Offer Letter from the Registrant to Vernon Irvin dated May 22, 2003. |
| 10.2 | Severance Agreement between the Registrant and Terry Kremian dated June 6, 2003. |
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| 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. |

* Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.

**Exhibit 10.1**

May 22, 2003

Vernon Irvin
43714 Moorland Court
Leesburg, VA 20176

Dear Vernon:

On behalf of VeriSign, Inc., I am pleased to offer you a regular full-time position of **Executive Vice President and General Manager of Verisign Telecommunication Services** reporting directly to me. The details of the offer are as follows:

**Annual Salary: $ 350,000.00** (Paid Bi-Weekly)

**Bonus Program:** You are eligible to participate in the VeriSign Bonus Program with an annual potential of a bonus targeted at 60% of your base salary. Payment is based on achievement of corporate, division and individual objectives (prorated based on your start date). For 2003, you are guaranteed a minimum bonus payment of 5/12ths of the annual target. This bonus will be paid after 2003 results are known and audited, which is usually around early March of the following year.

**Stock Options:** I will recommend to the Board of Directors that you be granted stock options to purchase **150,000** shares of Common Stock. The price of shares will be based on the fair market value on the date of grant. You will be eligible to exercise up to twenty-five percent (25%) of your total shares one year from the date of grant. Each subsequent quarter (3 months) an additional 6.25% of your total shares will become eligible to exercise while you are employed by VeriSign.

**Sign-on Bonus:** In an effort to cover any monetary items you "leave on the table" at your current employer, plus to cover some of the costs associated with your new position/location, you will be given a $200,000 sign-on bonus (subject to all normal taxes and deductions). One half of this sign-on bonus ($100,000) will be paid on your first day of employment. The other half ($100,000) will be paid upon your relocation to California.

**Relocation:** VeriSign will cover the relocation of you and your family from Leesburg, Virginia to California under the normal VeriSign relocation program for an employee at your level. A copy of the program particulars is included with this letter. Your relocation is expected to be completed within the first six months of your employment.

**Spouse Career Assistance**: VeriSign will provide your spouse with career assistance services through Spherion, which has offices both in Virginia and California. VeriSign will cover costs up to $10,000, which should be more than adequate to cover your spouse's immediate needs.

**Severance**: Should you be terminated for reasons other than for cause or resignation, VeriSign will provide you with the following severance benefits:

| Length of Employment | Months of Base Salary Severance |
|---|---|
| One month or less | 12 months |
| One to two months | 11 months |
| Two to three months | 10 months |
| Three to four months | 9 months |
| Four to five months | 8 months |
| Five to six months | 7 months |
| Six months and thereafter | 6 months |

**Benefits:** Your medical and insurance benefits will be commensurate with those of other employees and will commence effective the first day of your employment. A summary of the full package of benefits is attached. New employees receive 18 days of paid time off per year. VeriSign also observes 10 paid holidays per year. ***Please Note: Your benefits information and enrollment directions for 2003 will be mailed to your home shortly after your date of hire.***

This offer is contingent upon your signing the Company's Confidentiality Agreement included with this offer and upon successful clearance of your background check. It is also contingent upon providing evidence of your legal right to work in the United States as required by the Immigration and Naturalization Service. This offer is for employment on an at will basis, which means that this relationship can be terminated at any time by either party. This offer supercedes any and all verbal or written offers or statements by VeriSign and/or its agents.

To accept this offer, please sign below, indicate your expected start date and return the original offer letter along with the Confidentiality Agreement and VeriSign application in the enclosed envelope and keep a copy of the offer letter for your records. This offer will expire on **May 31, 2003.**

Vernon, I am sincerely pleased to have you part of our executive team and look forward to working with you to face our challenges and celebrate our successes!

Sincerely,

/s/ Stratton Sclavos

Stratton Sclavos
Chairman, President & CEO

Accepted: /s/ Vernon Irvin

# SEVERANCE AGREEMENT AND FULL GENERAL RELEASE

This Severance Agreement and Full General Release (“Agreement”) is made and entered into between VERISIGN, INC. and its wholly owned subsidiaries (“the Company”) and TERRY KREMIAN (the “Executive”) dated June 6, 2003 (the “Termination Date”). In consideration of the mutual promises, agreements and releases contained in this Agreement, the parties agree as follows:

A. The Company’s Agreements

1. The Company agrees to pay Executive severance pay in the amount equivalent to twelve (12) months of Executive’s salary, minus applicable payroll deductions. Such payments shall be made in a lump sum amount. The Company will issue an appropriate W-2 Form for the payment made pursuant to this Agreement.

