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, 2002

OR

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

For the transition period from __________ to __________

Commission File Number: 000-23593

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO ☐

Indicate 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, 2002
Common stock, $.001 par value	236,653,618

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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, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 177,293	$ 306,054
Short-term investments	104,359	420,643
Accounts receivable, net	247,098	314,923
Prepaid expenses and other current assets	81,962	48,939
Total current assets	610,712	1,090,559
Property and equipment, net	608,796	532,546
Goodwill	780,347	4,944,707
Other intangible assets, net	570,417	746,462
Long-term investments	110,814	201,781
Other assets, net	11,367	21,453
	$ 2,692,453	$ 7,537,508
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 290,747	$ 313,447
Accrued merger costs	24,939	49,069
Accrued restructuring costs	25,186	—
Deferred revenue	438,326	471,329
Total current liabilities	779,198	833,845
Long-term deferred revenue	117,151	150,727
Deferred taxes	82,723	26,553
Other long-term liabilities	26,113	20,309
Total long-term liabilities	225,987	197,589
Commitments and contingencies		
Stockholders' equity:		
Preferred stock — par value $.001 per share Authorized shares: 5,000,000 Issued and outstanding shares: none	—	—
Common stock — par value $.001 per share Authorized shares: 1,000,000,000 Issued and outstanding shares: 236,604,343 and 234,358,114 (excluding 1,690,000 shares held in treasury at June 30, 2002 and December 31, 2001)	237	234
Additional paid-in capital	23,067,542	23,051,546
Notes receivable from stockholders	—	(252)
Unearned compensation	(19,581)	(27,042)
Accumulated deficit	(21,361,123)	(16,518,878)
Accumulated other comprehensive income	193	466
Total stockholders' equity	1,687,268	6,506,074
	$ 2,692,453	$ 7,537,508

See accompanying notes to condensed consolidated financial statements

VERISIGN, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	**2001**	**2002**	**2001**
Revenues	$ 317,409	$ 231,197	$ 645,225	$ 444,610
Costs and expenses:				
Cost of revenues	146,296	80,308	295,998	154,648
Sales and marketing	69,281	65,337	136,600	129,788
Research and development	13,012	20,659	27,792	40,546
General and administrative	46,622	34,842	85,089	66,008
Restructuring and other	67,779	—	67,779	—
Amortization and write-down of goodwill and other intangible assets	4,686,119	11,269,036	4,771,042	12,643,805
Total costs and expenses	5,029,109	11,470,182	5,384,300	13,034,795
Operating loss	(4,711,700)	(11,238,985)	(4,739,075)	(12,590,185)
Other income (expense), net	(90,663)	19,151	(102,833)	(34,012)
Minority interest in net income of subsidiary	(172)	(309)	(337)	(519)
Loss before income taxes	(4,802,535)	(11,220,143)	(4,842,245)	(12,624,716)
Income tax benefit	—	29,413	—	56,609
Net loss	$(4,802,535)	$(11,190,730)	$(4,842,245)	$(12,568,107)
Net loss per share:				
Basic and diluted	$ (20.31)	$ (55.49)	$ (20.52)	$ (62.65)
Shares used in per share computation:				
Basic and diluted	236,435	201,675	235,940	200,624

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, 2002	Six Months Ended June 30, 2001
Cash flows from operating activities:		
Net loss	$(4,842,245)	$(12,568,107)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	49,818	24,488
Amortization and write-down of goodwill and other intangible assets	4,771,042	12,643,805
Gain on sale of marketable securities	—	(2,114)
Write-down of investments	113,540	74,690
Non-cash restructuring and other	35,536	—
Reciprocal transactions for purchases of property and equipment	(6,375)	—
Minority interest in net income of subsidiary	337	519
Deferred income taxes	—	(56,609)
Amortization of unearned compensation	7,458	7,520
Loss on disposal of property and equipment	1,722	—
Changes in operating assets and liabilities:		
Accounts receivable	87,215	(60,206)
Prepaid expenses and other current assets	(48,611)	3,534
Accounts payable and accrued liabilities	(28,995)	9,757
Deferred revenue	(69,637)	38,269
Net cash provided by operating activities	70,805	115,546
Cash flows from investing activities:		
Purchases of investments	(52,188)	(970,844)
Proceeds from maturities and sales of investments	345,474	853,256
Purchases of property and equipment	(115,271)	(45,677)
Net cash paid for business combinations	(346,342)	(12,210)
Cash paid for merger costs	(47,004)	(10,890)
Other assets	(709)	786
Net cash used in investing activities	(216,040)	(185,579)
Cash flows from financing activities:		
Collections on notes receivable from stockholders	—	(7)
Net proceeds from issuance of common stock	16,267	61,063
Net cash provided by financing activities	16,267	61,056
Effect of exchange rate changes	207	(1,371)
Net decrease in cash and cash equivalents	(128,761)	(10,348)
Cash and cash equivalents at beginning of period	306,054	460,362
Cash and cash equivalents at end of period	$ 177,293	$ 450,014
Supplemental cash flow disclosures:		
Non-cash investing and financing activities:		
Unrealized gain (loss) on investments, net of tax	$ (480)	$ 5,218

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, 2002, and the results of operations and cash flows for the interim periods ended June 30, 2002 and 2001.

The accompanying unaudited condensed consolidated financial statements have been prepared by VeriSign in accordance with the instructions for Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, therefore, do not include all information and notes normally provided in audited financial statements and should be read in conjunction with VeriSign's financial statements for the year ended December 31, 2001 included in the annual report previously filed on Form 10-K.

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

Note 2. Business Combination

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

Note 3. Restructuring and Other Costs

In April 2002, the Company announced plans to restructure its operations to rationalize, integrate and align the resources of the Company, including recently acquired Illuminet Holdings and H.O. Systems. This restructuring program included workforce reductions, closure of excess facilities, write-down of property and equipment and other charges. As a result of this restructuring program in conformity with SEC Staff Accounting Bulletin ("SAB") No. 100 and Emerging Issues Task Force ("EITF") Issue No. 94-03, VeriSign recorded restructuring and other charges of $67.8 million classified as operating expenses during the quarter ended June 30, 2002. VeriSign expects to incur additional restructuring charges of approximately $3 to $12 million over the next three quarters.

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Workforce Reduction. The restructuring program resulted in a workforce reduction of approximately 400 employees across certain business functions, operating units, and geographic regions. The workforce reductions announced in April 2002 were substantially completed within the quarter. VeriSign recorded a workforce reduction charge of $3.8 million during the quarter ended June 30, 2002, relating primarily to severance and fringe benefits.

Closure of Excess Facilities. VeriSign recorded charges of approximately $26.4 million for excess facilities relating to lease terminations and non-cancelable lease costs. To determine the lease loss, which is the loss after VeriSign's cost recovery efforts from subleasing a building, certain estimates were made related to the (1) time period over which the relevant building would remain vacant, (2) sublease terms, and (3) sublease rates, including common area charges. If market rates continue to decrease in these markets or if it takes longer than expected to sublease these facilities, the actual loss could exceed this estimate. Property and equipment that was disposed of or removed from operations resulted in a net charge of $20.2 million and consisted primarily of computer software, leasehold improvements, and computer equipment.

Exit Costs and Other Charges. Other exit costs consists of the write-down of prepaid license fees associated with products that were intended to be incorporated into the Company's product offerings but were subsequently abandoned as a result of the decision to restructure. As part of the Company's efforts to rationalize, integrate and align its resources, VeriSign also recorded other charges of $8.9 million relating primarily to the write-down of impaired prepaid marketing assets associated with discontinued advertising.

A summary of the restructuring and other costs recorded during the quarter ended June 30, 2002 is as follows:

	Restructuring and Other Charges	Non-cash Restructuring and Other Charges	Cash Payments	Restructuring Accrual at June 30, 2002
	(In thousands)			
Workforce reduction	$ 3,830	$ —	$ (2,906)	$ 924
Excess facilities	26,370	—	(2,676)	23,694
Write-down of property and equipment	20,179	(20,179)	—	—
Exit costs and other charges	17,400	(15,357)	(1,475)	568
	$ 67,779	$ (35,536)	$ (7,057)	$ 25,186

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

Note 4. Reciprocal Transactions

With the exception of $1.7 million of revenue related to prior period transactions, VeriSign did not enter into any new reciprocal transactions during the quarter ended June 30, 2002. Revenues recognized under reciprocal arrangements were approximately $7.8 million in the second quarter of 2001 of which all involved non-monetary transactions.

Reciprocal transactions entered into during the first six months of 2002, accounted for approximately $7.0 million of revenues of which $4.5 million was non-monetary. An additional $4.2 million of revenues was recognized during the first six months of 2002, which related to reciprocal transactions entered into in prior periods. Revenues recognized under reciprocal arrangements were approximately $9.5 million in the first six months of 2001 of which all involved non-monetary transactions.

Note 5. Goodwill and Other Intangible Assets

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

The provisions of SFAS No. 142 require that a two-step evaluation be performed to assess goodwill and other intangible assets for impairment. First, the fair value of each reporting unit is compared to its carrying value. If the fair value exceeds the carrying value, goodwill and other intangible assets are not impaired and proceeding to the second step is not required. If the carrying value of any reporting unit exceeds the 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 transitional impairment test with regard to the carrying value of goodwill and other intangible assets as of January 1, 2002 and concluded no material impairment of the carrying value of goodwill and other intangible assets existed at that date.

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

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

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

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

VeriSign's other intangible assets comprise:

	As of June 30, 2002		
	Gross Carrying Value	Accumulated Amortization and Write-down	Net Carrying Value
		(In thousands)	
ISP hosting relationships	$ 11,388	$ (10,164)	$ 1,224
Customer relationships	260,597	(66,230)	194,367
Technology in place	148,993	(76,238)	72,755
Non-compete agreement	1,019	(819)	200
Trade name	76,314	(76,137)	177
Contracts with ICANN and customer lists	953,589	(651,895)	301,694
	$1,451,900	$ (881,483)	$570,417

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

For the three months ended June 30, 2002 and 2001, amortization and write-down of other intangible assets was $311.3 million and $120.9 million, respectively. Amortization and write-down of other intangible assets was $396.2 million and $189.8 million for the six months ended June 30, 2002 and 2001, respectively.

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

	(In thousands)
2002 (6 months)	$ 111,809
2003	190,203
2004	69,556
2005	69,556
2006	65,019
Thereafter	64,274
	$ 570,417

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(In thousands)			
Net loss:				
Net loss as reported	$(4,802,535)	$(11,190,730)	$(4,842,245)	$(12,568,107)
Add back amortization of goodwill and workforce in place	—	1,308,890	—	2,614,769
Net loss as adjusted	$(4,802,535)	$ (9,881,840)	$(4,842,245)	$ (9,953,338)
Net loss per share:				
Basic and diluted as reported	$ (20.31)	$ (55.49)	$ (20.52)	$ (62.65)
Add back amortization of goodwill and workforce in place	—	6.49	—	13.04
Basic and diluted as adjusted	$ (20.31)	$ (49.00)	$ (20.52)	$ (49.61)

Note 6. Investments

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

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

During the second quarter of 2002, VeriSign determined that the decline in value of certain of its public and non-public equity investments was other-than-temporary and recorded write-downs of these investments totaling $94.8 million. During the second quarter of 2001,VeriSign determined that no investment write-downs were necessary. During the first six months of 2002 and 2001, VeriSign recorded write-downs of certain of its public and non-public equity investments totaling $113.5 million and $74.7 million, respectively. VeriSign reviews all of its public and non-public investments on a quarterly basis to determine if any other-than-temporary declines exist.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

From time to time, VeriSign may recognize revenues from companies in which it also has made an investment. In addition to its normal revenue recognition policies, VeriSign also considers the amount of other third-party investments in the company, its earnings and revenue outlook, and its operational performance in determining the propriety and amount of revenues to recognize. If the investment is made in the same quarter that revenues are recognized, VeriSign looks to the investments of other third parties made at that time to establish the fair value of VeriSign's investment in the company as well as to support the amount of revenues recognized. VeriSign typically makes its investments with others where its investment is less than 50% of the total financing round. VeriSign's policy is not to recognize revenue in excess of other investors' financing of the company. VeriSign recognized revenues totaling $6.6 million and $17.7 million in the second quarter and the first six months of 2002, respectively, and recognized revenues totaling $12.1 million and $16.2 million in the second quarter and the first six months of 2001, respectively, from customers, including VeriSign Affiliates, with whom it had previously participated in a private equity round of financing.

Note 7. Comprehensive Loss

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(In thousands)			
Net loss	$(4,802,535)	$(11,190,730)	$(4,842,245)	$(12,568,107)
Change in unrealized gain (loss) on investments, net of tax	2,063	357	(480)	5,218
Translation adjustments	(482)	239	207	(1,371)
Comprehensive loss	$(4,800,954)	$(11,190,134)	$(4,842,518)	$(12,564,260)

Note 8. Calculation of Net Loss per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(In thousands, except per share data)			
Basic and diluted net loss per share:				
Net loss	$(4,802,535)	$(11,190,730)	$(4,842,245)	$(12,568,107)
Determination of basic and diluted shares:				
Weighted average shares outstanding	236,435	201,675	235,940	200,624
Basic and diluted average common shares outstanding	236,435	201,675	235,940	200,624
Basic and diluted net loss per share	$ (20.31)	$ (55.49)	$ (20.52)	$ (62.65)

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

VeriSign has excluded potential common shares subject to outstanding stock options from the calculation of diluted net loss per share for both periods presented because their effect would have been anti-dilutive. At June 30, 2002, options to purchase 40,187,525 shares were outstanding and at June 30, 2001, options to purchase 28,567,148 shares were outstanding.

