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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2004

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 E. Middlefield Road, Mountain View, CA **(Address of principal executive offices)**	**94043** **(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock $0.001 Par Value Per Share, and the Associated Stock Purchase Rights

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 and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the Registrant as of June 30, 2004, was approximately $4,248,895,367 based upon the last sale price reported for such date on the NASDAQ National Market. For purposes of this disclosure, shares of Common Stock held by persons known to the Registrant (based on information provided by such persons and/or the most recent schedule 13G's filed by such persons) to beneficially own more than 5% of the Registrant's Common Stock and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. This determination is not necessarily a conclusive determination for other purposes.

Number of shares of Common Stock, $0.001 par value, outstanding as of the close of business on February 28, 2005: 254,409,722 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the 2005 Annual Meeting of Stockholders are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

Overview

VeriSign, Inc. is a leading provider of intelligent infrastructure services that enable people and businesses to find, connect, secure, and transact across complex global networks. Through our Internet Services Group and Communications Services Group, we offer a variety of internet and communications-related services, including internet security services, naming and directory services, network connectivity and interoperability services, intelligent database services, mobile content and application services, clearing and settlement services, and billing and payment services. We market our products and services through our direct sales force, telesales operations, member organizations in our global affiliate network, value-added resellers, service providers, and our Web sites.

We are currently organized into two service-based lines of business: the Internet Services Group and the Communications Services Group. The Internet Services Group consists of the Security Services business and the Naming and Directory Services business. The Security Services business provides products and services that enable enterprises and organizations to establish and deliver secure Internet-based services to customers and business partners, and the Naming and Directory Services business acts as the exclusive registry of domain names in the *.com* and *.net* generic top-level domains, or gTLDs, and certain country code top-level domains, or ccTLDs. The Communications Services Group provides network connectivity and interoperability services, Signaling System 7, or SS7, network services, intelligent database services, mobile content and application services, and clearing and settlement services to telecommunications carriers and other users.

VeriSign was incorporated in Delaware on April 12, 1995. Our principal executive offices are located at 487 E. Middlefield Road, Mountain View, California 94043. Our telephone number at that address is (650) 961-7500 and our common stock is traded on the NASDAQ National Market under the ticker symbol VRSN. VeriSign's primary Web site is www.verisign.com. The information on our Web sites is not a part of this annual report. VeriSign, the VeriSign logo, Jamba!, Jamster!, Thawte and certain other product names are trademarks or registered trademarks of VeriSign, Inc., and/or its subsidiaries in the United States and other countries. Other names used in this report may be trademarks of their respective owners.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are available, free of charge, through our Web site at www.verisign.com as soon as reasonably practicable after filing such reports with the Securities and Exchange Commission.

Internet Services Group

The Internet Services Group consists of the Security Services business and Naming and Directory Services business. The Security Services business provides products and services to enterprises and organizations that want to establish and deliver secure Internet-based services for their customers and business partners. The following types of services are included in the Security Services business: network security services, including our managed security and global security consulting services, authentication services, including our public key infrastructure ("PKI") and unified authentication services, commerce security services, including our commerce site, and secure payments services, and digital brand management services. The Naming and Directory Services business provides registry services as the exclusive registry of domain names in the *.com* and *.net* gTLDs and certain ccTLDs, as well as providing other value added services, including services for radio frequency identification ("RFID").

Security Services

Network Security Services

Our network security services include managed security services and global security consulting services for enterprises.

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Managed Security Services (“*MSS*”). Our MSS services enable enterprises to effectively monitor and manage their network security infrastructure on a 24x7 basis while reducing the associated time, expense, and personnel commitments by relying on VeriSign’s security platform and experienced security staff. Our MSS services include:

- *Managed Firewall Service.* Our Managed Firewall Service provides enterprises with management and monitoring of firewalls. Our security engineers and program managers stage the firewall devices and test them prior to deployment; once deployed, devices are monitored 24x7. Ongoing device management services include refinement of security policies, software patches and upgrades, and quarterly security consultations.
- *Managed Intrusion Detection Service.* Our Managed Intrusion Detection Service provides management and monitoring of intrusion detection sensors, designed to identify and counter malicious security events or potential attacks against an organization’s network.
- *Managed Virtual Private Network* (“*VPN*”) *Service.* Our Managed VPN Service delivers encrypted site-to-site and remote access IPsec-compliant tunnel solutions for Internet-based network computing environments.
- *Managed Vulnerability Protection Service*. Our Managed Vulnerability Protection Service provides customized protection against exploitable vulnerabilities by providing up-front risk assessment and recurring vulnerability scanning, vulnerability testing and penetration testing.
- *Email Security and Anti-Phishing Services.* Using our Email Security Service, an enterprise’s in-bound email is redirected to VeriSign’s security infrastructure and checked for spam and malicious code such as viruses and worms. Legitimate mail is passed through to employees while suspicious emails are quarantined. Periodic digests of quarantined emails are sent to employees to review and accept or reject as appropriate. Our Anti-Phishing Solution provides enterprises effective strategies for mitigating and eliminating “phishing” attempts by providing services for the prevention, detection, and response to, and recovery from, phishing attacks.

Global Security Consulting Services. Our Global Security Consulting Services help enterprises assess, design, and deploy cost-effective and scalable network security solutions. Our consulting services are also available to help enterprises integrate our PKI services with existing applications and databases and advise on policies and procedures related to the management and deployment of digital certificates.

Authentication Services. Our Authentication Services include our Managed PKI Services, Managed PKI Fast Track Services and Unified Authentication that can be tailored to meet the specific needs of enterprises that wish to issue digital certificates to employees, customers or trading partners.

- *Managed PKI Services.* The Managed PKI Service is a managed service that allows an organization to use our trusted data processing infrastructure to develop and deploy customized digital certificate services for its user communities. The Managed PKI Service can be used by our customers to provide digital certificates for a variety of applications, such as: controlling access to sensitive data and account information, enabling digitally-signed email, encryption of email, or Secure Socket Layer (“*SSL*”) sessions. The Managed PKI Service can help customers create an online electronic trading community, manage supply chain interaction, facilitate and protect online credit card transactions or enable access to virtual private networks.
- *Managed PKI Fast Track Services.* Managed PKI Fast Track is a set of software modules that enable enterprises to quickly build digital certificate-based security into their transaction and communication applications. Managed PKI Fast Track Services complement our Managed PKI Service and are designed to incorporate digital certificates into existing applications such as email, browser, directory and virtual private network devices as well as other devices.
- *Unified Authentication Services*. Unified Authentication provides a single, integrated platform for provisioning and managing all types of strong, two-factor authentication credentials used to validate

users, devices or applications for a variety of purposes, such as remote access, windows logon, and Wi-Fi access. Unified Authentication supports strong authentication using smart cards, device-generated one-time passwords and digital certificates, as well as PKI-based encryption, digital signing and non-repudiation. Unified Authentication can be run at the enterprise or through VeriSign's infrastructure.

- *VeriSign Affiliate PKI Software and Services.* VeriSign Affiliate PKI Software and Services are sold to a wide variety of entities that provide electronic commerce and communications services over wired and wireless Internet Protocol, or IP, networks. We designate these types of organizations as "VeriSign Affiliates" and provide them with a combination of technology, support and marketing services to facilitate their initial deployment and ongoing delivery of digital certificate services. In some instances, we have invested in VeriSign Affiliates and hold a minority interest of less than 20%.

  VeriSign Affiliates typically enter into a multi-year technology licensing agreement with us whereby we receive up-front licensing fees for the Service Center or Processing Center technology, as well as ongoing royalties from each digital certificate or the Managed PKI Service sold by the VeriSign Affiliate.

Commerce Security Services

Our commerce security services include our commerce site services and secure payments services.

Commerce Site Services. Commerce site services include our server digital certificate services and content signing digital certificate services. Server certificate services enable Internet merchants to implement and operate secure Web sites that utilize SSL protocol. These services provide Internet merchants with the means to identify themselves to consumers and to encrypt communications between consumers and their Web site. Our content signing digital certificate services provide software developers the means to identify themselves and the validity of their software to the consumers and relying software applications.

We currently offer the following Web server digital certificate services and content signing digital certificate services. Each is differentiated by the target application of the server that hosts the digital certificate.

- *Secure Site and Secure Site Pro.* Secure Site is our standard service offering that enables 40-bit SSL encryption when communicating with export-version Netscape® and Microsoft® Internet Explorer browsers and 128-bit SSL encryption when communicating with domestic-version Microsoft and Netscape browsers. We also offer an upgraded version of this service, called Secure Site Pro, which enables 128-bit SSL encryption with both domestic and export versions of Microsoft and Netscape browsers. Secure Site Pro also includes a third party site availability monitoring evaluation, a network security monitoring trial, a site performance monitoring evaluation, and additional warranty protection.
- *Commerce Site and Commerce Site Pro.* Our Commerce Site and Commerce Site Pro offerings combine the features and functionality of our Secure Site offerings with our secure payment services offerings, providing existing sites that want to offer e-commerce solutions with a suite of services to secure and process online payments.
- *Content Signing Certificates.* We offer several code signing certificates based on the platform for which customers wish to sign the code. Platforms include Microsoft Authenticode, Microsoft Office and VBA, Symbian, Sun Java, Netscape, Microsoft Smartphone, Macromedia Shockwave and Marimba Castanet. Microsoft Authenticode certificates are also used to authenticate developers for various Microsoft logo programs.
- *Thawte Branded Digital Certificates.* We offer SSL and Code Signing security services under the Thawte brand. These services use the same underlying infrastructure, and are targeted at small business and independent software developers.

Secure Payments Services. Using our payment gateway, Internet merchants are able to securely authorize and settle a variety of payment types, including credit, debit and purchase cards, electronic checks, and automated clearing house transactions over the Internet.

Digital Brand Management Services

We offer a range of services that we refer to as Digital Brand Management Services to help legal professionals, information technology professionals and brand marketers monitor, protect and build digital brand equity. These services include domain name registration services for both gTLDs such as *.com* and ccTLDs, such as *.de* and *.jp*, and our brand monitoring services.

Naming and Directory Services

VeriSign's Naming and Directory Services business includes our domain name registry services for the *.com* and *.net* gTLDs and certain ccTLDs, managed domain name services and services for RFIDs.

Domain Name Registry Services. We are the exclusive registry of domain names within the *.com* and *.net* gTLDs under agreements with the Internet Corporation for Assigned Names and Numbers, or ICANN, and the Department of Commerce, or DOC. As a registry, 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 are also the exclusive registry for domain names within the *.tv* and *.cc* ccTLDs. These top-level domains are supported by our global name server constellation and shared registration system. In addition, we have made *.bz* domain name registration services available through our outsourced hosting environment, which enables domain name registrars and resellers to simultaneously access *.bz* registries. We also provide internationalized domain name, or IDN, services that enable Internet users to access Web sites in their local language characters. Currently, IDNs are available in more than 350 languages such as Chinese, Greek, Korean and Russian.

RFID Services. An electronic product code ("EPC") is a unique number that corresponds with an individual product (or container of products). RFID tags are small chips with antennas that contain an EPC. The EPCglobal Network is a concept that if proven will enable users to find and share information about products in the supply chain using the Internet infrastructure. For example, by using an EPC in conjunction with the EPCglobal Network, a manufacturer or retailer would be able to look up detailed information about a product or package, such as its manufacture date, location and expiration date. We have been selected by EPCglobal, a not-for-profit joint-venture formed by The Uniform Code Council, Inc. and EAN International to operate the authoritative root directory for the EPCglobal Network, *i.e.*, the authoritative directory of information sources that are available to describe products assigned EPCs. Additionally, we offer managed services that are designed to work in conjunction with RFID technology and the EPC root directory to facilitate the secure sharing of product data across diverse supply chains.

Communications Services Group

The Communications Services Group provides managed communications services to fixed line, broadband, mobile operators and enterprise customers. Our managed communications service offerings include network connectivity and interoperability services, intelligent database services, mobile content and application services, clearing and settlement services, and billing and payment services.

Network Connectivity and Interoperability Services

Through our network connectivity and interoperability services, we provide connections and services that signal and route information within and between telecommunication carrier networks.

SS7 Connectivity and Signaling Services. Our Signaling System 7, or SS7, network, 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, local number portability, toll-free number database access and caller identification. Our SS7 trunk signaling service reduces post-dial delay, allowing call connection almost as soon as dialing is completed which enables telecommunications carriers to deploy a full range of intelligent database services more quickly and cost effectively. By using our trunk-signaling service, carriers simplify SS7 link provisioning, and reach local exchange carriers and wireless carriers' networks through our direct access to hundreds of carriers.

Wireless Roaming Services. We offer wireless carriers seamless roaming services using the ANSI-41 and GSM signaling protocol that allow carriers to provide support for roamers visiting their service area, and for their customers when they roam outside their service area. This service also allows number validation inside and outside carriers' service areas by accessing our SS7 network. Our Interstandard Roaming service manages signaling conversion across protocols to provide activation processing, international customer care, end-user billing, and fraud protection, while our Wireless Data Roaming service enables carriers to offer wireless data roaming to their subscribers over Wi-Fi, CDMA2000 and GSM/GPRS networks.

Voice Over Internet Protocol (VoIP) Services. Our Wireless IP Connect service is a managed service that allows wireless operators to provide full VoIP-to-wireless roaming to their subscribers, while our IP Connect Suite allows VoIP providers, cable operators and MSOs to extend VoIP services across multiple access methods to enterprise customers. VeriSign SIP-7 Service integrates SIP (Session Initiation Protocol)-based VoIP platforms with the existing SS7 network, allowing seamless interconnection between IP networks and the Public Switch Telephone Network ("PSTN").

Communications Assistance for Law Enforcement Act ("CALEA"). Our NetDiscovery services enable telecommunications carriers to meet the requirements of CALEA through provisioning, access and delivery of call information from carriers to law enforcement agencies.

Intelligent Database Services

We enable carriers to find and interact with network databases and conduct database queries that are essential for many advanced services, including the following:

- *Number Portability.* Local Number Portability ("LNP") and Wireless Number Portability ("WNP") allow telephone subscribers to switch local service providers while keeping the same telephone number.
- *Calling Name ("CNAM") Delivery.* Our CNAM Delivery service enables carriers to query regional Bell operating companies and major independent carriers and provide customers with caller identification services.
- *Line Information Database ("LIDB").* LIDB provides subscriber information (such as the subscriber's service profile and billing specifications) to other carriers enabling them to respond to calls (e.g. whether to block certain calls, allow collect calls, etc.).
- *Toll-free Database Services.* Leveraging VeriSign's SS7 network, our toll-free services allow customers to complete 8xx calls throughout the U.S. and Canada.
- *TeleBlock Do Not Call ("DNC").* TeleBlock DNC provides telemarketers with a DNC management tool that automatically screens and blocks outgoing calls to national, state, third-party and in-house DNC lists.

Mobile Content and Application Services

Our Mobile Content services enable wireless carriers and service providers to deliver new services such as ringtones, graphics, games, applications and other digital content, to their customers. Our application services enable providers to deliver content through customized, branded content acquisition portals. We manage content aggregation, formatting, mediation, digital rights management and delivery through these services. In June 2004, VeriSign acquired Jamba!, the leading European mobile content mediation company. We have a library of over

200,000 items, including ringtones, graphics, games and applications that we offer in the U.S., U.K., and Australia under our Jamster! brand, in the U.K. under our Ringtoneking brand, and in Europe under our Jamba! brand.

Our Inter-Carrier Messaging services allow wireless subscribers to send text and multi-media messages between different service providers and devices. Multi-Media Messaging service allows subscribers to send pictures, audio and video between different service providers and devices and is provided on a service bureau basis that connects to wireless service providers' multimedia messaging centers and routes multimedia messaging service ("MMS") messages between service providers. Through our Metcalf™ Global Messaging services, we enable wireless carriers to offer messaging services between carrier systems and devices, and across disparate networks and technologies so that customers can exchange messages outside the carrier's network.

Clearing and Settlement Services

Wireline Clearinghouse Services. Through our toll clearinghouse services, we serve as a distribution and collection point for billing information and payment collection for services provided by one carrier to customers billed by another.

Wireless Clearinghouse Services. Our settlement and exchange services enable wireless carriers to settle telephone traffic charges with their roaming partners in North America and portions of Latin and South America. We also provide wireless carriers with fraud management, SS7 monitoring, and other services.

Billing and Payment Services

The Communications Services Group also offers advanced billing, payment and customer care services to fixed line and mobile operators carriers. Through our speedSUITE™ and SmartPay services, we provide wireless carriers with an end-to-end customer relationship management system that supports advance pay, prepaid and post-paid wireless services. Carriers have access to a real-time account management platform, administered via a Web interface, designed to make prepaid wireless plans flexible and convenient.

Operations Infrastructure

Our operations infrastructure consists of secure data centers in Mountain View, California; Dulles, Virginia; Lacey, Washington; Providence, Rhode Island; Overland Park, Kansas; Melbourne, Australia; and Kawasaki, Japan. Most of these secure data centers operate on a 24-hour a day, 7 days per week, 365 days a year basis, supporting our business units and services. Key features of our operations infrastructure include:

- *Distributed Servers.* We deploy a large number of high-speed servers to support capacity and availability demands that in conjunction with our proprietary software offers automatic failover, global and local load balancing and threshold monitoring on critical servers.
- *Advanced Telecommunications.* We deploy and maintain redundant telecommunications and routing hardware and maintain high-speed connections to multiple Internet service providers ("ISPs") to ensure that our mission critical services are readily accessible to customers at all times.
- *Network Security.* We incorporate architectural concepts such as protected domains, restricted nodes and distributed access control in our system architecture. We have also developed proprietary communications protocols within and between software modules that are designed to prevent most known forms of electronic attacks. In addition, we employ firewalls and intrusion detection software, and contract with security consultants who perform periodic attacks to test our systems and security risk assessments.

As part of our operations infrastructure for our domain name registry services, we operate all thirteen domain name servers that answer domain name lookups for the *.com* and *.net* zones. We also operate two of the thirteen root zone servers, including the "A" root, which is considered to be the authoritative root zone server of the Internet's domain name system ("DNS"). The domain name servers provide the associated name server and IP address for every *.com* and *.net* domain name on the Internet and a large number of other top-level domain queries, resulting in an average of over 12 billion responses per day during 2004. These name servers are located around the world, providing local domain name service throughout North America, Europe, and Asia. Each server facility is a controlled and monitored environment, incorporating security and system maintenance features. This network of name servers is one of the cornerstones of the Internet's DNS infrastructure.

To provide our communications services, we operate a SS7 network composed of specialized switches, computers and databases strategically located across the United States. These elements interconnect our customers and U.S. telecommunications carriers through leased lines. Our network currently consists of 15 mated pairs of SS7 signal transfer points that are specialized switches that manage SS7 signaling, and into which our customers connect. We own ten pairs and lease capacity on six pairs of SS7 signal transfer points from regional providers. Our SS7 network control, located in Overland Park, Kansas, is staffed 24 hours a day, 7 days per week, 365 days a year. As part of our operations infrastructure for network services, we also have several SS7 network signal transfer point sites. These sites are maintained at 14 locations throughout the United States.

Call Centers and Help Desk. We provide customer support services through our phone-based call centers, email help desks and Web-based self-help systems. Our California call center is staffed from 5 a.m. to 6 p.m. Pacific Time and employs an automated call directory system to support our Security Services business. Our Virginia call center is staffed 24 hours a day, 7 days per week, 365 days a year to support our Naming and Directory Services. All call centers have a staff of trained customer support agents and provide Web-based support services that are available on a 24-hour a day, 7 days per week, 365 days a year basis, utilizing customized automatic response systems to provide self-help recommendations.

Operations Support and Monitoring. We have an extensive monitoring capability that enables us to track the status and performance of our critical database systems at sixty-second intervals, and our global resolution systems at four-second intervals. Our distributed Network Operations Centers are staffed 24 hours a day, 7 days per week, 365 days a year.

Disaster Recovery Plans. We have disaster recovery and business continuity capabilities that are designed to deal with the loss of entire data centers and other facilities. Our Naming and Directory Services business maintains dual mirrored data centers that allow rapid failover with no data loss and no loss of function or capacity. Our PKI and payment services businesses are similarly protected by having service capabilities that exist in both of our East and West Coast data center facilities. Our critical data services (including digital certificates, domain name registration, telecommunications services and global resolution) use advanced storage systems that provide data protection through techniques such as mirroring and replication.

Marketing, Sales and Distribution

We market our services worldwide through multiple distribution channels, including the Internet, direct sales, telesales, direct marketing through all media, mass merchandisers, value-added resellers, systems integrators and VeriSign Affiliates. We intend to increase our direct sales force in the Internet Services Group and the Communications Services Group both in the United States and abroad, and to expand our other distribution channels in both businesses.

Our direct sales and marketing organization at December 31, 2004 consisted of 708 individuals, including managers, sales representatives, marketing, technical and customer support personnel. We have field sales offices throughout the world.

Research and Development

As of December 31, 2004, we had 430 employees dedicated to research and development. Research and development expenses were $67.3 million in 2004, $55.8 million in 2003, and $48.4 million in 2002. We believe that timely development of new and enhanced Internet security, e-commerce, naming and directory, and communications services and technologies are necessary to remain competitive in the marketplace. Accordingly, we intend to continue recruiting and hiring experienced research and development personnel and to make additional investments in research and development.

Our future success will depend in large part on our ability to continue to maintain and enhance our current technologies and services. In the past, we have developed our services both independently and through efforts with leading application developers and major customers. We have also, in certain circumstances, acquired or licensed technology from third parties. Although we will continue to work closely with developers and major customers in our development efforts, we expect that most of the future enhancements to existing services and new services will be developed internally or acquired through business acquisitions.

The markets for our services are dynamic, characterized by rapid technological developments, frequent new product introductions and evolving industry standards. The constantly changing nature of these markets and their rapid evolution will require us to continually improve the performance, features and reliability of our services, particularly in response to competitive offerings, and to introduce both new and enhanced services as quickly as possible and prior to our competitors.

Competition

Competition in Security Services. Our security services are targeted at the rapidly evolving market for Internet security services, including network security, authentication, validation and secure payment services, which enable secure electronic commerce and communications over wireline and wireless IP networks. The market for security services is intensely competitive, subject to rapid change and significantly affected by new product and service introductions and other market activities of industry participants.

Principal competitors generally fall within one of the following categories: (1) companies such as RSA Security and Entrust Technologies, which offer software applications and related digital certificate products that customers operate themselves; (2) companies such as Geo Trust and Digital Signature Trust Company (a subsidiary of Identrus) that primarily offer digital certificate and certification authority, or CA, related services; and (3) companies focused on providing a bundled offering of products and services such as BeTrusted. We also experience competition from a number of smaller companies, and we believe that our primary long-term competitors may not yet have entered the market. Furthermore, Netscape and Microsoft have introduced software products that enable the issuance and management of digital certificates, and we believe that other companies could introduce similar products.

In addition, browser companies that embed our interface technologies or otherwise feature them as a provider of digital certificate products and services in their Web browsers or on their Web sites could also promote our competitors or charge us substantial fees for promotions in the future.

We face competition in our payment services business from companies such as CyberSource, Authorize.Net (a division of Lightbridge) and First Data Corporation, among others.

Competition in Managed Security Services. Consulting companies or professional services groups of other companies with Internet expertise are current or potential competitors to our managed security services. These companies include large systems integrators and consulting firms, such as Accenture, formerly Andersen Consulting, IBM Global Services and Lucent NetCare. We also compete with security product companies that offer managed security services in addition to other security services, such as Symantec and ISS, as well as a number of providers such as Ubizen and RedSiren that offer managed security services exclusively. Telecommunications providers, such as MCI which recently acquired NetSec, a provider of managed security services, are also potential competitors. In addition, we compete with some companies that have developed products that automate the management of IP addresses and name maps throughout enterprise-wide intranets, and with companies with internally developed systems integration efforts.

Competition in Communications Services. The market for communications services is extremely competitive and subject to significant pricing pressure. Competition in this area arises from two primary sources. Incumbent carriers provide competing services in their regions. In addition, we face direct competition on a nationwide basis from unregulated companies, including Syniverse Technologies and other carriers such as Southern New England Telephone Diversified Group, a unit of SBC Communications. Our wireless billing and payment services also are subject to competition from providers such as Boston Communications Group, Amdocs, and Convergys Corporation. We are also aware of major Internet service providers, software developers and smaller entrepreneurial companies that are or may in the future be focusing significant resources on developing and marketing products and services that may compete directly with ours. Furthermore, customers are increasingly likely to deploy internally developed communications technologies and services which may reduce the demand for technologies and services from third party providers such as VeriSign and further increase competitive pricing pressures.

Competition in Mobile Content Services. The market for mobile content services is extremely competitive. Competitors include developers of content and entertainment products and services in a variety of domestic and international markets, such as Infospace, Itouch, Wisdom Entertainment, Arvato mobile, Monstermob and Buongiorno/Vitaminic. This business also faces competition from mobile network operators such as Cingular, Verizon Wireless, Sprint, T-Mobile, Vodafone, O_2, Orange, E-Plus and Telefónica, as well as Internet portal operators such as Yahoo!, AOL, T-Online and Google. Additional competitors are handset manufacturers such as Nokia and software providers such as Microsoft. As the market for wireless entertainment and information products matures, mobile phone companies, broadcasters, music publishers, other content providers or others may begin to develop competing products or services.

Competition in Registry Services. There are several registry service providers for new gTLDs that directly compete with the services we provide for the *.com* and *.net* gTLDs, as well as with the ccTLDs offered by us. The gTLDs *.biz* and *.info* were launched in 2001 and the gTLDs *.name, .pro, .aero, .museum* and *.coop* were launched in 2002 and 2003. Domain names registrations and other services within these gTLDs are available through ICANN accredited registrars. In addition, we currently face competition from the over 240 ccTLD registry operators who compete directly for the business of entities and individuals that are seeking to establish a Web presence.

We also face competition from service providers that offer outsourced domain name registration, resolutions and other DNS services to organizations that require a reliable and scalable infrastructure. Among the competitors are UltraDNS, NeuLevel, Affilias, Register.com and Tucows.com.

Competition in Digital Brand Management Services. We face competition from companies providing services similar to some of our Digital Brand Management Services. In the monitoring services, registration and domain name asset management area of our business, our competition comes primarily from ICANN accredited registrars and various smaller companies providing similar services.

Several of our current and potential competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do and therefore may be able to respond more quickly than we can to new or changing opportunities, technologies, standards and customer requirements. Many of these competitors also have broader and more established distribution channels that may be used to deliver competing products or services directly to customers through bundling or other means. If such competitors were to bundle competing products or services for their customers, the demand for our products and services might be substantially reduced and the ability to distribute our products successfully and the utilization of our services would be substantially diminished. New technologies and the expansion of existing technologies may increase the competitive pressure.

New technologies and the expansion of existing technologies may increase competitive pressure. We cannot assure that competing technologies developed by others or the emergence of new industry standards will not adversely affect our competitive position or render our security services or technologies noncompetitive or obsolete. In addition, our markets are characterized by announcements of collaborative relationships involving our competitors. The existence or announcement of any such relationships could adversely affect our ability to attract and retain customers. As a result of the foregoing and other factors, we may not be able to compete effectively with current or future competitors, and competitive pressures that we face could materially harm our business.

Industry Regulation

Naming and Directory Services. Within the U.S. Government, leadership for the continued privatization of Internet administration is currently provided by the Department of Commerce.