2. The Company agrees to pay three (3) months of Executive’s COBRA medical and dental insurance premium payments. Such payment shall be made in a lump sum amount, minus standard deductions. Effective July 1, 2003, Executive shall become responsible for all COBRA insurance policy premiums, if any.

3. The Company agrees Executive shall receive payment, at his regular rate of pay, minus applicable payroll deductions, for any accrued earned vacation time and/or sick leave pay, unused as of June 6, 2003.

B. The Executive’s Agreements

1. Full and General Release of Liability

In keeping with our intent to allow for an amicable separation, and as part of our accord, and deeming this Agreement to be fair, reasonable, and equitable, and intending to be legally bound hereby, Executive agrees to and hereby does, for himself and for each of his heirs, executors, administrators and assigns, forever and irrevocably fully release and discharge the Company (including any subsidiary or affiliated entities, and their respective officers, directors, employees, agents, predecessors, successors, purchasers, assigns, and representatives) from any and all grievances, liens, suits, judgments, claims, demands, debts, defenses, actions or causes of action, obligations, damages, and liabilities whatsoever which Executive now has, have had, or may have, whether the same be known or unknown, at law, in equity, or mixed, in any way arising out of or relating in any way to any matter, act, occurrence, or transaction before the date of this Agreement, including but not limited to Executive’s employment with the Company and his separation from the Company. **This is a General Release.** Executive expressly acknowledges that this General Release includes, but is not limited to, Executive’s release of any tort and contract claims, arbitration claims, claims under any local, state or federal law, wage and hour law, wage collection law or labor relations law, and any claims of discrimination on the basis of age, race, sex, religion, disability, national origin, ancestry, citizenship, retaliation or any other claim of employment discrimination or retaliation, under the Civil Rights Acts of 1964 and 1991 as amended (42 U.S.C. §§ 2000e et seq.), the Age Discrimination In Employment Act (29 U.S.C. §§ 621 et seq.), the Americans With Disabilities Act (42 U.S.C. §§ 12101 et seq.), the Rehabilitation Act of 1973 (29 U.S.C. §§ 701 et seq.), the Family and Medical Leave Act (29 U.S.C. §§ 2601 et seq.), the Fair Labor Standards Act (29 U.S.C. §§ 201 et seq.), and any other claim under any law prohibiting employment discrimination or relating to employment. Also, Executive understands that this Agreement is not an admission of liability under any statute or otherwise by the Company, and that the Company does not admit but denies any violation of your legal rights.

2. Executive further agrees that he will not participate or aid in any suit or proceeding (or to execute, seek to impose, collect or recover upon, or otherwise enforce or accept any judgment, decision, award, warrant, or attachment) upon any claim released by him under this General Waiver and Release. Nothing contained in this paragraph is intended to prevent the Executive from responding to a properly issued subpoena.

3. Executive agrees to make himself available upon reasonable notice from the Company or its attorneys to be deposed, to testify at a hearing or trial, or to accede to any other reasonable request (involving no more than a reasonable period of time) by the Company in connection with any lawsuit either currently pending against the Company or any lawsuit filed after Executive's separation that involves issues relating to the Executive's job responsibilities or the decisions made by him during his employment with the Company.

4. Executive agrees to make himself available to Company management for a period of thirty (30) days from the Termination Date to assist in the orderly transition of the telecommunications business.