Note 9. Commitments and Contingencies

Legal Proceedings

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

Note 10. Segment Information

Description of segments

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

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

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Mass Markets Division	Enterprise and Service Provider Division	Other	Total Segments
		(In thousands)		
Three months ended June 30, 2002:				
Total revenues	$103,548	$ 237,668	$ —	$341,216
Internal revenues	—	(23,807)	—	(23,807)
Total external revenues	$103,548	$ 213,861	$ —	$317,409
Cost of revenues	$ 49,345	$ 112,918	$ 7,840	$170,103
Internal cost of revenues	(23,807)	—	—	(23,807)
Total cost of revenues	$ 25,538	$ 112,918	$ 7,840	$146,296
Segment gross margin after eliminations	$ 78,010	$ 100,943	$(7,840)	$171,113

	Mass Markets Division	Enterprise and Service Provider Division	Other	Total Segments
		(In thousands)		
Three months ended June 30, 2001:				
Total revenues	$145,845	$ 120,337	$ —	$266,182
Internal revenues	—	(34,985)	—	(34,985)
Total external revenues	$145,845	$ 85,352	$ —	$231,197
Cost of revenues	$ 78,224	$ 35,223	$ 1,846	$115,293
Internal cost of revenues	(34,985)	—	—	(34,985)
Total cost of revenues	$ 43,239	$ 35,223	$ 1,846	$ 80,308
Segment gross margin after eliminations	$102,606	$ 50,129	$(1,846)	$150,889

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Mass Markets Division	Enterprise and Service Provider Division	Other	Total Segments
		(In thousands)		
Six months ended June 30, 2002:				
Total revenues	$216,440	$ 479,244	$ —	$695,684
Internal revenues	—	(50,459)	—	(50,459)
Total external revenues	$216,440	$ 428,785	$ —	$645,225
Cost of revenues	$106,712	$ 225,598	$ 14,147	$346,457
Internal cost of revenues	(50,459)	—	—	(50,459)
Total cost of revenues	$ 56,253	$ 225,598	$ 14,147	$295,998
Segment gross margin after eliminations	$160,187	$ 203,187	$(14,147)	$349,227

	Mass Markets Division	Enterprise and Service Provider Division	Other	Total Segments
		(In thousands)		
Six months ended June 30, 2001:				
Total revenues	$282,522	$ 229,661	$ —	$512,183
Internal revenues	—	(67,573)	—	(67,573)
Total external revenues	$282,522	$ 162,088	$ —	$444,610
Cost of revenues	$151,490	$ 64,778	$ 5,953	$222,221
Internal cost of revenues	(67,573)	—	—	(67,573)
Total cost of revenues	$ 83,917	$ 64,778	$ 5,953	$154,648
Segment gross margin after eliminations	$198,605	$ 97,310	$(5,953)	$289,962

Assets are not tracked by segment and the chief operating decision maker does not evaluate segment performance based on asset utilization.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Reconciliation to VeriSign, as reported

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(In thousands)			
Revenues:				
Total segments	$ 341,216	$ 266,182	$ 695,684	$ 512,183
Elimination of internal revenues	(23,807)	(34,985)	(50,459)	(67,573)
Revenues, as reported	$ 317,409	$ 231,197	$ 645,225	$ 444,610
Net loss:				
Segment gross margin	$ 171,113	$ 150,889	$ 349,227	$ 289,962
Operating expenses	4,882,813	11,389,874	5,088,302	12,880,147
Operating loss	(4,711,700)	(11,238,985)	(4,739,075)	(12,590,185)
Other income (expense)	(90,663)	19,151	(102,833)	(34,012)
Minority interest in net income of subsidiary	(172)	(309)	(337)	(519)
Loss before income taxes	(4,802,535)	(11,220,143)	(4,842,245)	(12,624,716)
Income tax benefit	—	29,413	—	56,609
Net loss, as reported	$(4,802,535)	$(11,190,730)	$(4,842,245)	$(12,568,107)

Geographic information

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(In thousands)			
Revenues:				
United States	$292,082	$200,363	$590,342	$390,776
All other countries	25,327	30,834	54,883	53,834
Total	$317,409	$231,197	$645,225	$444,610

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 registered through or at the Herndon, Virginia facility are attributed to the United States because it is impracticable to determine the country of origin.

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

	As of June 30,	
	2002	2001
	(In thousands)	
Long-lived assets:		
United States	$1,945,371	$5,434,976
All other countries	136,370	253,482
Total	$2,081,741	$5,688,458

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 11. Income Taxes

For the six month period ended June 30, 2002, VeriSign recorded no tax benefit. This is due to the uncertainty of the realization of current net operating losses and certain deferred tax assets.

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

Note 12. Recent Accounting Pronouncements

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

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

In July 2002, the FASB, issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 eliminates Emerging Issues Task Force, or EITF, Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." Under SFAS No. 146, liabilities for costs associated with an exit or disposal activity are recognized when the liabilities are incurred, as opposed to being recognized at the date of entity's commitment to an exit plan under EITF No. 94-3. Furthermore, SFAS No. 146 establishes that fair value is the objective for initial measurement of the liabilities. This Statement will be effective for exit or disposal activities that are initiated after December 31, 2002.

Note 13. Subsequent Event

On July 31, 2002, the Company received a Civil Investigative Demand (CID) from the U.S. Federal Trade Commission (FTC) for information to determine whether or not the Company's domain name registration business may have violated Section 5 of the FTC Act. More specifically, the CID requests information on the Company's registrar's relationship with Interland, Inc., the registrar's direct mail offer which began in April 2002, the registrar's transfer practices, and the deletion of domain names. Although a CID is usually a non-public, confidential investigation, as requested by the FTC, the recent disclosure to the press by unidentified sources makes the existence of this investigation appropriate for disclosure.

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

Forward-Looking Statements

You should read the following discussion in conjunction with the interim unaudited condensed consolidated financial statements and related notes.

Except for historical information, this Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve risks and uncertainties, including, among other things, statements regarding our anticipated costs and expenses and revenue mix. Forward-looking statements include, among others, those statements including the words "expects," "anticipates," "intends," "believes" and similar language. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that may affect future results of operations and cause or contribute to such differences include, but are not limited to, those discussed in the section "Factors That May Affect Future Results of Operations." You should carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q that we have filed or will file in 2002 and our Annual Report on Form 10-K for the period ending December 31, 2001, which was filed on March 19, 2002. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

Overview

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

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

Enterprise and Service Provider Division

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

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

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

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

Mass Markets Division

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

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

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

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

Acquisitions

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

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

Critical accounting policies

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

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

Revenue recognition

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

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

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

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

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

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

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

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

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

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

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

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

Revenues from consulting and training services are recognized using the percentage-of-completion method for fixed-fee development arrangements or as the services are provided for time-and-materials arrangements. Revenues from 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 the set-up fee are deferred and recognized ratably over the period that the fees are earned. Revenues from the service fees are recognized ratably over the periods in which the services are provided. Advance customer deposits received are deferred and allocated ratably to revenue over the periods the services are provided.

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

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

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

Allowance for doubtful accounts

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

Investments

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

We review our marketable equity holdings in publicly traded companies on a regular basis to determine if any security has experienced an other-than-temporary decline in fair value. We consider the investee company's cash position, earnings and revenue outlook, stock price performance over the past six months, liquidity and management, among other factors, in our review. If we determine that an other-than-temporary decline exists in a marketable equity security, we write-down the investment to its market value and record the related write-down as an investment loss in our consolidated statements of operations. For non-public companies, we regularly review the assumptions underlying the operating performance and cash flow forecasts based on information requested from these privately held companies. Generally, this information may be more limited, may not be as timely and may be less accurate than information available from publicly traded companies. Assessing each investment's carrying value requires significant judgment by management. If we determine that an other-than-temporary decline exists in a non-public equity security, we write-down the investment to its fair value and record the related write-down as an investment loss in our consolidated statements of operations. Generally, if cash balances are insufficient to sustain the company's operations for a six-month period and there are no current prospects of future funding for the investee, we consider the decline in fair value to be other-than-temporary. During the second quarter of 2002, we determined that the decline in value of certain of our public and non-public equity investments was other-than-temporary and recorded a write-down of these investments totaling $94.8 million. During the second quarter of 2001, we determined that no investment write-downs were necessary. During the six-month periods ended June 30, 2002 and 2001, we recorded investment write-downs of $113.5 million and $74.7 million, respectively.

Long-lived assets

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

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

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

Pro forma financial information

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

Results of Operations

We have experienced substantial net losses in the past. As of June 30, 2002, we had an accumulated deficit of approximately $21.4 billion, primarily due to $21.5 billion of goodwill and other intangible asset write-downs and amortization related to our acquisitions.

Revenues

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

	2002	2001	Change
	(Dollars in thousands)		
Three-month period:			
Web presence and trust services	$103,548	$145,845	(29)%
Subtotal—Mass Markets Division	103,548	145,845	(29)%
Managed security and network services	79,715	58,801	36%
Registry and telecommunications services	134,146	26,551	405%
Subtotal—Enterprise and Service Provider Division	213,861	85,352	151%
Total revenues	$317,409	$231,197	37%

	2002	2001	Change
	(Dollars in thousands)		
Six-month period:			
Web presence and trust services	$216,440	$282,522	(23)%
Subtotal—Mass Markets Division	216,440	282,522	(23)%
Managed security and network services	176,885	110,779	60%
Registry and telecommunications services	251,900	51,309	391%
Subtotal—Enterprise and Service Provider Division	428,785	162,088	165%
Total revenues	$645,225	$444,610	45%

Total revenues increased 37% in the second quarter of 2002 from the second quarter of 2001 and increased 45% in the first six months of 2002 compared to the first six months of 2001 primarily due to the inclusion of telecommunications services revenues resulting from the acquisitions of Illuminet Holdings and H.O. Systems in December 2001 and February 2002, respectively.

Revenues for our Mass Markets Division decreased 29% in the second quarter of 2002 and 23% in the first six months of 2002 compared to the similar periods a year ago due to the reduction in registrations for new and renewed domain names. Revenues for our Enterprise and Service Provider Division increased 151% in the quarter ended June 30, 2002 and increased 165% in the first six months of 2002 compared to the similar periods in 2001 due to the acquisitions of Illuminet Holdings and H.O. Systems in December 2001 and February 2002, respectively, and due to increased demand for our third party products.

With the exception of $1.7 million of revenue related to prior period transactions, VeriSign did not enter into any new reciprocal transactions during the quarter ended June 30, 2002. Revenues recognized under reciprocal arrangements were approximately $7.8 million in the second quarter of 2001 of which all involved non-monetary transactions.

Reciprocal transactions entered into during the first six months of 2002, accounted for approximately $7.0 million of revenues of which $4.5 million was non-monetary. An additional $4.2 million of revenues was recognized during the first six months of 2002, which related to reciprocal transactions entered into in prior periods. Revenues recognized under reciprocal arrangements were approximately $9.5 million in the first six months of 2001 of which all involved non-monetary transactions.

We derived 2.1% in the second quarter of 2002 and 2.7% in the first six months of 2002 of our total revenues from customers with whom we have previously participated in a private equity round of financing, compared to 5.2% in the second quarter of 2001 and 3.6% in the first six months of 2001. These customers include several of the VeriSign Affiliates as well as various technology companies in a variety of related market areas. Typically in these relationships, under separate agreements, we sell our products and services to a company and, under a separate agreement, participate with other investors in a private equity round financing of the company. We typically make our investments with others where our investment is less than 50% of the total financing round. Our policy is not to recognize revenue in excess of other investors' financing of the company. These arrangements are independent relationships and are not terminable unless the terms of the agreements are violated.

Mass Markets Division

In the three and six month periods ended June 30, 2002, revenues from Web presence and trust services decreased 29% and 23% over the comparable periods in 2001 primarily due to a decrease in domain names under management. The Registrar managed approximately 5.7 million fewer domain names at June 30, 2002, compared to June 30, 2001.

During the quarter ended June 30, 2002, we registered approximately 550,000 gross new domain names and renewed or extended an additional 660,000 domain names bringing the total active domain names under management by the Registrar to approximately 10.3 million at June 30, 2002. During the first six months of 2002 we registered approximately 1,150,000 gross new domain names and renewed or extended an additional 1,260,000 domain names. Due to the extremely competitive market in domain names, we have experienced moderate price declines in sales prices for domain names.

Our Mass Markets Division and our Enterprise and Service Provider Division issued approximately 105,000 new and renewed Web site digital certificates in the second quarter of 2002 compared to 95,000 in the second quarter of 2001. We increased our total installed base to over 400,000 certificates at June 30, 2002, compared to our installed base of 327,000 certificates at June 30, 2001. During the first six months of 2002 our Mass Markets Division and our Enterprise and Service Provider Division issued approximately 206,000 new and renewed certificates compared to 185,000 new and renewed certificates in the first six months of 2001. On a stand alone basis the Mass Markets Division Web site certificate base increased to a total of 275,000 certificates at June 30, 2002, up from 260,000 at the end of 2001. In addition, due to increased competition in the Web trust services market, we have experienced moderate pricing pressure for our services. We expect that this pricing pressure will continue.

Enterprise and Service Provider Division

In the three and six month periods ended June 30, 2002, revenues from the managed security and network services product line increased 36% and 60% over the comparable periods in 2001. The revenue increase was primarily due to an overall increase in the volume of consulting services that included the resale of third party products and a moderate increase in the demand for our other enterprise managed service offerings offset by a decrease in revenue from our international affiliates.