On November 10, 1999, we entered into a series of wide-ranging agreements. These agreements included the following:

- a registry agreement between us and ICANN under which we will continue to act as the exclusive registry for the *.com and .net* TLDs for at least four years from that date. This agreement was subsequently replaced with three new registry agreements on May 25, 2001;
- a revised registrar license and agreement between us as registry and all registrars registering names in the *.com*, *.net and .org* domains using our proprietary shared registration system;
- an amendment to the cooperative agreement; and
- an amendment to the Memorandum of Understanding between the U.S. Government and ICANN.

Our registry agreement with ICANN was replaced by three new agreements on May 25, 2001, one for *.com*, one for *.net* and one for *.org*. The term of the *.com* registry agreement extends until November 10, 2007 with a 4-year renewal option. The term of the *.net* registry agreement extends until June 30, 2005. Currently, the *.net* registry services are in a competitive bidding process by ICANN. We submitted a bid along with four other bidders. The selection of the next *.net* registry operator is scheduled to be made in late March 2005. The *.org* registry agreement terminated on December 31, 2002, and the *.org* registry services were transitioned to a new registry operator selected by ICANN during 2003.

The descriptions of these agreements are qualified in their entirety by the text of the complete agreements that are filed as exhibits to the periodic reports indicated in the index to the exhibits contained in Part IV of this Annual Report on Form 10-K.

Security Services. Some of our security services utilize and incorporate encryption technology. Exports of software products utilizing encryption technology are generally restricted by the United States and various non-United States governments. We have obtained approval to export many of the security services we provide to customers globally under applicable United States export law, including our server digital certificate services. As the list of products and countries for which export approval is expanded or changed, government restrictions on the export of software products utilizing encryption technology may grow and become an impediment to our growth in international markets. If we do not obtain required approvals, we may not be able to sell some of our security services in international markets.

There are currently no federal laws or regulations that specifically control certification authorities, but a limited number of states have enacted legislation or regulations with respect to certification authorities. If we do not comply with these state laws and regulations, we will lose the statutory benefits and protections that would be otherwise afforded to us. Moreover, if our market for digital certificates grows, the United States federal, state, or foreign governments may choose to enact further regulations governing certification authorities or other providers of digital certificate products and related services. These regulations or the costs of complying with these regulations could have a material, adverse impact on our business.

Communications Services. One service provided by the Communications Services Group is currently subject to Federal Communications Commission ("FCC") regulation. This service allows wireless users who are "roaming" in areas where their home carrier has not made arrangements for automatic roaming service to complete calls to domestic and international destinations. The Communications Services Group has been authorized by the FCC to provide this service. Further, our communications customers are subject to FCC regulation, which indirectly affects our communications services business. We cannot predict when, or upon what terms and conditions, further regulation or deregulation might occur or the effect of regulation or deregulation on our business. Several services that we offer may be indirectly affected by regulations imposed upon potential users of those services, which may increase our costs of operations. In addition, future services we may provide could be subject to direct government regulation.

Intellectual Property

We rely primarily on a combination of copyrights, trademarks, service marks, patents, restrictions on disclosure and other methods to protect our intellectual property. We also enter into confidentiality and/or invention assignment agreements with our employees, consultants and current and potential affiliates, customers and business partners. We also generally control access to and distribution of proprietary documentation and other confidential information.

We have been issued numerous patents in the United States and abroad, covering a wide range of our technology. Additionally, we have filed numerous patent applications with respect to certain of our technology in the U.S. Patent and Trademark Office and foreign patent offices. The national or international patent offices may not award any patents with respect to these applications and even if such patents are awarded, they may not provide us with sufficient protection of our intellectual property.

We have obtained U.S. and foreign trademark registrations for various VeriSign marks. We have also filed numerous applications to register VeriSign trademarks and claims, and have common law rights in many other proprietary names. We take steps to enforce and police VeriSign's marks.

With regard to our Security Services business, we also rely on certain licensed third-party technology, such as public key cryptography technology licensed from RSA and other technology that is used in our security services to perform key functions. RSA has granted us a perpetual, royalty-free, nonexclusive, worldwide license to use RSA's products relating to certificate issuing, management and processing functionality. We develop services that contain or incorporate the RSA BSAFE products and that relate to digital certificate-issuing software, software for the management of private keys and for digitally signing computer files on behalf of others, software for customers to preview and forward digital certificate requests to them. RSA's BSAFE product is a software tool kit that allows for the integration of encryption and authentication features into software applications.

With regard to our secure payments business, we rely on proprietary software and technology covering many aspects of e-commerce transactions such as electronic funds transfers and multi-currency transactions. In addition, we have strategic relationships with third parties involved in e-commerce transactions, such as issuing banks and financial processors, and those agreements provide us with intellectual property rights with respect to performing those services.

With regard to our Naming and Directory Services business, our principal intellectual property consists of, and our success is dependent upon, proprietary software used in our registry service business and certain methodologies and technical expertise we use in both the design and implementation of our current and future registry services and Internet-based products and services businesses, including the conversion of internationalized domain names. We own our proprietary shared registration system through which competing registrars submit *.com* and *.net* second-level domain name registrations. Some of the software and protocols used in our registry services are in the public domain or are otherwise available to our competitors.

With regard to our Communications Services Group, we offer a wide variety of services, including network connectivity and interoperability, intelligent database, mobile content and applications, and clearing and settlement services, each of which are protected by trade secret, patents and/or patent applications. We have also entered into agreements with third-party providers and licensors, including third party providers of content such as music, games and logos.

Employees

The following table shows a comparison of our employee headcount by function:

	December 31, 2004
Employee headcount:	
Cost of revenues	1,500
Sales and marketing	708
Research and development	430
General and administrative	568
Total	3,206

We have never had a work stoppage, and no U.S.-based employees are represented under collective bargaining agreements. We consider our relations with our employees to be good. Our ability to achieve our financial and operational objectives depends in large part upon our continued ability to attract, integrate, train, retain and motivate highly qualified sales, technical and managerial personnel, and upon the continued service of our senior management and key sales and technical personnel, none of whom is bound by an employment agreement. Competition for qualified personnel in our industry and in some of our geographical locations is intense, particularly for software development personnel.

Segment Information

During 2004, we operated our business in two reportable segments: the Internet Services Group and the Communications Services Group. During 2003, we operated our business in three reportable segments: the Internet Services Group and the Communications Services Group, both of which are described above, and the Network Solutions business segment, through which we provided domain name registration, and value added services such as business email, websites, hosting and other web presence services. Effective November 25, 2003, when we completed the sale of our Network Solutions business to Pivotal Private Equity, we realigned our operations into two service-based business segments consisting of the Internet Services Group and the Communications Services Group. Prior to 2003, we operated our business in two reportable segments: the Enterprise and Service Provider Division and the Mass Markets Division. Segment information based on our current organizational structures is set forth in Note 16 of Notes to Consolidated Financial Statements referred to in Item 8 below.

Factors That May Affect Future Results of Operations

In addition to other information in this Form 10-K, 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-K as a result of the risk factors discussed below and elsewhere in this Form 10-K.

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

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

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

- volume of domain name registrations and customer renewals in our registry services business;
- the mix of all our services sold during a period;
- our success in marketing and market acceptance of our services by our existing customers and by new customers;
- changes in marketing expenses related to promoting and distributing our services;
- customer renewal rates and turnover of customers of our services;
- continued development of our direct and indirect distribution channels for our security services and communications services (including our mobile content services), both in the U.S. and abroad;
- changes in the level of spending for information technology-related products and services by enterprise customers;
- our success in assimilating the operations, products, services and personnel of any acquired businesses;
- the seasonal fluctuations in consumer use of communications services, including our mobile content services;
- the timing and execution of individual customer contracts, particularly large contracts;
- the impact of price changes in our communications services, security services and payment services or our competitors' products and services;
- the impact of Statement of Financial Accounting Standards No. 123R that will require us to record a charge to earnings for employee stock option grants; and
- general economic and market conditions as well as economic and market conditions specific to the telecommunications and Internet industries.

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

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

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

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

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

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

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

We completed several acquisitions between 2000 and 2003, including our acquisitions of Network Solutions, Illuminet Holdings and H.O. Systems. In February 2004 and June 2004, respectively, we completed our acquisitions of Guardent, Inc. and Jamba!. In November 2003, we sold our Network Solutions domain name registrar business. Network Solutions, Illuminet Holdings, H.O. Systems and Jamba! 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, many of which are not entirely under our control, including, but not limited to, the following:

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

To address these risks we must, among other things:

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

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

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

- the potential disruption of our ongoing business;
- the potential impairment of relationships with our employees, customers and strategic partners;
- the need to manage more geographically-dispersed operations, such as our offices in the states of Kansas, Illinois, Massachusetts, Pennsylvania, Texas, Virginia, and Washington, and in Australia, Europe, India, Japan, South Africa and South America;
- greater than expected costs, unknown liabilities and the diversion of management's resources from other business concerns involved in identifying, completing and integrating acquisitions;
- the inability to retain the key employees of the acquired businesses;
- adverse effects on the existing customer relationships of acquired companies;
- our inability to incorporate acquired technologies successfully into our operations infrastructure;
- the difficulty of assimilating the operations and personnel of the acquired businesses;
- the potential incompatibility of business cultures;
- additional regulatory requirements;
- any perceived adverse changes in business focus;
- entering into markets and acquiring technologies in areas in which we have little experience, as is the case with our recent acquisition of Jamba!;
- 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 an impairment of a portion of goodwill and other intangible assets due to changes in market conditions for acquisitions. Under generally accepted accounting principles, we are required to evaluate goodwill for impairment on an annual basis and to evaluate other intangible assets as events or circumstances indicate that such assets may be impaired. These evaluations could result in further impairments of goodwill or other intangible assets.

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

International revenues accounted for approximately 28% of our total revenues for the year ended December 31, 2004. As a result of our acquisition of Jamba!, we expect that international revenues will increase in absolute monetary terms and as a percentage of revenues. We intend to expand our international operations and international sales and marketing activities. For example, we expect to expand our operations and marketing activities throughout Asia, Europe, India, Latin America and South America. With our Jamba! acquisition, we have facilities and nearly 500 employees in Germany. Expansion into these international markets has required and will continue to require significant management attention and resources. We may also need to tailor some of our other 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;
- differing and uncertain regulatory requirements;
- legal uncertainty regarding liability and compliance with foreign laws;
- export and import restrictions on cryptographic technology and products incorporating that technology;
- tariffs and other trade barriers and restrictions;
- difficulties in staffing and managing foreign operations;
- longer sales and payment cycles;
- problems in collecting accounts receivable;
- currency fluctuations, as all of our international revenues from VeriSign Japan, K.K. and VeriSign Australia Limited and our wholly-owned subsidiaries in South Africa and Europe, including Germany, are not denominated in U.S. Dollars;
- potential problems associated with adapting our mobile content services to technical conditions existing in different countries;
- the necessity of developing foreign language portals and products for our mobile content services;
- difficulty of authenticating customer information for digital certificates, payment services and other purposes;
- 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.

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

Between December 31, 1995 and December 31, 2004, we grew from 26 to approximately 3,200 employees. This was achieved through internal growth, as well as acquisitions. During this time period, we opened new sales offices and significantly expanded our U.S. and non-U.S. operations. To successfully manage past growth and any future growth, we will need to continue to implement additional management information systems, continue the development of our operating, administrative, financial and accounting systems and controls and maintain close coordination among our executive, engineering, accounting, finance, marketing, sales and operations organizations. Any failure to manage growth effectively could harm our business.

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

Competition in Security Services. Our security services are targeted at the rapidly evolving market for Internet security services, including network security, authentication, validation and secure payment services, which enable secure electronic commerce and communications over wireline and wireless IP networks. The market for security services is intensely competitive, subject to rapid change and significantly affected by new product and service introductions and other market activities of industry participants.

Principal competitors generally fall within one of the following categories: (1) companies such as RSA Security, Inc. ("RSA") and Entrust Technologies, which offer software applications and related digital certificate products that customers operate themselves; (2) companies such as Geo Trust and Digital Signature Trust Company (a subsidiary of Identrus) that primarily offer digital certificate and certification authority, or CA, related services; and (3) companies focused on providing a bundled offering of products and services such as BeTrusted. We also experience competition from a number of smaller companies, and we believe that our primary long-term competitors may not yet have entered the market. Furthermore, Netscape and Microsoft have introduced software products that enable the issuance and management of digital certificates, and we believe that other companies could introduce similar products.

In addition, browser companies that embed our interface technologies or otherwise feature them as a provider of digital certificate products and services in their Web browsers or on their Web sites could also promote our competitors or charge us substantial fees for promotions in the future.

We face competition in our payment services business from companies such as CyberSource, Authorize.Net (a division of Lightbridge) and First Data Corporation among others.

Competition in Managed Security Services. Consulting companies or professional services groups of other companies with Internet expertise are current or potential competitors to our managed security services. These companies include large systems integrators and consulting firms, such as Accenture, formerly Andersen Consulting, IBM Global Services and Lucent NetCare. We also compete with security product companies that offer managed security services in addition to other security services, such as Symantec and ISS, as well as a number of providers such as Ubizen and RedSiren that offer managed security services exclusively. Telecommunications providers, such as MCI which recently acquired NetSec, a provider of managed security services, are also potential competitors. In addition, we compete with some companies that have developed products that automate the management of IP addresses and name maps throughout enterprise-wide intranets, and with companies with internally developed systems integration efforts.

Competition in Communications Services. The market for communications services is extremely competitive and subject to significant pricing pressure. Competition in this area arises from two primary sources. Incumbent carriers provide competing services in their regions. In addition, we face direct competition on a nationwide basis from unregulated companies, including Syniverse Technologies and other carriers such as Southern New England Telephone Diversified Group, a unit of SBC Communications. Our wireless billing and payment services also are subject to competition from providers such as Boston Communications Group, Amdocs, and Convergys Corporation. We are also aware of major Internet service providers, software developers and smaller entrepreneurial companies that are or may in the future be focusing significant resources on developing and marketing products and services that may compete directly with ours. Furthermore, customers are increasingly likely to deploy internally developed communications technologies and services which may reduce the demand for technologies and services from third party providers such as VeriSign and further increase competitive pricing pressures.

Competition in Mobile Content Services. The market for mobile content services is extremely competitive. Competitors include developers of content and entertainment products and services in a variety of domestic and international markets, such as Infospace, Itouch, Wisdom Entertainment, Arvato mobile, Monstermob and Buongiorno/Vitaminic. This business also faces competition from mobile network operators such as Cingular, Verizon Wireless, Sprint, T-Mobile, Vodafone, O_2, Orange, E-Plus and Telefónica, as well as Internet portal operators such as Yahoo!, AOL, T-Online and Google. Additional competitors are handset manufacturers such as Nokia and software providers such as Microsoft. As the market for wireless entertainment and information products matures, mobile phone companies, broadcasters, music publishers, other content providers or others may begin to develop competing products or services.

Competition in Registry Services. ICANN has introduced several registry service providers for new gTLDs that directly compete with the services we provide for the *.com* and *.net* gTLDs, as well as with the ccTLDs offered by us. The gTLDs *.biz* and *.info* were launched in 2001 and the gTLDs *.name*, *.pro*, *.aero*, *.museum* and *.coop* were launched in 2002 and 2003. Domain names registrations and other services within these gTLDs are available through ICANN accredited registrars. In addition, we currently face competition from the over 240 ccTLD registry operators who compete directly for the business of entities and individuals that are seeking to establish a Web presence.

We also face competition from service providers that offer outsourced domain name registration, resolutions and other DNS services to organizations that require a reliable and scalable infrastructure. Among the competitors are UltraDNS, NeuLevel, Affilias, Register.com and Tucows.com.

Competition in Digital Brand Management Services. We face competition from companies providing services similar to some of our Digital Brand Management Services. In the monitoring services, registration and domain name asset management area of our business, our competition comes primarily from ICANN accredited registrars and various smaller companies providing similar services.

Several of our current and potential competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do and therefore may be able to respond more quickly than we can to new or changing opportunities, technologies, standards and customer requirements. Many of these competitors also have broader and more established distribution channels that may be used to deliver competing products or services directly to customers through bundling or other means. If such competitors were to bundle competing products or services for their customers, the demand for our products and services might be substantially reduced and the ability to distribute our products successfully and the utilization of our services would be substantially diminished. New technologies and the expansion of existing technologies may increase the competitive pressure.

New technologies and the expansion of existing technologies may increase competitive pressure. We cannot assure that competing technologies developed by others or the emergence of new industry standards will not adversely affect our competitive position or render our security services or technologies noncompetitive or obsolete. In addition, our markets are characterized by announcements of collaborative relationships involving our competitors. The existence or announcement of any such relationships could adversely affect our ability to attract and retain customers. As a result of the foregoing and other factors, we may not be able to compete effectively with current or future competitors, and competitive pressures that we face could materially harm our business.

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

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

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

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

- purchase and implement SS7 network services in phases;

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

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

Our failure to achieve or sustain market acceptance of our communications services at desired pricing levels and industry consolidation could adversely impact our revenues and cash flow.

The telecommunications industry is characterized by significant price competition. Competition and industry consolidation in our communications services could result in significant pricing pressure and an erosion in our market share. Pricing pressure from competition could cause large reductions in the selling price of our services. For example, our competitors may provide customers with reduced communications costs for Internet access or private network services, reducing the overall cost of services and significantly increasing pricing pressures on us. We would need to offset the effects of any price reductions by increasing the number of our customers, generating higher revenues from enhanced services or reducing our costs, and we may not be able to do so successfully. We believe that the business of providing network connectivity and related network services will see increased consolidation in the future. Consolidation could decrease selling prices and increase competition in these industries, which could erode our market share, revenues and operating margins in our Communications Services Group. Consolidation in the telecommunications industry has led to the merging of many companies, including Price Communications, a customer of our Communications Services Group, and there have been recent announcements of proposed mergers involving other of our customers, including AT&T Wireless, MCI and Nextel. Our business could be harmed if these mergers result in the loss of customers by our Communications Services Group. Furthermore, customers may choose to deploy internally developed communications technologies and services thereby reducing the demand for technologies and services we offer which could harm our business.

Our mobile content services business depends on agreements with many different third parties, including wireless carriers, and content providers. If these agreements are terminated or not renewed, this business could be harmed.

Our mobile content services business depends on our ability to enter into and maintain agreements with many different third parties including:

- Wireless carriers and other mobile phone service providers, upon which this business is highly dependent for billing its customers; and
- Developers, music publishers and other providers of content, upon which this business is substantially dependent for content such as ring tones and games.

These agreements are typically for a short term, or are otherwise terminable upon short notice, and in the case of agreements with carriers, other mobile phone service providers and content developers, are non-exclusive. If these third parties reduce their commitment to us, terminate their agreements with us or enter into similar agreements with our competitors, the results of operations of our Communications Services Group could be materially harmed. For example, because we depend on wireless carriers to bill customers for our services, a loss of any of these relationships could prevent us from billing and receiving revenues from customers. This business could also be harmed if we are unable to enter into additional agreements with third parties on commercially reasonable terms.

Our mobile content services business is dependent on third parties offering attractive content and technology on acceptable terms.

Only some of our mobile content services are developed internally. We also receive content, such as ring tones, games and logos from third parties. If the market for mobile entertainment and information continues to develop positively, content providers might try to raise their prices. Some providers insist on charging fixed fees for their content regardless of revenues, so if we fail to achieve anticipated revenues, we would achieve lower margins for our mobile content services. There is no assurance that we will be able to timely purchase content having the requisite quality in the future and on commercially reasonable terms. Should we be unable to acquire attractive content from third parties and on acceptable terms, this could adversely affect our mobile content services business.

Our customer subscription agreements for our mobile content services are typically cancelable and our business could be harmed if significant numbers of customers cancel or fail to renew.

Our mobile content services are typically sold as fixed monthly subscriptions. Our customers for these services may cancel their subscriptions for our service at the end of each monthly service period and in fact, many customers each month elect to do so. We have limited historical data with respect to rates of customer subscription renewals, so we cannot accurately predict customer renewal rates. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their dissatisfaction with the service, pricing pressure, changes in preferences and trends, competitive services or other reasons. If our customers cancel or fail to renew their subscriptions for this service, our revenue could decline and our mobile content services business will suffer.

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

Our future success depends, in part, on 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 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;
- inability to integrate business applications on IP networks;
- the need to operate with multiple and frequently incompatible products;
- limited bandwidth access; and
- government regulation.

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.

A number of states, as well as the U.S. Congress, have been considering various initiatives that could permit sales and use taxes on Internet sales. If any of these initiatives are adopted, it could substantially impair the growth of electronic commerce and therefore hinder the growth in the use of the Internet and IP networks, which could harm our business.

Many of our target markets are evolving, and if these markets fail to develop or if our products and services are not widely accepted in these markets, our business could suffer.

We target our security services at the market for trusted and secure electronic commerce and communications over IP and other networks. As a result of our acquisition of Jamba!, our Communications Services Group is also targeting the consumer market for mobile content services. Our Naming and Directory Services business unit is developing managed services designed to work with the EPCglobal Network and radio frequency identification, or RFID, technology. These are rapidly evolving markets that may not continue to grow. Even if these markets grow, our services may not be widely accepted. Accordingly, the demand for our services is very uncertain. The factors that may affect the level of market acceptance and, consequently, our services include the following:

- market acceptance of products and services based upon technologies other than those we use;
- public perception of the security of our technologies and of IP and other networks;
- the introduction and consumer acceptance of new generations of mobile handsets;
- the introduction and acceptance of RFID technology and the EPCglobal Network;
- the ability of the Internet infrastructure to accommodate increased levels of usage; and
- government regulations affecting electronic commerce and communications over IP networks.

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

Our inability to react to changes in our industry and successfully introduce new products and services could harm our business.

The emerging nature of the Internet, mobile content, digital certificate, domain name registration and payment services markets, and their rapid evolution, require us continually to improve the performance, features and reliability of our services, particularly in response to competitive offerings. In particular, the market for entertainment and information is characterized by changing technology, developing industry standards, changing customer preferences and trends (which also vary from country to country), and the constant introduction of new products and services. In order to remain competitive, we must continually improve our access technology and software, support the latest transmission technologies, and adapt our products and services to changing market conditions and customer preferences. When entertainment products are placed on the market, it is difficult to predict whether they will become popular.

The communications network services industry is also characterized by rapid technological change and frequent new product and service announcements. Significant technological changes could make our technologies obsolete and other changes in our markets, particularly mobile content, could result in some of our other products and services losing market share. Accordingly, we must continually improve the responsiveness, reliability and features of our services and develop new features, services and applications to meet changing customer needs in our target markets. For example, 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 success could also depend upon our ability to provide products and services to these Internet protocol-based telephony providers, particularly if IP-based telephony becomes widely accepted. 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.

New products and services developed or introduced by us may not result in any significant revenues.

We must commit significant resources to develop new products and services before knowing whether our investments will result in products and services the market will accept. The success of new products and services depends on several factors, including proper new definition and timely completion, introduction and market acceptance. For example, our selection in January 2004 by EPCglobal, a not-for-profit standards organization, to operate the Object Naming Service as the root directory for the EPCglobal Network, may not increase our revenues in the foreseeable future. There can be no assurance that we will successfully identify new product and service opportunities, develop and bring new products and services to market in a timely manner, or achieve market acceptance of our products and services, or that products, services and technologies developed by others will not render our products, services or technologies obsolete or noncompetitive. Our inability to successfully market new products and services may harm our business.

Issues arising from our agreements with ICANN and the Department of Commerce could harm our registry 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. As part of this transition, our registry agreement with ICANN was replaced by three new agreements on May 25, 2001, one for *.com*, one for *.net* and one for *.org*. The term of the *.com* registry agreement extends until November 10, 2007 with a 4-year renewal option. The term of the *.net* registry agreement extends until June 30, 2005. Currently the *.net* registry services are in a competitive bidding process by ICANN. We submitted a bid along with four other bidders. The selection of the next .net registry operator is scheduled to be made in March 2005. The *.org* registry agreement terminated on December 31, 2002, and the *.org* registry services were transitioned to a new registry operator selected by ICANN during 2003. We face risks from this transition to ICANN, which include the following:

- ICANN could adopt or promote policies, procedures or programs that are unfavorable to our role as the registry operator of the *.com* and *.net* top-level domains or that are inconsistent with our current or future plans;
- the DOC or ICANN could terminate our agreements to be the registry for the *.com* or *.net* gTLDs if they find that we are in violation of our agreements with them;
- if our agreements to be the registry for the *.com* or *.net* top-level domains are terminated, it could have an adverse impact on our business;
- the DOC's or ICANN's interpretation of provisions of our agreements with either of them could differ from ours;
- the DOC could revoke its recognition of ICANN, as a result of which the DOC would take the place of ICANN for purposes of the various agreements described above, and could take actions that are harmful to us;
- the U.S. Government could refuse to transfer certain responsibilities for domain name system administration to ICANN due to security, stability or other reasons, resulting in fragmentation or other instability in domain name system administration; and
- our registry business could face legal or other challenges resulting from our activities or the activities of registrars.

On August 27, 2004, we filed a lawsuit against ICANN in the Superior Court of the State of California County of Los Angeles. The lawsuit alleges that ICANN overstepped its contractual authority and improperly attempted to regulate our business in violation of ICANN's charter and its agreements with us. We cannot predict the affect this lawsuit will have on our relationship with ICANN.

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

As a result of these challenges, it may be difficult for us to introduce new services in our domain name registry business and we could also be subject to additional restrictions on how this business is conducted.

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

We depend on the uninterrupted operation of our various 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, Providence, Rhode Island; Dulles, Virginia; Lacey, Washington; Overland Park, Kansas, Melbourne, Australia and Berlin, Hamburg and Verl, Germany. 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, our domain name registry services and other of our services depend on the efficient operation of the Internet connections from customers to our secure data centers and from our customers to the shared registration system. These connections depend upon the efficient operation of Internet service providers and Internet backbone service providers, all of which have had periodic operational problems or experienced outages in the past.

A failure in the operation of 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. Any of these problems or outages could decrease customer satisfaction, which could harm our business.

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

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

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

The reliance of our network connectivity and interoperability services and mobile content services on third-party communications infrastructure, hardware and software exposes us to a variety of risks we cannot control.

The success of our network connectivity and interoperability services and mobile content services depends on our network infrastructure, including the capacity leased from telecommunications suppliers. In particular, we rely on AT&T, MCI, Sprint and other telecommunications providers for leased long-haul and local loop transmission capacity. These companies provide the dedicated links that connect our network components to each other and to our customers. Our business also depends upon the capacity, reliability and security of the infrastructure owned by third parties that is used to connect telephone calls. Specifically, we currently lease capacity from regional providers on six of the 16 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.

Our signaling and SS7 services rely on links, equipment and software provided to us from our vendors, the most important of which are gateway equipment and software from Tekelec and Agilent Technologies, Inc. We cannot assure you that we will be able to continue to purchase equipment from these vendors on acceptable terms, if at all. If we are unable to maintain current purchasing terms or ensure product availability with these vendors, we may lose customers and experience an increase in costs in seeking alternative suppliers of products and services.

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

If traffic from our telecommunication and mobile content 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 expand and upgrade, in a timely manner, our systems and network hardware and software capabilities to accommodate increased traffic on our network. If we do not appropriately expand and upgrade our systems and network hardware and software, we may lose customers and revenues.