5. Non-competition and Non-solicitation

Except as provided below, during the two (2) years following the Termination Date (the "Restrictive Period"), Executive shall not, in any county, state, country or other jurisdiction in which Company does business or is planning to do business as of the Termination Date:

(i) directly or indirectly, alone or with others, engage in the business of providing services which are, at the Termination Date, Directly Competitive;

(ii) be or become an officer, director, stockholder, owner, corporate affiliate, salesperson, co-owner, partner, trustee, promoter, founder, technician, engineer, analyst, employee, agent, representative, supplier, investor or lender, compensated consultant, advisor or manager of or to, or otherwise acquire or hold any interest in or otherwise engage in the providing of service to, any person or entity that engages in a business that is Directly Competitive; or

(iii) permit Executive's name to be used in connection with a business that is Directly Competitive; provided, however, that nothing in this provision shall prevent Executive from owning as a passive investment less than 1% of the outstanding shares of the capital stock of a publicly-held corporation if Executive is not otherwise associated directly or indirectly with such corporation or any affiliate of such corporation.

For purposes of this Agreement, "Directly Competitive" means engaging in providing products, services or technology that compete with Company's products, services or technology as described in any price list, business plan, or product development plan or proposal of Company in existence as of the Termination Date. Notwithstanding anything in this Agreement to the contrary, products, services or technology shall not be deemed to be Directly Competitive (A) solely as a result of the Executive being employed by or otherwise associated with a business or entity of which a unit provides products, services or technology described in any price list, business plan, or product development plan of the Company in existence on the Termination Date, but as to which the Executive does not have direct or indirect responsibilities, oversight, or any other decision making responsibility, or (B) if the product, service or technology in question provide less than 3% of the consolidated net revenues of the Company for the 2003 fiscal year.

Executive further agrees that during the Restrictive Period:

(a) Executive will not directly or indirectly solicit away employees or consultants of Company for Executive's own benefit or for the benefit of any other person or entity; and

(b) Executive will not directly or indirectly take away or attempt to take away suppliers or customers of Company.

6. Adequacy of Consideration

Executive acknowledges that the amounts to be paid by the Company under this Agreement are adequate consideration for Executive's execution of this Agreement.

7. Confidentiality

Executive agrees to keep the existence and contents of this Agreement confidential and not to disclose the existence, terms or conditions of the Agreement, except to the extent required by law, to any person other than to his spouse, attorney or tax preparer. Executive agrees that before any disclosure is made to his spouse, attorney or tax preparer, Executive will advise the person receiving the disclosure of the confidential nature of this Agreement and will secure the agreement of the person receiving the disclosure to maintain the confidentiality of this Agreement. Executive agrees to keep confidential any trade secret, business or proprietary information which you acquired during your employment with the Company, including, but not limited to, any Company marketing, technology, or sales information, plans, or strategies. This is intended to cover any information of a nature not normally disclosed by the Company to the general public. Executive agrees to refrain from making any derogatory or disparaging remarks, statements or communications about the Company.

8. Return of Company Property

You agree to return immediately to the Company any and all property of the Company, including any files and any documents prepared for or by the Company.

C. Voluntary Nature of Agreement and Advice of Counsel

Executive acknowledges that he has read this Agreement and any attached exhibits, understands their terms, and signs the Agreement voluntarily of his own free will, without coercion or duress, and with full understanding of the significance and binding effect of the Agreement. Executive is hereby advised to consult with his attorney before signing this Agreement.

D. Consideration Period and Revocation

Executive has twenty-one (21) calendar days, after the date Executive received the Agreement, within which to consider the Agreement, although he may sign it sooner if he desires. Executive may revoke the Agreement, by delivering a written notice of revocation to Jamie Schultz, Human Resources, within seven (7) calendar days after Executive signs the Agreement. The Agreement will become effective and enforceable on the eighth (8th) calendar day following the date Executive signs the Agreement.

E. Binding Effect

This Agreement will be binding upon Executive and his heirs, administrators, representatives, executors, successors and assigns, and will inure to the benefit of the Company and its successors and assigns.

F. No Liens

Executive represents and warrants that there are no existing or outstanding attorneys' liens or other liens which are not extinguished or satisfied by the execution of this Agreement. Executive agrees to indemnify and hold harmless the Company for any liability in connection with such liens.

G. Governing Law

The Parties agree that this Agreement, and any disputes arising out of or related to this Agreement, shall be governed by, construed, and enforced in all respects in accordance with the laws of the State of California, excluding its conflict of laws rules. For all disputes arising out of or related to this Agreement, the Parties submit to the exclusive subject matter jurisdiction, personal jurisdiction and venue of the United States District Court for the Northern District of California. If there is no jurisdiction in the United States District Court for the Northern District of California, then jurisdiction shall be in the State Courts of Santa Clara County, California.