Revenues from registry and telecommunications services increased 405% in the second quarter of 2002 and increased 391% in the first six months of 2002 compared to the similar periods of 2001 due to our acquisitions of Illuminet Holdings and H.O. Systems in December 2001, and February 2002, respectively. The VeriSign Global Registry Services group managed approximately 27.3 million domain names at June 30, 2002 in the active zone file for all domain names ending in *.com*, *.net* and *.org*. The Global Registry Services group also processed 2.7 million new domain names during the second quarter of 2002 and processed 5.4 million new domain names during the first six months of 2002. VeriSign's Illuminet subsidiary added 40 new signaling points in the second quarter of 2002, bringing its total number of signaling points to 985, up from 939 at the end of 2001. In addition, Illuminet saw the number of queries on its database increase to 7.2 billion during the second quarter of 2002, up from 6.6 billion in the first quarter of 2002 and 6.2 billion in the fourth quarter of 2001.

International revenues

Revenues from international subsidiaries and affiliates accounted for 8% of revenues in the second quarter of 2002 and 9% of revenues in the first six months of 2002 compared to 13% of revenues in the second quarter of 2001 and 12% of revenues in the first six months of 2001. The percentage decrease in revenues from international subsidiaries and affiliates during the periods presented was primarily related to the acquisitions of Illuminet Holdings in December 2001 and H.O. Systems in February 2002 whose revenues are primarily attributable to the United States.

In 1998, we began our international affiliate program under which we signed agreements with local telecommunications companies, financial institutions and others to promote, sell and distribute our PKI services in international markets around the world. These VeriSign Affiliates typically require significant capital development, the cost of which is borne by the affiliate. Our strategy from time to time also includes investing in certain affiliates in strategic markets that represent advantageous economic opportunities for a minority interest of less than 20%. As a result, we have invested in several international affiliates. Revenues from VeriSign Affiliates in which we have invested accounted for approximately 1.8% of total revenues in the second quarter of 2002 and 2.1% in the first six months of 2002 compared to less than 3.6% in the second quarter of 2001 and 2.2% in the first six months of 2001.

Costs and Expenses

Cost of revenues

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

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

	2002	2001	Change
	(Dollars in thousands)		
Three-month period:			
Cost of revenues	$146,296	$ 80,308	82%
Percentage of revenues	46%	35%	
Six-month period:			
Cost of revenues	$295,998	$154,648	91%
Percentage of revenues	46%	35%	

Growth of revenues was the primary factor in the absolute dollar increase of cost of revenues in the second quarter and the first six months of 2002 over the comparable periods in 2001. We have incurred increased expenses related to the cost of hardware and software products resold to customers as part of our consulting business. The acquisitions of Illuminet Holdings and H.O. Systems have resulted in an increase in our cost of revenues on an absolute dollar basis and as a percentage of revenues since their acquisitions. We are continually upgrading our operations infrastructure which has resulted in additional depreciation expenses. Additionally, we have realized substantial growth in our sales of third party software and hardware products which are generally made at lower margins than our other enterprise and mass market sales. Any future acquisitions, further expansion into international markets and introductions of additional products will result in further increases in cost of revenues, due to additional personnel and related expenses and other factors.

Certain of our services, such as consulting and training, require greater initial personnel involvement and therefore, have higher costs than other types of services. In addition, revenues derived from our authentication services, domain name registration services, registry services, payment services and our telecommunications services each have different cost structures.

Sales and marketing

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

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

	2002	2001	Change
	(Dollars in thousands)		
Three-month period:			
Sales and marketing	$ 69,281	$ 65,337	6%
Percentage of revenues	22%	28%	
Six-month period:			
Sales and marketing	$136,600	$129,788	5%
Percentage of revenues	21%	29%	

Sales and marketing expenses increased on an absolute dollar basis in both the second quarter and the first six months of 2002 from the comparable periods in 2001, due primarily to our acquisitions of Illuminet Holdings and H.O. Systems in December 2001 and February 2002, respectively. In addition, the Mass Markets Division continues to incur expenses promoting the value of the *.com*, *.net* and *.org* Web addresses as well as value-added services including Web site design tools and other enhanced service offerings. The remainder of the increase during the first quarter of 2002 was driven by lead and demand generation activities in our authentication businesses and the expansion of our international sales force.

While the absolute dollar spending increased for sales and marketing expenses, we continue to realize a decline in sales and marketing expenses as a percentage of revenues. This is primarily due to the increase in recurring revenues from existing customers, which tend to have lower acquisition costs and the increase in the productivity of the direct and inside sales forces. In addition, we began to realize benefits from our restructuring program initiated in the second quarter of 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 periods and the six-month periods ended June 30, 2002 and 2001 is presented below.

	2002	2001	Change
	(Dollars in thousands)		
Three-month period:			
Research and development	$13,012	$20,659	(37)%
Percentage of revenues	4%	9%	
Six-month period:			
Research and development	$27,792	$40,546	(31)%
Percentage of revenues	4%	9%	

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

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

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

	2002	2001	Change
	(Dollars in thousands)		
Three-month period:			
General and administrative	$46,622	$34,842	34%
Percentage of revenues	15%	15%	
Six-month period:			
General and administrative	$85,089	$66,008	29%
Percentage of revenues	13%	15%	

General and administrative expense increased in the second quarter and the first six months of 2002 over the comparable periods in 2001 due primarily to our acquisitions of Illuminet Holdings and H.O. Systems in December 2001 and February 2002, respectively. In addition, our bad debt expense increased to $17.9 million in the first six months of 2002 from $6.2 million in the first six months of 2001, primarily as a result of increased revenues and the continued deterioration in the overall economy.

Restructuring and Other Costs

In April 2002, VeriSign announced plans to restructure its operations to rationalize, integrate and align the resources of the company, including recently acquired Illuminet Holdings and H.O. Systems. This restructuring program includes workforce reductions, closure of excess facilities, write-down of property and equipment and other charges. As a result of this restructuring program, we recorded restructuring and other costs of $67.8 million classified as operating expenses during the quarter ended June 30, 2002.

Workforce Reduction

The restructuring program resulted in a workforce reduction of approximately 400 employees across certain business functions, operating units, and geographic regions. The workforce reductions announced in April 2002 were substantially completed within the quarter. We recorded a workforce reduction charge of $3.8 million during the quarter ended June 30, 2002, relating primarily to severance and fringe benefits.

Closure of Excess Facilities

VeriSign recorded charges of approximately $26.4 million for excess facilities relating to lease terminations and non-cancelable lease costs. To determine the lease loss, which is the loss after VeriSign's cost recovery efforts from subleasing a building, certain estimates were made related to the (1) time period over which the relevant building would remain vacant, (2) sublease terms, and (3) sublease rates, including common area charges. If market rates continue to decrease in these markets or if it takes longer than expected to sublease these facilities, the actual loss could exceed this estimate. Property and equipment that was disposed of or removed from operations resulted in a net charge of $20.2 million and consisted primarily of computer software, leasehold improvements, and computer equipment.

Exit Costs and Other Charges

Other exit costs consists of the write-down of prepaid license fees associated with products that were intended to be incorporated into the Company's product offerings but were subsequently abandoned as a result of the decision to restructure. As part of the Company's efforts to rationalize, integrate and align its resources, VeriSign also recorded other charges of $8.9 million relating primarily to the write-down of impaired prepaid marketing assets associated with discontinued advertising.

A summary of the restructuring and other costs recorded during the quarter ended June 30, 2002 is as follows:

	Total Restructuring and Other Charges
	(In thousands)
Workforce reduction	$ 3,830
Excess facilities	26,370
Write-down of property and equipment	20,179
Exit costs and other charges	17,400
	$ 67,779

The restructuring accrual is included on the balance sheet as Accrued restructuring costs. Amounts related to the net lease expense due to the closure of facilities will be paid over the respective lease terms the longest of which extends through February 2008. We expect to substantially complete the implementation of the restructuring program during the fourth quarter of 2002.

Amortization and write-down of goodwill and other intangible assets

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

Amortization and write-down of goodwill and other intangible assets was $4.7 billion in the second quarter of 2002 compared to $11.3 billion in the second quarter of 2001. During the first six months of 2002 the amortization and write-down of goodwill and other intangible assets was $4.8 billion compared to $12.6 billion in the first six months of 2001. Excluding the impairment charges to goodwill and other intangible assets, amortization expense was $87.5 million and $172.4 million in the second quarter and the first six months of 2002, respectively, and was $1.4 billion and $2.8 billion in the second quarter and the first six months of 2001, respectively. The decrease in amortization expense is primarily due to the discontinuance of goodwill amortization in accordance with the provisions of SFAS No. 142.

Other Income (Expense), net

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

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

	2002	2001	Change
	(Dollars in thousands)		
Three-month period:			
Other income (expense)	$ (90,663)	$ 19,151	(573)%
Percentage of revenues	(29)%	8%	
Six-month period:			
Other income (expense)	$(102,833)	$(34,012)	(202)%
Percentage of revenues	(16)%	(8)%	

Other expense in the second quarter of 2002 consisted of investment write-downs of $94.8 million partially offset by $4.1 million of interest income on our cash, cash equivalents and investments. Other income in the second quarter of 2001 consisted of $19.1 million of interest income. Other expense in the first six months of 2002 consisted of investment write-downs of $113.5 million offset by $10.7 million of interest income. In the first six months of 2001 other expense included write-downs of investments totaling $74.7 million partially offset by $33.9 million of interest income. VeriSign reviews its marketable equity holdings in publicly traded companies on a regular basis to determine if any security has experienced an other-than-temporary decline in its fair value. As of June 30, 2002 and 2001, we determined that the decline in value of certain of our public and non-public equity securities investments was other-than-temporary. We may from time to time recognize gains or losses from the sales, write-downs or write-offs of our equity investments.

Deferred Income Taxes

For the six-month period ended June 30, 2002, VeriSign recorded no tax benefits. This is due to the uncertainty of the realization of current net operating losses and certain deferred tax assets.

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

Minority Interest in Net Income of Subsidiary

Minority interest in the net income of VeriSign Japan K.K. was $172,000 in the second quarter of 2002 and $337,000 for the first six months of 2002 compared to $309,000 in the second quarter of 2001 and $519,000 in the first six months of 2001. The change is primarily due to a decrease in VeriSign Japan’s gross margin as a result of pricing pressures as compared to 2001. As the VeriSign Japan business continues to develop and evolve, we expect that the minority interest in net income of subsidiary will fluctuate.

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Recent Developments

On July 31, 2002, the Company received a Civil Investigative Demand (CID) from the U.S. Federal Trade Commission (FTC) for information to determine whether or not the Company's domain name registration business may have violated Section 5 of the FTC Act. More specifically, the CID requests information on the Company's registrar's relationship with Interland, Inc., the registrar's direct mail offer which began in April 2002, the registrar's transfer practices, and the deletion of domain names. Although a CID is usually a non-public, confidential investigation, as requested by the FTC, the recent disclosure to the press by unidentified sources makes the existence of this investigation appropriate for disclosure.

Factors That May Affect Future Results of Operations

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

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

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

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

To address these risks we must, among other things:

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

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

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

- potentially inadequate development of network infrastructure;
- security concerns, particularly for online payments, including the potential for merchant or user impersonation and fraud or theft of stored data and information communicated over IP networks;
- privacy concerns, including the potential for third parties to obtain personally identifiable information about users or to disclose or sell data without notice to or the consent of such users;
- other security concerns such as attacks on popular Web sites by “hackers;”
- inconsistent quality of service;
- lack of availability of cost-effective, high-speed systems and services;
- limited number of local access points for corporate users;
- inability to integrate business applications on IP networks;
- the need to operate with multiple and frequently incompatible products;
- government regulation; and
- a lack of tools to simplify access to and use of IP networks.

The widespread acceptance of the Internet and IP networks will require a broad acceptance of new methods of conducting business and exchanging information. Organizations that already have invested substantial resources in other methods of conducting business may be reluctant to adopt new methods. Also, individuals with established patterns of purchasing goods and services and effecting payments may be reluctant to change.

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

We have purchased products and services from companies and participated in financings of companies with whom we have entered into separate contractual arrangements for the distribution and sale of our products and services. We derived approximately 2.1% of our total revenues in the first six months of 2002 and approximately 1.7% of our total revenues in the first six months of 2001 from reciprocal arrangements. Typically in these relationships, under separate agreements, we sell our products and services to a company and that company sells to us their products and services or we, under a separate agreement, participate with other investors in a private equity round financing of the company. We also derived approximately 2.7% of our total revenues in the first six months of 2002 and approximately 3.6% of our total revenues in the first six months of 2001 from customers with whom we have participated in a private equity round of financing, including several of the VeriSign Affiliates, as well as various technology companies in a variety of related market areas. We may not be able to sustain the revenue growth we have experienced in recent periods if we do not continue to participate in business relationships of this nature. In addition, past revenue growth may not be indicative of future operating results.

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

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

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

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

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

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

- ICANN could adopt or promote policies, procedures or programs that are unfavorable to our role in the registration of domain names or that are inconsistent with our current or future plans;
- the DOC or ICANN could terminate our agreements to be the registry or a registrar in the *.com*, *.net* and *.org* top-level domains if they find that we are in violation of our agreements with them;
- if our agreements to be the registry for the *.com*, *.org* or *.net* top-level domains, or a registrar for existing and new top-level domains are terminated, we may not be able to sustain the revenue growth we experienced in recent periods;
- the terms of the registrar accreditation contract could change, as a result of an ICANN-adopted policy, in a manner that is unfavorable to us;
- the DOC's or ICANN's interpretation of provisions of our agreements with either of them could differ from ours;
- the DOC could revoke its recognition of ICANN, as a result of which the DOC would take the place of ICANN for purposes of the various agreements described above, and could take actions that are harmful to us;
- ICANN has approved new top-level domains and we may not be permitted to act as a registrar with respect to some of those top-level domains;
- the U.S. Government could refuse to transfer certain responsibilities for domain name system administration to ICANN due to security, stability or other reasons, resulting in fragmentation or other instability in domain name system administration; and
- our registry business could face legal or other challenges resulting from the activities of registrars.