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

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

Further, our registry services business could be harmed if any of these volunteer operators fail 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.

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

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

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

Services offered by our Internet Services Group depend on public key cryptography technology. With public key cryptography technology, a user is given a public key and a private key, both of which are required to perform encryption and decryption operations. The security afforded by this technology depends on the integrity of a user's private key and that it is not lost, stolen or otherwise compromised. The integrity of private keys also depends in part on the application of specific mathematical principles known as "factoring." This integrity is predicated on the assumption that the factoring of large numbers into their prime number components is difficult.

Should an easy factoring method be developed, the security of encryption products utilizing public key cryptography technology would be reduced or eliminated. Furthermore, any significant advance in techniques for attacking cryptographic systems could also render some or all of our existing PKI services obsolete or unmarketable. If improved techniques for attacking cryptographic systems were ever developed, we would likely have to reissue digital certificates to some or all of our customers, which could damage our reputation and brand or otherwise harm our business. In the past there have been public announcements of the successful attack upon cryptographic keys of certain kinds and lengths and of the potential misappropriation of private keys and other activation data. This type of publicity could also hurt the public perception as to the safety of the public key cryptography technology included in our digital certificates. This negative public perception could harm our business.

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

We market many of our security services directly to large companies and government agencies and we market our communications services to large telecommunication carriers. 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 services can be lengthy, potentially lasting from three to nine 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.

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

We have licensed to VeriSign Affiliates our Processing Center platform, which is designed to replicate our own secure data centers and allows the affiliate to offer back-end processing of PKI services for enterprises. The VeriSign Processing Center platform provides a VeriSign Affiliate with the knowledge and technology to offer PKI services similar to those offered by us. It is critical to our business strategy that the facilities and infrastructure used in issuing and marketing digital certificates remain secure and we are perceived by the marketplace to be secure. Although we provide the VeriSign Affiliate with training in security and trust practices, network management and customer service and support, these practices are performed by the affiliate and are outside of our control. Any failure of a VeriSign Affiliate to maintain the privacy or security of confidential customer information could result in negative publicity and therefore, adversely affect the market's perception of the security of our services as well as the security of electronic commerce and communication over IP networks generally.

We 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, patents 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 that is used in our products and services, 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.

We could become subject to claims of infringement of intellectual property of others, which could be costly to defend and which could harm our business.

Claims relating to infringement of intellectual property of others or other similar claims have been made against us in the past and could be made against us in the future. In addition, we use content such as music, games and logos, as part of our mobile content services. It is possible that we could become subject to additional claims for infringement of the intellectual property of third parties. 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, we could be required to pay damages or have portions of our business enjoined. If 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 had complaints filed against us in February 2001, September 2001 and June 2003 alleging patent infringement.

We must establish and maintain strategic and other relationships.

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

Furthermore, our ability to achieve future growth will also depend on our ability to continue to establish direct seller channels and to develop multiple distribution channels. Failure of one or more of our strategic relationships to result in the development and maintenance of a market for our services could harm our business. If we are unable to maintain our relationships or to enter into additional relationships, this could harm our business.

Principal and interest on the Network Solutions note may never be repaid.

As consideration for our sale of our Network Solutions domain name registrar business on November 25, 2003, we received a $40 million senior subordinated note from Network Solutions that matures over five years from the date of the closing of the sale. The note is subordinated to a term loan made by the senior lender to the Network Solutions business in the principal amount of $40 million as of the closing date. In addition to the promissory note, we also hold a 15% interest in the Network Solutions business. We may never be repaid for the amount owed under the promissory note and we may never realize any value from our membership interest.

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

The Sarbanes-Oxley Act, which was signed into law in July 2002, mandates, among other things, that companies adopt new corporate governance measures and imposes comprehensive reporting and disclosure requirements, sets stricter independence and financial expertise standards for audit committee members and imposes increased civil and criminal penalties for companies, their chief executive officers and chief financial officers and directors for securities law violations. For example, Section 404 of the Sarbanes-Oxley Act requires companies to do a comprehensive and costly evaluation of their internal controls. In addition, the Nasdaq Stock Market has adopted additional comprehensive rules and regulations relating to corporate governance. These laws, rules and regulations have increased the scope, complexity and cost of our corporate governance, reporting and disclosure practices, and our compliance efforts have required significant management attention. It has become more difficult and more expensive for us to obtain director and officer liability insurance, and we have been required to accept reduced coverage and incur substantially higher costs to obtain the reduced level of coverage. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers, which could harm our business.

We depend on key personnel to manage our business effectively and may not be successful in attracting and retaining such personnel.

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

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

New and proposed regulations related to equity compensation will adversely affect our operating results and negatively impact our ability to attract and retain key personnel.

Since our inception, we have used stock options and other long-term equity incentives as a fundamental component of our employee compensation packages. We believe that stock options and other long-term equity incentives directly motivate our employees to maximize long-term stockholder value and, through the use of vesting, encourage employees to remain with VeriSign. The Financial Accounting Standards Board ("FASB") recently issued Statement of Financial Accounting Standards ("SFAS") No. 123R, "*Share-Based Payment*," which supercedes SFAS No. 123, *"Accounting for Stock-Based Compensation,"* that will require us to record a charge to earnings for employee stock option grants beginning in the third quarter of 2005. This change will have a material, negative impact on our reported earnings. Recording a charge for employee stock options and the employee stock purchase plan under SFAS No. 123 would have increased after tax charges by approximately $136.8 million, $215.9 million and $221.8 million for the years ended December 31, 2004, 2003 and 2002, respectively. In addition, new regulations adopted by the Nasdaq Stock Market requiring stockholder approval for stock option plans could make it more difficult for us to grant options to employees in the future. To the extent that new policies or regulations make it more difficult or expensive to grant options to employees, we may incur increased cash compensation costs or find it difficult to attract, retain and motivate employees, either of which could materially harm our business.

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

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

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

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

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

ITEM 2. PROPERTIES

VeriSign's principal administrative, sales, marketing, research and development and operations facilities are located in Mountain View, California, Overland Park, Kansas, Providence, Rhode Island, Dulles, Virginia, Lacey, Washington, Berlin, Germany, Tokyo, Japan and Geneva, Switzerland. We own our headquarters complex in Mountain View, California. This complex includes five buildings with a combined area of approximately 395,000 square feet. We also own our communications services facility in Lacey, Washington. The remainder of our significant facilities are leased under agreements that expire at various dates through 2014.

VeriSign also leases other space for sales and support, and training offices in various locations throughout the United States. Internationally, we lease space in a number of locations, including Buenos Aires, Argentina; Woluwe-St. Pierre, Belgium; Sao Paulo, Brazil; Bangalore, India; Kawasaki, Japan; Oslo, Norway; Durbanville, South Africa; and Malmo, Sweden.

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Major Locations	Approximate Square Footage	Use
United States:		
455-685 East Middlefield Road Mountain View, California (owned)	395,000	Corporate Headquarters; Internet Services Group; and Communications Services Group
21345-21355 Ridgetop Circle Dulles, Virginia	160,000	Internet Services Group; and Corporate Services
4501 Intelco Loop S.E. Lacey, Washington (owned)	67,000	Communications Services Group
7400 West 129th Street Overland Park, Kansas	31,000	Communications Services Group
90 Royal Little Drive Providence, Rhode Island	21,000	Internet Services Group
Europe:		
Blandonnet International Business Center 8, Chemin De Blandonnet CH-1217 Vernier Geneva, Switzerland	17,000	Corporate European Headquarters; Internet Services Group
Jamba! GmbH Pfuelstrasse 5 10997 Berlin, Germany	34,000	Communications Services Group
Japan:		
Nittobo Buildings 13F, 8-1 Yaesu, 2-chome Chuo-ku, Tokyo, 104-0028 Japan	15,200	VeriSign Japan K.K. Corporate Headquarters

We believe that our current facilities are sufficient for our needs for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

As of February 28, 2005, VeriSign and NS Holding, Inc. (formerly Network Solutions, Inc.), were defendants in two active lawsuits involving customer contractual disputes over domain name registrations and related services. VeriSign completed the sale of its Network Solutions registrar business to Pivotal Private Equity on November 25, 2003. VeriSign retained liabilities, if any, associated with the lawsuits referenced above.

On February 2, 2001, Leon Stambler filed a complaint against VeriSign in the United States District Court for the District of Delaware. Mr. Stambler alleged that VeriSign, and RSA Security, Inc., infringed various claims of his patents, U.S. Patent Nos. 5,793,302, 5,974,148 and 5,936,541. Mr. Stambler sought a judgment declaring that the defendants had infringed the asserted claims of the patents-in-suit, an injunction, damages for the alleged infringement, treble damages for alleged willful infringement, and attorney fees and costs. One defendant, Omnisky, Inc., subsequently declared bankruptcy and Mr. Stambler settled the case against three other defendants: Openwave Systems, Inc., Certicom Corp. and First Data Corporation before trial. The trial began on February 24 and concluded with a jury verdict on March 7, 2003. On March 7, 2003, the jury returned a unanimous verdict for RSA Security Inc. and VeriSign and against Mr. Stambler on the four remaining patent claims in suit. The court had ruled earlier in the case on two other claims, also finding in favor of VeriSign and RSA Security, Inc. On April 17, 2003, the Court entered final judgment for defendants VeriSign and RSA Security and against Mr. Stambler on all of his claims of patent infringement. On May 16, 2003, Mr. Stambler filed alternative motions with the trial court, seeking to overturn the judgment and obtain either judgment in his favor or a new trial. The District Court denied Mr. Stambler's motions. Mr. Stambler appealed the trial court's final judgment against him as to claim 34 of U.S. patent 5,793,302 to the U.S. Court of Appeals for the Federal Circuit. The appeal was denied on February 11, 2005.

On September 7, 2001, NetMoneyIN, an Arizona corporation, filed a complaint styled as a First Amended Complaint alleging patent infringement against VeriSign and several other previously-named defendants in the United States District Court for the District of Arizona asserting infringement of U.S. patent Nos. 5,822,737 and 5,963,917. NetMoneyIN filed a second amended complaint on October 15, 2002, alleging infringement by VeriSign and several other defendants of a third U. S. patent (No. 6,381,584) in addition to the two patents previously asserted. The second amended complaint dropped some of the originally-named defendants and added others. On August 27, 2003, NetMoneyIN filed a third amended complaint alleging direct infringement of the same three patents by VeriSign and several other previously-named defendants. In this complaint, NetMoneyIN dropped its claim of active inducement of infringement by VeriSign. Some of the other current defendants include IBM, BA Merchant Services, Wells Fargo Bank, Cardservice International, InfoSpace, E-Commerce Exchange and Paymentech. VeriSign filed an answer denying any infringement and asserting that the three asserted patents are invalid and later filed an amended answer asserting, in addition, that the asserted patents are unenforceable due to inequitable conduct before the U.S. Patent and Trademark Office. The complaint alleges that VeriSign's Payflow payment products and services directly infringe certain claims of NetMoneyIN's three patents and requests the Court to enter judgment in favor of NetMoneyIN, a permanent injunction against the defendants' alleged infringing activities, an order requiring defendants to provide an accounting for NetMoneyIN's damages, to pay NetMoneyIN such damages and three times that amount for any willful infringers, and an order awarding NetMoneyIN attorney fees and costs. NetMoneyIN has recently dropped its allegations of infringement of the '584 patent. Also, the original lead counsel for NetMoneyIN has withdrawn from the case, and NetMoneyIN has hired new counsel. While we cannot predict the outcome of this matter, we believe that the allegations are without merit.

On June 30, 2003, IDN Technologies, LLC filed a complaint alleging patent infringement against VeriSign in the United States District Court for the Northern District of California asserting infringement of U.S. patent no. 6,182,148 B1. IDN Technologies filed an amended complaint on August 6, 2003, alleging infringement of the same patent but adding an additional VeriSign service. VeriSign responded by filing a counterclaim for declaratory relief and an answer denying any infringement and asserting that the patent is invalid. On September 24, 2004, the court ruled in favor of VeriSign on all Markman issues. On January 18, 2005, the court granted VeriSign's motion for summary judgment. Entry of judgment in favor of VeriSign on all claims is expected to occur in the near future. Plaintiff has stated its intention to appeal such judgment.

Beginning in May of 2002, several class action complaints were filed against VeriSign and certain of its current and former officers and directors in the United States District Court for the Northern District of California. These actions were consolidated under the heading In re VeriSign, Inc. Securities Litigation, Case No. C-02-2270 JW(HRL), on July 26, 2002. The consolidated action seeks unspecified damages for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, on behalf of a class of persons who purchased VeriSign stock from January 25, 2001 through April 25, 2002. An amended consolidated complaint was filed on November 8, 2002. On April 14, 2003, the court granted in part and denied in part the defendants' motion to dismiss the amended and consolidated complaint. On May 5, 2004, plaintiffs filed a second amended complaint that is substantially identical to the amended consolidated complaint except that it purports to add a claim under Sections 11 and 15 of the Securities Act of 1933 on behalf of a subclass of persons who acquired shares of VeriSign pursuant to the registration statement and prospectus filed October 10, 2001 and amended October 26, 2001 for the acquisition of Illuminet Holdings, Inc. by VeriSign.

Parallel derivative actions have also been filed against certain of VeriSign's current and former officers and directors in state courts in California and Delaware. VeriSign is named as a nominal defendant in these actions.

Several of these derivative actions were filed in Santa Clara County Superior Court of California, and these actions have since been consolidated under the heading In re VeriSign, Inc. Derivative Litigation, Case No. CV 807719.

The consolidated derivative action seeks unspecified damages for alleged breaches of fiduciary duty and violations of the California Corporations Code. Defendants' demurrer to these claims was granted with leave to amend on February 4, 2003. Plaintiffs have indicated their intention to file an amended complaint. Another derivative action was filed in the Court of Chancery New Castle County, Delaware, Case No. 19700-NC, alleging similar breaches of fiduciary duty. Defendants' motion to dismiss these claims was granted by the Court of Chancery with prejudice on September 30, 2003.

VeriSign and the individual defendants dispute all of these claims.

VeriSign was named as a defendant in four lawsuits filed since September 18, 2003, relating to VeriSign's Site Finder service. Two of these lawsuits were brought by alleged competitors of VeriSign. The remaining suits, one class action suit and one representative suit, were filed on behalf of consumers and commercial Internet users. VeriSign filed motions to dismiss both of the alleged competitor lawsuits. In one of those competitor lawsuits, the plaintiff did not oppose VeriSign's motion to dismiss the original complaint and subsequently filed an amended complaint, which VeriSign also moved to dismiss. The courts have ruled on VeriSign's motions in these two competitor cases by granting the motions in part and denying them in part. In both competitor lawsuits, after VeriSign responded to the complaint and before substantive discovery was exchanged, the plaintiffs agreed to dismiss their cases without prejudice in return for confidentiality agreements and no monetary payment. VeriSign also moved to dismiss the amended complaints filed in the class action and the representative action. In response to VeriSign's motions to dismiss, the plaintiffs voluntarily dismissed the class action and representative action without prejudice to refiling. Dismissals have been entered by the courts in both cases.

On August 27, 2004, we filed a lawsuit against ICANN in the Superior Court of the State of California Los Angeles County. The lawsuit alleges that ICANN breached its .com Registry Agreement with VeriSign, including, without limitation, by overstepping its contractual authority and improperly attempting to regulate our business. The complaint seeks, among other things, specific performance of the .com Registry Agreement, an injunction prohibiting ICANN from improperly regulating VeriSign, and monetary damages. On November 12, 2004, ICANN filed an answer denying VeriSign's claims and a cross-complaint against VeriSign for declaratory relief and breach of the .com Registry Agreement, alleging that VeriSign's introduction of new services breached the .com Agreement. ICANN seeks a declaration from the court that it has acted in compliance with the parties' contractual obligations with regard to the .com registry; that VeriSign has breached the parties' agreement through VeriSign's actions with respect to, among other things, SiteFinder; and that ICANN has the right to terminate the .com registry agreement if VeriSign offers "Registry Services" without ICANN's approval, including among others SiteFinder. On December 28, 2004, VeriSign filed an answer denying the claims in ICANN's cross-complaint and a cross-complaint against ICANN for breach of contract, violation of the unfair competition laws, and declaratory relief, alleging, among other things, that ICANN's accreditation of "thread" registrars is improper and causes direct injury to VeriSign. On February 14, 2005, ICANN filed an answer to VeriSign's cross-complaint denying VeriSign's allegations. We cannot predict the outcome of this lawsuit or the affect it will have on our relationship with ICANN.

On or about November 12, 2004, ICANN filed a Request for Arbitration before the International Chamber of Commerce International Court of Arbitration (the "ICC") alleging that VeriSign violated its .net Registry Agreement with ICANN when, among other things, VeriSign operated the SiteFinder service without ICANN approval. ICANN seeks a declaration from the ICC that it has acted in compliance with the parties' contractual obligations with regard to the .net registry; that VeriSign has breached the parties' agreement through VeriSign's actions with respect to, among other things, SiteFinder; and that ICANN has the right to terminate the .net registry agreement if VeriSign offers "Registry Services" without ICANN's approval, including among others SiteFinder. ICANN also seeks a declaration that, in evaluating VeriSign's bid to become the "successor" registry operator for the .net top level domain after the term of the current agreement expires on or about June 30, 2005, ICANN is entitled to consider VeriSign's alleged breaches of the existing .net agreement. We cannot predict the outcome of this action or the affect this lawsuit will have on our relationship with ICANN.

On January 18, 2005, we filed a request for arbitration before the ICC against ICANN regarding the currently-pending process by which ICANN is soliciting and reviewing bids from companies, including VeriSign, to become the "successor" registry operator for the *.net* top level domain after the current registry agreement expires on or about June 30, 2005. VeriSign alleges that the "request for proposal" ("RFP") process constitutes a breach of the current .net registry agreement because, among other things, the RFP process fails to constitute an open and transparent process by which ICANN can reasonably select the best qualified successor to operate the .net registry and does not constitute a valid "consensus policy" as defined in the current .net agreement. ICANN has not yet responded to our arbitration request. We cannot predict the outcome of this action or the affect this action will have on our relationship with ICANN.

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

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 2004.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information regarding the executive officers of VeriSign as of February 28, 2005:

Name	Age	Position
Stratton D. Sclavos	43	President, Chief Executive Officer and Chairman of the Board of Directors
Dana L. Evan	45	Executive Vice President, Finance and Administration and Chief Financial Officer
Quentin P. Gallivan	47	Executive Vice President, Worldwide Sales and Services
Vernon L. Irvin	43	Executive Vice President, Communications Services
Robert J. Korzeniewski	47	Executive Vice President, Corporate and Business Development
Judy Lin	40	Executive Vice President and General Manager, Security Services
Aristotle Balogh	40	Senior Vice President, Operations and Infrastructure
Mark McLaughlin	39	Senior Vice President and General Manager, Naming and Directory Services
James M. Ulam	48	Senior Vice President, General Counsel and Secretary

Stratton D. Sclavos has served as President and Chief Executive Officer and as a director of VeriSign since he joined VeriSign in July 1995. In December 2001, he was named Chairman of the Board of Directors. From October 1993 to June 1995, he was Vice President, Worldwide Marketing and Sales of Taligent, Inc., a software development company that was a joint venture among Apple Computer, Inc., IBM and Hewlett-Packard. From May 1992 to September 1993, Mr. Sclavos was Vice President of Worldwide Sales and Business Development of GO Corporation, a pen-based computer company. Prior to that time, he served in various sales and marketing capacities for MIPS Computer Systems, Inc. and Megatest Corporation. Mr. Sclavos serves as a director of Juniper Networks, Inc., Intuit, Inc. and Salesforce.com, Inc. Mr. Sclavos holds a B.S. degree in Electrical and Computer Engineering from the University of California at Davis.

Dana L. Evan has served as Executive Vice President of Finance and Administration and Chief Financial Officer since January 1, 2001. From June 1996 until December 31, 2000 she served as Vice President of Finance and Administration and Chief Financial Officer of VeriSign. From 1988 to June 1996, Ms. Evan worked as a financial consultant in the capacity of chief financial officer, vice president of finance or corporate controller for various public and private companies and partnerships, including VeriSign from November 1995 to June 1996. Prior to 1988, she was employed by KPMG LLP, most recently as a senior manager. Ms. Evan is a certified public accountant and holds a B.S. degree in Commerce with a concentration in Accounting and Finance from Santa Clara University.

Quentin P. Gallivan has served as Executive Vice President, Worldwide Sales and Services since April 1999. From October 1997 to April 1999, he served as Vice President of Worldwide Sales of VeriSign. From April 1996 to October 1997, he was Vice President for Asia Pacific and Latin America of Netscape, a software company. Prior to that time, from 1983 to March 1996, Mr. Gallivan was with General Electric Information Services, an electronic commerce services company, in several general management roles most recently as Vice President, Sales and Services for the Americas.

Vernon L. Irvin has served as Executive Vice President of Communications Services since June 2003. Prior to joining VeriSign, Mr. Irvin served as Executive Vice President of American Management Systems, Inc. (AMS), a business and IT consulting firm, since February 2002. From May 1999 until February 2002, Mr. Irvin served as a founding manager and president of BT Ignite, the broadband and Internet services business of British Telecommunications PLC. Mr. Irvin holds a B.S. degree in Information Systems from the University of Cincinnati in Ohio.

Robert J. Korzeniewski has served as Executive Vice President, Corporate and Business Development since joining VeriSign upon its acquisition of Network Solutions in June 2000. He served as Chief Financial Officer of Network Solutions from March 1996 to June 2000. Prior to joining Network Solutions, Mr. Korzeniewski held various senior financial positions at Science Application International Company from 1987 to March 1996. Mr. Korzeniewski serves as a director of Talk America Holdings, Inc. and Kintera, Inc. Mr. Korzeniewski is a certified public accountant and holds a B.S. degree in Business Administration from Salem State College.

Judy Lin has served as Executive Vice President and General Manager, Security Services since January 2003. Since joining VeriSign in February 1996, Ms. Lin has served in a variety of management positions from Director of Core Technology to Vice President of Product Development. Prior to joining VeriSign, Ms. Lin served in a variety of software development and management roles at Taligent, Apple Computer and Hewlett-Packard. Ms. Lin holds dual B.A. degrees in Computer Science and European History from the University of California, Berkeley.

Aristotle Balogh has served as Senior Vice President, Operations and Infrastructure since May 2002. From 1999 to 2002, Mr. Balogh served as Vice President of Engineering at VeriSign and Network Solutions. Prior to that, he held a variety of positions at Network Solutions. Prior to joining Network Solutions in 1998, Mr. Balogh held a variety of senior engineer and management roles at SRA Corporation, UPS's Roadnet Technologies, and Westinghouse Electric Corporation. Mr. Balogh holds a B.S. degree in Electrical Engineering and Computer Science and an M.S.E. degree in Electrical and Computer Engineering from the Whiting School of Engineering at Johns Hopkins University.

Mark McLaughlin has served as Senior Vice President and General Manager, Naming and Directory Services since January 2005. From November 2003 through December 2004, Mr. McLaughlin was Senior Vice President and Deputy General Manager of Naming and Directory Services. From 2002 to 2003, he served as Vice President, Corporate Business Development and from 2000 to 2001 he was Vice President, General Manager of VeriSign Payment Services. Prior to joining VeriSign, Mr. McLaughlin was the Vice President, Business Development of Signio, an internet payment company acquired by VeriSign in February 2000. Mr. McLaughlin holds a B.S. degree in Political Science from the U.S. Military Academy at West Point and a J.D. degree from the Seattle University School of Law.

James M. Ulam has served as Senior Vice President and General Counsel since October 2001, and as Vice President and General Counsel since joining VeriSign upon its acquisition of Network Solutions in June 2000, and as Secretary of VeriSign since November 2000. From October 1996 to June 2000, he served in a variety of positions for Network Solutions, including Corporate Counsel and Assistant General Counsel. Prior to joining Network Solutions, he was a Contracts Attorney for Science Application International Company from April 1995 until October 1996. Prior to that he was in the private practice of law at Wells, Moore, Stubblefield and Neeld from March 1994 to March 1995 and at Ott & Purdy from March 1992 until March 1994. Mr. Ulam holds a B.S. degree in Business Administration from the University of Maryland and a J.D. degree from the Mississippi College School of Law.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock

VeriSign's common stock is traded on the Nasdaq National Market under the symbol "VRSN." The following table sets forth, for the periods indicated, the high and low sales prices per share for our common stock as reported by the Nasdaq National Market:

	Price Range	
	High	**Low**
Year ended December 31, 2005:		
First Quarter (through February 28, 2005)	$33.67	$24.48
Year ended December 31, 2004:		
Fourth Quarter	$36.09	$19.99
Third Quarter	20.00	16.21
Second Quarter	19.96	15.22
First Quarter	21.09	14.94
Year ended December 31, 2003:		
Fourth Quarter	$17.55	$13.15
Third Quarter	16.80	11.52
Second Quarter	16.20	8.59
First Quarter	11.21	6.55

On February 28, 2005, there were 997 holders of record of our common stock although we believe there are in excess of 100,000 beneficial owners since many brokers and other institutions hold our stock on behalf of stockholders. On February 28, 2005, the reported last sale price of our common stock was $27.42 per share as reported by the Nasdaq National Market. Information on our equity compensation plans may be found in the section captioned "Equity Compensation Plan Information" appearing in the definitive Proxy Statement to be delivered to stockholders in connection with the 2005 Annual Meeting of Stockholders which information is incorporated herein by reference.

The market price of our common stock has been and is likely to continue to be highly volatile and significantly affected by factors such as:

- general market and economic conditions and market conditions affecting technology and Internet stocks generally;
- announcements of technological innovations, acquisitions or investments by us or our competitors;
- developments in Internet governance; and
- industry conditions and trends.

The market price of our common stock also has been and is likely to continue to be significantly affected by expectations of analysts and investors. Reports and statements of analysts do not necessarily reflect our views. The fact that we have in the past met or exceeded analyst or investor expectations does not necessarily mean that we will do so in the future.

In the past, securities class action lawsuits have often followed periods of volatility in the market price of a particular company's securities. This type of litigation could result in substantial costs and a diversion of our management's attention and resources.

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We have never declared or paid any cash dividends on our common stock or other securities and we do not anticipate paying cash dividends in the foreseeable future. We currently intend to retain our earnings, if any, for future growth.

Share Repurchases

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
October 1–31, 2004	—	—	—	$ 245.6 million
November 1–30, 2004	170,000	$ 31.21	170,000	240.2 million
December 1–31, 2004	2,220,200	32.89	2,220,200	167.2 million
Total	2,390,200	$ 32.77	2,390,200	

On April 26, 2001, VeriSign announced that the Board of Directors authorized the repurchase of up to $350.0 million of the Company’s common stock for cash in open market, negotiated or block transactions.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data are derived from our consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and notes thereto, and with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. We have made several acquisitions over the last five years, each of which was accounted for as a purchase transaction. Accordingly, the results of the acquired companies' operations are included in our consolidated financial statements from their respective dates of acquisition. We completed the sale of our Network Solutions domain name registrar business in November 2003. The results of Network Solutions' operations are included in our consolidated financial statements through November 25, 2003, the closing date of sale.