H. Severability

Should any provision of this Agreement be declared or determined by a court of competent jurisdiction to be invalid or otherwise unenforceable, the remaining parts, terms and provisions shall continue to be valid, legal and enforceable, and will be performed and enforced to the fullest extent permitted by law.

I. Complete Agreement

This Agreement contains the entire agreement between Executive and the Company and supersedes all prior agreements or understandings between them on the subject matters of this Agreement. No change or waiver of any part of the Agreement will be valid unless in writing and signed by both Executive and the Company.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year indicated below.

| | |
|---|---|
| VERISIGN, INC. | TERRY KREMIAN |
| By: /s/ Barry Anderson | /s/ Terry Kremian |

**CONFIDENTIAL TREATMENT REQUESTED**

***** BONUS AND RETENTION AGREEMENT**

This *** BONUS AND RETENTION AGREEMENT (the "***Agreement***"), dated May 20, 2003 (the "Effective Date"), is entered into by and among W. G. Champion Mitchell ("***Employee***") and VeriSign, Inc., a Delaware corporation ("***Company***").

WHEREAS, Employee is currently employed by the Company; and

WHEREAS, the Company and Employee desire to enter into an agreement to provide for payment of a *** Bonus to Employee in connection with the ***;

NOW, THEREFORE, in consideration of the mutual promises made herein, the Company and Employee hereby agree as follows:

**1. Purpose.** The purpose of this Agreement is to provide an incentive to Employee to assist in *** and in the ***.

**2. Determination of *** Bonus.** Upon ***, Employee shall receive a *** Bonus equal to:

(a) ***.

(b) ***.

**3. Distribution to Employee.** Payment of the *** Bonus shall be made as follows:

(a) ***.

(b) ***.

(c) ***.

**4. Conditions to Payment of *** Bonus.**

(a) Employee shall not be entitled to receive any *** Bonus, nor shall any *** Bonus vest or accrue (either in whole or in part), prior to the ***.

(b) Employee shall not be entitled to receive any *** Bonus, nor shall any *** Bonus vest or accrue (in whole or in part), unless Employee is actively employed with the Company ***. Notwithstanding the foregoing, if Employee's employment with the Company is terminated by the Company without Cause on or after the earlier of ***, Employee shall be eligible to receive the *** Bonus upon ***.

(c) Notwithstanding any provisions in this Section 4 to the contrary, if Employee is entitled to any *** Bonus in connection with his *** Employee shall not be entitled to receive a *** Bonus unless Employee has executed the Release of Claims, Nonsolicitation and Confidentiality Agreement attached here to in the form of Exhibit A.

**5. *** Bonus.**

(a) In the event *** has not occurred on or prior to May 15, 2003, then Employee will receive a cash *** Bonus of $187,500. Fifty percent (50%) of any *** Bonus will be paid on May 31, 2003 and fifty percent (50%) of any *** Bonus will be paid on August 31, 2003.

(b) If Employee becomes entitled to payment of a *** Bonus under Section 2 above subsequent to payment of all or any portion of a *** Bonus under this Section 5, and provided that the sum of such *** Bonus exceeds $600,000, then the amount of such *** Bonus shall be reduced by the amount of the *** Bonus that has been paid.

***** Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as ***. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.**

**6. __*** Payment__.** In the event that Employee is terminated without Cause prior to ***, or one year following the date of this Agreement, then Employee will receive a cash *** Payment of one and one-half (1 ½ ) times his current annual base salary plus fifty thousand dollars ($50,000) less any *** Bonus paid under Section 5 above.

**7. __General Provisions__.**

(a) **Employment Status.** This Agreement does not constitute a contract of employment or impose on Employee any obligation to remain as an employee, or impose on the Company any obligation (i) to retain Employee as an employee, (ii) to change the status of Employee as an "at-will" employee, or (iii) to change the Company's policies regarding termination of employment.

(b) **Notices.** Any notices provided hereunder must be in writing and such notices or any other written communication shall be deemed effective upon the earlier of personal delivery (including personal delivery by telex or facsimile) or the third day after mailing by first class mail, to the Company at its primary office location and to Employee at his or her address as listed in the Company's payroll records.