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

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

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

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

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

- the long sales and implementation cycles for, and potentially large order sizes of, some of our digital trust services and the timing and execution of individual customer contracts;
- volume of domain name registrations and customer renewal rates through our Web presence services business and our Global Registry Service business;
- competition in the domain name registration services business from competing registrars and registries;
- the mix of all our offered services sold during a quarter;
- our success in marketing and market acceptance of our enterprise services, network services, Web presence services and Web trust services by our existing customers and by new customers;
- continued development of our direct and indirect distribution channels, both in the U.S. and abroad;
- a decrease in the level of spending for information technology related products and services by enterprise customers;
- our success in assimilating the operations and personnel of any acquired businesses;
- the seasonal fluctuations in consumer use of telecommunications services;
- the impact of price changes in our enterprise services, network services, Web presence services, Web trust services or our competitors' products and services; and
- general economic and market conditions as well as economic and market conditions specific to IP network, telecommunications and Internet industries.

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

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

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

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

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

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

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

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

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

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

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

We made several acquisitions in 2000 and 2001. In December 2001, we acquired Illuminet Holdings, Inc., which recently completed several acquisitions of its own, and in February 2002 we completed our acquisition of H.O. Systems, Inc. We could experience difficulty in integrating the personnel, products, technologies or operations of these companies. Assimilating acquired businesses involves a number of other risks, including, but not limited to:

- the potential disruption of our ongoing business;
- the potential impairment of relationships with our employees, customers and strategic partners;
- unanticipated costs or the incurrence of unknown liabilities;
- the need to manage more geographically-dispersed operations, such as our offices in Virginia, North Carolina, Washington, Kansas, South Carolina, South Africa and Europe;
- greater than expected costs and the diversion of management's resources from other business concerns involved in identifying, completing and integrating acquisitions;
- the inability to retain the employees of the acquired businesses;
- adverse effects on the existing customer relationships of acquired companies;
- the difficulty of assimilating the operations and personnel of the acquired businesses;
- the potential incompatibility of business cultures;
- any perceived adverse changes in business focus;
- entering into markets and acquiring technologies in areas in which we have little experience;
- our inability to incorporate acquired technologies successfully into our operations infrastructure;
- the need to incur debt, which may reduce our cash available for operations and other uses, or issue equity securities, which may dilute the ownership interests of our existing stockholders; and
- the inability to maintain uniform standards, controls, procedures and policies.

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

Additionally, there is risk that we may incur additional expenses associated with a write-off of a portion of goodwill and other intangible assets, as was the case when we recorded a non-cash charge of approximately $4.6 billion in the second quarter of 2002 and $9.9 billion in the second quarter of 2001 related to write-downs of goodwill due to changes in market conditions for acquisitions made with our common stock. Under generally accepted accounting principles, we are required to evaluate goodwill for impairment on an annual basis and to evaluate other intangible assets as events or circumstances indicate that such assets may be impaired. These evaluations could result in further write-downs of goodwill or other intangible assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Despite our security measures, our infrastructure may be vulnerable to physical break-ins, computer viruses, and attacks by hackers or similar disruptive problems. It is possible that we may have to expend additional financial and other resources to address such problems. Any physical or electronic break-in or other security breach or compromise of the information stored at our secure data centers and domain name registration systems may jeopardize the security of information stored on our premises or in the computer systems and networks of our customers. In such an event, we could face significant liability and customers could be reluctant to use our digital trust services. Such an occurrence could also result in adverse publicity and therefore, adversely affect the market’s perception of the security of electronic commerce and communications over IP networks as well as of the security or reliability of our services.

We rely on a continuous power supply to conduct our operations, and California’s recent energy crisis could disrupt our operations and increase our expenses.

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

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

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

We have investments in a number of companies. In most instances, these investments are in the form of equity and debt securities of private companies for which there is no public market. These companies are typically in the early stage of development and may be expected to incur substantial losses. Therefore, these companies may never become publicly traded companies. Even if they do, an active trading market for their securities may never develop and we may never realize any return on these investments. Further, if these companies are not successful, we could incur charges related to write-downs or write-offs of these types of assets. Due to the recent volatility in the stock market in general, and the market prices of securities of technology companies in particular, during 2001 we determined that the decline in value of some of our public and private equity security investments was other-than-temporary and recognized a loss of $89.1 million related to the decline in value of these investments, $74.7 of which was recognized in the first six months of 2001. During the second quarter of 2002 we wrote-off investments totaling $94.8 million and during the first six months of 2002 we recorded investment write-downs of $113.5 million. Due to the inherent risk associated with some of our investments, and in light of current stock market conditions, we may incur future losses on the sales, write-downs or write-offs of our investments.

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

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

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

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

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

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

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

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

We have experienced significant growth in our business and our failure to manage this growth or any future growth could harm our business.

Our historical growth has placed, and any further growth is likely to continue to place, a significant strain on our resources. We have grown from 26 employees at December 31, 1995 to almost 3,200 employees at June 30, 2002. In addition to internal growth, our employee base grew through acquisitions. We have also opened additional sales offices and have significantly expanded our operations, both in the U.S. and abroad, during this time period. To be successful, we will need to implement additional management information systems, continue the development of our operating, administrative, financial and accounting systems and controls and maintain close coordination among our executive, engineering, accounting, finance, marketing, sales and operations organizations. Any failure to manage growth effectively could harm our business.

We depend on key personnel to manage our business effectively.

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

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

We rely on third parties who maintain and control root zone servers and route Internet communications.

We currently administer and operate only two of the 13 root zone servers. The others are administered and operated by independent operators on a volunteer basis. Because of the importance to the functioning of the Internet of these root zone servers, our global registry services business could be harmed if these volunteer operators fail to maintain these servers properly or abandon these servers, which would place additional capacity demands on the two root zone servers we operate.

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

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

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

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

We must establish and maintain strategic and other relationships.

One of our significant business strategies has been to enter into strategic or other similar collaborative relationships in order to reach a larger customer base than we could reach through our direct sales and marketing efforts. We may need to enter into additional relationships to execute our business plan. We may not be able to enter into additional, or maintain our existing, strategic relationships on commercially reasonable terms. If we fail to enter into additional relationships, we would have to devote substantially more resources to the distribution, sale and marketing of our enterprise services, telecommunications services and Web presence services than we would otherwise.

Our success in obtaining results from these relationships will depend both on the ultimate success of the other parties to these relationships, particularly in the use and promotion of IP networks for trusted and secure electronic commerce and communications, and on the ability of these parties to market our enterprise services successfully.

Furthermore, our ability to achieve future growth will also depend on our ability to continue to establish direct seller channels and to develop multiple distribution channels, particularly with respect to our Web presence services business. To do this we must maintain relationships with Internet access providers and other third parties. Failure of one or more of our strategic relationships to result in the development and maintenance of a market for our Web presence services could harm our business. Many of our existing relationships do not, and any future relationships may not, afford us any exclusive marketing or distribution rights. In addition, the other parties may not view their relationships with us as significant for their own businesses. Therefore, they could reduce their commitment to us at any time in the future. These parties could also pursue alternative technologies or develop alternative products and services either on their own or in collaboration with others, including our competitors. If we are unable to maintain our relationships or to enter into additional relationships, this could harm our business.

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

We market many of our enterprise services directly to large companies and government agencies. The sale and implementation of our services to these entities typically involves a lengthy education process and a significant technical evaluation and commitment of capital and other resources. This process is also subject to the risk of delays associated with customers' internal budgeting and other procedures for approving large capital expenditures, deploying new technologies within their networks and testing and accepting new technologies that affect key operations. As a result, the sales and implementation cycles associated with certain of our enterprise services can be lengthy, potentially lasting from three to six months. Our quarterly and annual operating results could be materially harmed if orders forecasted for a specific customer for a particular quarter are not realized.

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

Services as complex as those we offer or develop frequently contain undetected defects or errors. Despite testing, defects or errors may occur in our existing or new services, which could result in loss of or delay in revenues, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to our reputation, tort or warranty claims, increased insurance costs or increased service and warranty costs, any of which could harm our business. Furthermore, we often provide implementation, customization, consulting and other technical services in connection with the implementation and ongoing maintenance of our services, which typically involves working with sophisticated software, computing and communications systems. Our failure or inability to meet customer expectations in a timely manner could also result in loss of or delay in revenues, loss of market share, failure to achieve market acceptance, injury to our reputation and increased costs.

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

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

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

Revenues from international subsidiaries and affiliates accounted for approximately 9% of our revenues in the second quarter of 2002 and 8% in the first six months of 2002 compared to approximately 13% in the second quarter of 2001 and 12% in the first six months of 2001. We intend to expand our international operations and international sales and marketing activities. For example, in addition to our past acquisitions of THAWTE with operations in South Africa, Network Solutions with operations in Asia and Europe, we have continued to focus on expanding our operations and marketing activities throughout Asia, Europe and Latin America. Expansion into these markets has required and will continue to require significant management attention and resources. We may also need to tailor our digital trust services for a particular market and to enter into international distribution and operating relationships. We have limited experience in localizing our services and in developing international distribution or operating relationships. We may not succeed in expanding our services into international markets. Failure to do so could harm our business. In addition, there are risks inherent in doing business on an international basis, including, among others:

- competition with foreign companies or other domestic companies entering the foreign markets in which we operate;
- regulatory requirements;
- legal uncertainty regarding liability and compliance with foreign laws;
- export and import restrictions on cryptographic technology and products incorporating that technology;
- tariffs and other trade barriers and restrictions;
- difficulties in staffing and managing foreign operations;
- longer sales and payment cycles;
- problems in collecting accounts receivable;
- currency fluctuations, as all of our international revenues from VeriSign Japan, K.K. and our wholly owned subsidiaries in South Africa and Europe are not denominated in U.S. dollars;
- difficulty of authenticating customer information;
- political instability;

- failure of foreign laws to protect our U.S. proprietary rights adequately;
- more stringent privacy policies in foreign countries;
- additional vulnerability from terrorist groups targeting American interests abroad;
- seasonal reductions in business activity; and
- potentially adverse tax consequences.

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

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

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

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

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

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

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

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

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

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

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

- our stockholders may take action only at a meeting and not by written consent;
- our board must be given advance notice regarding stockholder-sponsored proposals for consideration at annual meetings and for stockholder nominations for the election of directors;
- we have a classified board of directors, with the board being divided into three classes that serve staggered three-year terms;
- vacancies on our board may be filled until the next annual meeting of stockholders only by majority vote of the directors then in office; and
- special meetings of our stockholders may be called only by the chairman of the board, the president or the board, not by our stockholders.

Liquidity and Capital Resources

	June 30, 2002	December 31, 2001	Change
	(Dollars in thousands)		
Cash, cash equivalents and short-term investments	$ 281,652	$ 726,697	(61)%
Working capital	$ (168,486)	$ 256,714	(166)%
Stockholders’ equity	$1,687,268	$6,506,074	(74)%

At June 30, 2002, our principal source of liquidity was $281.7 million of cash, cash equivalents and short-term investments, consisting principally of commercial paper, medium term corporate notes, corporate bonds and notes, market auction securities, U.S. government and agency securities and money market funds. In addition, we hold $110.8 million of long-term investments, consisting primarily of debt and equity securities of non-public companies, which have no ready market.

Net cash provided by operating activities was $70.8 million in the first six months of 2002 compared to $115.5 million in the first six months of 2001. The decrease was primarily due to a decrease in our deferred revenue balance in which we receive payment in advance for many of our products and services. The decrease in cash provided by operating activities was partially offset by a decrease in accounts receivable during the first six months of 2002.

As part of the restructuring announced on April 25, 2002, VeriSign will pay cash for severance of employees, lease terminations and other contract terminations. Total cash outlays related to the restructuring program were $7.1 million in the second quarter of 2002 and are estimated to total between $11 and $12 million by the end of 2002.

Cash payments resulting from the restructuring during the three months ended June 30, 2002 were $7.1 million. We anticipate the restructuring program will result in the following future net cash outflows at June 30, 2002:

	Workforce Reduction	Lease Obligations	Total
		(In thousands)	
2002 (6 months)	$ 924	$ 3,436	$ 4,360
2003	—	5,495	5,495
2004	—	5,285	5,285
2005	—	4,250	4,250
2006	—	2,915	2,915
Thereafter	—	2,313	2,313
	$ 924	$ 23,694	$24,618

Net cash used in investing activities was $216.0 million in the first six months of 2002, primarily as a result of $346.3 million used for the acquisition of H.O. Systems and $47.0 million used in acquisition related costs. Additionally, we used $115.3 million for purchases of short and long-term investments and $52.2 million for purchases of property and equipment. These purchases were partially offset by proceeds of $345.5 million from maturities and sales of short and long-term investments. Net cash used in investing activities was $185.6 million in the first six months of 2001, primarily as a result of $596.7 million used for purchases of short and long-term investments and $419.8 million used for purchases of property and equipment partially offset by proceeds of $853.3 million from sales and maturities of short and long-term investments.

Net cash provided by financing activities was $16.3 million in first six months of 2002 and $61.1 million in the first six months of 2001. The primary source of cash provided by financing activities in both periods was from the issuance of common stock resulting from stock option exercises.