	Years Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues	$1,166,455	$1,054,780	$ 1,221,668	$ 983,564	$ 474,766
Net income (loss) (1)	186,225	(259,879)	(4,961,297)	(13,355,952)	(3,115,474)
Basic net income (loss) per share (1)	0.74	(1.08)	(20.97)	(65.64)	(19.57)
Diluted net income (loss) per share (1)	0.72	(1.08)	(20.97)	(65.64)	(19.57)
Consolidated Balance Sheet Data:					
Total assets (1)	2,592,874	2,100,538	2,391,318	7,537,508	19,195,222
Other long-term liabilities (2)	6,815	8,978	16,544	16,881	—
Stockholders' equity (1)	1,691,997	1,383,653	1,579,425	6,506,074	18,470,608

(1) Beginning fiscal 2002, we adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "*Goodwill and Other Intangible Assets,*" and as a result, $5.0 billion of goodwill, net of accumulated amortization, including workforce in place that was subsumed into goodwill on the date of adoption, ceased to be amortized. The consolidated statements of operations included amortization and impairment of goodwill and other intangible assets totaling $79.4 million, $335.5 million, $4.9 billion, $13.6 billion, $3.2 billion in 2004, 2003, 2002, 2001 and 2000, respectively.

(2) The current portion of long-term liabilities is included in accounts payable and accrued liabilities and the non-current portion is included in other long-term liabilities in the accompanying consolidated balance sheets.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Except for historical information, this Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve risks and uncertainties, including, among other things, statements regarding our anticipated costs and expenses and revenue mix. Forward-looking statements include, among others, those statements including the words "expects," "anticipates," "intends," "believes" and similar language. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Item 1 "Business—Factors That May Affect Future Results of Operations." You should carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q or Current Reports on Form 8-K that we file in 2005. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

Overview

VeriSign, Inc. is a leading provider of intelligent infrastructure services that enable people and businesses to find, connect, secure, and transact across complex global networks. In 2004, our business consisted of two reportable segments: the Internet Services Group and the Communications Services Group. Prior to 2004, our business included an additional reportable segment, the Network Solutions domain name registrar business, which was sold in November 2003.

Improving economic conditions during 2004 in the U.S., Europe and Japan led to improved customer spending in each of our principal business segments leading to growth in revenues and deferred revenues. IT spending for security services and e-commerce activity in our principal geographic markets accelerated as the year progressed and we saw continued growth in domain name registrations and domain name renewals, with active domain names ending in *.com* and *.net* increasing by 26% during 2004. Spending for our services by telecommunications customers in the United States also increased during the year, and Jamba!, our European-based provider of mobile content services to telecommunications carriers and customers that was acquired in June 2004, contributed approximately $180.8 million of revenues during 2004. In the U.S., the Communications Services Group's results were adversely affected as the pace of consolidations in the domestic telecommunications sector quickened during the year.

We derive the majority of our revenues and cash flows from a relatively small number of products and services sold primarily in the United States, Europe and Japan. In the Internet Services Group, more than 83% of the revenues during 2004 were derived from the sale of web certificates, payment services, managed authentication and security services and registry services. In the Communications Services Group, 82% of the revenues were derived from the sale of calling name services, billing services, SS7 connectivity, signaling services, and mobile content services during the same period.

For the Communications Services Group, we expect growth in mobile content services revenues, particularly in new markets such as the U.S., offset somewhat by a decline in connectivity, clearing and settlement, and billing-related revenues in the first quarter with a return to moderate growth in such revenues expected in the second quarter. Consolidations in the telecommunications sector and pricing pressures have the potential to adversely impact the Communications Services Group's results. For the Internet Services Group, we expect continued growth in the levels of IT spending for security services by our customers in the U.S., Europe and Japan and growth in global e-commerce activity that we believe will result in revenue and deferred revenue growth for 2005.

Network Solutions Sale

On November 25, 2003, we completed the sale of our Network Solutions domain name registrar business to Pivotal Private Equity, although we retained a 15% interest in the business. We will not recognize any revenue from the Network Solutions business in the future, other than revenues that may be recognized in connection with registry or other services we may provide to Network Solutions as a customer.

VeriSign Japan K.K.

On November 22, 2004, we sold 18,000 ordinary shares of our Tokyo-based, majority owned consolidated subsidiary, VeriSign Japan K.K. ("VeriSign Japan"), representing approximately 7% of our ownership interest, for approximately $78 million. After giving effect to the sale, we continue to own a majority stake in VeriSign Japan equal to approximately 54% of VeriSign Japan's total shares outstanding. In the fourth quarter of 2003, VeriSign Japan, completed an initial public offering of its common stock. Approximately $37.4 million was raised by VeriSign Japan from the initial public offering and through subsequent stock option exercises during the fourth quarter of 2003. VeriSign Japan's shares began trading on the Tokyo Stock Exchange ("TSE") on November 19, 2003 under the company code 3722.

Acquisitions

In October 2004, we acquired the 49% minority interest in Jamba! Switzerland for approximately $0.8 million in cash. Jamba! Switzerland is now a wholly-owned subsidiary.

In June 2004, we completed our acquisition of Jamba!, a privately held provider of mobile content services. We paid approximately $266 million for all the outstanding shares of capital stock of Jamba!, of which approximately $178 million was in cash and the remainder in VeriSign common stock. Also in June 2004, we acquired the 49% minority interest in VeriSign Australia for approximately $4.6 million in VeriSign common stock. VeriSign Australia is now a wholly-owned subsidiary.

In April 2004, we completed our acquisition of the SSL certificate business from EuroTrust A/S, our Nordic region Affiliate program member, for approximately $8.5 million in cash.

In March 2004, we completed our acquisition of the assets of Unimobile, a provider of mobile messaging solutions for carriers and enterprises, for approximately $5 million in cash.

In February 2004, we completed our acquisition of Guardent, Inc., a privately held provider of managed security services. We paid approximately $135 million for all the outstanding shares of capital stock of Guardent, of which approximately $65 million was in cash and the remainder in VeriSign common stock.

In October 2003, we completed our acquisition of UNC-Embratel, the clearinghouse division of Embratel, for approximately $16 million. UNC-Embratel provides call record tracking, clearing and settlement services for a majority of the mobile and fixed telecommunications carriers in Brazil.

In February 2002, we completed our acquisition of H.O. Systems, Inc., a provider of billing and customer care solutions to wireless carriers. We paid approximately $350 million in cash for all of the outstanding stock of H.O. Systems.

We accounted for all of our acquisitions in 2004, 2003 and 2002 as purchase business combinations. Accordingly, the acquired companies' revenues, costs and expenses have been included in our results of operations beginning with their dates of acquisition. Additionally, the results of operations of the Network Solutions domain name registrar business have been excluded from our consolidated results of operations since we finalized the sale of the business on November 25, 2003. As a result of our sale of the Network Solutions domain name registrar business in 2003 and our acquisitions during 2004, 2003 and 2002, comparisons of revenues, costs and expenses for the year ended December 31, 2004 to the years ended December 31, 2003, and 2002 may not be relevant, as the businesses represented in the consolidated financial statements were not equivalent.

Subsequent events

On January 10, 2005, we announced that we had executed a definitive agreement to acquire LightSurf Technologies, Inc. ("LightSurf"). Under the terms of the agreement, we agreed to issue shares of our common stock having a value of approximately $270 million for all of the outstanding capital stock, warrants and vested options of LightSurf and to pay certain transaction-related expenses of LightSurf. In addition, we will assume all unvested stock options of LightSurf. LightSurf is a leading privately held provider of multimedia messaging and interoperability solutions for the wireless market. The transaction is subject to certain closing conditions, including the issuance of a permit from the California Department of Corporations. The transaction is anticipated to close by the end of the first quarter of 2005.

In the first quarter of 2005, we completed a settlement of litigation with a telecommunications carrier, resolving disputes over certain tariff charges for SS7 traffic that we passed through to telecommunications carriers who purchased our SS7 services. Under the settlement, the carrier refunded and/or credited certain amounts to us and we refunded and/or credited certain amounts to our customers. As a result of the settlement, we will record a reduction in cost of revenues of approximately $5 million in the first quarter of 2005.

Critical accounting policies and significant management estimates

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

Revenue recognition

We recognize revenue in accordance with current generally accepted accounting principles. Revenue recognition requirements are complex rules which require us to make judgments and estimates. In applying our revenue recognition policy we must determine which portions of our revenue are recognized currently and which portions must be deferred. In order to determine current and deferred revenue, we make judgments and estimates with regard to the products and services to be provided. Our assumptions and judgments regarding products and services could differ from actual events.

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

Allowance for doubtful accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We regularly review the adequacy of our accounts receivable allowance after considering the size of the accounts receivable balance, each customer's expected ability to pay and our collection history with each customer. We review significant invoices that are past due to determine if an allowance is appropriate based on the risk category using the factors described above. In addition, we maintain a general reserve for certain invoices by applying a percentage based on the age category. We also monitor our accounts receivable for concentration to any one customer, industry or geographic region. 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. As of December 31, 2004, the allowance for doubtful accounts represented approximately 5% of total accounts receivable, or approximately $11.5 million. A change of 1% in our estimate would amount to approximately $2.1 million.

Valuation of long-lived intangible assets including goodwill

Our long-lived assets consist primarily of goodwill, other intangible assets and property and equipment. We review, at least annually, goodwill resulting from purchase business combinations for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "*Goodwill and Other Intangible Assets*." We review long-lived assets, including certain identifiable intangibles, for impairment whenever events or changes in circumstances indicate that we will not be able to recover the asset's carrying amount in accordance with SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*." Such events or circumstances include, but are not limited to, a significant decrease in the fair value of the underlying business or asset, a significant decrease in the benefits realized from the acquired business, difficulty and delays in integrating the business or a significant change in the operations of the acquired business or use of an asset.

Recoverability of long-lived assets other than goodwill is measured by comparison of the carrying amount of an asset to estimated undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds its fair value.

Goodwill and other intangible assets, net of accumulated amortization, totaled approximately $969.2 million at December 31, 2004, which was comprised of $725.4 million of goodwill and $243.8 million of other intangible assets. Other intangible assets include customer relationships, technology in place, carrier relationships, non-compete agreements, trade names, and customer lists. Factors we consider important which could trigger an impairment review include, but are not limited to, significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of our use of our acquired assets or the strategy for our overall business or significant negative economic trends. If this evaluation indicates that the value of an intangible asset may be impaired, an assessment of the recoverability of the net carrying value of the asset over its remaining useful life is made. If this assessment indicates that an intangible asset is not recoverable, based on the estimated undiscounted future cash flows or other comparable market valuations, of the entity or technology acquired over the remaining amortization period, the net carrying value of the related intangible asset will be reduced to fair value and the remaining amortization period may be adjusted. Any such impairment charge could be significant and could have a material adverse effect on our reported financial statements. It is our policy to engage third party valuation consultants to assist us in the measurement of the fair value of our long-lived intangible assets including goodwill.

Restructuring and Other Charges

In November 2003, we initiated a restructuring plan related to the sale of our Network Solutions business and the realignment of other business units. In April 2002, we initiated plans to restructure our operations to fully rationalize, integrate and align our resources. Both plans resulted in reductions in workforce, abandonment of excess facilities, disposal of property and equipment and other charges. We expect these restructuring plans to be completed in 2014 upon the expiration of our lease obligations for abandoned facilities. Restructuring charges take into account the fair value of lease obligations of the abandoned space, including the potential for sublease income. Estimating the amount of sublease income requires management to make estimates for the space that will be rented, the rate per square foot that might be received and the vacancy period of each property. These estimates could differ materially from actual amounts due to changes in the real estate markets in which the properties are located, such as the supply of office space and prevailing lease rates. Changing market conditions by location and considerable work with third-party leasing companies require us to periodically review each lease and change our estimates on a prospective basis, as necessary. During 2004, we recorded net restructuring reversals of approximately $1.3 million related to excess facilities as a result of reductions in lease obligations. Such estimates will likely be revised in the future. If sublease rates continue to change in these markets, or if it takes longer than expected to sublease these facilities, the actual lease expense could exceed this estimate by an additional $32.6 million over the next ten years relating to our restructuring plans.

Provision for royalty liabilities for intellectual property rights

Certain of our mobile content services utilize intellectual property owned or held under license by others. Where we have not yet entered into a license agreement with a holder, we record a provision for royalty payments that we estimate will be due once a license agreement is concluded. We estimate the royalty payments based on the prevailing royalty rate for the type of intellectual property being utilized. Our estimates could differ materially from the actual royalties to be paid under any definitive license agreements that may be reached due to changes in the market for such intellectual property, such as a change in demand for a particular type of content, in which case we would record a royalty expense materially different than our estimate.

Income Taxes

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

Results of Operations

Revenues

In 2004, we had two reportable segments: the Internet Services Group and the Communications Services Group. In 2003, we had three reportable segments: the Internet Services Group, the Communications Services Group and Network Solutions. As a result of our sale of the Network Solutions domain name registrar business on November 25, 2003, we do not recognize revenues from this segment other than revenues that may be recognized in connection with registry or other services we may provide to Network Solutions as a customer. A comparison of revenues for the years ended December 31, 2004, 2003 and 2002 is presented below.

	2004	% Change	2003	% Change	2002
			(Dollars in thousands)		
Internet Services Group	$ 564,148	29%	$ 436,216	(17)%	$ 524,765
Communications Services Group	602,307	48%	406,745	5%	385,734
Network Solutions	—	(100)%	211,819	(32)%	311,169
Total revenues	$1,166,455	11%	$1,054,780	(14)%	$1,221,668

Total revenues increased approximately $111.7 million in 2004, as compared to 2003, due to revenue increases in both our Internet Services Group and Communications Services Group, partially offset by the loss of revenues as a result of the sale of our Network Solutions domain name registrar business in November 2003. Total revenues decreased approximately $166.9 million in 2003, as compared to 2002, due to decreases in both our Internet Services Group and Network Solutions, partially offset by an increase in revenues in our Communications Services Group.

Internet Services Group

Internet Services Group revenues increased approximately $127.9 million in 2004, as compared to 2003, primarily due to increases in Naming and Directory Services and Security Services revenues of approximately $65.1 million and $62.8 million, respectively. Naming and Directory Services revenues increased as a result of recognizing revenues from Network Solutions, that were previously eliminated prior to the sale of this business. In addition, we experienced an increase in the number of active domain names ending in *.com* and *.net* under management. The Security Services revenue increase was due to increases in managed security services and consulting services revenues of $18.5 million primarily attributable to the acquisition of Guardent in February 2004 and increases in Web site digital certificate revenue and secure payments services revenue of $22.3 million and $10.2 million, respectively.

Internet Services Group revenues decreased approximately $88.5 million in 2003 compared to 2002 due to a decline in Security Services revenues of approximately $123.0 million resulting from the discontinuation of third party product sales and related consulting and support services and a decline in revenues from VeriSign Affiliates of $19.0 million. The decreases in revenues were partially offset by an increase in revenues of $10.1 million from our secure payments services, an increase in Web site digital certificate revenue of $23.5 million and an increase in Naming and Directory Services revenues of $20.8 million.

The following table compares active domain names ending in *.com* and *.net* managed by our Naming and Directory Services business, the approximate installed base of Web site digital certificates in our commerce site services business and the approximate number of active online merchants in our secured payments services business as of the end of each year presented:

	December 31, 2004	% Change	December 31, 2003	% Change	December 31, 2002
Active domain names ending in .com and .net	38.4 million	26%	30.4 million	18 %	25.8 million
Installed base of Web site digital certificates	455,000	18%	384,000	(2)%	392,000
Active online merchants	127,000	25%	102,000	23 %	83,000

We expect Internet Services Group revenues will continue to grow in 2005 as demand for our Naming and Directory Services and Security Services is expected to grow.

Communications Services Group

Communications Services Group revenues increased approximately $195.6 million in 2004, as compared to 2003, primarily due to an increase in mobile content revenues of $180.8 million attributable to our acquisition of Jamba! in June 2004. In addition, intelligent database services revenues increased approximately $15.0 million primarily due to increases in calling name (CNAM) and local and wireless number portability revenues. Applications services revenues increased $3.5 million due to increases in messaging services traffic. Billing and payment services revenues declined $8.8 million primarily due to pricing reductions for these services and loss of customers due to consolidation in the telecommunications industry. Clearing and settlement services increased $5.3 million primarily from increases in revenues from VeriSign Brazil reflecting the inclusion of a full year of revenues from this subsidiary that was acquired in October 2003.

Communications Services Group revenues increased approximately $21.0 million in 2003, as compared to 2002, as a result of an increase in clearing and settlement services revenues of $18.2 million and an increase in network connectivity and interoperability revenues of $1.0 million. These increases were partially offset by a decline in CNAM revenues of $2.2 million.

The following table compares the approximate number of annual database queries and communications services customers as of the end of each year presented:

	December 31, 2004	% Change	December 31, 2003	% Change	December 31, 2002
Annual database queries	47.3 billion	44%	32.8 billion	13%	28.9 billion
Communications services customers (1)	1,275	8%	1,177	14%	1,035

(1) excludes subscribers of mobile content services.

We expect Communications Services Group revenues will increase in 2005 principally as a result of growth in mobile content and applications revenues.

Network Solutions

We completed the sale of our Network Solutions domain name registrar business on November 25, 2003 and recognized no revenues from this segment in 2004. We will not recognize any revenue from the Network Solutions business in the future, other than revenues that may be recognized in connection with registry or other services we may provide to Network Solutions as a customer. Network Solutions revenues declined $99.4 million in 2003 compared to 2002 principally due to weaker demand for new domain name registrations and a decline in total domain names under management. Active domain names under management were approximately 8.2 million names as of November 25, 2003, the date we sold Network Solutions, compared to 9.3 million at December 31, 2002. In addition, the revenue decline reflects the completion of the sale of the Network Solutions domain name registrar business on November 25, 2003 which resulted in 329 days of consolidated revenues for 2003 compared to a full year in 2002.

Revenues by Geographic Region

Our revenues are broken out into three geographic regions consisting of the Americas, EMEA and APAC. The following table shows a comparison of our revenues by geographic region for each year presented:

	2004	2003	2002
		(In thousands)	
Americas:			
United States	$ 843,604	$ 941,913	$ 1,115,731
Other (1)	19,734	13,080	6,343
Total Americas	863,338	954,993	1,122,074
EMEA (2)	237,310	48,217	54,345
APAC (3)	65,807	51,570	45,249
Total revenues	$ 1,166,455	$ 1,054,780	$ 1,221,668

(1) Canada, Latin America and South America
(2) Europe, the Middle East and Africa ("EMEA")
(3) Australia, Japan and Asia Pacific ("APAC")

Revenues decreased $91.7 million in the Americas region in 2004 as compared to 2003 primarily as a result of the sale of Network Solutions in November 2003. Revenues in our EMEA region increased $189.1 million in the same period primarily due to the acquisition of Jamba! in June 2004, which contributed approximately $180.8 million in 2004. In addition, increases in our web certificate and managed PKI sales in EMEA also contributed to the increase, partially offset by decreases in our VeriSign Affiliate revenue as we continued to move to a direct distribution model through international subsidiaries in certain larger European markets. The increase in APAC revenues of $14.2 million in 2004 as compared to 2003 was primarily related to increased enterprise security sales in both the Japan and Australian markets, partially offset by a decrease in VeriSign Affiliate revenue.

Revenues decreased $167.1 million in the Americas region in 2003 as compared to 2002 primarily as a result of the discontinuation of third party product sales and the related support services in the fourth quarter of 2002. The decrease in EMEA revenues of $6.1 million in 2003 compared to 2002 is primarily related to a decrease in VeriSign Affiliate revenue partially offset by increases in web certificate and managed PKI revenues. The increase in APAC revenues of $6.3 million in 2003 compared to 2002 is primarily related to an increase in enterprise security sales in both the Japan and Australian markets, partially offset by a decrease in VeriSign Affiliate revenue.

We expect international revenues will increase in absolute dollars and as a percentage of revenues in 2005.

Costs and Expenses

Operating costs and expenses decreased by $248.3 million, or 19%, to $1,034.7 million during fiscal 2004 compared with the prior year. This was primarily due to a decrease in the charges we incurred for the amortization and impairment of other intangible assets related to our acquisitions. Amortization and impairment charges totaled approximately $79.4 million in 2004 compared to $335.5 million in 2003. Additionally, there were decreases in restructuring and other charges of $49.9 million, offset by increases of $58.2 million in sales and marketing expenses and $11.5 million in research and development expenses in 2004 compared to 2003.

We restructured our business in April of 2002 and again in November of 2003. As a result of these restructurings, and as a result of the sale of our Network Solutions business, we have experienced a significant reduction in overall costs in 2004 compared to 2003.

The following table shows a comparison of our employee headcount by function as of the end of each year presented:

	December 31, 2004	% Change	December 31, 2003	% Change	December 31, 2002
Employee headcount:					
Cost of revenues	1,500	32%	1,136	(24)%	1,500
Sales and marketing	708	28%	552	(20)%	693
Research and development	430	60%	269	(32)%	398
General and administrative	568	11%	514	(15)%	602
Total	3,206	30%	2,471	(23)%	3,193

Excluding the effects of any future acquisitions or dispositions, we expect our employee headcount to increase in 2005 across all business units and corporate services. As a result of our acquisition of Guardent and Jamba! we added approximately 700 employees to our overall headcount, primarily in the cost of revenues function. The sale of our Network Solutions business in November 2003 resulted in a headcount reduction of 577 employees, primarily in the cost of revenues function.

Cost of revenues

Cost of revenues consists primarily of costs related to providing digital certificate enrollment and issuance services, payment services, operational costs for the domain name registration business, customer support and training, consulting and development services, operational costs related to the management and monitoring of our clients' network security infrastructures, content licensing costs, carrier costs for our SS7 and IP-based networks and costs of facilities and computer equipment used in these activities.

A comparison of cost of revenues for the years ended December 31, 2004, 2003 and 2002 is presented below.

	2004	% Change	2003	% Change	2002
			(Dollars in thousands)		
Cost of revenues	$444,759	(0.3)%	$446,207	(22)%	$571,367
Percentage of revenues	38%		42%		47%

Cost of revenues decreased approximately $1.4 million in 2004, as compared to 2003, primarily due a decrease of $69.5 million as a result of the sale of the Network Solutions domain name registrar business, which was offset by increases attributable to the acquisitions of Jamba! and Guardent of $49.8 million and $15.3 million, respectively.

Cost of revenues decreased $125.2 million in 2003, as compared to 2002 primarily due to our transition out of the third-party product reseller and the third-party product training businesses. This transition accounted for a decrease of approximately $105.9 million. Also, compensation costs decreased approximately $9.6 million in 2003, as compared to 2002, due to a reduction in employee headcount related to our restructuring plans announced in 2002 and 2003, while contract and professional services fees declined approximately $12.0 million in 2003, as compared to 2002, due primarily to the discontinuation of certain outsourced customer service centers for our Network Solutions registrar business.

As a percentage of revenues, cost of revenues decreased during 2004 as compared to 2003 primarily due to the sale of the Network Solutions business, which was a business with higher costs of revenue as a percentage of revenue than our other two business segments.

We anticipate that our overall cost of revenues will increase in 2005, but that our overall cost of revenues as a percentage of revenues will stay flat or decrease modestly in 2005 primarily due to greater cost efficiencies from our current businesses and recently acquired businesses, particularly mobile content services.

Sales and marketing

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

A comparison of sales and marketing expenses for the years ended December 31, 2004, 2003 and 2002 is presented below.

	2004	% Change	2003	% Change	2002
			(Dollars in thousands)		
Sales and marketing	$253,480	30%	$195,330	(21)%	$248,170
Percentage of revenues	22%		19%		20%

Sales and marketing expenses increased approximately $58.2 million in 2004 as compared to 2003, primarily due to our acquisitions of Jamba! and Guardent, which had sales and marketing expenses of $80.5 million and $8.8 million, respectively, that were partially offset by a decrease of $38.3 million in sales and marketing expenses due to the sale of our Network Solutions domain name registrar business. Additionally, we experienced an increase of approximately $7.1 million in advertising and marketing costs during this period primarily as a result of increased corporate brand advertising.

Sales and marketing expenses decreased approximately $52.8 million in 2003 compared to 2002 due to a reduction in advertising and marketing spending and a reduction in labor and benefit costs. Advertising and marketing expenses decreased approximately $22.5 million in 2003 due to a significant reduction in Network Solutions marketing campaigns during 2003. Labor and benefits costs decreased approximately $19.8 million in 2003 related to a reduction in employee headcount associated with our restructuring plans. Additionally, contract and professional services expenses decreased approximately $6.6 million due to an overall reduction in sales and marketing service contracts in 2003. Travel expenses decreased approximately $1.8 million in 2003 due to reduced employee headcount and an overall decrease in international travel as a result of safety concerns stemming from health and terrorism alerts.

As a percentage of revenues, sales and marketing expenses increased in 2004 compared to 2003 due to the increase in advertising and marketing spending in 2004 compared to 2003 as described above.

We expect increases in overall sales and marketing expenses in absolute dollars and as a percentage of revenues as we continue to expand in our domestic and international markets for our mobile content services, along with our continuing efforts in marketing new products such as Unified Authentication and related services, and increases in our spending for corporate brand advertising.

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 years ended December 31, 2004, 2003 and 2002 is presented below.

	2004	% Change	2003	% Change	2002
			(Dollars in thousands)		
Research and development	$67,346	21%	$55,806	15%	$48,353
Percentage of revenues	6%		5%		4%

Research and development expenses increased $11.5 million in 2004 as compared to 2003 primarily due to our acquisitions of Guardent and Jamba!. Research and development spending attributable to these acquired entities was $3.4 million and $3.5 million, respectively. The sale of our Network Solutions business had no material effect on our research and development expense. Additionally, we experienced an increase of approximately $4.1 million in increased costs associated with contract and professional services to support new and existing research and development efforts.

Research and development expenses increased slightly in 2003 compared to 2002. The increase of approximately $7.5 million was primarily a result of increased spending of approximately $3.6 million in the Communications Services Group. Additionally, our naming and directory services had increased equipment, software and depreciation expenses related to the development of new products and services of approximately $2.0 million.

As a percentage of revenues, research and development expenses increased due to the increase in overall spending in 2004 compared to 2003 as described above.

We believe that rapid development of new and enhanced services and technologies are necessary to maintain our leadership position in the marketplace. Accordingly, we intend to continue to recruit experienced research and development personnel and to make other investments in research and development. As a result, we expect research and development expenses to increase modestly in absolute dollars and decrease as a percentage of revenues in 2005.

General and administrative

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

A comparison of general and administrative expenses for the years ended December 31, 2004, 2003 and 2002 is presented below.

	2004	% Change	2003	% Change	2002
			(Dollars in thousands)		
General and administrative	$164,922	(2)%	$168,380	(2)%	$172,123
Percentage of revenues	14%		16%		14%

General and administrative expenses decreased approximately $3.5 million in 2004 compared to 2003. Overall general and administrative expenses increased from the acquisition of Guardent, Inc. and Jamba! in the amounts of $4.2 million and $16.5 million, respectively, but was offset by a decrease of $9.8 million in overall expenses due to the sale of our Network Solutions business.

Excluding the effects of the acquisitions of Guardent and Jamba! and the sale of our Network Solutions business, the overall decrease in general and administrative costs in 2004 as compared to 2003 was $14.4 million. This was primarily due to a reduction in costs from prior restructuring efforts of approximately $20.8 million, along with other efficiencies from cost reduction efforts of $6.5 million and a decrease in our bad debt expense of approximately $5.4 million. These decreases were partially offset by increases in legal expenses of approximately $10.9 million as a result of costs associated with litigation, and increases in contract and professional services of approximately $7.4 million primarily due to expenses related to Sarbanes-Oxley compliance.