(c) **Severability.** Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provisions had never been contained herein.

(d) **Complete Agreement.** This Agreement constitutes the entire agreement between Employee and the Company and it is the complete, final, and exclusive embodiment of their agreement with regard to this subject matter. It is entered into without reliance on any promise or representation other than those expressly contained herein. Notwithstanding the foregoing, this Agreement shall not supersede or affect any other agreements relating to Employee's employment or severance.

(e) **Headings.** Headings are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

(f) **Successors and Assigns.** This Agreement is intended to bind and inure to the benefit of and be enforceable by Employee and the Company, and their respective successors, assigns, heirs, executors and administrators; provided, however, that Employee may not assign any of his duties hereunder and he may not assign any of his rights hereunder (including the right to receive a *** Bonus or a *** Bonus) without the written consent of the Company, which consent shall not be withheld unreasonably.

(g) **Withholding of Taxes.** To the extent that the Company is required to withhold federal, state, local or foreign taxes in connection with any benefit realized by Employee under this Agreement, it will be a condition to the payment of such benefit that Employee make arrangements satisfactory to the Company for payment of the taxes required to be withheld.

(h) **Choice of Law.** All questions concerning the construction, validity and interpretation of this Agreement will be governed by the laws of the State of California.

(i) **No Prior Funding.** No amounts payable under this Agreement shall actually be funded, set aside or otherwise segregated prior to payment. The obligation to pay the benefits hereunder shall at all times be an unfunded and unsecured obligation of the Company and be paid out of the general assets of the Company. Employee shall have the status of a general creditor.

*** **Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as ***. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.**

**8. Definitions.**

"***Agreement***" means this *** Bonus and Retention Agreement.

"**Board**" means the Board of Directors of the Company.

"***Cause***" means a determination by the Board that: (A) Employee has committed a felony offense or has entered a plea of "guilty" or "no contest" to a felony offense or commission of any unlawful act which would be detrimental to the reputation, character or standing of the Company or its affiliates (as such term is defined in Rule 501(b) promulgated under the Securities Act of 1933, as amended), or a material act of dishonesty, fraud, embezzlement, misappropriation or financial dishonesty against the Company or its affiliates; or (B) Employee has committed a material breach of this or any other written agreement between Employee and the Company or its successor; or (C) Employee has committed a material breach or violation of any lawful employment policy of the Company, including those prohibiting harassment of another employee.

"****of* ***" means (A) the *** of *** or (B) the *** or *** of *** or *** of the *** of ***.

"***Company***" means VeriSign, Inc.

"***" means a *** or *** that is not engaged in any ***or *** other than *** and the *** of its ***.

"*******" means the total amount of ***available for distribution and/or issuance, directly or indirectly, to *** on the *** date of the *** on account of its *** including amounts so distributable and/or issuable after *** pursuant to any ***, *** or similar arrangement. If the *** includes property other than cash, the value of such property will be determined using the methodology set forth in the *** related to the *** or, if not so established, at the fair market value of the property on the *** date of the ***, established in good faith by the Board.

"***" means the *** in a ***.

"*** ***Bonus***" means the cash payment Employee may be entitled to under Section 5 of this Agreement.

***"***Payment"*** means the cash payment, if any, that Employee may become entitled to receive pursuant to Section 6 of this Agreement.

"***" is any *** or *** that is not a ***.

"*****Bonus***" means the cash Employee may be entitled to receive pursuant to Section 2 of this Agreement.

"*****Bonus Pool***" means the amount available for distribution under the Agreement upon the ***.

As used herein, the term "**terminated without Cause**" or phrase of similar import shall include the voluntary termination of his employment with the Company or NSI by the Employee after a not insubstantial diminution in his compensation, benefits, title or responsibilities or a requirement that he make a geographic move of more than or the move of NSI more than 25 miles.