As of June 30, 2002, we had commitments under noncancelable operating leases for our facilities for various terms through 2011.

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

Our Illuminet subsidiary entered into an agreement with Bank of America effective June 1, 2000 to provide a line of credit and a capital expenditure loan facility. The line of credit was a $10.0 million unsecured loan that expired June 1, 2002 and Illuminet currently has no plans to renew. The capital expenditure loan facility is a $15 million unsecured loan with a five-year term. No amounts were outstanding under the line of credit and $800,000 was outstanding under the capital expenditure facility at June 30, 2002.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate sensitivity

The primary objective of VeriSign's investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we have invested in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline in value. If market interest rates were to increase immediately and uniformly by 10 percent from levels at June 30, 2002, this would not materially change the fair market value of our portfolio. To minimize this risk, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, medium-term notes, corporate bonds and notes, market auction securities, U.S. government and agency securities and money market funds. In general, money market funds are not subject to interest rate risk because the interest paid on such funds fluctuates with the prevailing interest rate. In addition, we generally invest in relatively short-term securities. As of June 30, 2002, 73% of our non-strategic investments mature in less than one year.

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

	Maturing in				
	Six Months or Less	Six Months to One Year	More than One Year	Total	Estimated Fair Value
	(Dollars in thousands)				
Included in cash and cash equivalents	$46,033	$ —	$ —	$46,033	$ 46,034
Weighted-average interest rate	1.99%	—	—		
Included in short-term investments	$14,713	$ 35,204	$ 34,620	$84,537	$ 85,059
Weighted-average interest rate	4.43%	4.34%	4.37%		

Exchange rate risk

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

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

Equity price risk

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

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of July 31, 2002, through our Network Solutions subsidiary, we were a defendant in eleven active lawsuits involving domain name disputes between trademark owners and domain name holders. We are drawn into such disputes, in part, as a result of claims by trademark owners that we are legally required, upon request by a trademark owner, to terminate the contractual right we granted to a domain name holder to register a domain name which is alleged to be similar to the trademark in question. On October 25, 1999, however, the Ninth Circuit Court of Appeals ruled in our favor and against Lockheed Corporation, holding that our services do not make us liable for contributory infringement to trademark owners. Since that time, the frequency of this type of suit has continued to decline. The holders of the domain name registrations in dispute have, in turn, questioned our right, absent a court order, to take any action that affects their contractual rights to the domain names in question. Although 92 of these kinds of situations have resulted in suits actually naming Network Solutions as a defendant, as of July 31, 2002, no adverse judgment has been rendered and no award of damages has ever been made. We believe that we have meritorious defenses and we intend to vigorously defend ourselves against these claims.

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

On September 7, 2001, NetMoneyIN, an Arizona corporation, filed a complaint alleging patent infringement against us in the United States District Court for the District of Arizona. NetMoneyIN named thirty-two other defendants, including Mellon Financial Corporation, Bankcard Center Inc., FMT Corp., American Express Financial Advisors, Inc., Bank One Corp., Citibank, N.A. and Wells Fargo & Co. The complaint alleges that part of VeriSign’s credit card approval process for purchases made on the Internet infringe certain claims of NetMoneyIN’s patents, U.S. Patent Nos. 5,822,737 and 5,963,917. The complaint requests the Court to enter judgment in favor of NetMoneyIN, a permanent injunction against the defendants from infringing the asserted claims, an order requiring the defendants to provide an accounting for NetMoneyIN’s damages, to pay NetMoneyIN such damages and three times that amount, and an order awarding NetMoneyIN attorney fees and costs. Discovery has not commenced, as the Judge has not yet issued a scheduling order. While we cannot predict the outcome of this matter, we believe that the allegations are without merit.

Beginning in May 2002 a series of identical complaints were filed in the United States District Court for the Northern District of California against VeriSign and certain of its officers and directors. The several complaints were subsequently consolidated into a single proceeding. The consolidated action purports to be on behalf of a class of persons who purchased VeriSign stock from January 25, 2001 through April 25, 2002 and alleges that during that time period VeriSign’s stock price was artificially inflated as a result of alleged misrepresentations and omissions. Plaintiffs seek unspecified damages against the defendants. In addition, lawsuits containing similar allegations purporting to be derivative suits have been filed in state courts in California and Delaware naming various current or former officers and directors of VeriSign as defendants and seeking unspecified damages. VeriSign and the individual defendants dispute the allegations made in these lawsuits and intend to vigorously defend against them.

As of August 6, 2002, we were a defendant in eleven lawsuits filed since April 2, 2002, related to a direct mail offer sent by our Internet domain name registrar to registrant-customers of other domain name

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registrars. Seven of these lawsuits were brought by or on behalf of domain name registrants. The remaining four were brought by or on behalf of domain name registrars or domain name registration intermediaries. One of these registrar actions has been settled and dismissed, *BulkRegister, Inc. v. VeriSign, Inc.* These cases taken collectively are not expected to have a material impact on our domain name registration business or our financial statements.

On July 31, 2002, the Company received a Civil Investigative Demand (CID) from the U.S. Federal Trade Commission (FTC) for information to determine whether or not the Company's domain name registration business may have violated Section 5 of the FTC Act. More specifically, the CID requests information on the Company's registrar's relationship with Interland, Inc., the registrar's direct mail offer which began in April 2002, the registrar's transfer practices, and the deletion of domain names. Although a CID is usually a non-public, confidential investigation, as requested by the FTC, the recent disclosure to the press by unidentified sources makes the existence of this investigation appropriate for disclosure.

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

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

The 2002 Annual Meeting of Stockholders was held on May 21, 2002 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 two (2) Class I directors to serve for a three-year term expiring at the Annual Meeting of Stockholders in 2005 was approved by the stockholders. The nominees received the following votes:

	For	Withheld
Scott G. Kriens	198,543,692	2,813,218
Stratton D. Sclavos	186,446,649	14,910,261

Incumbent Class II directors Kevin R. Compton, David J. Cowan and Roger H. Moore are currently serving for a term expiring at the Annual Meeting of Stockholders in 2003. 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.

Proposal No. 2 to approve an amendment to VeriSign’s 1998 Equity Incentive Plan to increase the number of shares reserved and authorized for issuance by 10,000,000 shares, increase the annual grant limit, and prohibit repricing of options without stockholder approval was approved by the stockholders. The proposal received the following votes:

	Votes
For	117,092,647
Against	84,008,259
Abstain	256,004

On July 30, 2002, the Board of Directors voted to limit the increase in the number of shares reserved and authorized for issuance under the 1998 Equity Incentive Plan to 5,000,000 shares rather than the 10,000,000 shares approved by stockholders.

In addition, in Proposal No. 3 stockholders ratified the appointment of KPMG LLP as independent auditors of VeriSign for the fiscal year ended December 31, 2002. This proposal received the following votes:

	Votes
For	197,137,709
Against	4,128,140
Abstain	91,061

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.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Index to Exhibits

Exhibit Number	Exhibit Description	Filed Herewith
10.1	Registrant's 1998 Equity Incentive Plan, as amended May 21, 2002	X
10.2	Registrant's 1998 Directors Stock Option Plan, as amended January 26, 2001	X
99.1	Certification of President/CEO/Chairman of the Board, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
99.2	Certification of Executive VP of Finance and Administration/CFO, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X

(b) Reports on Form 8-K

No reports on Form 8-K were filed in the quarter ended June 30, 2002.

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, 2002	By:	/s/ STRATTON D. SCLAVOS
		Stratton D. Sclavos President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)
Date: August 14, 2002	By:	/s/ DANA L. EVAN
		Dana L. Evan Executive Vice President of Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBITS

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

Exhibit Number	Exhibit Description
10.1	Registrant's 1998 Equity Incentive Plan, as amended May 21, 2002
10.2	Registrant's 1998 Directors Stock Option Plan, as amended January 26, 2001
99.1	Certification of President/CEO/Chairman of the Board, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Executive VP of Finance and Administration/CFO, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 10.1

[LOGO OF VERISIGN]

VERISIGN, INC.
1998 EQUITY INCENTIVE PLAN

As Adopted October 31, 1997
and Amended Effective June 8, 2000, May 24, 2001 and May 21, 2002

1. **PURPOSE**. The purpose of this Plan is to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Company, its Parent and Subsidiaries, by offering them an opportunity to participate in the Company's future performance through awards of Options, Restricted Stock and Stock Bonuses. Capitalized terms not defined in the text are defined in Section 23.

2. **SHARES SUBJECT TO THE PLAN**.

2.1 Number of Shares Available. Subject to Sections 2.2 and 18, the total number of Shares reserved and available for grant and issuance pursuant to this Plan will be 44,000,000 Shares. Subject to Sections 2.2 and 18, Shares that: (a) are subject to issuance upon exercise of an Option but cease to be subject to such Option for any reason other than exercise of such Option; (b) are subject to an Award granted hereunder but are forfeited or are repurchased by the Company at the original issue price; or (c) are subject to an Award that otherwise terminates without Shares being issued, will again be available for grant and issuance in connection with future Awards under this Plan. Any authorized shares not issued or subject to outstanding grants under the Company's 1997 Stock Option Plan and the Company's 1995 Stock Option Plan (the "***Prior Plans***") on the Effective Date (as defined below) and any shares that are issuable upon exercise of options granted pursuant to the Prior Plans that expire or become unexercisable for any reason without having been exercised in full, will no longer be available for grant and issuance under the Prior Plans, but will be available for grant and issuance under this Plan. In addition, any shares issued under the Prior Plans which are repurchased or forfeited will be available for grant and issuance under this Plan. At all times the Company shall reserve and keep available a sufficient number of Shares as shall be required to satisfy the requirements of all outstanding Options granted under this Plan and all other outstanding but unvested Awards granted under this Plan.

2.2 Adjustment of Shares. In the event that the number of outstanding shares is changed by a stock dividend, recapitalization, stock split, reverse stock split, subdivision, combination, reclassification or similar change in the capital structure of the Company without consideration, then (a) the number of Shares reserved for issuance under this Plan, (b) the Exercise Prices of and number of Shares subject to outstanding Options, and (c) the number of Shares subject to other outstanding Awards will be proportionately adjusted, subject to any required action by the Board or the stockholders of the Company and compliance with applicable securities laws; provided, however, that fractions of a Share will not be issued but will either be replaced by a cash payment equal to the Fair Market Value of such fraction of a Share or will be rounded up to the nearest whole Share, as determined by the Committee.

3. **ELIGIBILITY**. ISOs (as defined in Section 5 below) may be granted only to employees (including officers and directors who are also employees) of the Company or of a Parent or Subsidiary of the Company. All other Awards may be granted to employees, officers, directors, consultants, independent contractors and advisors of the Company or any Parent or Subsidiary of the Company; provided such

consultants, contractors and advisors render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction. No person will be eligible to receive more than 1,500,000 Shares in any calendar year under this Plan pursuant to the grant of Awards hereunder. A person may be granted more than one Award under this Plan.

4. **ADMINISTRATION**.

4.1 Committee Authority. This Plan will be administered by the Committee or by the Board acting as the Committee. Subject to the general purposes, terms and conditions of this Plan, and to the direction of the Board, the Committee will have full power to implement and carry out this Plan. Without limitation, the Committee will have the authority to:

(a) construe and interpret this Plan, any Award Agreement and any other agreement or document executed pursuant to this Plan;

(b) prescribe, amend and rescind rules and regulations relating to this Plan or any Award;

(c) select persons to receive Awards;

(d) determine the form and terms of Awards;

(e) determine the number of Shares or other consideration subject to Awards;

(f) determine whether Awards will be granted singly, in combination with, in tandem with, in replacement of, or as alternatives to, other Awards under this Plan or any other incentive or compensation plan of the Company or any Parent or Subsidiary of the Company;

(g) grant waivers of Plan or Award conditions;

(h) determine the vesting, exercisability and payment of Awards;

(i) correct any defect, supply any omission or reconcile any inconsistency in this Plan, any Award or any Award Agreement;

(j) determine whether an Award has been earned; and

(k) make all other determinations necessary or advisable for the administration of this Plan.

4.2 Committee Discretion. Any determination made by the Committee with respect to any Award will be made in its sole discretion at the time of grant of the Award or, unless in contravention of any express term of this Plan or Award, at any later time, and such determination will be final and binding on the Company and on all persons having an interest in any Award under this Plan. The Committee may delegate to one or more officers of the Company the authority to grant an Award under this Plan to Participants who are not Insiders of the Company.

5. **OPTIONS**. The Committee may grant Options to eligible persons and will determine whether such Options will be Incentive Stock Options within the meaning of the Code (***"ISO"***) or Nonqualified Stock Options (***"NQSOs"***), the number of Shares subject to the Option, the Exercise Price of the Option, the period during which the Option may be exercised, and all other terms and conditions of the Option, subject to the following:

5.1 Form of Option Grant. Each Option granted under this Plan will be evidenced by an Award Agreement which will expressly identify the Option as an ISO or an NQSO (***"Stock Option Agreement"***), and will be in such form and contain such provisions (which need not be the same for each

Participant) as the Committee may from time to time approve, and which will comply with and be subject to the terms and conditions of this Plan.

5.2 Date of Grant. The date of grant of an Option will be the date on which the Committee makes the determination to grant such Option, unless otherwise specified by the Committee. The Stock Option Agreement and a copy of this Plan will be delivered to the Participant within a reasonable time after the granting of the Option.