General and administrative expenses decreased approximately $3.7 million in 2003 compared to 2002 due to a decrease in bad debt expense of approximately $36.7 million due to increased focus on collection activities, partially offset by increases in legal expenses of approximately $7.4 million as a result of defending various lawsuits, particularly lawsuits related to the Network Solutions business, and contract and professional services of approximately $6.1 million primarily due to the development of a companywide strategic planning methodology, tax services and increased expenses related to Sarbanes-Oxley compliance. Additionally, depreciation increased $5.9 million as a result of capital expenditures to upgrade our business systems and labor and benefits increased approximately $5.8 million due to higher benefit costs. Also, we incurred increased occupancy expenses of approximately $2.1 million in 2003 due to the expansion of a facility in Virginia and increases in business insurance, licenses and property taxes of $3.7 million.

We anticipate that general and administrative expenses in 2005 will increase in absolute dollars but decrease as a percentage of overall revenues. We expect that costs associated with Sarbanes-Oxley compliance to decrease slightly during the year and we anticipate to further leverage our general and administrative costs as a result of higher overall revenues.

The following table shows a comparison of our bad debt expense and our days sales outstanding ("DSO") for 2004, 2003 and 2002:

	2004	Change	2003	Change	2002
			(Dollars in thousands)		
Bad debt expense	$689	(89)%	$6,055	(86)%	$42,712
DSO	43 days	4 days	39 days	(33) days	72 days

DSO increased in 2004 as compared to 2003 primarily as a result of our acquisition of Jamba! in June 2004. We expect that DSO will be in the range of 40 to 50 days throughout 2005.

Restructuring and Other Charges

Below is a comparison of the restructuring and other charges under the 2003 and 2002 restructuring plans for the years ended December 31, 2004, 2003, and 2002:

	2004	2003	2002
		(In thousands)	
2003 Restructuring Plan charges	$25,045	$54,152	$ —
2002 Restructuring Plan charges	(265)	20,481	88,574
Total restructuring and other charges	$24,780	$74,633	$88,574

The changes in restructuring and other charges are primarily due to the timing of our restructuring initiatives.

2003 Restructuring Plan. In 2003, we announced a restructuring initiative related to the sale of our Network Solutions business and the realignment of other business units and recorded restructuring and other charges of approximately $54.2 million. In 2004, property and equipment that was disposed of or abandoned in 2004, but not related to the sale of the Network Solutions business, resulted in a net charge of approximately $20.3 million and consisted primarily of obsolete telecommunications computer software and other equipment. We also recorded restructuring charges of $2.7 million related to non-cancelable lease costs for excess facilities, $1.1 million related to workforce reduction charges and $1.0 million for exit costs.

2002 Restructuring Plan. In 2002, we announced plans to restructure our operations to rationalize, integrate and align resources and recorded approximately $88.6 million of restructuring and other charges. In 2003, we recorded other charges of $9.2 million related to the write-off of certain computer software. We also recorded restructuring charges of $8.7 million related to non-cancelable lease costs for excess facilities, $1.5 million related to workforce reduction charges and $1.0 million of exit costs.

Amortization and impairment of goodwill and other intangible assets

Below is a comparison of our amortization and impairment of goodwill and other intangible assets for the years ended December 31, 2004, 2003, and 2002:

	2004	2003	2002
		(In thousands)	
Impairment of goodwill	$ —	$ 81,885	$ 4,387,009
Impairment of other intangible assets	—	71,534	223,844
Amortization of other intangible assets	79,440	182,086	283,861
Total amortization and impairment of goodwill and other intangible assets	$79,440	$ 335,505	$ 4,894,714

SFAS No. 142 requires that purchased goodwill and certain indefinite-lived intangibles be tested for impairment on at least an annual basis. SFAS No. 144 requires that long-lived assets, including intangible assets with finite lives, be reviewed for impairment whenever events or circumstances indicate that there has been a decline in the fair value of an asset.

There was no impairment charge for goodwill and other intangible assets from the annual impairment test conducted in June 2004.

The annual impairment test conducted in June 2003 resulted in an impairment charge to goodwill and other intangible assets of $123.2 million during the second quarter of 2003. VeriSign recorded an additional impairment of goodwill of $30.2 million in the third quarter of 2003 as a result of VeriSign entering into an agreement to sell its Network Solutions business. The event triggered an evaluation of the carrying value of the goodwill assigned to Network Solutions. After considering the sales price of the assets and liabilities to be sold and the expenses associated with the divestiture, VeriSign determined that the carrying value exceeded the implied fair value of Network Solutions' goodwill. Total impairment of goodwill and other intangible assets as allocated to the Company's operating segments for the year ended December 31, 2003 are as follows:

	Internet Services Group	Communications Services Group	Network Solutions	Total Segments
		(In thousands)		
Impairment of goodwill	$18,697	$ 20,034	$43,154	$ 81,885
Impairment of other intangible assets:				
Technology in place	—	27,499	—	27,499
Customer lists	—	44,035	—	44,035
Total impairment of other intangible assets	—	71,534	—	71,534
Total impairment of goodwill and other intangible assets	$18,697	$ 91,568	$43,154	$153,419

The impairment charge to goodwill and other intangible assets from the annual impairment test resulted in an impairment in 2002 as follows:

	Internet Services Group	Communications Services Group	Network Solutions	Total
		(In thousands)		
Goodwill	$ 1,740,256	$ 794,866	$ 1,851,887	$ 4,387,009
Impairment of other intangible assets:				
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
Total impairment of other intangible assets	3,553	91,284	129,007	223,844
Total impairment of goodwill and other intangible assets	$ 1,743,809	$ 886,150	$ 1,980,894	$ 4,610,853

Amortization of other intangible assets decreased approximately $102.6 million in 2004 compared to 2003, and decreased approximately $101.8 million in 2003 compared to 2002 as other intangible assets related to prior acquisitions became fully amortized. We acquired approximately $83.9 million of other intangible assets in connection with our Jamba! acquisition in June 2004. As a result, we expect amortization of other intangible assets to increase to approximately $90 million in 2005, including the impact of all acquisitions through December 31, 2004, and assuming no other future acquisitions or impairment charges.

See Notes 1 and 7 in our Notes to Consolidated Financial Statements for further information.

Other income (expense), net

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

A comparison of total other income (expense) for the years ended December 31, 2004, 2003 and 2002 is presented below.

	2004	% Change	2003	% Change	2002
			(Dollars in thousands)		
Total other income (expense), net	$82,077	1,092%	$(8,276)	(94)%	$(149,289)
Percentage of revenues	7%		(1)%		(12)%

Total other income, net in 2004 consisted primarily of net interest income and other items of $17.7 million, a net gain from the sale of a portion of the company’s holdings in VeriSign Japan and other investments of $79.8 million, partially offset by a net impairment of investments totaling $12.6 million, and a net loss on foreign currency transactions of $2.9 million. In the first and third quarter of 2004, we determined the decline in value of certain non-public equity investments was other-than-temporary and we recognized the net impairment losses totaling $12.6 million described above.

Total other expense, net in 2003 consisted primarily of a net impairment of investments totaling $16.5 million, partially offset by net interest income of $7.7 million and a gain on foreign currency transactions of $1.8 million. In the first quarter of 2003, we determined the decline in value of certain non-public equity investments was other-than-temporary and we recognized net impairment losses totaling $16.5 million.

Income tax expense

In the years ended December 31, 2004, 2003 and 2002, we recorded income tax expense of $27.6 million, or 12.9% of pretax income, $23.4 million, or (9.9)% of pretax loss, and $10.4 million, or (0.2)% of pretax loss, respectively. Our effective tax rates differ from the United States federal statutory rate of 35% primarily due to state taxes, acquisition-related expenses, the realization of domestic net operating loss, capital loss, and research credit carryforwards, and the impact of foreign operations.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of deferred tax assets will not be realized. The realization of deferred tax assets is based on several factors, including the Company's past earnings and the scheduling of deferred tax liabilities and projected income from operating activities. Management does not believe it is more likely than not that the deferred tax assets relating to U.S. federal and state operations are realizable. The amount of the deferred tax asset considered realizable, however, could be increased in the near future if the Company exhibits sufficient positive evidence in future periods that demonstrate the continuation of its trend in projected earnings is achievable. If the valuation allowance relating to deferred tax assets were released as of December 31, 2004, approximately $240.7 million would be credited to the statement of operations, $268.6 million would be credited to additional paid-in capital, and $5.4 million would be credited to goodwill. Management would continue to apply a valuation allowance of $33.4 million to the deferred tax asset for capital loss carryforwards, and $48.9 million to the deferred tax asset relating to the write-down of investments, due to the limited carryover life of such tax attributes. Management does not believe it is more likely than not that $11.2 million of deferred tax assets relating to certain foreign operations are realizable; therefore, a valuation allowance is applied to the deferred tax asset. On the remaining foreign operations, management believes it is more likely than not that deferred tax assets will be realized; accordingly, a valuation allowance was not applied on these assets.

As of December 31, 2004, we had federal net operating loss carryforwards of approximately $697.9 million, state net operating loss carryforwards of approximately $555.9 million, and foreign net operating loss carryforwards of approximately $49.0 million. If we are not able to use them, the federal net operating loss carryforwards will expire in 2010 through 2023 and the state net operating loss carryforwards will expire in 2005 through 2023. Foreign net operating loss carryforwards will expire on various dates. We had research and experimentation tax credits for federal income tax purposes of approximately $18.6 million available for carryover to future years, and for state income tax purposes of approximately $13.9 million available for carryover to future years. The federal research and experimentation tax credits will expire, if not utilized, in 2010 through 2024. State research and experimentation tax credits carry forward indefinitely until utilized. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of a corporation's ownership change, as defined in the Internal Revenue Code. Our ability to utilize net operating loss carryforwards may be limited as a result of such ownership changes.

Liquidity and Capital Resources

	2004	2003	2002
		(In thousands)	
Cash and cash equivalents	$330,641	$301,593	$254,505
Short-term investments	406,784	422,093	130,963
Subtotal	$737,425	$723,686	$385,468
Restricted cash	51,518	18,371	18,436
Total	$788,943	$742,057	$403,904
Working capital	$306,528	$325,522	$ (62,719)

At December 31, 2004, our principal source of liquidity was $737.4 million of cash, cash equivalents and short-term investments, consisting principally of commercial paper, medium term investment-grade corporate notes, corporate bonds and notes, U.S. government and agency securities and money market funds.

Working capital increased $369.2 million over the periods presented primarily due to an increase in cash, cash equivalents and short-term investments of $352.0 million primarily from net cash provided by operating activities.

Net cash provided by operating activities was $365.3 million in 2004, $358.4 million in 2003 and $240.1 million in 2002. The increase in both 2004 and 2003 was primarily due to an overall increase in net income after adjustments for non-cash items such as amortization and the impairment of goodwill and other intangible assets, and depreciation of property and equipment. Additionally, cash flows from operating activities increased in 2004 due to an increase in deferred revenues of $69.3 million, an increase in accounts payable and accrued liabilities of $44.9 million, partially offset by an increase in accounts receivable of $65.8 million. In 2003, an increase in accounts payable of $38.1 million, a decrease in accounts receivable of $28.0 million, an increase in deferred revenue of $25.5 million and a decrease in prepaid expenses and other current assets of $12.8 million after accounting for the sale of our Network Solutions business contributed to the increase in net cash provided by operating activities. In 2002, a substantial decrease in accounts receivable partially offset by a decrease in deferred revenue, and accounts payable and accrued liabilities contributed to the increase in net cash provided by operating activities as compared to 2001.

Net cash used in investing activities was $284.9 million in 2004, primarily as a result of $246.4 million used for our acquisitions and $15.9 million used for net purchases of investments. In addition, we used approximately $92.5 million for purchases of property and equipment, partially offset by $78.3 million in proceeds from the sale of stock in our VeriSign Japan subsidiary.

Net cash used in investing activities was $368.6 million in 2003, primarily as a result of $292.8 million used for net purchases of investments, $108.0 million for purchases of property and equipment, and $16.1 million for our acquisitions. These purchases were partially offset by proceeds of $57.6 million of cash received from the sale of our Network Solutions subsidiary in November 2003.

Net cash used in investing activities was $297.6 million in 2002, primarily as a result of $348.6 million used for acquisitions with an additional $53.6 million used in acquisition related costs. We also used $176.2 million for purchases of property and equipment. These purchases were partially offset by net proceeds of $276.4 million from maturities and sales of short and long-term investments.

Net cash used in financing activities was $54.5 million in 2004 and net cash provided by financing activities was $55.9 million in 2003 and $20.3 million in 2002. In 2004, $113.3 million was used to repurchase shares of our common stock in the open market under an existing repurchase program. These repurchases were partially offset by $62.4 million provided by the proceeds from issuance of common stock from option exercises and employee stock purchase plan purchases. In 2003, $37.4 million of cash was provided as a result of VeriSign Japan's initial public offering of common stock in the fourth quarter of 2003 and through subsequent option exercises. Additionally, in 2003, $31.7 million was provided by common stock issuances as a result of stock option exercises and proceeds from the employee stock purchase plan partially offset by $13.2 million for the repayment of debt and other long-term obligations. In 2002, cash was provided primarily from common stock issuances in the amount of $20.7 million as a result of stock option exercises and proceeds from the employee stock purchase plan.

The following table shows our budgeted capital property and equipment expenditures in 2005 and our actual expenditures in 2004, 2003 and 2002:

	2005 Budgeted	**2004 Actual**	**2003 Actual**	**2002 Actual**
		(In thousands)		
Capital property and equipment expenditures	$ 110,000	$ 92,532	$ 108,034	$ 176,233

Our planned capital property and equipment expenditures for 2005 are anticipated to be approximately $110 million and will primarily be for computer and communications equipment and computer software within all areas of the Company. Our most significant expenditures will be focused on productivity, cost improvement and market development initiatives for the Internet Services Group and the Communications Services Group. Other capital property and equipment expenditures will be for productivity and cost improvement initiatives for corporate services.

The following table summarizes our significant contractual obligations at December 31, 2004, and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

	Payments due by period				
Contractual obligations	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
			(In thousands)		
Operating lease obligations, net of sublease income	$ 106,494	$ 23,537	$ 31,639	$ 21,435	$ 29,883
Purchase obligations	128,450	30,458	69,700	28,292	—
Other long-term liabilities	8,400	2,200	4,200	2,000	—
Total	$ 243,344	$ 56,195	$ 105,539	$ 51,727	$ 29,883

As of December 31, 2004, we had commitments under non-cancelable operating leases for our facilities for various terms through 2014. See Note 14 of Notes to Consolidated Financial Statements.

Future operating lease payments include payments related to leases on excess facilities included in VeriSign's restructuring plans. The restructuring liability is included on the balance sheet as accrued restructuring costs. Amounts related to the lease terminations due to the abandonment of excess facilities will be paid over the respective lease terms, the longest of which extends through 2014. If sublease rates continue to decrease in these markets, or if it takes longer than expected to sublease these facilities, the actual lease expense could exceed this estimate by an additional $32.6 million over the next ten years relating to our restructuring plans. Cash payments totaling approximately $60.5 million related to the abandonment of excess facilities will be paid over the next ten years. See Note 4 of Notes to Consolidated Financial Statements. Cost savings resulting from our restructuring plans, not including other cost savings efforts, were estimated to have been approximately $15 to $20 million in 2004 and are estimated to be approximately $25 to $30 million in 2005.

In November 1999, we entered into an agreement for the management and administration of the Tuvalu Internet top-level domain, *".tv"* with the Government of Tuvalu for payments of future royalties which will amount to $8.4 million through 2008.

We have pledged a portion of our short-term investments as collateral for standby letters of credit that guarantee certain of our contractual obligations, primarily relating to our real estate lease agreements. We have pledged approximately $6.5 million pursuant to such agreements classified as restricted cash on the accompanying balance sheet as of December 31, 2004. In addition, we established a trust during the first quarter of 2004 in the amount of $45.0 million classified as restricted cash on our balance sheet for our director and officer liability self-insurance coverage.

In 2001, our Board of Directors authorized the use of up to $350 million to repurchase shares of our common stock on the open market, or in negotiated or block trades. During 2003 and 2002, no shares were repurchased, however, during 2004, we repurchased approximately 4.4 million shares at an aggregate cost of approximately $113 million. At December 31, 2004, approximately $167 million remained available for future repurchases under this program.

VeriSign entered into a five-year agreement with Bank of America effective June 1, 2000 to provide a $15 million unsecured capital expenditure loan facility. The loan was paid in full on December 16, 2003.

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.

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. 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.

Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123R, "*Share-Based Payment*," which requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statements of operations. The accounting provisions of SFAS 123R are effective for reporting periods beginning after June 15, 2005. We are required to adopt SFAS 123R in the third quarter of 2005. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. See "*Stock Compensation Plans and Unearned Compensation*" in Note 1 of our Notes to Consolidated Financial Statements for further information regarding the pro forma net income (loss) and net income (loss) per share amounts, for 2002 through 2004, as if we had used a fair-value-based method similar to the methods required under SFAS 123R to measure compensation expense for employee stock incentive awards. Although we have not yet determined whether the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123, we are evaluating the requirements under SFAS 123R and expect the adoption to have a significant adverse impact on our consolidated statements of operations and net income per share.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-1 ("FAS 109-1"), "*Application of FASB Statement No. 109*, "*Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004*." The AJCA introduces a special 9% tax deduction on qualified production activities. FAS 109-1 clarifies that this tax deduction should be accounted for as a special tax deduction in accordance with SFAS 109. Pursuant to the AJCA, we will not be able to claim this tax benefit until the first quarter of fiscal 2006. We do not expect the adoption of these new tax provisions to have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-2 ("FAS 109-2"), "*Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creations Act of 2004*." The AJCA introduces a limited time 85% dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. FAS 109-2 provides accounting and disclosure guidance for the repatriation provision. We do not expect the adoption of these new tax provisions to have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2004, the FASB issued EITF Issue No. 03-1 ("EITF 03-1"), "*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*" which provided new guidance for assessing impairment losses on investments. Additionally, EITF 03-1 includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB delayed the accounting provisions of EITF 03-1; however the disclosure requirements remain effective for annual periods ending after June 15, 2004.

We do not expect the adoption of EITF 03-1 will have a material impact on our consolidated financial position, results of operations or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Equity investments

We invest in debt and equity securities of technology companies for investment purposes. In most instances, we invest in the equity and debt securities of private companies for which there is no public market, and therefore, carry a high level of risk. These companies are typically in the early stage of development and are expected to incur substantial losses in the near-term. Therefore, these companies may never become publicly traded. Even if they do, an active trading market for their securities may never develop and we may never realize any return on these investments. In 2004, 2003 and 2002, we determined the decline in value of certain public and non-public equity investments was other-than-temporary and we recognized net impairment losses totaling $8.2 million, $16.5 million, and $162.5 million, respectively. Due to the inherent risk associated with some of our investments, and in light of current stock market conditions, we may incur future losses on the sale or impairment of our investments.

Interest rate sensitivity

The primary objective of our cash management activities is to preserve principal with the additional goals of maintaining appropriate liquidity and driving after-tax returns. Some of the securities that we have invested in may be subject to interest rate risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline in value. To minimize interest rate 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, 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. As of December 31, 2004, 38% of our cash investments mature in less than one year. If market interest rates were to increase immediately and uniformly by 10 percent from levels at December 31, 2004, this would not materially change the fair market value of our portfolio.

The following table presents the amounts of our cash equivalents and short-term investments that are subject to interest rate risk by range of expected maturity and weighted-average interest rates as of December 31, 2004. This table does not include money market funds because those funds are not subject to interest rate 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	$ 50,190	$ —	$ —	$ 50,190	$ 50,190
Weighted-average interest rate	2.13%	—	—		
Included in short-term investments	$141,537	$ 26,475	$242,849	$410,861	$406,784
Weighted-average interest rate	3.36%	4.30%	3.35%		
Included in restricted cash	$ —	$ —	$ 51,518	$ 51,518	$ 51,518
Weighted-average interest rate	—	—	1.69%		

Foreign exchange risk management

We conduct business throughout the world and transact in multiple foreign currencies. As we continue to expand our international operations we are increasingly exposed to currency exchange rate risks. In the fourth quarter of 2003, we initiated a foreign currency risk management program designed to mitigate foreign exchange

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risks associated with the monetary assets and liabilities of our operations that are denominated in non-functional currencies. The primary objective of this hedging program is to minimize the gains and losses resulting from fluctuations in exchange rates. We do not enter into foreign currency transactions for trading or speculative purposes, nor do we hedge foreign currency exposures in a manner that entirely offsets the effects of changes in exchange rates. The program may entail the use of forward or option contracts and in each case these contracts are limited to a duration of less than 12 months.

At December 31, 2004, we held forward contracts in notional amounts totaling approximately $54.5 million to mitigate the impact of exchange rate fluctuations associated with certain foreign currencies. All hedge contracts are recorded at fair market value. We attempt to limit our exposure to credit risk by executing foreign exchange contracts with high-quality financial institutions.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial Statements

VeriSign's financial statements required by this item are set forth as a separate section of this Form 10-K. See Item 15 (a)1 for a listing of financial statements provided in the section titled "Financial Statements."

Supplemental Data (Unaudited)

The following tables set forth unaudited quarterly supplementary data for the two-year period ended December 31, 2004:

	2004				
	First Quarter (2)	Second Quarter (3)	Third Quarter (4)	Fourth Quarter (5)	Year Ended December 31
	(In thousands, except per share data)				
Revenues	$229,113	$ 256,045	$325,311	$355,986	$1,166,455
Total costs and expenses	214,215	217,527	292,875	310,110	1,034,727
Operating income	14,898	38,518	32,436	45,876	131,728
Net income	9,070	21,945	40,398	114,812	186,225
Basic net income per share (1)	0.04	0.09	0.16	0.45	0.74
Diluted net income per share (1)	0.04	0.09	0.16	0.43	0.72

	2003				
	First Quarter (6)	Second Quarter (7)	Third Quarter (8)	Fourth Quarter (9)	Year Ended December 31
	(In thousands, except per share data)				
Revenues	$269,758	$ 265,299	$268,123	$251,600	$1,054,780
Total costs and expenses	304,448	409,654	297,038	271,890	1,283,030
Operating loss	(34,690)	(144,355)	(28,915)	(20,290)	(228,250)
Net loss	(53,436)	(142,850)	(31,303)	(32,290)	(259,879)
Basic net loss per share (1)	(0.22)	(0.60)	(0.13)	(0.13)	(1.08)
Diluted net loss per share (1)	(0.22)	(0.60)	(0.13)	(0.13)	(1.08)

(1) Net income (loss) per share is computed independently for each of the quarters represented in accordance with SFAS No. 128. Therefore, the sum of the quarterly net income (loss) per share may not equal the total computed for the fiscal year or any cumulative interim period.

(2) Results include a $15.5 million restructuring charge in connection with workforce reductions, closures of excess facilities, disposal of abandonment of property and equipment, exit costs and other charges and $3.3 million of investment impairments, net of realized gains.

(3) Results include a $3.6 million credit for net restructuring charges and $0.3 million of investment impairments, net of realized gains.

(4) Results include a $7.7 million restructuring charge in connection with workforce reductions, closures of excess facilities, disposal of abandonment of property and equipment, exit costs and other charges and $4.6 million of investment impairments, net of realized gains.

(5) Results include a $5.2 million restructuring charge in connection with workforce reductions, closures of excess facilities, disposal of abandonment of property and equipment, exit costs and other charges, and a $74.9 million gain related to the sale of stock in our VeriSign Japan subsidiary.

(6) Results include a $16.5 million charge for the net impairment of investments and a $20.5 million restructuring charge in connection with workforce reductions, closures of excess facilities, disposal or abandonment of property and equipment, exit costs and other charges.

(7) Results include a $123.2 million charge for the impairment of goodwill and other intangible assets and $10.9 million of other charges for the termination of a lease.

(8) Results include a $30.2 million charge for the impairment of goodwill and other intangible assets.

(9) Results include a $43.2 million restructuring charge in connection with workforce reductions, closures of excess facilities, disposal or abandonment of property and equipment and exit costs and other charges, a $2.9 million gain on the sale of Network Solutions, Inc., and a $10.0 million expense related to litigation settlements.

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 should not be relied upon 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. For more information regarding the quarterly fluctuation of our revenues and operating results, see the section captioned "Business—Factors That May Affect Future Results of Operations—Our operating results may fluctuate and our future revenues and profitability are uncertain."

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusions Regarding Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our chief executive officer and chief financial officer, as of December 31, 2004, concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that information required to be disclosed by us in this report was recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms for this report.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2004. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report that is included herein.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within VeriSign have been detected.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding executive officers may be found in the section captioned “Executive Officers of the Registrant” (Part I, Item 4A) of this Annual Report on Form 10-K. Information regarding our directors, Code of Ethics and compliance with Section 16(a) of the Securities Exchange Act of 1934 may be found in the sections captioned “Proposal No. 1—Election of Directors,” “Code of Ethics” and “Section 16(a) Beneficial Ownership Reporting Compliance, respectively, appearing in the definitive Proxy Statement to be delivered to stockholders in connection with the 2005 Annual Meeting of Stockholders. This information is incorporated herein by reference.

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer and other senior accounting officers. The “Code of Ethics for the Chief Executive Officer and Senior Financial Officers” is located on our website at *www.verisign.com/verisign-inc/vrsn-investors/index.html*.