IN WITNESS HEREOF, the parties have executed this Agreement on the date first above written.

| | | |
|---|---|---|
| VeriSign, Inc. | | EMPLOYEE |
| By: | /s/ STRATTON D. SCLAVOS | /s/ W. G. CHAMPION MITCHELL |
| Name: | Stratton D. Sclavos | W. G. Champion Mitchell |
| Title: | President and Chief Executive Officer | |

******* **Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as ***. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.**

## EXHIBIT A

### RELEASE OF CLAIMS, NONSOLICITATION AND CONFIDENTIALITY AGREEMENT

This Release of Claims, Nonsolicitation and Confidentiality Agreement (this “***Release***”) is entered into by and among W. G. Champion Mitchell (“***Employee***”) and VeriSign, Inc., a Delaware corporation (“***Company***”). The term “Company” shall be deemed to include the Company and all predecessors and successors of the Company.

1. Acknowledgments of Employee. Employee acknowledges that the promises Employee is providing in this Release are a material inducement and consideration for the Company entering into the *** Bonus and Retention Agreement (the “***Agreement***”). Employee acknowledges that, in connection with the Agreement, Employee is receiving substantial benefits comprised of cash and/or shares of Common Stock from the Company, which benefits constitute substantial and adequate consideration for this Release.

2. Waiver and Release of Claims. In exchange for the consideration and payments described in Paragraph 1 of this Release, and subject to Section 3 below, Employee, on behalf of Employee, Employee’s heirs, executors, successors and assigns, hereby irrevocably forever releases and waives any claims, actions, obligations, duties and causes of action Employee may have against the Company and Network Solutions, Inc., and their respective officers, directors, stockholders, employees, agents, attorneys, subscribers, subsidiaries, affiliates, successors and assigns (collectively, the “***Releasees***”), from the beginning of time to the Effective Date, whether known or not known (collectively, the ***“Released Matters”***), including, without limitation but subject to Section 3 below:

(a) claims under any employment laws or relating to or arising from Employee’s employment or other relationship with any of the Releasees and the termination of any such relationship;

(b) claims relating to, or arising from: (i) Employee’s ownership or rights to ownership of any shares of capital stock of the Company; (ii) any rights as a securities holder or former securities holder of the Company; (iii) any rights under any agreement between the Company and Employee in Employee’s capacity as a holder or former holder of securities of the Company; (iv) any other transactions between Employee and the Company or any of the shareholders of the Company with respect to capital stock of the Company, and (v) the negotiation of and terms of the Agreement;

(c) claims for unlawful or wrongful discharge of employment, violation of public policy, discrimination, breach of contract, breach of a covenant of good faith and fair dealing, fraud, securities fraud, breach of fiduciary duty, promissory estoppel, negligent or intentional misrepresentation, negligent or intentional interference with contract or prospective economic advantage, unfair business practices, defamation, libel, slander, physical injury, emotional distress or sexual harassment;

(d) claims for additional compensation or benefits arising out of Employee’s employment or other relationship with any of the Releasees and the termination of such relationship;

(e) claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, the Worker Adjustment and Retraining Notification Act, Older Workers Benefit Protection Act, the California Fair Employment and Housing Act, and the California Labor Code section 201, *et. seq.*;

(f) claims for violation of the federal, or any state, constitution;

(g) claims for attorneys’ fees and costs; and

***** Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as ***. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.**

(h) claims Employee may have against the Releasees for any acts occurring at any time prior to the execution of this Release.

Employee agrees that the foregoing enumeration of claims released is illustrative, and the claims hereby released are in no way limited by the above recitation of specific claims, it being the intent of the parties, subject to Section 3, to fully and completely release all claims whatsoever Employee may have against the Releasees. This release does not extend to any future obligations the Releasees may have to Employee under the Agreement. Employee represents that Employee has no lawsuits, claims or actions pending in Employee's name, or on behalf of any other person or entity, against the Company or any Releasee.

3. Excluded Claims. Notwithstanding anything to the contrary in Section 2 above, the release and waiver set forth in Section 2 shall not apply to any claim by Employee with respect to (a) any failure by Company to comply with its obligations to Employee, if any, under the Agreement; (b) any obligations of the Company to provide Employee indemnification or contribution pursuant to the certificate of incorporation and bylaws of the Company, each as such were in effect on the Effective Date, under that certain Indemnity Agreement between Employee and the Company dated August 1, 2001 or under the laws of the state of Delaware or contribution (under common law); (c) any rights of Employee to accrued and unpaid salary and vacation pay; (d) any rights of Employee to be paid any cash severance pay under any Company policy or any written agreement of Employee with Company or (e) any failure of the Company to perform its covenants, undertakings or duties under or pursuant to the Agreement, to which this Release is an exhibit.