5.3 Exercise Period. Options may be exercisable within the times or upon the events determined by the Committee as set forth in the Stock Option Agreement governing such Option; provided, however, that no Option will be exercisable after the expiration of ten (10) years from the date the Option is granted; and provided further that no ISO granted to a person who directly or by attribution owns more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any Parent or Subsidiary of the Company (***"Ten Percent Stockholder"***) will be exercisable after the expiration of five (5) years from the date the ISO is granted. The Committee also may provide for Options to become exercisable at one time or from time to time, periodically or otherwise, in such number of Shares or percentage of Shares as the Committee determines.

5.4 Exercise Price. The Exercise Price of an Option will be determined by the Committee when the Option is granted and may be not less than 85% of the Fair Market Value of the Shares on the date of grant; provided that: (i) the Exercise Price of an ISO will be not less than 100% of the Fair Market Value of the Shares on the date of grant; and (ii) the Exercise Price of any ISO granted to a Ten Percent Stockholder will not be less than 110% of the Fair Market Value of the Shares on the date of grant. Payment for the Shares purchased may be made in accordance with Section 8 of this Plan.

5.5 Method of Exercise. Options may be exercised only by delivery to the Company of a written stock option exercise agreement (the ***"Exercise Agreement"***) in a form approved by the Committee (which need not be the same for each Participant), stating the number of Shares being purchased, the restrictions imposed on the Shares purchased under such Exercise Agreement, if any, and such representations and agreements regarding Participant's investment intent and access to information and other matters, if any, as may be required or desirable by the Company to comply with applicable securities laws, together with payment in full of the Exercise Price for the number of Shares being purchased.

5.6 Termination. Notwithstanding the exercise periods set forth in the Stock Option Agreement, exercise of an Option will always be subject to the following:

(a) If the Participant is Terminated for any reason except death or Disability, then the Participant may exercise such Participant's Options only to the extent that such Options would have been exercisable upon the Termination Date no later than three (3) months after the Termination Date (or such shorter or longer time period not exceeding five (5) years as may be determined by the Committee, with any exercise beyond three (3) months after the Termination Date deemed to be an NQSO), but in any event, no later than the expiration date of the Options.

(b) If the Participant is Terminated because of Participant's death or Disability (or the Participant dies within three (3) months after a Termination other than because of Participant's death or disability), then Participant's Options may be exercised only to the extent that such Options would have been exercisable by Participant on the Termination Date and must be exercised by Participant (or Participant's legal representative or authorized assignee) no later than twelve (12) months after the Termination Date (or such shorter or longer time period not exceeding five (5) years as may be determined by the Committee, with any such exercise beyond (a) three (3) months after the Termination Date when the Termination is for any reason other than the Participant's death or Disability, or (b) twelve (12) months after the Termination Date when the Termination is for Participant's death or Disability, deemed to be an NQSO), but in any event no later than the expiration date of the Options.

(c) Notwithstanding the provisions in paragraph 5.6(a) above, if a Participant is terminated for Cause, neither the Participant, the Participant's estate nor such other person who may then hold the Option shall be entitled to exercise any Option with respect to any Shares whatsoever, after termination of service, whether or not after termination of service the Participant may receive payment from the Company or Subsidiary for vacation pay, for services rendered prior to termination, for services rendered for the day on which termination occurs, for salary in lieu of notice, or for any other benefits. In making such determination, the Board shall give the Participant an opportunity to present to the Board evidence on his behalf. For the purpose of this paragraph, termination of service shall be deemed to occur on the date when the Company dispatches notice or advice to the Participant that his service is terminated.

5.7 Limitations on Exercise. The Committee may specify a reasonable minimum number of Shares that may be purchased on any exercise of an Option, provided that such minimum number will not prevent Participant from exercising the Option for the full number of Shares for which it is then exercisable.

5.8 Limitations on ISO. The aggregate Fair Market Value (determined as of the date of grant) of Shares with respect to which ISO are exercisable for the first time by a Participant during any calendar year (under this Plan or under any other incentive stock option plan of the Company, Parent or Subsidiary of the Company) will not exceed $100,000. If the Fair Market Value of Shares on the date of grant with respect to which ISO are exercisable for the first time by a Participant during any calendar year exceeds $100,000, then the Options for the first $100,000 worth of Shares to become exercisable in such calendar year will be ISO and the Options for the amount in excess of $100,000 that become exercisable in that calendar year will be NQSOs. In the event that the Code or the regulations promulgated thereunder are amended after the Effective Date of this Plan to provide for a different limit on the Fair Market Value of Shares permitted to be subject to ISO, such different limit will be automatically incorporated herein and will apply to any Options granted after the effective date of such amendment.

5.9 Modification, Extension or Renewal. The Committee may modify, extend or renew outstanding Options and authorize the grant of new Options in substitution therefor, provided that any such action may not, without the written consent of a Participant, impair any of such Participant's rights under any Option previously granted. Any outstanding ISO that is modified, extended, renewed or otherwise altered will be treated in accordance with Section 424(h) of the Code.

5.10 No Disqualification. Notwithstanding any other provision in this Plan, no term of this Plan relating to ISO will be interpreted, amended or altered, nor will any discretion or authority granted under this Plan be exercised, so as to disqualify this Plan under Section 422 of the Code or, without the consent of the Participant affected, to disqualify any ISO under Section 422 of the Code.

6. **RESTRICTED STOCK**. A Restricted Stock Award is an offer by the Company to sell to an eligible person Shares that are subject to restrictions. The Committee will determine to whom an offer will be made, the number of Shares the person may purchase, the price to be paid (the ***"Purchase Price"***), the restrictions to which the Shares will be subject, and all other terms and conditions of the Restricted Stock Award, subject to the following:

6.1 Form of Restricted Stock Award. All purchases under a Restricted Stock Award made pursuant to this Plan will be evidenced by an Award Agreement (***"Restricted Stock Purchase Agreement"***) that will be in such form (which need not be the same for each Participant) as the Committee will from time to time approve, and will comply with and be subject to the terms and conditions of this Plan. The offer of Restricted Stock will be accepted by the Participant's execution and delivery of the Restricted Stock Purchase Agreement and full payment for the Shares to the Company within thirty (30) days from the date the Restricted Stock Purchase Agreement is delivered to the person. If such person does not execute and deliver the Restricted Stock Purchase Agreement along with full payment for the Shares to the Company within thirty (30) days, then the offer will terminate, unless otherwise determined by the Committee.

6.2 Purchase Price. The Purchase Price of Shares sold pursuant to a Restricted Stock Award will be determined by the Committee on the date the Restricted Stock Award is granted, except in the case of a sale to a Ten Percent Stockholder, in which case the Purchase Price will be 100% of the Fair Market Value. Payment of the Purchase Price may be made in accordance with Section 8 of this Plan.

6.3 Terms of Restricted Stock Awards. Restricted Stock Awards shall be subject to such restrictions as the Committee may impose. These restrictions may be based upon completion of a specified number of years of service with the Company or upon completion of the performance goals as set out in advance in the Participant's individual Restricted Stock Purchase Agreement. Restricted Stock Awards may vary from Participant to Participant and between groups of Participants. Prior to the grant of a Restricted Stock Award, the Committee shall: (a) determine the nature, length and starting date of any Performance Period for the Restricted Stock Award; (b) select from among the Performance Factors to be used to measure performance goals, if any; and (c) determine the number of Shares that may be awarded to the Participant. Prior to the payment of any Restricted Stock Award, the Committee shall determine the extent to which such Restricted Stock Award has been earned. Performance Periods may overlap and Participants may participate simultaneously with respect to Restricted Stock Awards that are subject to different Performance Periods and having different performance goals and other criteria.

6.4 Termination During Performance Period. If a Participant is Terminated during a Performance Period for any reason, then such Participant will be entitled to payment (whether in Shares, cash or otherwise) with respect to the Restricted Stock Award only to the extent earned as of the date of Termination in accordance with the Restricted Stock Purchase Agreement, unless the Committee will determine otherwise.

7. **STOCK BONUSES**.

7.1 Awards of Stock Bonuses. A Stock Bonus is an award of Shares (which may consist of Restricted Stock) for services rendered to the Company or any Parent or Subsidiary of the Company. A Stock Bonus may be awarded for past services already rendered to the Company, or any Parent or Subsidiary of the Company pursuant to an Award Agreement (the ***"Stock Bonus Agreement"***) that will be in such form (which need not be the same for each Participant) as the Committee will from time to time approve, and will comply with and be subject to the terms and conditions of this Plan. A Stock Bonus may be awarded upon satisfaction of such performance goals as are set out in advance in the Participant's individual Award Agreement (the ***"Performance Stock Bonus Agreement"***) that will be in such form (which need not be the same for each Participant) as the Committee will from time to time approve, and will comply with and be subject to the terms and conditions of this Plan. Stock Bonuses may vary from Participant to Participant and between groups of Participants, and may be based upon the achievement of the Company, Parent or Subsidiary and/or individual performance factors or upon such other criteria as the Committee may determine.

7.2 Terms of Stock Bonuses. The Committee will determine the number of Shares to be awarded to the Participant. If the Stock Bonus is being earned upon the satisfaction of performance goals pursuant to a Performance Stock Bonus Agreement, then the Committee will: (a) determine the nature, length and starting date of any Performance Period for each Stock Bonus; (b) select from among the Performance Factors to be used to measure the performance, if any; and (c) determine the number of Shares that may be awarded to the Participant. Prior to the payment of any Stock Bonus, the Committee shall determine the extent to which such Stock Bonuses have been earned. Performance Periods may overlap and Participants may participate simultaneously with respect to Stock Bonuses that are subject to different Performance Periods and different performance goals and other criteria. The number of Shares may be fixed or may vary in accordance with such performance goals and criteria as may be determined by the Committee. The Committee may adjust the performance goals applicable to the Stock Bonuses to take into account changes in law and accounting or tax rules and to make such adjustments as the Committee deems necessary or appropriate to reflect the impact of extraordinary or unusual items, events or circumstances to avoid windfalls or hardships.

7.3 Form of Payment. The earned portion of a Stock Bonus may be paid currently or on a deferred basis with such interest or dividend equivalent, if any, as the Committee may determine. Payment may be made in the form of cash or whole Shares or a combination thereof, either in a lump sum payment or in installments, all as the Committee will determine.

8. **PAYMENT FOR SHARE PURCHASES**.

8.1 Payment. Payment for Shares purchased pursuant to this Plan may be made in cash (by check) or, where expressly approved for the Participant by the Committee and where permitted by law:

(a) by cancellation of indebtedness of the Company to the Participant;

(b) by surrender of shares that either: (1) have been owned by Participant for more than six (6) months and have been paid for within the meaning of SEC Rule 144 (and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares); or (2) were obtained by Participant in the public market;

(c) by tender of a full recourse promissory note having such terms as may be approved by the Committee and bearing interest at a rate sufficient to avoid imputation of income under Sections 483 and 1274 of the Code; provided, however, that Participants who are not employees or directors of the Company will not be entitled to purchase Shares with a promissory note unless the note is adequately secured by collateral other than the Shares;

(d) by waiver of compensation due or accrued to the Participant for services rendered;

(e) with respect only to purchases upon exercise of an Option, and provided that a public market for the Company's stock exists:

(1) through a "same day sale" commitment from the Participant and a broker-dealer that is a member of the National Association of Securities Dealers (an ***"NASD Dealer"***) whereby the Participant irrevocably elects to exercise the Option and to sell a portion of the Shares so purchased to pay for the Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the Exercise Price directly to the Company; or

(2) through a "margin" commitment from the Participant and a NASD Dealer whereby the Participant irrevocably elects to exercise the Option and to pledge the Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the Exercise Price directly to the Company; or

(f) by any combination of the foregoing.

8.2 Loan Guarantees. The Committee may help the Participant pay for Shares purchased under this Plan by authorizing a guarantee by the Company of a third-party loan to the Participant.

9. **WITHHOLDING TAXES**.

9.1 Withholding Generally. Whenever Shares are to be issued in satisfaction of Awards granted under this Plan, the Company may require the Participant to remit to the Company an amount sufficient to satisfy federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such Shares. Whenever, under this Plan, payments in satisfaction of Awards are to be made in cash, such payment will be net of an amount sufficient to satisfy federal, state, and local withholding tax requirements.

9.2 Stock Withholding. When, under applicable tax laws, a Participant incurs tax liability in connection with the exercise or vesting of any Award that is subject to tax withholding and the Participant is obligated to pay the Company the amount required to be withheld, the Committee may in its sole discretion allow the Participant to satisfy the minimum withholding tax obligation by electing to have the Company withhold from the Shares to be issued that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld, determined on the date that the amount of tax to be withheld is to be determined. All elections by a Participant to have Shares withheld for this purpose will be made in accordance with the requirements established by the Committee and be in writing in a form acceptable to the Committee.

10. **PRIVILEGES OF STOCK OWNERSHIP**.

10.1 Voting and Dividends. No Participant will have any of the rights of a stockholder with respect to any Shares until the Shares are issued to the Participant. After Shares are issued to the Participant, the Participant will be a stockholder and have all the rights of a stockholder with respect to such Shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such Shares; provided, that if such Shares are Restricted Stock, then any new, additional or different securities the Participant may become entitled to receive with respect to such Shares by virtue of a stock dividend, stock split or any other change in the corporate or capital structure of the Company will be subject to the same restrictions as the Restricted Stock; provided, further, that the Participant will have no right to retain such stock dividends or stock distributions with respect to Shares that are repurchased at the Participant's Purchase Price or Exercise Price pursuant to Section 12.

10.2 Financial Statements. The Company will provide financial statements to each Participant prior to such Participant's purchase of Shares under this Plan, and to each Participant annually during the period such Participant has Awards outstanding; provided, however, the Company will not be required to provide such financial statements to Participants whose services in connection with the Company assure them access to equivalent information.