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding any amendment to, or waiver from, a provision of this code of ethics by posting such information on our website, at the address and location specified above.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to this item may be found in the section captioned “Executive Compensation” appearing in the definitive Proxy Statement to be delivered to stockholders in connection with the 2005 Annual Meeting of Stockholders. This information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information with respect to this item may be found in the sections captioned “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” appearing in the definitive Proxy Statement to be delivered to stockholders in connection with the 2005 Annual Meeting of Stockholders. This information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to this item may be found in the section captioned “Certain Relationships and Related Transactions” appearing in the definitive Proxy Statement to be delivered to stockholders in connection with the 2005 Annual Meeting of Stockholders. This information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information with respect to this item may be found in the section captioned “Principal Accountant Fees and Services” appearing in the definitive Proxy Statement to be delivered to stockholders in connection with the 2005 Annual Meeting of Stockholders. This information is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report

1. Financial statements
   - Reports of Independent Registered Public Accounting Firm
   - Consolidated Balance Sheets
     As of December 31, 2004 and 2003
   - Consolidated Statements of Operations
     For the Years Ended December 31, 2004, 2003 and 2002
   - Consolidated Statements of Stockholders' Equity
     For the Years Ended December 31, 2004, 2003 and 2002
   - Consolidated Statements of Comprehensive Income (Loss)
     For the Years Ended December 31, 2004, 2003 and 2002
   - Consolidated Statements of Cash Flows
     For the Years Ended December 31, 2004, 2003 and 2002
   - Notes to Consolidated Financial Statements
2. Financial statement schedules
   - Financial statement schedules are omitted because the information called for is not required or is shown either in the consolidated financial statements or the notes thereto.
3. Exhibits

   (a) Index to Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Date	Number	Filed Herewith
2.01	Agreement and Plan of Merger dated as of March 6, 2000, by and among the Registrant, Nickel Acquisition Corporation and Network Solutions, Inc.	8-K	3/8/00	2.1	
2.02	Agreement and Plan of Merger dated September 23, 2001, by and among the Registrant, Illinois Acquisition Corporation and Illuminet Holdings, Inc.	S-4	10/10/01	4.03	
2.03	Purchase Agreement dated as of October 14, 2003, as amended, among the Registrant and the parties indicated therein	8-K	12/10/03	2.1	
2.04	Sale and Purchase Agreement Regarding the Sale and Purchase of All Shares In Jamba! AG dated May 23, 2004 between the Registrant and certain other named individuals				X
3.01	Third Amended and Restated Certificate of Incorporation of the Registrant	S-1	1/29/98	3.02	
3.02	Certificate of Amendment of Third Amended and Restated Certificate of Incorporation of the Registrant dated May 27, 1999	S-8	7/15/99	4.03	

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
3.03	Certificate of Amendment of Third Amended and Restated Certificate of Incorporation of the Registrant dated June 8, 2000	S-8	6/14/00	4.03	
3.04	Amended and Restated Bylaws of Registrant, effective December 18, 2002	10-Q	5/14/03	3.1	
4.01	Rights Agreement dated as of September 27, 2002, between the Registrant and Mellon Investor Services LLC, as Rights Agent, which includes as Exhibit A the Form of Certificate of Designations of Series A Junior Participating Preferred Stock, as Exhibit B the Summary of Stock Purchase Rights and as Exhibit C the Form of Rights Certificate	8-A	9/30/02	4.01	
4.02	Amendment to Rights Agreement dated as of February 11, 2003, between the Registrant and Mellon Investor Services LLC, as Rights Agent	8-A/A	3/19/03	4.02	
10.01	Form of Revised Indemnification Agreement entered into by the Registrant with each of its directors and executive officers	10-K	3/31/03	10.02	
10.02	Registrant’s 1995 Stock Option Plan, as amended through 8/6/96	S-1	1/29/98	10.06	
10.03	Registrant’s 1997 Stock Option Plan	S-1	1/29/98	10.07	
10.04	Registrant’s 1998 Equity Incentive Plan, as amended through 2/8/05				X
10.05	Form of 1998 Equity Incentive Plan Restricted Stock Purchase Agreement	10-Q	11/14/03	10.1	
10.06	Form of 1998 Equity Incentive Plan Restricted Stock Unit Agreement				X
10.07	Registrant’s 1998 Directors Stock Option Plan, as amended through 5/22/03, and form of stock option agreement	S-8	6/23/03	4.02	
10.08	Summary of Director’s Compensation Benefits, effective 7/1/04				X
10.09	Registrant’s 1998 Employee Stock Purchase Plan, as amended through 10/22/03	S-8	8/4/04	4.01	
10.10	Registrant’s 2001 Stock Incentive Plan, as amended through 11/22/02	10-K	3/31/03	10.08	
10.11	Assignment Agreement, dated as of April 18, 1995 between the Registrant and RSA Data Security, Inc.	S-1	1/29/98	10.15	
10.12	BSAFE/TIPEM OEM Master License Agreement, dated as of April 18, 1995, between the Registrant and RSA Data Security, Inc., as amended	S-1	1/29/98	10.16	
10.13	Amendment Number Two to BSAFE/TIPEM OEM Master License Agreement dated as of December 31, 1998 between the Registrant and RSA Data Security, Inc.	S-1	1/5/99	10.31	
10.14	Non-Compete and Non-Solicitation Agreement, dated April 18, 1995, between the Registrant and RSA Security, Inc.	S-1	1/29/98	10.17	

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	Date	Number	Filed Herewith
10.15*	Microsoft/VeriSign Certificate Technology Preferred Provider Agreement, effective as of May 1, 1997, between the Registrant and Microsoft Corporation	S-1	1/29/98	10.18	
10.16*	Master Development and License Agreement, dated as of September 30, 1997, between the Registrant and Security Dynamics Technologies, Inc.	S-1	1/29/98	10.19	
10.17	Amendment Number One to Master Development and License Agreement dated as of December 31, 1998 between the Registrant and Security Dynamics Technologies, Inc.	S-1	1/5/99	10.30	
10.18	Employment Offer Letter Agreement between the Registrant and Stratton Sclavos dated as of June 12, 1995, as amended October 4, 1995	S-1	1/29/98	10.28	
10.19	Employment Offer Letter from the Registrant to Vernon Irvin dated May 22, 2003	10-Q	8/14/03	10.1	
10.20	Severance Agreement between the Registrant and Terry Kremian dated June 6, 2003	10-Q	8/14/03	10.2	
10.21	Transaction Bonus and Retention Agreement between the Registrant and W. G. Champion Mitchell dated May 20, 2003	10-K	3/15/04	10.23	
10.22	.com Registry Agreement between VeriSign and ICANN	8-K	6/1/01	99.3	
10.23	.net Registry Agreement between VeriSign and ICANN	8-K	6/1/01	99.4	
10.24	.org Registry Agreement between VeriSign and ICANN	8-K	6/1/01	99.5	
10.25	Amendment No. 24 to Cooperative Agreement #NCR 92-18742 between the DOC and Network Solutions, Inc.	8-K	6/1/01	99.6	
10.26	Deed of Lease between TST Waterview I, L.L.C. and the Registrant dated as of July 19, 2001	10-Q	11/14/01	10.01	
21.01	Subsidiaries of the Registrant				X
23.01	Consent of Registered Independent Public Accounting Firm				X
31.01	Certification of President, Chief Executive Officer and Chairman of the Board pursuant to Exchange Act Rule 13a-14(a)				X
31.02	Certification of Executive Vice President of Finance and Administration and Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)				X
32.01	Certification of President, Chief Executive Officer and Chairman of the Board pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)**				X
32.02	Certification of Executive Vice President of Finance and Administration and Chief Financial Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)**				X

* Confidential treatment was received with respect to certain portions of this agreement. Such portions were omitted and filed separately with the Securities and Exchange Commission.

** As contemplated by SEC Release No. 33-8212, these exhibits are furnished with this Annual Report on Form 10-K and are not deemed filed with the Securities and Exchange Commission and are not incorporated by reference in any filing of VeriSign, Inc. under the Securities Act of 1933 or the Securities Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in such filings.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Mountain View, State of California, on the 15th day of March 2005.

VERISIGN, INC.

By /S/ STRATTON D. SCLAVOS

Stratton D. Sclavos
President and Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS that each individual whose signature appears below constitutes and appoints Stratton D. Sclavos, Dana L. Evan and James M. Ulam, and each of them, his or her true lawful attorneys-in-fact and agents, with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granted unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his, her or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on the 15th day of March 2005:

Signature	Title
/s/ STRATTON D. SCLAVOS Stratton D. Sclavos	President, Chief Executive Officer and Chairman of the Board
/s/ DANA L. EVAN Dana L. Evan	Executive Vice President of Finance and Administration and Chief Financial Officer (Principal finance and accounting officer)
/s/ D. JAMES BIDZOS D. James Bidzos	Vice Chairman of the Board
/s/ WILLIAM L. CHENEVICH William Chenevich	Director
/s/ KEVIN R. COMPTON Kevin R. Compton	Director
/s/ SCOTT G. KRIENS Scott G. Kriens	Director
/s/ LEN J. LAUER Len J. Lauer	Director
/s/ ROGER H. MOORE Roger H. Moore	Director
/s/ GREGORY L. REYES Gregory L. Reyes	Director
/s/ WILLIAM A. ROPER, JR. William A. Roper, Jr.	Director

FINANCIAL STATEMENTS

As required under Item 8—Financial Statements and Supplementary Data, the consolidated financial statements of VeriSign are provided in this separate section. The consolidated financial statements included in this section are as follows:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
VeriSign, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that VeriSign, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, VeriSign, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of VeriSign, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2004, and our report dated March 15, 2005 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Mountain View, California
March 15, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
VeriSign, Inc.:

We have audited the accompanying consolidated balance sheets of VeriSign, Inc. and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VeriSign, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the internal control over financial reporting of VeriSign, Inc. and subsidiaries as of December 31, 2004, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Mountain View, California
March 15, 2005

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VERISIGN, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 330,641	$ 301,593
Short-term investments	406,784	422,093
Accounts receivable, net of allowance for doubtful accounts of $11,450 in 2004 and $13,993 in 2003	198,317	100,120
Prepaid expenses and other current assets	51,324	45,935
Deferred tax assets	19,057	10,987
Total current assets	1,006,123	880,728
Property and equipment, net	512,621	520,219
Goodwill	725,427	401,371
Other intangible assets, net	243,838	216,665
Restricted cash	51,518	18,371
Long-term note receivable	39,956	34,009
Long-term investments	6,809	21,749
Other assets, net	6,582	7,426
Total long-term assets	1,586,751	1,219,810
Total assets	$ 2,592,874	$ 2,100,538
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 382,025	$ 291,392
Accrued restructuring costs	11,696	18,331
Deferred revenue	305,874	245,483
Total current liabilities	699,595	555,206
Long-term deferred revenue	107,595	93,311
Long-term accrued restructuring costs	19,276	30,240
Other long-term liabilities	6,815	8,978
Deferred tax liabilities	31,319	321
Total long-term liabilities	165,005	132,850
Total liabilities	864,600	688,056
Minority interest in subsidiaries	36,277	28,829
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: 253,341,383, excluding 6,164,017 shares held in treasury, at December 31, 2004; 241,829,274, excluding 1,690,000 shares held in treasury, at December 31, 2003	253	242
Additional paid-in capital	23,253,111	23,128,095
Unearned compensation	(6,127)	(2,628)
Accumulated deficit	(21,553,829)	(21,740,054)
Accumulated other comprehensive loss	(1,411)	(2,002)
Total stockholders' equity	1,691,997	1,383,653
Total liabilities and stockholders' equity	$ 2,592,874	$ 2,100,538

See accompanying notes to consolidated financial statements.

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VERISIGN, INC. AND SUBSIDIARIES

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

	Year Ended December 31,		
	2004	2003	2002
Revenues	$ 1,166,455	$ 1,054,780	$ 1,221,668
Costs and expenses:			
Cost of revenues	444,759	446,207	571,367
Sales and marketing	253,480	195,330	248,170
Research and development	67,346	55,806	48,353
General and administrative	164,922	168,380	172,123
Restructuring and other charges	24,780	74,633	88,574
Impairment of goodwill	—	81,885	4,387,009
Impairment of other intangible assets	—	71,534	223,844
Amortization of other intangible assets	79,440	182,086	283,861
Sale of business and litigation settlements	—	7,169	—
Total costs and expenses	1,034,727	1,283,030	6,023,301
Operating income (loss)	131,728	(228,250)	(4,801,633)
Other income (expense), net:			
Gain on sale of VeriSign Japan stock	74,925	—	—
Interest and investment income (loss)	10,151	(8,830)	(148,946)
Other income (expense), net	(2,999)	554	(343)
Total other income (expense), net	82,077	(8,276)	(149,289)
Income (loss) before income taxes	213,805	(236,526)	(4,950,922)
Income tax expense	27,580	23,353	10,375
Net income (loss)	$ 186,225	$ (259,879)	$ (4,961,297)
Net income (loss) per share:			
Basic	$ 0.74	$ (1.08)	$ (20.97)
Diluted	$ 0.72	$ (1.08)	$ (20.97)
Shares used in per share computation:			
Basic	250,564	239,780	236,552
Diluted	257,992	239,780	236,552

See accompanying notes to consolidated financial statements.

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VERISIGN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Year Ended December 31,		
	2004	2003	2002
Common stock:			
Balance, beginning of year:			
241,829,274 shares at January 1, 2004			
237,510,063 shares at January 1, 2003			
234,358,114 shares at January 1, 2002	$ 242	$ 238	$ 234
Issuance of common stock for business combinations:			
9,282,349 shares in 2004	9	—	—
Issuance of common stock under employee stock purchase plan:			
2,312,572 shares in 2004			
1,997,230 shares in 2003			
645,595 shares in 2002	2	2	1
Exercise of common stock options:			
4,391,205 shares in 2004			
2,321,981 shares in 2003			
2,506,354 shares in 2002	4	2	3
Repurchase of common stock:			
4,474,017 shares in 2004	(4)	—	—
Balance, end of year:			
253,341,383 shares at December 31, 2004			
241,829,274 shares at December 31, 2003			
237,510,063 shares at December 31, 2002	253	242	238
Additional paid-in capital:			
Balance, beginning of year	23,128,095	23,072,212	23,051,546
Issuance of common stock and common stock options for business combinations	165,632	—	—
Issuance of common stock under employee stock purchase plan	13,961	10,658	7,546
Income tax benefit from exercise of employee stock options	4,748	5,004	—
Exercise of common stock options	49,756	21,018	13,120
Gain on issuance of consolidated subsidiary stock	—	17,272	—
Issuance of restricted stock	4,172	1,931	—
Repurchase of common stock	(113,253)	—	—
Balance, end of year	23,253,111	23,128,095	23,072,212
Notes receivable from stockholders:			
Balance, beginning of year	—	—	(252)
Write-off of notes receivable	—	—	252
Balance, end of year	—	—	—
Unearned compensation:			
Balance, beginning of year	(2,628)	(8,086)	(27,042)
Unearned compensation resulting from business combinations	(2,463)	—	—
Issuance of restricted stock	(4,172)	(1,931)	—
Amortization of unearned compensation	3,136	7,389	18,956
Balance, end of year	(6,127)	(2,628)	(8,086)
Accumulated deficit:			
Balance, beginning of year	(21,740,054)	(21,480,175)	(16,518,878)
Net income (loss)	186,225	(259,879)	(4,961,297)
Balance, end of year	(21,553,829)	(21,740,054)	(21,480,175)
Accumulated other comprehensive income (loss):			
Balance, beginning of year	(2,002)	(4,764)	466
Translation adjustments	4,104	1,454	(1,689)
Change in unrealized gain (loss) on investments, net of tax	(3,513)	1,308	(3,541)
Balance, end of year	(1,411)	(2,002)	(4,764)
Total stockholders' equity	$ 1,691,997	$ 1,383,653	$ 1,579,425

See accompanying notes to consolidated financial statements.

VERISIGN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Year Ended December 31,		
	2004	2003	2002
Net income (loss)	$ 186,225	$ (259,879)	$ (4,961,297)
Other comprehensive income:			
Unrealized (loss) gain on investments, net of tax	(3,462)	1,307	(847)
Reclassification adjustment for (gains) losses included in net income	(51)	1	(2,694)
Translation adjustments	4,104	1,454	(1,689)
Net gain (loss) recognized in other comprehensive income	591	2,762	(5,230)
Comprehensive income (loss)	$ 186,816	$ (257,117)	$ (4,966,527)

See accompanying notes to consolidated financial statements.

VERISIGN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2004	**2003**	**2002**
Cash flows from operating activities:			
Net income (loss)	$ 186,225	$(259,879)	$(4,961,297)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	85,641	114,475	105,482
Amortization and impairment of other intangible assets and goodwill	79,440	335,505	4,894,714
Provision for doubtful accounts	689	6,055	42,712
Non-cash restructuring and other charges	19,954	27,634	41,868
Reciprocal transactions for purchases of property and equipment	—	—	(6,375)
Net loss on sale and impairment of investments	8,200	16,541	162,469
Gain on sale of VeriSign Japan stock	(74,925)	—	—
Minority interest in net income of consolidated subsidiary	2,618	474	416
Tax benefit associated with stock options	4,748	5,004	—
Deferred income taxes	(8,390)	3,321	10,375
Amortization of unearned compensation	3,136	7,390	18,956
Loss on disposal of property and equipment	—	388	2,220
Gain on sale of business	—	(2,862)	—
Changes in operating assets and liabilities:			
Accounts receivable	(65,822)	27,950	158,757
Prepaid expenses and other current assets	9,596	12,753	(34,295)
Accounts payable and accrued liabilities	44,911	38,147	(48,587)
Deferred revenue	69,317	25,544	(147,324)
Net cash provided by operating activities	365,338	358,440	240,091
Cash flows from investing activities:			
Purchases of investments	(1,083,203)	(627,278)	(161,102)
Proceeds from maturities and sales of investments	1,067,258	334,472	437,460
Purchases of property and equipment	(92,532)	(108,034)	(176,233)
Proceeds from sale of VeriSign Japan stock	78,317	—	—
Proceeds from sale of business	—	57,621	—
Cash paid for business combinations, net of cash acquired	(246,356)	(16,052)	(348,643)
Merger related costs	(7,420)	(5,120)	(53,554)
Other assets	(927)	(4,171)	4,448
Net cash used in investing activities	(284,863)	(368,562)	(297,624)
Cash flows from financing activities:			
Proceeds from issuance of common stock from option exercises and employee stock purchase plan	62,426	31,680	20,670
Repurchase of common stock	(113,257)	—	—
Proceeds from sale of consolidated subsidiary stock	850	37,403	268
Repayment of debt	(4,491)	(13,199)	(615)
Net cash (used in) provided by financing activities	(54,472)	55,884	20,323
Effect of exchange rate changes	3,045	1,326	(1,689)
Net (decrease) increase in cash and cash equivalents	29,048	47,088	(38,899)
Cash and cash equivalents at beginning of year	301,593	254,505	293,404
Cash and cash equivalents at end of year	$ 330,641	$ 301,593	$ 254,505
Supplemental cash flow disclosures:			
Noncash investing and financing activities:			
Issuance of common stock for business combinations	$ 165,641	$ —	$ —
Unrealized gain (loss) on investments, net of tax	$ (3,513)	$ 1,308	$ (3,541)
Cash paid for income taxes	$ 26,497	$ 12,304	$ 23,011

See accompanying notes to consolidated financial statements.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004, 2003 AND 2002

Note 1. Description of Business and Summary of Significant Accounting Policies

Description of Business

VeriSign, Inc. ("VeriSign" or "the Company"), a Delaware corporation, is a leading provider of intelligent infrastructure services that enable people and businesses to find, connect, secure, and transact across complex global networks. Through the Company's Internet Services Group and Communications Services Group, VeriSign offers a variety of internet and communications-related services, including internet security services, naming and directory services, network connectivity and interoperability services, intelligent database services, mobile content and application services, clearing and settlement services, and billing and payment services. VeriSign markets its products and services through its direct sales force, telesales operations, member organizations in its global affiliate network, value-added resellers, service providers, and its Web sites.

VeriSign is currently organized into two reportable segments: the Internet Services Group and the Communications Services Group. The Internet Services Group consists of the Security Services business and the Naming and Directory Services business. The Security Services business provides products and services that enable enterprises and service providers to establish and deliver secure Internet-based services to customers, and the Naming and Directory Services business acts as the exclusive registry of domain names in the *.com* and *.net* generic top-level domains, or gTLDs, and certain country code top-level domains, or ccTLDs. The Communications Services Group provides network connectivity and interoperability services, intelligent data base services, mobile content and application services, and billing and payment services to telecommunications carriers and other users. During 2003, VeriSign derived its revenues from three reportable segments, the two described above, and the Network Solutions business segment, through which VeriSign provided domain name registration, and value added services such as business email, websites, hosting and other web presence services. Effective November 25, 2003, VeriSign completed the sale of its Network Solutions business to Pivotal Private Equity and realigned its operations into the Internet Services Group and the Communications Services Group.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of VeriSign and its subsidiaries after the elimination of intercompany accounts and transactions. On June 17, 2004, VeriSign acquired the 49% minority interest in VeriSign Australia Limited, which is now a wholly-owned subsidiary. As of December 31, 2004, VeriSign owned approximately 54% of the outstanding shares of capital stock of its consolidated subsidiary, VeriSign Japan K.K. The minority interest's proportionate share of income or loss is included in other income (expense) in the consolidated statement of operations. Changes in VeriSign's proportionate share of the net assets of VeriSign Japan K.K. resulting from sales of capital stock by the subsidiary are accounted for as equity transactions.

Use of Estimates

The discussion and analysis of VeriSign's financial condition and results of operations are based upon its 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, allowance for doubtful accounts, long-lived assets, restructuring, royalty liabilities, and deferred taxes. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Cash and Cash Equivalents

VeriSign considers all highly liquid investments with original maturities of three months or less at the date of acquisition to be cash equivalents. Cash and cash equivalents include money market funds, commercial paper and various deposit accounts.

Short-Term Investments

All investments with original maturities greater than three months and with maturities less than one year from the balance sheet date are considered short-term investments. Short-term investments also include market auction preferred securities that have reauction periods of 90 days or less but whose underlying agreements have original maturities of more than 90 days. Investments with maturities greater than one year from the balance sheet date are considered long-term investments.

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

Fair Value of Financial Instruments

The fair value of VeriSign’s cash equivalents and short-term investments, accounts receivable, long-term investments, accounts payable and long-term debt approximates the carrying amount, which is the amount for which the instrument could be exchanged in a current transaction between willing parties.

Long-Term Investments

Investments in non-public companies where VeriSign owns less than 20% of the voting stock and has no indicators of significant influence are included in long-term investments in the consolidated balance sheets and are accounted for under the cost method. For these non-quoted investments, VeriSign regularly reviews the assumptions underlying the operating performance and cash flow forecasts based on information requested from these privately held companies. This information may be more limited, may not be as timely, and may be less accurate than information available from publicly traded companies. Assessing each investment’s carrying value requires significant judgment by management. Generally, if cash balances are insufficient to sustain 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. 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 impairment as an investment loss in its consolidated statement of operations. During 2004, 2003 and 2002, VeriSign determined that the decline in value of certain of its public and non-public equity investments was other-than-temporary and recorded net impairments of these investments totaling $8.2 million, $16.5 million, and $162.5 million, respectively.

Occasionally, VeriSign may recognize revenues from companies in which it also has made an investment amounting to less than 20% of their outstanding equity. In addition to its normal revenue recognition policies, VeriSign also considers the amount of other third-party investments in the company, its earnings and revenue outlook, and its operational performance in determining the propriety and amount of revenues to recognize. If the investment is made in the same quarter that revenues are recognized, VeriSign looks to the investments of other third parties made at that time to establish the fair value of VeriSign's investment in the company as well as to support the amount of revenues recognized. VeriSign typically makes its investments with others where its investment is less than 50% of the total financing round. VeriSign's policy is not to recognize revenue in excess of other investors' financing of the company. These arrangements are independent relationships and are not terminable unless the terms of the agreements are violated. VeriSign recognized revenues totaling $51.7 million in 2004, $14.2 million in 2003 and $27.1 million in 2002 from customers, including VeriSign Affiliates and Network Solutions, in which it holds an equity investment.

Trade Accounts Receivable and Allowances for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. VeriSign maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. VeriSign regularly reviews the adequacy of its accounts receivable allowance after considering the size of the accounts receivable balance, each customer's expected ability to pay and its collection history with each customer. VeriSign reviews 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, VeriSign maintains a general reserve for certain invoices by applying a percentage based on the age category. VeriSign also monitors its accounts receivable for concentration to any one customer, industry or geographic region. To date VeriSign's receivables have not had any particular concentrations that, if not collected, would have a significant impact on operating income. VeriSign requires all acquired companies to adopt its credit policies. The allowance for doubtful accounts represents VeriSign's best estimate, but changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the future.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, 40 years for buildings and three to five years for computer equipment, purchased software, office equipment, and furniture and fixtures. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or lease terms.

Capitalized Software

Costs incurred in connection with the development of software products are accounted for in accordance with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 86, "*Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed.*" Development costs incurred in the research and development of new software products, and enhancements to existing software products are expensed as incurred until technological feasibility in the form of a working model has been established. VeriSign's software has been available for general release concurrent with the establishment of technological feasibility, and accordingly no such costs have been capitalized.

Software included in property and equipment includes amounts paid for purchased software and implementation services for software used internally that has been capitalized in accordance with the American Institute of Certified Public Accountants Statement of Position ("SOP") No. 98-1, "*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*". In 2004 and 2003, VeriSign capitalized

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$14.6 million and $13.9 million, respectively, of implementation and consulting services from third parties for software that is used internally. In 2004 and 2003, VeriSign capitalized $10.5 million and $17.7 million, respectively, of costs related to internally developed software.

Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. Goodwill and other intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142, "*Goodwill and Other Intangible Assets.*" SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized on a straight-line basis over their respective estimated useful lives, and reviewed for impairment in accordance with SFAS No. 144, "*Accounting for Impairment or Disposal of Long-Lived Assets*."

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of 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 an acquired business, difficulties or delays in integrating the business or a significant change in the operations of an acquired business. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds its fair value.

Goodwill and acquired intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. For goodwill, an impairment loss is recognized when its carrying amount exceeds its implied fair value as defined by SFAS No. 142. For acquired intangible assets not subject to amortization, an impairment loss is recognized to the extent that the carrying amount of the asset exceeds its fair value.

Provision for royalty liabilities for intellectual property rights

Certain of our mobile content services utilize intellectual property owned or held under license by others. Where we have not yet entered into a license agreement with a holder, we record a provision for royalty payments that we estimate will be due once a license agreement is concluded. We estimate the royalty payments based on the prevailing royalty rate for the type of intellectual property being utilized. Our estimates could differ materially from the actual royalties to be paid under any definitive license agreements that may be reached due to changes in the market for such intellectual property, such as a change in demand for a particular type of content, in which case we would record a royalty expense materially different than our estimate.

Foreign Currency Translation and Hedging Instruments

VeriSign transacts business in multiple foreign currencies. The functional currency for most of VeriSign's international subsidiaries is the U.S. Dollar. The subsidiaries' financial statements are remeasured into U.S. Dollars using a combination of current and historical exchange rates and any remeasurement gains and losses are included in operating results.

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The financial statements of the subsidiaries for which the local currency is the functional currency are translated into U.S. Dollars using the current rate for assets and liabilities and a weighted-average rate for the period for revenues and expenses. The cumulative translation adjustment that results from this translation is included in accumulated other comprehensive income (loss) which is a separate component of stockholders' equity.

VeriSign transacts business in foreign countries in U.S. Dollars as well as multiple foreign currencies. In the fourth quarter of 2003, VeriSign initiated a foreign currency risk management program, using forward currency contracts to eliminate, reduce, or transfer selected foreign currency risks. Forward contracts are limited to durations of less than 12 months. All derivatives were recorded at fair value on the balance sheet. Gains and losses resulting from changes in fair value were accounted for in operations during 2004.

Revenue Recognition

During 2004, we derived our revenues from two reportable segments: (i) the Internet Services Group, which consists of the Security Services business and the Naming and Directory Services business; and (ii) the Communications Services Group, which consists of the network connectivity and interoperability services, intelligent database services, the mobile content and application services business, and the clearing and settlement services business. Unless otherwise noted below, VeriSign's revenue recognition policies are in accordance with SEC Staff Accounting Bulletin ("SAB") No. 104, "*Revenue Recognition,*" and Emerging Issues Task Force ("EITF") Issue No. 00-21, "*Revenue Arrangements with Multiple Deliverables.*"

The revenue recognition policy for each of these categories is as follows:

Internet Services Group

Security Services

Revenues from the Security Services business are comprised of security services including managed security services and authentication services for enterprises.

Managed Security Services ("MSS"). Revenues from managed security services primarily consist of a set-up fee and a monthly service fee for the managed security service. Revenues from set-up fees are deferred and recognized ratably over the period that the fees are earned and revenues from the monthly service fees are recognized in the period in which the services are provided.

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

Authentication Services. Revenues from the sale of authentication and security services primarily consist of a set-up fee, annual managed service and per seat license fee. Revenues from the fees are deferred and recognized ratably over the term of the license, generally 12 to 36 months. Post-contract customer support ("PCS") is bundled with authentication and security services licenses and recognized over the license term.