4. Waiver of Rights Under Section 1542 of Civil Code. By signing below, Employee expressly waives any benefits under Section 1542 of the Civil Code of the State of California, which provides as follows:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

Employee acknowledges that in the future he may discover claims or facts in addition to or different from those that he now knows or believes to exist with respect to the subject matter of this Release, and he intends, subject to the exclusions and limitations of Section 3 above, to fully, finally, and forever settle all of the Released Matters. Subject to Section 3 above, this release will remain in effect as a full and complete release notwithstanding the discovery or existence of any additional claims or facts now in existence.

5. Nonsolicitation of Employees. During the period commencing on the effective date of this Release and continuing through a date eighteen (18) months from the Effective Date, Employee shall not directly or indirectly, personally or through others, solicit or attempt to solicit (on Employee's own behalf or on behalf of any other person or entity) the employment or termination of any employee or consultant of Company or any of Company's affiliates.

6. Nondisparagement. Employee agrees that he will not disparage Releasees or their products, services, agents, representatives, directors, officers, stockholders, attorneys, employees, vendors, affiliates, successors or assigns, or any person acting by, through, under or in concert with any of them, with any written or oral statement. Notwithstanding the foregoing, Company acknowledges and agrees that Employee may seek other employment, and in the course of performing Employee's duties, Employee shall be entitled to partake of ordinary competitive practices including, without limitation, differentiating Employee's new employer's products, services and market opportunities from those of Company, based only upon publicly available information.

7. Legal and Equitable Remedies. Employee agrees that Releasees have the right to enforce this Release and any of its provisions by injunction, specific performance or other equitable relief without prejudice to any other rights or remedies Releasees may have at law or in equity for breach of this Release. Employee specifically acknowledges and agrees that any Releasee who is not a party or signatory to this Release is intended to be a third party beneficiary of the agreements set forth herein.

8. Attorneys' Fees. If any action is brought to enforce the terms of this Release, the prevailing party will be entitled to recover its reasonable attorneys' fees, costs and expenses from the other party, in addition to any other relief to which the prevailing party may be entitled.

9. Confidentiality. The contents, terms and conditions of this Release shall be kept confidential by Employee and shall not be disclosed except to Employee's attorney, financial advisor or immediate family members, provided such persons first agree to keep the terms and condition of this Release confidential, or as otherwise required by law. Any breach of this confidentiality provision shall be deemed a material breach of this Release. The terms of any confidentiality agreement between Employee and Company shall not be superceded by this Release.

10. No Admission of Liability. This Release is not and shall not be construed or contended by Employee to be an admission or evidence of any wrongdoing or liability on the part of Releasees, their representatives, heirs, executors, attorneys, agents, partners, officers, shareholders, directors, employees, subsidiaries, affiliates, divisions, successors or assigns. This Release shall be afforded the maximum protection allowable under California Evidence Code Section 1152 and/or any other state or federal provisions of similar effect.

11. Entire Release. This Release constitutes the entire agreement between you and Releasees with respect to the subject matter hereof and supersedes all prior negotiations and agreements, whether written or oral, relating to such subject matter. You acknowledge that neither Releasees nor their agents or attorneys have made any promise, representation or warranty whatsoever, either express or implied, written or oral, which is not contained in this Release for the purpose of inducing you to execute this Release, and you acknowledge that you have executed this Release in reliance only upon such promises, representations and warranties as are contained herein.

12. Modification. It is expressly agreed that this Release may not be altered, amended, modified, or otherwise changed in any respect except by another written agreement that specifically refers to this agreement, executed by Employee and authorized representatives of each of the other parties to this Release.

| | |
|---|---|
| Employee: | VeriSign, Inc. |
| ______________________________ | By: ______________________________ |
| W. G. Champion Mitchell | |
| Date: ______________________________ | Title: ______________________________ |
| | Date: ______________________________ |

**Exhibit 31.1**

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: August 14, 2003

By: /s/ STRATTON D. SCLAVOS

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

**Exhibit 31.2**

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: August 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 June 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: August 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 June 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: August 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)