11. **TRANSFERABILITY**. Awards granted under this Plan, and any interest therein, will not be transferable or assignable by Participant, and may not be made subject to execution, attachment or similar process, otherwise than by will or by the laws of descent and distribution or as determined by the Committee and set forth in the Award Agreement with respect to Awards that are not ISOs. During the lifetime of the Participant an Award will be exercisable only by the Participant, and any elections with respect to an Award may be made only by the Participant unless otherwise determined by the Committee and set forth in the Award Agreement with respect to Awards that are not ISOs.

12. **RESTRICTIONS ON SHARES**. At the discretion of the Committee, the Company may reserve to itself and/or its assignee(s) in the Award Agreement a right to repurchase a portion of or all Unvested Shares held by a Participant following such Participant's Termination at any time within ninety (90) days after the later of Participant's Termination Date and the date Participant purchases Shares under this Plan, for cash and/or cancellation of purchase money indebtedness, at the Participant's Exercise Price or Purchase Price, as the case may be.

13. **CERTIFICATES**. All certificates for Shares or other securities delivered under this Plan will be subject to such stock transfer orders, legends and other restrictions as the Committee may deem necessary or advisable, including restrictions under any applicable federal, state or foreign securities law, or any rules, regulations and other requirements of the SEC or any stock exchange or automated quotation system upon which the Shares may be listed or quoted.

14. **ESCROW; PLEDGE OF SHARES**. To enforce any restrictions on a Participant's Shares, the Committee may require the Participant to deposit all certificates representing Shares, together with stock powers or other instruments of transfer approved by the Committee, appropriately endorsed in blank, with the Company or an agent designated by the Company to hold in escrow until such restrictions have lapsed or terminated, and the Committee may cause a legend or legends referencing such restrictions to be placed on the certificates. Any Participant who is permitted to execute a promissory note as partial or full consideration for the purchase of Shares under this Plan will be required to pledge and deposit with the Company all or part of the Shares so purchased as collateral to secure the payment of Participant's obligation to the Company under the promissory note; provided, however, that the Committee may require or accept other or additional forms of collateral to secure the payment of such obligation and, in any event, the Company will have full recourse against the Participant under the promissory note notwithstanding any pledge of the Participant's Shares or other collateral. In connection with any pledge of the Shares, Participant will be required to execute and deliver a written pledge agreement in such form as the Committee will from time to time approve. The Shares purchased with the promissory note may be released from the pledge on a pro rata basis as the promissory note is paid.

15. **EXCHANGE AND BUYOUT OF AWARDS**. The Committee may, at any time or from time to time, authorize the Company, with the consent of the respective Participants, to issue new Awards in exchange for the surrender and cancellation of any or all outstanding Awards. The Committee may at any time buy from a Participant an Award previously granted with payment in cash, Shares (including Restricted Stock) or other consideration, based on such terms and conditions as the Committee and the Participant may agree.

16. **SECURITIES LAW AND OTHER REGULATORY COMPLIANCE**. An Award will not be effective unless such Award is in compliance with all applicable federal and state securities laws, rules and regulations of any governmental body, and the requirements of any stock exchange or automated quotation system upon which the Shares may then be listed or quoted, as they are in effect on the date of grant of the Award and also on the date of exercise or other issuance. Notwithstanding any other provision in this Plan, the Company will have no obligation to issue or deliver certificates for Shares under this Plan prior to: (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and/or (b) completion of any registration or other qualification of such Shares under any state or federal law or ruling of any governmental body that the Company determines to be necessary or advisable. The Company will be under no obligation to register the Shares with the SEC or to effect compliance with the registration, qualification or listing requirements of any state securities laws, stock exchange or automated quotation system, and the Company will have no liability for any inability or failure to do so.

17. **NO OBLIGATION TO EMPLOY**. Nothing in this Plan or any Award granted under this Plan will confer or be deemed to confer on any Participant any right to continue in the employ of, or to continue any other relationship with, the Company or any Parent or Subsidiary of the Company or limit in any way the right of the Company or any Parent or Subsidiary of the Company to terminate Participant's employment or other relationship at any time, with or without cause.

18. **CORPORATE TRANSACTIONS**.

18.1 Assumption or Replacement of Awards by Successor. In the event of (a) a dissolution or liquidation of the Company, (b) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation with a wholly-owned subsidiary, a reincorporation of the Company in a different jurisdiction, or other transaction in which there is no substantial change in the stockholders of the Company or their relative stock holdings and the Awards granted under this Plan are assumed, converted or replaced by the successor corporation, which assumption will be binding on all Participants), (c) a merger in which the Company is the surviving corporation but after which the stockholders of the Company immediately prior to such merger (other than any stockholder that merges, or which owns or controls another corporation that merges, with the Company in such merger) cease to own their shares or other equity interest in the Company, (d) the sale of substantially all of the assets of the Company, or (e) the acquisition, sale, or transfer of more than 50% of the outstanding shares of the Company by tender offer or similar transaction, any or all outstanding Awards may be assumed, converted or replaced by the successor corporation (if any), which assumption, conversion or replacement will be binding on all Participants. In the alternative, the successor corporation may substitute equivalent Awards or provide substantially similar consideration to Participants as was provided to stockholders (after taking into account the existing provisions of the Awards). The successor corporation may also issue, in place of outstanding Shares of the Company held by the Participant, substantially similar shares or other property subject to repurchase restrictions no less favorable to the Participant. In the event such successor corporation (if any) refuses to assume or substitute Awards, as provided above, pursuant to a transaction described in this Subsection 18.1, such Awards will expire on such transaction at such time and on such conditions as the Committee will determine; provided, however, that the Committee may, in its sole discretion, provide that the vesting of any or all Awards granted pursuant to this Plan will accelerate. If the Committee exercises such discretion with respect to Options, such Options will become exercisable in full prior to the consummation of such event at such time and on such conditions as the Committee determines, and if such Options are not exercised prior to the consummation of the corporate transaction, they shall terminate at such time as determined by the Committee.

18.2 Other Treatment of Awards. Subject to any greater rights granted to Participants under the foregoing provisions of this Section 18, in the event of the occurrence of any transaction described in Section 18.1, any outstanding Awards will be treated as provided in the applicable agreement or plan of merger, consolidation, dissolution, liquidation, or sale of assets.

18.3 Assumption of Awards by the Company. The Company, from time to time, also may substitute or assume outstanding awards granted by another company, whether in connection with an acquisition of such other company or otherwise, by either; (a) granting an Award under this Plan in substitution of such other company's award; or (b) assuming such award as if it had been granted under this Plan if the terms of such assumed award could be applied to an Award granted under this Plan. Such substitution or assumption will be permissible if the holder of the substituted or assumed award would have been eligible to be granted an Award under this Plan if the other company had applied the rules of this Plan to such grant. In the event the Company assumes an award granted by another company, the terms and conditions of such award will remain unchanged (except that the exercise price and the number and nature of Shares issuable upon exercise of any such option will be adjusted appropriately pursuant to Section 424(a) of the Code). In the event the Company elects to grant a new Option rather than assuming an existing option, such new Option may be granted with a similarly adjusted Exercise Price.

19. **ADOPTION AND STOCKHOLDER APPROVAL**. This Plan will become effective on the date on which the registration statement filed by the Company with the SEC under the Securities Act registering the initial public offering of the Company's Common Stock is declared effective by the SEC (the ***"Effective Date"***). This Plan shall be approved by the stockholders of the Company (excluding Shares issued pursuant to this Plan), consistent with applicable laws, within twelve (12) months before or after the date this Plan is adopted by the Board. Upon the Effective Date, the Committee may grant Awards pursuant to this Plan; provided, however, that: (a) no Option may be exercised prior to initial stockholder approval of this Plan; (b) no Option granted pursuant to an increase in the number of Shares subject to this Plan approved by the Board will be exercised prior to the time such increase has been approved by the stockholders of the Company; and (c) in the event that stockholder approval of such increase is not obtained within the time period provided herein, all Awards granted pursuant to such increase will be canceled, any Shares issued pursuant to any Award granted pursuant to such increase will be canceled, and any purchase of Shares pursuant to such increase will be rescinded.

20. **TERM OF PLAN/GOVERNING LAW**. Unless earlier terminated as provided herein, this Plan will terminate ten (10) years from the date this Plan is adopted by the Board or, if earlier, the date of stockholder approval. This Plan and all agreements thereunder shall be governed by and construed in accordance with the laws of the State of California.

21. **AMENDMENT OR TERMINATION OF PLAN**. The Board may at any time terminate or amend this Plan in any respect, including without limitation amendment of any form of Award

Agreement or instrument to be executed pursuant to this Plan; provided, however, that the Board will not, without the approval of the stockholders of the Company, amend this Plan in any manner that requires such stockholder approval.

22. **NONEXCLUSIVITY OF THE PLAN**. Neither the adoption of this Plan by the Board, the submission of this Plan to the stockholders of the Company for approval, nor any provision of this Plan will be construed as creating any limitations on the power of the Board to adopt such additional compensation arrangements as it may deem desirable, including, without limitation, the granting of stock options and bonuses otherwise than under this Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

23. **DEFINITIONS**. As used in this Plan, the following terms will have the following meanings:

"Award" means any award under this Plan, including any Option, Restricted Stock or Stock Bonus.

"Award Agreement" means, with respect to each Award, the signed written agreement between the Company and the Participant setting forth the terms and conditions of the Award.

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

"Cause" means the commission of an act of theft, embezzlement, fraud, dishonesty or a breach of fiduciary duty to the Company or a Parent or Subsidiary of the Company.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Compensation Committee of the Board.

"Company" means VeriSign, Inc. or any successor corporation.

"Disability" means a disability, whether temporary or permanent, partial or total, within the meaning of Section 22(e)(3) of the Code, as determined by the Committee.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exercise Price" means the price at which a holder of an Option may purchase the Shares issuable upon exercise of the Option.

"Fair Market Value" means, as of any date, the value of a share of the Company's Common Stock determined as follows:

(a) if such Common Stock is then quoted on the Nasdaq National Market, its closing price on the Nasdaq National Market on the date of determination as reported in The Wall Street Journal;

(b) if such Common Stock is publicly traded and is then listed on a national securities exchange, its closing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading as reported in The Wall Street Journal;

(c) if such Common Stock is publicly traded but is not quoted on the Nasdaq National Market nor listed or admitted to trading on a national securities exchange, the average of the closing bid and asked prices on the date of determination as reported in The Wall Street Journal;

(d) in the case of an Award made on the Effective Date, the price per share at which shares of the Company's Common Stock are initially offered for sale to the public by the Company's underwriters in the initial public offering of the Company's Common Stock pursuant to a registration statement filed with the SEC under the Securities Act; or

(e) if none of the foregoing is applicable, by the Committee in good faith.

"Insider" means an officer or director of the Company or any other person whose transactions in the Company's Common Stock are subject to Section 16 of the Exchange Act.

"Option" means an award of an option to purchase Shares pursuant to Section 5.

"Parent" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if each of such corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"Participant" means a person who receives an Award under this Plan.

"Performance Factors" means the factors selected by the Committee from among the following measures to determine whether the performance goals established by the Committee and applicable to Awards have been satisfied:

(a) Net revenue and/or net revenue growth;

(b) Earnings before income taxes and amortization and/or earnings before income taxes and amortization growth;

(c) Operating income and/or operating income growth;

(d) Net income and/or net income growth;

(e) Earnings per share and/or earnings per share growth;

(f) Total shareholder return and/or total shareholder return growth;

(g) Return on equity;

(h) Operating cash flow return on income;

(i) Adjusted operating cash flow return on income;

(j) Economic value added; and

(k) Individual confidential business objectives.

"Performance Period" means the period of service determined by the Committee, not to exceed five years, during which years of service or performance is to be measured for Restricted Stock Awards or Stock Bonuses.

"Plan" means this VeriSign, Inc. 1998 Equity Incentive Plan, as amended from time to time.

"Restricted Stock Award" means an award of Shares pursuant to Section 6.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended.

"Shares" means shares of the Company's Common Stock reserved for issuance under this Plan, as adjusted pursuant to Sections 2 and 18, and any successor security.

"Stock Bonus" means an award of Shares, or cash in lieu of Shares, pursuant to Section 7.

"Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"Termination" or ***"Terminated"*** means, for purposes of this Plan with respect to a Participant, that the Participant has for any reason ceased to provide services as an employee, officer, director, consultant, independent contractor, or advisor to the Company or a Parent or Subsidiary of the Company. An employee will not be deemed to have ceased to provide services in the case of (i) sick leave, (ii) military leave, or (iii) any other leave of absence approved by the Committee, provided, that such leave is for a period of not more than 90 days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute or unless provided otherwise pursuant to formal policy adopted from time to time by the Company and issued and promulgated to employees in writing. In the case of any employee on an approved leave of absence, the Committee may make such provisions respecting suspension of vesting of the Award while on leave from the employ of the Company or a Subsidiary as it may deem appropriate, except that in no event may an Option be exercised after the expiration of the term set forth in the Option agreement. The Committee will have sole discretion to determine whether a Participant has ceased to provide services and the effective date on which the Participant ceased to provide services (the ***"Termination Date"***).

"Unvested Shares" means "Unvested Shares" as defined in the Award Agreement.

"Vested Shares" means "Vested Shares" as defined in the Award Agreement.