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

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

- *Persuasive evidence of an arrangement exists.* It is our customary practice to have a written contract, which is signed by both the customer and us, or a purchase order from those customers who have previously negotiated a standard license arrangement with us.
- *Delivery has occurred.* Our software may be either physically or electronically delivered to the customer. Electronic delivery is deemed to have occurred upon download by the customer from an FTP server. If an arrangement includes undelivered products or services that are essential to the functionality of the delivered product, delivery is not considered to have occurred until these products or services are delivered or accepted, if applicable.
- *The fee is fixed or determinable.* It is our policy to not provide customers the right to a refund of any portion of their paid license fees. We may agree to payment terms with a foreign customer based on local customs. Generally, at least 80% of the arrangement fees are due within one year or less. Arrangements with payment terms extending beyond these customary payment terms are considered not to be fixed or determinable, and revenues from such arrangements are recognized as payments become due and payable.
- *Collectibility is probable.* Collectibility is assessed on a customer-by-customer basis. We typically sell to customers for whom there is a history of successful collection. New customers are subjected to a credit review process that evaluates the customer's financial position and ultimately their ability to pay. If we determine from the outset of an arrangement that collectibility is not probable based upon our credit review process, revenues are recognized as cash is collected.

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

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

We also receive ongoing royalties from each Digital Certificate or Authentication Service sold by the VeriSign Affiliate to an end user. We recognize the royalties from affiliates over the term of the digital certification or authentication service to which the royalty relates which is generally 12 to 24 months.

Commerce Security Services. Revenues from the sale or renewal of digital certificates for commerce security services are deferred and recognized ratably over the life of the digital certificate, generally 12 to 24 months.

Digital Brand Management Services. Revenues from digital brand management services include our domain name registration services and our brand monitoring services. Revenues from the registration fees are deferred and recognized ratably over the registration term and the revenues from the brand monitoring services are recognized ratably over the periods in which the services are provided.

Secure Payments Services. Revenues from secure payments services primarily consist of a set-up fee and a monthly service fee for the transaction processing services. Revenues from set-up fees are deferred and recognized ratably over the period that the fees are earned. Revenues from the service fees are recognized ratably over the periods in which the services are provided. Advance customer deposits received are deferred and allocated ratably to revenue over the periods the services are provided.

Naming and Directory Services

VeriSign's Naming and Directory Services revenues primarily include our domain name registry services for the *.com* and *.net* gTLDs and certain ccTLDs, and managed domain name services.

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

Communications Services Group

Revenues from our communications service group are comprised of network connectivity and interoperability services, intelligent database services, mobile content and application services, clearing and settlement services, and billing and payment services for wireline and wireless telecommunications carriers, cable companies, enterprise customers, and other users.

Network Connectivity and Interoperability Services

Through our network connectivity and interoperability services, we provide SS7 Connectivity and Signaling, Seamless Roaming for Wireless and Intelligent Database and Directory Services which provides for connections and services that signal and route information within and between telecommunication carrier networks.

SS7 Connectivity and Signaling. 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, along with trunk signaling service fees, which are charged monthly based on the number of switches to which a customer signals.

Wireless Roaming. Revenues from wireless account management services and unregistered wireless roaming services are based on the revenue retained by us and recognized in the period in which such calls are processed on a per-minute or per-call basis.

Intelligent Database Services

Intelligent Database Services revenues include Number Portability, Caller Name Identification, Toll-free Database Services and TeleBlock Do Not Call which are derived primarily from monthly database administration and database query services and are charged and recognized on a per-use or per-query basis.

Mobile Content and Application Services

Mobile content services revenues are derived by providing mobile content services including content, aggregation, formatting, mediation and billing and payment services. Revenues from mobile content services primarily consist of monthly subscriber fees for content services. We also provide content services on a transaction basis and recognize revenue upon delivery. For mobile content services revenues, we record the revenue net of the fees from our wireless carriers in accordance with EITF No. 99-19, "*Reporting Revenue Gross as a Principal versus Net as an Agent*".

Revenues from application services are derived by providing global and short messaging services between carrier systems and devices, and across disparate networks and technologies so the carriers customers can exchange messages outside their carrier's network. Revenues from application services primarily represent fees charged for the messaging services either based on a monthly fee or number of messages processed.

Clearing and Settlement Services

The Communications Services Group also offers advanced billing and customer care services to wireline and wireless carriers. Our advanced billing and customer care services include:

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

Billing and Payment Services

Revenues from billing and customer care services primarily represent a monthly recurring fee for every subscriber activated by our wireless carrier customers.

Reciprocal Arrangements

On occasion, VeriSign has purchased goods or services for its operations from organizations at or about the same time that VeriSign licensed its software to these organizations. These transactions are recorded at terms VeriSign considers to be fair value. For these reciprocal arrangements, VeriSign considers Accounting Principles Board ("APB") Opinion No. 29, "*Accounting for Nonmonetary Transactions*," and 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, provided that fair values are determinable within reasonable limits. In determining fair value, VeriSign considers 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.

VeriSign has not entered into any new reciprocal arrangements since the first quarter of 2002. Revenues recognized under reciprocal arrangements were approximately $3.0 million in 2004, of which $2.2 million involved non-monetary transactions, approximately $3.8 million in 2003, of which $2.7 million involved non-monetary transactions, and approximately $14.0 million in 2002, of which $9.7 million involved non-monetary transactions, as defined above.

Advertising Expense

Advertising costs are expensed as incurred and are included in sales and marketing expense in the accompanying consolidated statements of operations. Advertising expense was $90.8 million in 2004, $26.9 million in 2003, and $52.1 million in 2002.

Income Taxes

VeriSign uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. VeriSign records a valuation allowance to reduce deferred tax assets to an amount whose realization is more likely than not.

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Stock Compensation Plans and Unearned Compensation

As of December 31, 2004, VeriSign has four stock-based employee compensation plans, including two terminated plans under which options are outstanding but no further grants can be made, and two active plans. VeriSign accounts for these plans under the recognition and measurement principals of APB Opinion No. 25, *"Accounting for Stock Issued to Employees."* The following table illustrates the effect on net income (loss) and net income (loss) per share if VeriSign had applied the fair value recognition provisions of SFAS No. 123, "*Accounting for Stock-Based Compensation,*" to stock-based employee compensation:

	Year Ended December 31,		
	2004	2003	2002
	(In thousands, except per share data)		
Net income (loss), as reported	$ 186,225	$(259,879)	$(4,961,297)
Add: Unearned compensation, net of tax	3,136	7,391	18,953
Deduct: Equity-based compensation determined under the fair value method for all awards, net of tax	(139,953)	(223,266)	(240,731)
Pro forma net income (loss)	$ 49,408	$(475,754)	$(5,183,075)
Basic:			
As reported	$ 0.74	$ (1.08)	$ (20.97)
Pro forma equity-based compensation	(0.54)	(0.90)	(0.94)
Pro forma net income (loss) per share	$ 0.20	$ (1.98)	$ (21.91)
Diluted:			
As reported	$ 0.72	$ (1.08)	$ (20.97)
Pro forma equity-based compensation	(0.53)	(0.90)	(0.94)
Pro forma net income (loss) per share	$ 0.19	$ (1.98)	$ (21.91)

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

	Year Ended December 31,		
	2004	2003	2002
Stock options:			
Volatility	82%	100%	110%
Risk-free interest rate	2.81%	2.00%	3.96%
Expected life	2.9 years	2.6 years	3.5 years
Dividend yield	zero	zero	zero
Employee Stock Purchase Plan options:			
Volatility	53%	94%	110%
Risk-free interest rate	2.22%	1.49%	1.98%
Expected life	1.25 years	1.25 years	1.25 years
Dividend yield	zero	zero	zero

The weighted-average fair value of stock options granted was $10.80, $9.00 and $11.97 during 2004, 2003 and 2002, respectively.

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Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss includes foreign currency translation adjustments and unrealized gains and losses on marketable securities classified as available-for-sale. The following table summarizes the changes in the components of accumulated other comprehensive loss during 2003 and 2004:

	Foreign Currency Translation Adjustments Gain (Loss)	Unrealized Gain (Loss) On Investments, Net of Tax	Total Accumulated Other Comprehensive Income (Loss)
		(In thousands)	
Balance, December 31, 2002	$ (4,761)	$ (3)	$ (4,764)
Changes	1,454	1,308	2,762
Balance, December 31, 2003	$ (3,307)	$ 1,305	$ (2,002)
Changes	4,104	(3,513)	591
Balance, December 31, 2004	$ 797	$ (2,208)	$ (1,411)

Concentration of Credit Risk

Financial instruments that potentially subject VeriSign to significant concentrations of credit risk consist principally of cash, cash equivalents, short and long-term investments and accounts receivable. VeriSign maintains its cash, cash equivalents and investments in marketable securities with high quality financial institutions and, as part of its cash management process, performs periodic evaluations of the relative credit standing of these financial institutions. In addition, the portfolio of investments in marketable securities conforms to VeriSign's policy regarding concentration of investments, maximum maturity and quality of investment. Concentration of credit risk with respect to accounts receivable is limited by the diversity of the customer base and geographic dispersion. VeriSign also performs ongoing credit evaluations of its customers and generally requires no collateral. VeriSign maintains an allowance for potential credit losses on its accounts receivable. The following table summarizes the changes in the allowance for doubtful accounts:

	2004	2003	2002
		(In thousands)	
Allowance for doubtful accounts:			
Balance, beginning of year	$13,993	$ 27,853	$ 24,290
Add: additions to allowance	689	6,055	42,712
Less: uncollectible amounts written off	(3,232)	(19,915)	(39,149)
Balance, end of year	$11,450	$ 13,993	$ 27,853

Reclassifications

Certain reclassifications to VeriSign's Consolidated Financial Statements have been made to conform to the 2004 presentation. VeriSign reclassified prior period financial statements to reflect investments in market auction preferred securities as short-term investments rather than cash and cash equivalents. VeriSign invests in market auction preferred securities with reauction periods of 90 days or less, and the maturities of the instruments underlying the market auction preferred securities are generally more than 90 days from the balance sheet date ("Securities"). VeriSign previously considered investments in Securities as cash equivalents based on the reauction period; however, VeriSign has reclassified the investments in the Securities because the maturities of

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the underlying instruments are greater than 90 days from the balance sheet dates. For the Consolidated Balance Sheet as of December 31, 2003, VeriSign has reclassified Securities of $92.2 million from cash equivalents to short-term investments.

In addition, VeriSign previously excluded purchases and sales of Securities from the Consolidated Statements of Cash Flows because the Securities were classified as cash equivalents. Purchases of investments in the Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002 have been adjusted to include $53.8 million, $180.8 million and $29.0 million of purchases of Securities, and proceeds from maturities and sales of investments for the years ended December 31, 2004, 2003 and 2002 have been adjusted to include $146.0 million, $116.4 million and $13.9 million of sales and maturities of Securities.

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R, "*Share-Based Payment*," which requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in their consolidated statements of operations. The accounting provisions of SFAS 123R are effective for reporting periods beginning after June 15, 2005. VeriSign is required to adopt SFAS 123R in the third quarter of 2005. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. See "*Stock Compensation Plans and Unearned Compensation*" above for further information regarding the pro forma net income (loss) and net income (loss) per share amounts, for 2002 through 2004, as if VeriSign had used a fair-value-based method similar to the methods required under SFAS 123R to measure compensation expense for employee stock incentive awards. Although the Company has not yet determined whether the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123, VeriSign is evaluating the requirements under SFAS 123R and expect the adoption to have a significant adverse impact on their consolidated statements of operations and net income per share.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-1 ("FAS 109-1"), "*Application of FASB Statement No. 109, "Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004.*" The AJCA introduces a special 9% tax deduction on qualified production activities. FAS 109-1 clarifies that this tax deduction should be accounted for as a special tax deduction in accordance with SFAS 109. Pursuant to the AJCA, VeriSign will not be able to claim this tax benefit until the first quarter of fiscal 2006. The Company does not expect the adoption of these new tax provisions to have a material impact on their consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-2 ("FAS 109-2"), "*Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creations Act of 2004.*" The AJCA introduces a limited time 85% dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. FAS 109-2 provides accounting and disclosure guidance for the repatriation provision. The Company does not expect the adoption of these new tax provisions to have a material impact on their consolidated financial position, results of operations or cash flows.

In March 2004, the FASB issued EITF Issue No. 03-1 ("EITF 03-1"), "*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*" which provided new guidance for assessing impairment losses on investments. Additionally, EITF 03-1 includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB delayed the accounting provisions of EITF 03-1; however the disclosure requirements remain effective for annual periods ending after June 15, 2004. VeriSign does not expect the adoption of EITF 03-1 will have a material impact on its consolidated financial position, results of operations or cash flows.

Note 2. Business Combinations

Jamba!

In June 2004, VeriSign completed its acquisition of Jamba!, a privately held provider of mobile content services. VeriSign's purchase price of $266.2 million for all the outstanding shares of capital stock of Jamba! consisted of approximately $178 million in cash consideration, approximately $5.9 million in direct transaction costs, and the remainder in VeriSign common stock. The acquisition has been accounted for as a purchase and, accordingly, 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. Jamba!'s results of operations have been included in the consolidated financial statements from its date of acquisition. As a result of the acquisition of Jamba!, VeriSign recorded goodwill of $187.8 million and intangible assets of $83.9 million, which have been assigned to the Communications Services Group segment. The goodwill represents the excess value over both tangible and intangible assets acquired. The goodwill in this transaction is attributable to the anticipated ability to offer carriers a comprehensive wireless data utility by combining Jamba!'s current capabilities with VeriSign's existing communications services platforms. None of the goodwill for Jamba! is deductible for tax purposes. The overall weighted-average life of the identified amortizable assets acquired in the purchase of Jamba! is 4.2 years. These identified intangible assets will be amortized on a straight-line basis over their useful lives.

The allocation of the purchase price to the assets acquired and liabilities assumed based on the estimated fair value of Jamba! was as follows:

	June 3, 2004	Amortization Period
	(In thousands)	(Years)
Current assets	$ 56,220	—
Long-term assets	1,014	—
Goodwill	187,777	—
Carrier relationships	27,700	6
Subscription base	25,110	2
Non-compete agreements	10,520	2
Trade name	17,760	6
Technology in place	2,570	3
Internally developed content	210	3
Total assets acquired	328,881	
Current liabilities	(29,233)	
Deferred income tax liabilities	(33,493)	
Total liabilities assumed	(62,726)	
Net assets acquired	$ 266,155	

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Guardent

In February 2004, VeriSign completed its acquisition of Guardent, a privately held provider of managed security services. VeriSign paid approximately $135 million for all the outstanding shares of capital stock of Guardent, of which approximately $65 million was in cash and the remainder in VeriSign common stock. The acquisition has been accounted for as a purchase and, accordingly, 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. Guardent's results of operations have been included in the consolidated financial statements from its date of acquisition. As a result of the acquisition of Guardent, VeriSign recorded goodwill of $114.1 million and intangible assets of $22.2 million, which have been assigned to the Internet Services Group segment. The goodwill represents the excess value over both tangible and intangible assets acquired. VeriSign attributes the goodwill in this transaction to management's belief that the acquisition is a strategic fit with its existing business and will create an unmatched breadth of service and consulting offerings, delivered from a global infrastructure that is highly scalable and offers reliable, state-of-the-art managed security services. None of the goodwill for Guardent is deductible for tax purposes. The overall weighted-average life of the identified amortizable assets acquired in the purchase of Guardent is 4.5 years. These identified intangible assets will be amortized on a straight-line basis over their useful lives.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	February 27, 2004	Amortization Period
	(In thousands)	(Years)
Current assets	$ 5,139	—
Property and equipment, net	4,735	—
Other long-term assets	1,096	—
Goodwill	114,069	—
Customer contracts and relationship	13,200	5 – 6
Non-compete agreement	5,700	3
Technology in place	3,200	1 – 3
Backlog	100	1
Total assets acquired	147,239	
Total liabilities assumed	(6,017)	
Net assets acquired	$ 141,222	

H.O. Systems, Inc.

In February 2002, VeriSign completed its acquisition of H.O. Systems, Inc., a provider of billing and customer care solutions to wireless telecommunications carriers, to complement VeriSign's acquisition of Illuminet Holdings, Inc., a provider of telecommunications 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. 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 $212.9 million and other intangible assets of approximately $210.3 million as a result of this acquisition. VeriSign subsequently reduced the carrying value of these amounts as a result of their annual impairment tests in accordance with SFAS No. 142. Other intangible assets, which includes installed customer base, technology in place and trade names, are being amortized over a six-year period. Goodwill is not amortized but is being 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. The goodwill has been assigned to the Communications Services Group segment. Portions of the goodwill and other intangible assets for H.O. Systems are deductible for tax purposes. The overall weighted-average life of the identified amortizable assets acquired in the purchase of H.O. Systems is 6.0 years. These identified intangible assets will be amortized on a straight-line basis over their useful lives.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	February 5, 2002	Amortization Period
	(In thousands)	(Years)
Current assets	$ 29,791	—
Property and equipment, net	28,513	—
Other long-term assets	201	—
Goodwill	212,923	—
Customer base	110,040	6
Technology in place	98,380	6
Trade name	1,850	6
Total assets acquired	481,698	
Current liabilities	(36,022)	
Deferred income tax liabilities	(84,542)	
Other long-term liabilities	(16,538)	
Total liabilities assumed	(137,102)	
Net assets acquired	$ 344,596	

Note 3. Gain on Sale of Business

Network Solutions Domain Name Registrar Business

On November 25, 2003, VeriSign Inc. completed the sale of its Network Solutions domain name registrar business to Pivotal Private Equity. VeriSign received $97.6 million of consideration, consisting of $57.6 million in cash and a $40 million senior subordinated note that bears interest at 7% per annum for the first three years and 9% per annum thereafter and matures five years from the date of closing. The principal and interest are due upon maturity. This note is subordinated to a term loan made by ABLECO Finance to the Network Solutions business in the principal amount of approximately $40 million as of the closing date. VeriSign recorded the present value of the note using a 10% market interest rate. VeriSign retained a 15% equity stake in the Network Solutions business.

The Network Solutions business provides domain name registrations, and value added services such as business email, websites, hosting and other web presence services. Approximately 580 former VeriSign employees became employed by the Network Solutions business as a result of the transaction. In connection with the sale, VeriSign assigned the lease for its facility located in Drums, Pennsylvania to the purchaser and subleased certain facilities located in Herndon, Virginia to the purchaser.

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The following table summarizes the proceeds received, the assets and liabilities divested and the gain recorded by VeriSign on the closing date of the Network Solutions sale:

	November 25, 2003 (In thousands)
Proceeds from sale of Network Solutions:	
Cash received	$ 57,621
Present value of note outstanding	33,916
	$ 91,537
Assets and liabilities divested in sale of Network Solutions:	
Current assets	$ 50,114
Property and equipment, net	55,330
Goodwill	191,313
Other long-term assets, net	55,000
Total assets divested	351,757
Accrued vacation	(1,526)
Current deferred revenue	(114,346)
Long-term deferred revenue	(147,210)
Total liabilities divested	(263,082)
Net assets divested	$ 88,675
Gain on sale of Network Solutions	$ 2,862

The gain on the sale of the Network Solutions business of $2.9 million was included in sale of business and litigation settlements on the consolidated statements of operations.

Note 4. Restructuring and Other Charges

2003 Restructuring Plan

In October 2003, VeriSign announced a restructuring initiative related to the sale of its Network Solutions business and the realignment of other business units. The initiative resulted in reductions in workforce, abandonment of excess facilities, disposals of property and equipment and other charges.

Workforce reduction. VeriSign recorded restructuring charges related to workforce reduction in accordance with SFAS No. 112, "*Employers' Accounting for Postemployment Benefits an amendment of FASB Statements No. 5 and 43*" since benefits were provided pursuant to a formal severance plan which used a standard formula of paying benefits based upon tenure with the Company. The accounting for these restructuring charges has met the four requirements of SFAS No. 112 which are: (i) the Company's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered; (ii) the obligation relates to rights that vest or accumulate; (iii) payment of the compensation is probable; and (iv) the amount can be reasonably estimated. The 2003 restructuring plan resulted in a workforce reduction of approximately 100 employees across all segments in the fourth quarter of 2003. VeriSign adjusted the workforce reduction charges relating primarily to severance and fringe benefits. All severance related charges will be paid by the end of 2005.

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Excess facilities. Excess facilities restructuring charges take into account the fair value of lease obligations of the abandoned space, including the potential for sublease income. Estimating the amount of sublease income requires management to make estimates for the space that will be rented, the rate per square foot that might be received and the vacancy period of each property. These estimates could differ materially from actual amounts due to changes in the real estate markets in which the properties are located, such as the supply of office space and prevailing lease rates. Changing market conditions by location and considerable work with third-party leasing companies require us to periodically review each lease and change our estimates on a prospective basis, as necessary. VeriSign recorded additional charges for excess facilities located in the United States and Europe that were either abandoned or downsized relating to lease terminations and non-cancelable lease costs primarily related to the Network Solutions segment. In 2004, VeriSign recorded adjustments to its excess facilities accrual due to a change in lease obligations for a facility.

Exit costs. VeriSign recorded other exit costs primarily relating to the realignment of its Communications Services Group segment.

Other charges. Property and equipment that was disposed of or abandoned in 2004 consisted primarily of obsolete telecommunications computer software and other equipment related to the Communications Services Group segment.

Restructuring and other charges recorded during the year ended December 31, 2004 and 2003 relating to the 2003 restructuring plan are as follows:

	Year Ended December 31,	
	2004	2003
	(In thousands)	
Workforce reduction	$ 1,053	$ 5,724
Excess facilities	2,749	28,303
Exit costs	956	1,039
Subtotal	4,758	35,066
Other charges	20,287	19,086
Total restructuring and other charges	$25,045	$ 54,152

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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As of December 31, 2004, the accrued liability associated with the 2003 restructuring plan was $22.4 million and consisted of the following:

	Accrued Restructuring Costs at December 31, 2003	Gross Restructuring and Other Charges	Reversals and Adjustments to Restructuring Charges	Net Restructuring and Other Charges	Restructuring Accrual Related to Acquisitions	Non-Cash Reductions to the Accrual	Cash Payments	Accrued Restructuring Costs at December 31, 2004
				(In thousands)				
Workforce reduction	$ 5,396	$ 3,383	$ (2,330)	$ 1,053	$ —	$ (25)	$ (5,085)	$ 1,339
Excess facilities	26,392	4,270	(1,521)	2,749	311	85	(8,851)	20,686
Exit costs	—	956	—	956	—	1	(849)	108
Subtotal	$ 31,788	$ 8,609	$ (3,851)	$ 4,758	$ 311	$ 61	$ (14,785)	$ 22,133
Other charges	564	20,526	(239)	20,287	—	(20,037)	(511)	303
Total restructuring and other charges	$ 32,352	$ 29,135	$ (4,090)	$ 25,045	$ 311	$ (19,976)	$ (15,296)	$ 22,436
Included in current portion of accrued restructuring costs	$ 11,835							$ 8,711
Included in long term restructuring costs	$ 20,517							$ 13,725

2002 Restructuring Plan

In April 2002, VeriSign announced plans to restructure its operations to rationalize, integrate and align resources. This restructuring plan included workforce reductions, abandonment of excess facilities, write-off of abandoned property and equipment and other charges.

Workforce reduction. VeriSign's 2002 restructuring plan resulted in a workforce reduction of approximately 400 employees across certain business functions, operating units, and geographic regions. Workforce reduction charges related primarily to severance and fringe benefits.

Excess facilities. Excess facilities restructuring charges take into account the fair value of lease obligations of the abandoned space, including the potential for sublease income. Estimating the amount of sublease income requires management to make estimates for the space that will be rented, the rate per square foot that might be received and the vacancy period of each property. These estimates could differ materially from actual amounts due to changes in the real estate markets in which the properties are located, such as the supply of office space and prevailing lease rates. Changing market conditions by location and considerable work with third-party leasing companies require us to periodically review each lease and change our estimates on a prospective basis, as necessary. VeriSign recorded charges and adjustments for excess facilities that were either abandoned or downsized relating to lease terminations and non-cancelable lease costs.

Exit costs. VeriSign recorded other exit costs consisting of the write-off of prepaid license fees associated with products that were originally intended to be incorporated into VeriSign's product offerings but were subsequently abandoned as a result of the decision to restructure.

Other charges. As part of our efforts to rationalize, integrate and align resources, VeriSign recorded other charges during 2002 relating primarily to the write-off of prepaid marketing assets associated with discontinued advertising. Property and equipment that was disposed of or abandoned resulted in a net charge during 2003 and consisted primarily of computer software, leasehold improvements, and computer equipment.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

DECEMBER 31, 2004, 2003 AND 2002

Restructuring and other charges, net of adjustments, recorded during the years ended December 31, 2004, 2003 and 2002 associated with the 2002 restructuring plan are as follows:

	Year Ended December 31,		
	2004	2003	2002
	(In thousands)		
Workforce reduction	$ (7)	$ 1,545	$ 6,207
Excess facilities	212	8,694	29,689
Exit costs and other charges	(470)	1,014	9,040
Subtotal	(265)	11,253	44,936
Other charges	—	9,228	43,638
Total restructuring and other charges	$(265)	$20,481	$88,574

As of December 31, 2004, the accrued liability associated with the 2002 restructuring plans was $8.5 million and consisted of the following:

	Accrued Restructuring Costs at December 31, 2003	Reversals and Adjustments to Restructuring Charges	Non-Cash Reductions to the Accrual	Cash Payments	Accrued Restructuring Costs at December 31, 2004
	(In thousands)				
Workforce reduction	$ 53	$ (7)	$ 3	$ (49)	$ —
Excess facilities	15,505	212	11	(7,342)	8,386
Exit costs	661	(470)	8	(49)	150
Total restructuring charges	16,219	(265)	22	(7,440)	8,536
Included in current portion of accrued restructuring costs	$ 6,496				$ 2,985
Included in long term restructuring costs	$ 9,723				$ 5,551

Reversals and adjustments to restructuring and other charges in 2004 were the result of a change in sublease assumptions for two building leases in Herndon, Virginia and an adjustment of international severance payments not taken against the liability.

Amounts related to the lease terminations due to the abandonment of excess facilities will be paid over the respective lease terms the longest of which extends through 2014.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Future cash payments and anticipated sublease income, related to lease terminations due to the abandonment of excess facilities are expected to be as follows:

	Contractual Lease Payments	Anticipated Sublease Income	Net
		(In thousands)	
2005	$ 13,528	$ (3,731)	$ 9,797
2006	9,708	(3,626)	6,082
2007	7,690	(4,109)	3,581
2008	5,361	(3,339)	2,022
2009	4,426	(3,172)	1,254
Thereafter	19,816	(13,480)	6,336
	$ 60,529	$ (31,457)	$29,072

Note 5. Cash, Cash Equivalents, Short and Long-Term Investments and Restricted Cash

VeriSign's cash equivalents and short-term investments have been classified as available-for-sale. Cash, cash equivalents and short and long-term investments and restricted cash consist of the following:

	December 31, 2004			
	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
		(In thousands)		
Classified as current assets:				
Cash	$280,453	$ —	$ —	$280,453
Commercial paper	40,867	—	—	40,867
Corporate bonds and notes	140,761	12	(622)	140,151
Money market funds	9,088	—	—	9,088
U.S. government and agency securities	191,853	—	(1,131)	190,722
Municipal bonds	1,448	—	(11)	1,437
Asset-backed securities	75,163	8	(464)	74,707
	739,633	20	(2,228)	737,425
Included in cash and cash equivalents				$330,641
Included in short-term investments				$406,784
Long-term investments:				
Debt and equity securities of non-public companies	6,809	—	—	6,809
Restricted cash	51,518	—	—	51,518
Total long-term investments and restricted cash	58,327	—	—	58,327
Total cash, cash equivalents, short and long-term investments, and restricted cash	$797,960	$ 20	$ (2,228)	$795,752

VERISIGN, INC. AND SUBSIDIARIES

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Gross realized losses on investments totaled $12.6 million in 2004 consisting of the impairment and sale of certain public and non-public equity investments. Gross realized gains on investments were $4.4 million in 2004. All investments with unrealized losses have been held less than 12 months.