VERISIGN, INC.
1998 DIRECTORS STOCK OPTION PLAN

As Adopted October 31, 1997
and Amended June 8, 2000 and January 26, 2001

1. **PURPOSE**. This 1998 Directors Stock Option Plan (this ***"Plan"***) is established to provide equity incentives for certain nonemployee members of the Board of Directors of VeriSign, Inc (the ***"Company"***), who are described in Section 6.1 below, by granting such persons options to purchase shares of stock of the Company.

2. **ADOPTION AND STOCKHOLDER APPROVAL**. After this Plan is adopted by the Board of Directors of the Company (the ***"Board"***), this Plan will become effective on the time and date (the ***"Effective Date"***) on which the registration statement filed by the Company with the Securities and Exchange Commission (***"SEC"***) under the Securities Act of 1933, as amended (the ***"Securities Act"***), to register the initial public offering of the Company's Common Stock is declared effective by the SEC. This Plan shall be approved by the stockholders of the Company, consistent with applicable laws, within twelve (12) months after the date this Plan is adopted by the Board.

3. **TYPES OF OPTIONS AND SHARES**. Options granted under this Plan shall be non-qualified stock options (***"NQSOs"***). The shares of stock that may be purchased upon exercise of Options granted under this Plan (the ***"Shares"***) are shares of the Common Stock of the Company.

4. **NUMBER OF SHARES**. The maximum number of Shares that may be issued pursuant to Options granted under this Plan (the ***"Maximum Number"***) is 750,000 Shares, subject to adjustment as provided in this Plan. If any Option is terminated for any reason without being exercised in whole or in part, the Shares thereby released from such Option shall be available for purchase under other Options subsequently granted under this Plan. At all times during the term of this Plan, the Company shall reserve and keep available such number of Shares as shall be required to satisfy the requirements of outstanding Options granted under this Plan; provided, however that if the aggregate number of Shares subject to outstanding Options granted under this Plan plus the aggregate number of Shares previously issued by the Company pursuant to the exercise of Options granted under this Plan equals or exceeds the Maximum Number, then notwithstanding anything herein to the contrary, no further Options may be granted under this Plan until the Maximum Number is increased or the aggregate number of Shares subject to outstanding Options granted under this Plan plus the aggregate number of Shares previously issued by the Company pursuant to the exercise of Options granted under this Plan is less than the Maximum Number.

5. **ADMINISTRATION**. This Plan shall be administered by the Board or by a committee of not less than two members of the Board appointed to administer this Plan (the ***"Committee"***). As used in this Plan, references to the Committee shall mean either such Committee or the Board if no Committee has been established. The interpretation by the Committee of any of the provisions of this Plan or any Option granted under this Plan shall be final and binding upon the Company and all persons having an interest in any Option or any Shares purchased pursuant to an Option.

6. **ELIGIBILITY AND AWARD FORMULA**.

6.1 Eligibility. Options shall be granted only to directors of the Company who are not employees of the Company or any Parent, Subsidiary or Affiliate of the Company, as those terms are defined in Section 18 below (each such person referred to as an ***"Optionee"***).

6.2 Initial Grant. Each Optionee who on or after the Effective Date first becomes a member of the Board will automatically be granted an Option for 25,000 Shares (an ***"Initial Grant"***) on the date such Optionee becomes a member of the Board.

6.3 Succeeding Grants. On each annual anniversary of an Optionee's Initial Grant (or previous grant from the Company outside this Plan if such Optionee was ineligible to receive an Initial Grant), provided the Optionee is a member of the Board on such anniversary date and has served continuously as a member of the Board since the date of such Optionee's Initial Grant or previous grant, as the case may be, the Optionee will automatically be granted an Option for 12,500 Shares (a ***"Succeeding Grant"***).

7. **TERMS AND CONDITIONS OF OPTIONS**. Subject to the following and to Section 6 above:

7.1 Form of Option Grant. Each Option granted under this Plan shall be evidenced by a written Stock Option Grant (***"Grant"***) in such form (which need not be the same for each Optionee) as the Committee shall from time to time approve, which Grant shall comply with and be subject to the terms and conditions of this Plan.

7.2 Vesting. The date an Optionee receives an Initial Grant or a Succeeding Grant is referred to in this Plan as the ***"Start Date"*** for such Option.

(a) Initial Grants. Each Initial Grant will vest as to six and one-fourth percent (6.25%) of the Shares on each three-month anniversary of the Start Date for such Initial Grant, so long as the Optionee continuously remains a director or, as determined by the Board in the Initial Grant or the Succeeding Grant, a consultant of the Company.

(b) Succeeding Grants. Each Succeeding Grant will vest as to six and one-fourth percent (6.25%) of the Shares on each three-month anniversary of the Start Date for such Succeeding Grant, so long as the Optionee continuously remains a director or, as determined by the Board in the Initial Grant or the Succeeding Grant, a consultant of the Company.

7.3 Exercise Price. The exercise price of an Option shall be the Fair Market Value (as defined in Section 17.4) of the Shares, at the time that the Option is granted.

7.4 Termination of Option. Except as provided below in this Section, each Option shall expire ten (10) years after its Start Date (the ***"Expiration Date"***). The Option shall cease to vest when the Optionee ceases to be a member of the Board or, as determined by the Board in the Initial Grant or the Succeeding Grant, a consultant of the Company. The date on which the Optionee ceases to be a member of the Board or, as determined by the Board in the Initial Grant or the Succeeding Grant, a consultant of the Company shall be referred to as the ***"Termination Date"***. An Option may be exercised after the Termination Date only as set forth below:

(a) Termination Generally. If the Optionee ceases to be a member of the Board or, as determined by the Board in the Initial Grant or the Succeeding Grant, a consultant of the Company for any reason except death of the Optionee or disability of the Optionee (whether temporary or permanent, partial or total, as determined by the Committee), then each Option then held by such Optionee, to the extent (and only to the extent) that it would have been exercisable by the Optionee on the Termination Date, may be exercised by the Optionee no later than seven (7) months after the Termination Date, but in no event later than the Expiration Date.

(b) Death or Disability. If the Optionee ceases to be a member of the Board or, as determined by the Board in the Initial Grant or the Succeeding Grant, a consultant of the Company because of the death of the Optionee or the disability of the Optionee (whether temporary or permanent, partial or total, as determined by the Committee), then each Option then held by such Optionee to the extent (and only to the extent) that it would have been exercisable by the Optionee on the Termination Date, may be exercised by the Optionee (or the Optionee's legal representative) no later than twelve (12) months after the Termination Date, but in no event later than the Expiration Date.

8. **EXERCISE OF OPTIONS**.

8.1 Exercise Period. Subject to the provisions of Section 8.5 below, Options shall be exercisable as they vest.

8.2 Notice. Options may be exercised only by delivery to the Company of an exercise agreement in a form approved by the Committee stating the number of Shares being purchased, the restrictions imposed on the Shares and such representations and agreements regarding the Optionee's investment intent and access to information as may be required by the Company to comply with applicable securities laws, together with payment in full of the exercise price for the number of Shares being purchased.

8.3 Payment. Payment for the Shares purchased upon exercise of an Option may be made (a) in cash or by check; (b) by surrender of shares of Common Stock of the Company that have been owned by the Optionee for more than six (6) months (and which have been paid for within the meaning of SEC Rule 144 and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares) or were obtained by the Optionee in the open public market, having a Fair Market Value equal to the exercise price of the Option; (c) by waiver of compensation due or accrued to the Optionee for services rendered; (d) provided that a public market for the Company's stock exists, through a "same day sale" commitment from the Optionee and a broker-dealer that is a member of the National Association of Securities Dealers (an ***"NASD Dealer"***) whereby the Optionee irrevocably elects to exercise the Option and to sell a portion of the Shares so purchased to pay for the exercise price and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company; (e) provided that a public market for the Company's stock exists, through a "margin" commitment from the Optionee and an NASD Dealer whereby the Optionee irrevocably elects to exercise the Option and to pledge the Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the exercise price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company; or (f) by any combination of the foregoing.

8.4 Withholding Taxes. Prior to issuance of the Shares upon exercise of an Option, the Optionee shall pay or make adequate provision for any federal or state withholding obligations of the Company, if applicable.

8.5 Limitations on Exercise. Notwithstanding the exercise periods set forth in the Grant, exercise of an Option shall always be subject to the following limitations:

(a) An Option shall not be exercisable unless such exercise is in compliance with the Securities Act and all applicable state securities laws, as they are in effect on the date of exercise.

(b) The Committee may specify a reasonable minimum number of Shares that may be purchased upon any exercise of an Option, provided that such minimum number will not prevent the Optionee from exercising the full number of Shares as to which the Option is then exercisable.

9. **NONTRANSFERABILITY OF OPTIONS**. During the lifetime of the Optionee, an Option shall be exercisable only by the Optionee or by the Optionee's guardian or legal representative, unless otherwise determined by the Committee. No Option may be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent and distribution, unless otherwise determined by the Committee.

10. **PRIVILEGES OF STOCK OWNERSHIP**. No Optionee shall have any of the rights of a stockholder with respect to any Shares subject to an Option until the Option has been validly exercised. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date of exercise, except as provided in this Plan. The Company shall provide to each Optionee a copy of the annual financial statements of the Company at such time after the close of each fiscal year of the Company as they are released by the Company to its stockholders.

11. **ADJUSTMENT OF OPTION SHARES**. In the event that the number of outstanding shares of Common Stock of the Company is changed by a stock dividend, stock split, reverse stock split, combination, reclassification or similar change in the capital structure of the Company without consideration, the number of Shares available under this Plan and the number of Shares subject to outstanding Options and the exercise price per share of such outstanding Options shall be proportionately adjusted, subject to any required action by the Board or stockholders of the Company and compliance with applicable securities laws; provided, however, that no fractional shares shall be issued upon exercise of any Option and any resulting fractions of a Share shall be rounded up to the nearest whole Share.

12. **NO OBLIGATION TO CONTINUE AS DIRECTOR**. Nothing in this Plan or any Option granted under this Plan shall confer on any Optionee any right to continue as a director of the Company.

13. **COMPLIANCE WITH LAWS**. The grant of Options and the issuance of Shares upon exercise of any Options shall be subject to and conditioned upon compliance with all applicable requirements of law, including without limitation compliance with the Securities Act, compliance with all other applicable state securities laws and compliance with the requirements of any stock exchange or national market system on which the Shares may be listed. The Company shall be under no obligation to register the Shares with the SEC or to effect compliance with the registration or qualification requirement of any state securities laws, stock exchange or national market system.

14. **ACCELERATION OF OPTIONS ON CERTAIN CORPORATE TRANSACTIONS**. In the event of (a) a dissolution or liquidation of the Company, (b) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation with a wholly-owned subsidiary, a reincorporation of the Company in a different jurisdiction, or other transaction in which there is no substantial change in the stockholders of the Company or their relative stock holdings and the Options granted under this Plan are assumed, converted or replaced by the successor corporation, which assumption, conversion or replacement will be binding on all Optionees), (c) a merger in which the Company is the surviving corporation but after which the stockholders of the Company (other than any stockholder which merges (or which owns or controls another corporation which merges) with the Company in such merger) cease to own their shares or other equity interests in the Company, (d) the sale of substantially all of the assets of the Company, or (e) the acquisition, sale or transfer of more than 50% of the outstanding shares of the Company by tender offer or similar transaction, the vesting of all options granted pursuant to this Plan will accelerate and the options will become exercisable in full prior to the consummation of such event at such times and on such conditions as the Committee determines, and must be exercised, if at all, within six months of the consummation of said event. Any options not exercised within such six-month period shall expire.

15. **AMENDMENT OR TERMINATION OF PLAN**. The Board may at any time terminate or amend this Plan or any outstanding option, provided that the Board may not terminate or amend the terms of any outstanding option without the consent of the Optionee. In any case, no amendment of this Plan may adversely affect any then outstanding Options or any unexercised portions thereof without the written consent of the Optionee.

16. **TERM OF PLAN**. Options may be granted pursuant to this Plan from time to time within a period of ten (10) years from the Effective Date.

17. **CERTAIN DEFINITIONS**. As used in this Plan, the following terms shall have the following meanings:

17.1 ***"Parent"*** means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if each of such corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

17.2 ***"Subsidiary"*** means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

17.3 ***"Affiliate"*** means any corporation that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, another corporation, where "control" (including the terms "controlled by" and "under common control with") means the possession, direct or indirect, of the power to cause the direction of the management and policies of the corporation, whether through the ownership of voting securities, by contract or otherwise.

17.4 ***"Fair Market Value"*** means, as of any date, the value of a share of the Company's Common Stock determined as follows:

(a) if such Common Stock is then quoted on the Nasdaq National Market, its closing price on the Nasdaq National Market on the date of determination as reported in The Wall Street Journal;

(b) if such Common Stock is publicly traded and is then listed on a national securities exchange, its closing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading as reported in The Wall Street Journal;

(c) if such Common Stock is publicly traded but is not quoted on the Nasdaq National Market nor listed or admitted to trading on a national securities exchange, the average of the closing bid and asked prices on the date of determination as reported in The WallStreet Journal;

(d) in the case of an Option granted on the Effective Date, the price per share at which shares of the Company's Common Stock are initially offered for sale to the public by the Company's underwriters in the initial public offering of the Company's Common Stock pursuant to a registration statement filed with the SEC under the Securities Act; or

(e) if none of the foregoing is applicable, by the Committee in good faith.

EXHIBIT 99.1

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

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

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

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

VERISIGN, INC.

Date: August 14, 2002

By: /s/ STRATTON D. SCLAVOS

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

EXHIBIT 99.2

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

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

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

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

VERISIGN, INC.

Date: August 14, 2002

By: /s/ DANA L. EVAN

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