	December 31, 2003			
	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(In thousands)			
Classified as current assets:				
Cash	$229,775	$ —	$ —	$229,775
Commercial paper	78,630	11	(1)	78,640
Corporate bonds and notes	30,458	128	(22)	30,564
Money market funds	6,993	—	—	6,993
U.S. government and agency securities	201,421	291	(41)	201,671
Municipal bonds	51,909	26	(22)	51,913
Asset-backed securities	5,647	3	(15)	5,635
Medium term notes	2,257	3	—	2,260
Foreign debt securities	13,084	16	(49)	13,051
Equity securities	1,779	—	—	1,779
Certificates of deposit	359	—	—	359
Market auction preferred	95,944	—	—	95,944
Placement bonds	5,089	13	—	5,102
	723,345	491	(150)	723,686
Included in cash and cash equivalents				$301,593
Included in short-term investments				$422,093
Long-term investments:				
Debt and equity securities of non-public companies	19,724	—	—	19,724
Other	2,025	—	—	2,025
	21,749	—	—	21,749
Restricted cash	18,371	—	—	18,371
Total long-term investments and restricted cash	40,120	—	—	40,120
Total cash, cash equivalents and short and long-term investments, and restricted cash	$763,465	$ 491	$ (150)	$763,806

Gross realized losses on investments totaled $17.0 million in 2003 consisting of the impairment and sale of certain public and non-public equity investments. Gross realized gains on investments were $0.5 million in 2003.

VERISIGN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Note 6. Property and Equipment

The following table presents detail of property and equipment:

	December 31,	
	2004	2003
	(In thousands)	
Land	$ 222,516	$ 222,500
Buildings	74,515	74,515
Computer equipment and purchased software	468,895	432,159
Office equipment, furniture and fixtures	24,893	16,783
Leasehold improvements	62,518	59,247
	853,337	805,204
Less accumulated depreciation and amortization	(340,716)	(284,985)
Property and equipment, net	$ 512,621	$ 520,219

Note 7. Goodwill and Other Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill as allocated to the Company's operating segments for the years ended December 31, 2004 and 2003:

	Internet Services Group	Communications Services Group	Network Solutions	Total
		(In thousands)		
December 31, 2002	$ 76,785	$ 356,059	$ 234,467	$ 667,311
Impairments	(18,697)	(20,034)	(43,154)	(81,885)
Sale of Network Solutions	—	—	(191,313)	(191,313)
Other	(1,236)	8,494	—	7,258
December 31, 2003	56,852	344,519	—	401,371
Guardent acquisition	114,069	—	—	114,069
Jamba! acquisition	—	187,777	—	187,777
Other	18,506	3,704	—	22,210
December 31, 2004	$ 189,427	$ 536,000	$ —	$ 725,427

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

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

VERISIGN, INC. AND SUBSIDIARIES

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VeriSign performed its annual impairment test as of June 30, 2004, 2003 and 2002. The fair value of VeriSign's reporting units is determined using either the income or the market valuation approach or a combination thereof. Under the income approach, the fair value of the reporting unit is based on the present value of estimated future cash flows that the reporting unit is expected to generate over its remaining life. Under the market approach, the value of the reporting unit is based on an analysis that compares the value of the reporting unit to values of publicly traded companies in similar lines of business. Other intangible assets are valued using the income approach. In the application of the income and market valuation approaches, VeriSign is required to make estimates of future operating trends and judgments on discount rates and other variables. Actual future results related to assumed variables could differ from these estimates.

There was no impairment charge for goodwill and other intangible assets from the annual impairment test conducted in June 2004. The annual impairment test conducted in June 2003 resulted in an impairment charge to goodwill and other intangible assets of $123.2 million during the second quarter of 2003. VeriSign recorded an additional impairment of goodwill of $30.2 million in the third quarter of 2003 as a result of VeriSign entering into an agreement to sell its Network Solutions business. The event triggered an evaluation of the carrying value of the goodwill assigned to Network Solutions. After considering the sales price of the assets and liabilities to be sold and the expenses associated with the divestiture, VeriSign determined that the carrying value exceeded the implied fair value of Network Solutions' goodwill. Total impairment of goodwill and other intangible assets as allocated to the Company's operating segments for the year ended December 31, 2003 are as follows:

	Internet Services Group	Communications Services Group	Network Solutions	Total Segments
		(In thousands)		
Impairment of goodwill	$ 18,697	$ 20,034	$43,154	$ 81,885
Impairment of other intangible assets:				
Technology in place	—	27,499	—	27,499
Customer lists	—	44,035	—	44,035
Total impairment of other intangible assets	—	71,534	—	71,534
Total impairment of goodwill and other intangible assets	$ 18,697	$ 91,568	$43,154	$153,419

The impairment charge to goodwill and other intangible assets from the annual impairment test resulted in an impairment in 2002 as follows:

	Internet Services Group	Communications Services Group	Network Solutions	Total
		(In thousands)		
Impairment of goodwill	$ 1,740,256	$ 794,866	$1,851,887	$ 4,387,009
Impairment of other intangible assets:				
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
Total impairment of other intangible assets	3,553	91,284	129,007	223,844
Total impairment of goodwill and other intangible assets	$ 1,743,809	$ 886,150	$1,980,894	$ 4,610,853

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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Fully amortized other intangible assets are removed from the gross carrying value and accumulated amortization and impairment accounts. The following table presents details of VeriSign's other intangible assets:

	As of December 31, 2004			
	Gross Carrying Value	Accumulated Amortization and Impairment	Net Carrying Value	Weighted-Average Remaining Life
	(Dollars in thousands)			
Other intangible assets:				
Customer relationships	$ 270,733	$ (146,145)	$ 124,588	2.7 years
Technology in place	121,406	(99,474)	21,932	2.7 years
Carrier relationships	27,700	(2,667)	25,033	5.4 years
Non-compete agreement	16,220	(4,622)	11,598	1.7 years
Trade name	17,828	(1,728)	16,100	5.4 years
Contracts with ICANN and customer lists	146,238	(101,651)	44,587	3.2 years
Total other intangible assets	$ 600,125	$ (356,287)	$ 243,838	3.2 years

	As of December 31, 2003			
	Gross Carrying Value	Accumulated Amortization and Impairment	Net Carrying Value	Weighted-Average Remaining Life
	(Dollars in thousands)			
Other intangible assets:				
Customer relationships	263,591	(120,630)	142,961	3.9 years
Technology in place	152,956	(128,521)	24,435	3.7 years
Contracts with ICANN and customer lists	698,042	(648,773)	49,269	3.2 years
Total other intangible assets	$ 1,114,589	$ 897,924	$ 216,665	3.7 years

The following table summarizes the amortization expense of other intangible assets as allocated by intangible asset category for the years ended December 31, 2004, 2003, and 2002:

	2004	2003	2002
	(In thousands)		
Customer relationships	$53,319	$ 35,953	$ 42,741
Technology in place	8,978	17,450	25,071
ISP hosting relationships	—	175	2,098
Carrier relationships	2,738	—	—
Non-compete agreement	4,686	31	339
Trade name	1,803	25	356
Contracts with ICANN and customer lists	7,916	128,452	213,256
Total amortization of other intangibles	$79,440	$ 182,086	$ 283,861

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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Estimated future amortization expense related to other intangible assets at December 31, 2004 is as follows:

	(In thousands)
2005	$ 89,997
2006	71,747
2007	57,801
2008	11,552
2009	9,364
2010	3,377
	$ 243,838

Note 8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	December 31,	
	2004	2003
	(In thousands)	
Accounts payable	$ 69,988	$ 45,563
Employee compensation	72,300	53,425
Customer deposits	21,144	41,393
Taxes	79,906	72,215
Other	138,687	78,796
	$382,025	$ 291,392

Note 9. Long-Term Liabilities

In November 1999, VeriSign entered into an Agreement for the management and administration of the Tuvalu Internet top-level domain, ".tv," with the Government of Tuvalu for payments of future royalties. Future royalty payment obligations will amount to $8.4 million. The current portion of $2.2 million is due in 2005 and the long-term portion of $6.2 million matures as follows:

	Future Royalty Payment Obligations
	(In thousands)
2006	$ 2,200
2007	2,000
2008	2,000
	$ 6,200

Additionally, VeriSign has $0.6 million of miscellaneous long-term liabilities which mature over the next four years.

The current portion of long-term liabilities payable is included in accounts payable and accrued liabilities and the non-current portion is included in other long-term liabilities in the accompanying consolidated balance sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

DECEMBER 31, 2004, 2003 AND 2002

Note 10. Stockholders' Equity

Preferred Stock

VeriSign is authorized to issue up to 5,000,000 shares of preferred stock. As of December 31, 2004, no shares of preferred stock had been issued. In connection with its stockholder rights plan, VeriSign authorized 3 million shares of Series A Junior Participating Preferred Stock, par value $0.001 per share. In the event of liquidation, each preferred share will be entitled to a $1.00 preference, and thereafter the holders of the preferred shares will be entitled to an aggregate payment of 100 times the aggregate payment made per common share. Each preferred share will have 100 votes, voting together with the common shares. Finally, in the event of any merger, consolidation or other transaction in which common shares are exchanged, each preferred share will be entitled to receive 100 times the amount received per common share. These rights are protected by customary anti-dilution provisions.

Common Stock

In 2001, the Board of Directors of VeriSign authorized the use of up to $350 million to repurchase shares of VeriSign's common stock on the open market, or in negotiated or block trades. During 2001, VeriSign repurchased approximately 1.7 million shares at a cost of approximately $69.5 million. During 2003 and 2002, no stock was repurchased. During 2004, VeriSign repurchased approximately 4.4 million shares at an aggregate cost of approximately $113 million. At December 31, 2004, approximately $167 million remained available for future repurchases.

Other than the dividend of one stock purchase right for each outstanding share of common stock that was declared on September 24, 2002, no dividends have been declared or paid on VeriSign's common stock since inception.

Stockholder Rights Plan

On September 24, 2002, the Board of Directors of VeriSign, declared a dividend of one stock purchase right ("Right") for each outstanding share of VeriSign common stock. The dividend was paid to stockholders of record on October 4, 2002 ("Record Date"). In addition, one Right shall be issued with each common share that becomes outstanding (i) between the Record Date and the earliest of the Distribution Date, the Redemption Date and the Final Expiration Date (as such terms are defined in the Rights Agreement) or (ii) following the Distribution Date and prior to the Redemption Date or Final Expiration Date, pursuant to the exercise of stock options or under any employee plan or arrangement or upon the exercise, conversion or exchange of other securities of VeriSign, which options or securities were outstanding prior to the Distribution Date. The Rights will become exercisable only upon the occurrence of certain events specified in the Rights Agreement ("Rights Agreement"), including the acquisition of 20% of VeriSign's outstanding common stock by a person or group. Each Right entitles the registered holder, other than an "acquiring person", under specified circumstances, to purchase from VeriSign one one-hundredth of a share of VeriSign Series A Junior Participating Preferred Stock, par value $0.001 per share ("Preferred Share"), at a price of $55.00 per one one-hundredth of a Preferred Share, subject to adjustment. Preferred Shares purchasable upon exercise of the Rights will not be redeemable. In addition, each Right entitles the registered holder, other than an "acquiring person", under specified circumstances, to purchase from VeriSign that number of shares of VeriSign common stock having a market value of two times the exercise price of the Right.

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

DECEMBER 31, 2004, 2003 AND 2002

Note 11. Calculation of Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period. Diluted net income (loss) per share gives effect to dilutive potential common shares, including stock options, unvested restricted stock, and warrants using the treasury stock method.

The following table presents the computation of basic and diluted net income (loss) per share:

	Year Ended December 31,		
	2004	2003	2002
	(In thousands, except per share data)		
Net income (loss)	$186,225	$(259,879)	$(4,961,297)
Weighted-average common shares outstanding	250,564	239,780	236,552
Diluted weighted-average common shares outstanding:			
Stock options	7,254	—	—
Unvested restricted stock	155	—	—
Warrant	19	—	—
Shares used to compute diluted net income (loss) per share	257,992	239,780	236,552
Basic net income (loss) per share	$ 0.74	$ (1.08)	$ (20.97)
Diluted net income (loss) per share	$ 0.72	$ (1.08)	$ (20.97)

For 2004, VeriSign excluded 12,133,492 weighted-average stock options with an exercise price that exceeded the average fair market value of VeriSign's common stock for the period with a weighted-average exercise price of $69.80. These options could be dilutive in the future if the average fair market value of VeriSign's common stock increases and is equal to or greater than the exercise price of these options. For 2003 and 2002, VeriSign excluded 2,717,195 and 3,498,082 weighted-average potential common shares, respectively, with a weighted-average exercise price of $8.33 and $8.18 for the respective periods because their effect would have been anti-dilutive.

Note 12. Stock Compensation Plans

Stock Option Plans

As of December 31, 2004, a total of 54,685,482 shares of common stock were reserved for issuance upon the exercise of stock options and for the future grant of stock options or awards under VeriSign's equity incentive plans.

The 1995 Stock Option Plan and the 1997 Stock Option Plan ("1995 and 1997 Plans") were terminated concurrent with VeriSign's initial public offering in 1998. Options to purchase common stock granted under the 1995 and 1997 Plans remain outstanding and subject to the vesting and exercise terms of the original grant. All shares that remained available for future issuance under the 1995 and 1997 Plans at the time of their termination were transferred to the 1998 Equity Incentive Plan. No further options can be granted under the 1995 and 1997 Plans. Options granted under the 1995 and 1997 Plans are subject to terms substantially similar to those described below with respect to options granted under the 1998 Equity Incentive Plan.

The 1998 Equity Incentive Plan ("1998 Plan") authorizes the award of options, restricted stock awards, restricted stock units and stock bonuses. Options may be granted at an exercise price not less than 100% of the fair market value of VeriSign's common stock on the date of grant for incentive stock options and 85% of the fair market value for non-qualified stock options. All options are granted at the discretion of the Board and have a term not greater than 7 years from the date of grant. Options issued generally vest 25% on the first anniversary date and ratably over the following 12 quarters. During 2004, VeriSign granted 125,000 restricted stock units under its 1998 Equity Incentive Plan to Stratton Sclavos, its Chief Executive Officer. 100,000 of the restricted stock units progressively vest over a four-year period at the rate of 10%, 20%, 30% and 40% for each year. The remaining 25,000 restricted stock units vest 25% on the first anniversary date and ratably over the following 12 quarters. The aggregate market value of the restricted stock units granted to Mr. Sclavos at the date of issuance was $4.2 million and was recorded as deferred compensation and is being amortized ratably over the four year vesting period. During 2003, VeriSign granted 150,000 shares of restricted stock under the 1998 Equity Incentive Plan to certain executive officers. The shares vest over a two-year period, with 2/3 of the shares eligible to be sold at the end of two years and the remaining 1/3 eligible at the end of the third year. The aggregate market value of the restricted stock at the date of issuance was $1.9 million and was recorded as deferred compensation and is being amortized ratably over the two year vesting period. At December 31, 2004, 13,587,292 shares remain available for future awards under the 1998 Plan including shares transferred from the 1995 and 1997 plans that were terminated.

The 2001 Stock Incentive Plan ("2001 Plan") authorizes the award of non-qualified stock options and restricted stock awards to eligible employees, officers who are not subject to Section 16 reporting requirements, contractors and consultants. As of December 31, 2004, no restricted stock awards have been made under the 2001 Plan. Options may be granted at an exercise price not less than the par value of VeriSign's common stock on the date of grant. All options are granted at the discretion of the Board and have a term not greater than 10 years from the date of grant. Options issued generally vest 25% on the first anniversary date and ratably over the following 12 quarters. At December 31, 2004, 7,709,240 shares remain available for future awards under the 2001 Plan. On January 1 of each year beginning in 2002, the number of shares available for grant under the 2001 Plan will automatically be increased by an amount equal to 2% of the outstanding common shares on the immediately preceding December 31.

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

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

Under this program, employees tendered options to purchase approximately 11.4 million shares, which were cancelled effective December 26, 2002. In exchange, VeriSign granted options to purchase approximately 6.8 million shares at an exercise price of $13.79 which was equal to the fair market value on the date of grant, June 30, 2003. Except for the exercise price, all terms and conditions of the new options are substantially the same as the cancelled option. In particular, the new option is vested to the same degree, as a percentage of the

VERISIGN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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option, that the cancelled option would have been vested on the new option date if the cancelled option had not been cancelled and will continue to vest on the same schedule as the cancelled option.

Members of the Board who are not employees of VeriSign, or of any parent, subsidiary or affiliate of VeriSign, are eligible to participate in the 1998 Directors Plan ("Directors Plan"). The option grants under the Directors Plan are automatic and non-discretionary, and the exercise price of the options is 100% of the fair market value of the common stock on the date of the grant. Each eligible director is initially granted an option to purchase 25,000 shares on the date he or she first becomes a director ("Initial Grant"). On each anniversary of a director's Initial Grant or most recent grant if he or she was ineligible to receive an Initial Grant, each eligible director will automatically be granted an additional option to purchase 12,500 shares of common stock if the director has served continuously as a director since the date of the Initial Grant or most recent grant. The term of the options under the Directors Plan is ten years and options vest as to 6.25% of the shares each quarter after the date of the grant, provided the optionee remains a director of VeriSign. At December 31, 2004, 510,781 shares remain available for future grant under the Directors Plan.

In connection with its acquisitions in 2004, VeriSign assumed some of the acquired companies' stock options. Options assumed generally have terms of seven to ten years and generally vest over a four-year period.

A summary of stock option activity under all Plans is as follows:

	Year Ended December 31,					
	2004		2003		2002	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	31,999,664	$ 36.87	26,960,479	$ 47.41	37,340,507	$ 52.50
Assumed in business combinations	687,659	4.79	—	—	—	—
Granted	9,156,123	20.20	13,199,316	13.45	12,850,130	16.69
Exercised	(4,391,205)	11.04	(2,321,981)	9.05	(2,506,354)	4.30
Cancelled	(4,574,072)	45.98	(5,838,150)	43.66	(20,723,804)	42.70
Outstanding at end of year	32,878,169	33.74	31,999,664	36.87	26,960,479	47.41
Exercisable at end of year	17,085,569	48.19	18,156,403	48.05	13,874,208	52.94
Weighted-average fair value of options granted during the year		10.80		9.00		11.97

	Equals Market Price			Exceeds Market Price		
	Year Ended December 31,			Year Ended December 31,		
	2004	2003	2002	2004	2003	2002
Weighted-average exercise prices	$ 19.52	$ 13.45	$ 16.69	$ 35.05	$ —	$ —
Weighted-average fair value on grant date	10.49	9.00	11.97	17.51	—	—

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The following table summarizes information about stock options outstanding as of December 31, 2004:

Range of Exercise Prices	Shares Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares Exercisable	Weighted-Average Exercise Price
$ .38–$ 10.00	2,227,506	3.69 years	$ 7.01	1,491,645	$ 6.76
$ 10.08–$ 13.65	5,912,299	4.53 years	12.01	2,908,040	11.86
$ 13.79	3,934,872	4.68 years	13.79	2,410,535	13.79
$ 14.06–$ 19.90	7,862,698	6.73 years	17.20	296,161	16.24
$ 20.44–$ 29.63	3,603,459	4.74 years	25.07	1,996,753	24.82
$ 30.08–$ 38.92	3,489,836	3.77 years	35.23	2,405,340	35.85
$ 40.08–$ 49.94	421,233	4.00 years	43.31	400,293	43.26
$ 50.11–$ 98.55	2,520,497	4.62 years	67.94	2,271,033	69.22
$100.87–$149.97	1,165,548	1.47 years	129.67	1,165,548	129.67
$150.09–$253.00	1,740,221	2.45 years	160.53	1,740,221	160.53
	32,878,169	4.74 years	33.74	17,085,569	48.19

1998 Employee Stock Purchase Plan

VeriSign has reserved 12,625,260 shares for issuance under the 1998 Employee Stock Purchase Plan (“Purchase Plan”). Eligible employees may purchase common stock through payroll deductions by electing to have between 2% and 15% of their compensation withheld. Each participant is granted an option to purchase common stock on the first day of each 24-month offering period and this option is automatically exercised on the last day of each six-month purchase period during the offering period. The purchase price for the common stock under the Purchase Plan is 85% of the lesser of the fair market value of the common stock on the first day of the applicable offering period and the last day of the applicable purchase period. Offering periods begin on February 1 and August 1 of each year. Shares of common stock issued under the Purchase Plan totaled 2,312,572 in 2004, 1,997,230 in 2003, and 645,595 in 2002. As of December 31, 2004, 6,139,707 shares remain available for future issuance. On January 1 of each year, the number of shares available for grant under the Purchase Plan will automatically be increased by an amount equal to 1% of the outstanding common shares on the immediately preceding December 31. The weighted-average fair value of the stock purchase rights granted under the Purchase Plan was $6.89 in 2004, $5.76 in 2003, and $4.84 in 2002.

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Note 13. Income Taxes

Income before income taxes includes net income from foreign operations of approximately $34.9 million for 2004. Income before income taxes includes net losses from foreign operations of approximately $30.2 million and $217.8 million for 2003 and 2002, respectively.

The provision for income taxes consisted of the following:

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Continuing operations:			
Current:			
Federal	$ 764	$ 1,568	$ —
State	(1,011)	2,141	9,180
Foreign, including foreign withholding tax	29,506	13,103	8,705
	29,259	16,812	17,885
Deferred:			
Federal	—	—	2,148
State	—	—	—
Foreign	(8,705)	(1,008)	(9,658)
	(8,705)	(1,008)	(7,510)
Income tax expense	20,554	15,804	10,375
Charge in lieu of taxes attributable to employee stock option plans	4,748	5,004	—
Charge in lieu of taxes resulting from initial recognition of acquired tax benefits that are allocated to reduce goodwill related to the acquired entity	2,278	2,545	—
	$27,580	$23,353	$10,375

The increase between 2003 and 2004 to current tax expense for foreign operations was the result of including the operations of Jamba! AG which were acquired in 2004.

The difference between income tax expense and the amount resulting from applying the federal statutory rate of 35% to net income (loss) before income taxes is attributable to the following:

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Income tax expense (benefit) at federal statutory rate	$ 74,831	$ (82,784)	$ (1,732,677)
State taxes, net of federal benefit	(1,481)	3,317	9,180
Differences between statutory rate and foreign effective tax rate	12,434	24,978	6,166
Goodwill impairment	—	91,526	1,463,782
Change in valuation allowance	(48,232)	(17,372)	270,569
Research and experimentation credit	(12,198)	—	—
Other	2,226	3,688	(6,645)
	$ 27,580	$ 23,353	$ 10,375

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The tax effects of temporary differences that give rise to significant portions of VeriSign's deferred tax assets and liabilities are as follows:

	December 31,	
	2004	2003
	(In thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$ 277,080	$ 250,520
Deductible goodwill and intangible assets	176,618	204,254
Tax credit carryforwards	27,693	11,812
Property and equipment	8,381	2,635
Deferred revenue, accruals and reserves	86,198	126,066
Capital loss carryforwards	82,334	107,179
Other	16,771	9,116
Total deferred tax assets	675,075	711,582
Valuation allowance	(608,204)	(637,662)
Net deferred tax assets	66,871	73,920
Deferred tax liabilities:		
Non-deductible acquired intangibles	(78,889)	(56,631)
Unrealized gain	—	(5,666)
Other	(244)	(957)
Total deferred tax liabilities	(79,133)	(63,254)
Total net deferred tax (liabilities) assets	$ (12,262)	$ 10,666

The total valuation allowance decreased $29.5 million in 2004 and $5.5 million in 2003. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of deferred tax assets will not be realized. The realization of deferred tax assets is based on several factors, including the Company's past earnings and the scheduling of deferred tax liabilities and projected income from operating activities. Management does not believe it is more likely than not that the deferred tax assets relating to U.S. federal and state operations are realizable. The amount of the deferred tax asset considered realizable, however, could be increased in the near future if the Company exhibits sufficient positive evidence in future periods that demonstrate the continuation of its trend in projected earnings is achievable. If the valuation allowance relating to deferred assets were released as of December 31, 2004, approximately $240.7 million would be credited to the statement of operations, $268.6 million would be credited to additional paid-in capital, and $5.4 million would be credited to goodwill. Management would continue to apply a valuation allowance of $33.4 million to the deferred tax asset for capital loss carryforwards, and $48.9 million to the deferred tax asset relating to the write-down of investments, due to the limited carryover life of such tax attributes. Management does not believe it is more likely than not that $11.2 million of deferred tax assets relating to certain foreign operations are realizable; therefore, a valuation allowance is applied to the deferred tax asset. On the remaining foreign operations, management believes it is more likely than not that deferred tax assets will be realized; accordingly, a valuation allowance was not applied on these assets.

As of December 31, 2004, VeriSign had federal net operating loss carryforwards of approximately $697.9 million, state net operating loss carryforwards of approximately $555.9 million, and foreign net operating loss carryforwards of approximately $49.0 million. If VeriSign is not able to use them, the federal net operating

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loss carryforwards will expire in 2010 through 2023 and the state net operating loss carryforwards will expire in 2005 through 2023. Foreign net operating loss carryforwards will expire on various dates. VeriSign had research and experimentation tax credits for federal income tax purposes of approximately $18.6 million available for carryforward to future years, and for state income tax purposes of approximately $13.9 million available for carryforward to future years. The federal research and experimentation tax credits will expire, if not utilized, in 2010 through 2024. State research and experimentation tax credits carry forward indefinitely until utilized. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of a corporation's ownership change, as defined in the Internal Revenue Code. VeriSign's ability to utilize net operating loss carryforwards may be limited as a result of such ownership changes.

Deferred income taxes have not been provided on the undistributed earnings of foreign subsidiaries. The amount of such earnings included in consolidated retained earnings at December 31, 2004 was $10.0 million, principally from VeriSign Japan KK. These earnings have been permanently reinvested and we do not plan to initiate any action that would precipitate the payment of income taxes thereon. It is not practicable to estimate the amount of additional tax that might be payable on the foreign earnings.

Note 14. Commitments and Contingencies

Leases

VeriSign leases a portion of its facilities under operating leases that extend through 2014 and subleases a portion of its office space to third parties. The minimum lease payments under non-cancelable operating leases and the future minimum contractual sublease income as of December 31, 2004 are as follows:

	Operating Lease Payments	Sublease Income	Net Lease Payments
		(In thousands)	
2005	$ 27,648	$ (4,111)	$ 23,537
2006	21,234	(3,371)	17,863
2007	16,630	(2,854)	13,776
2008	12,681	(2,527)	10,154
2009	11,354	(73)	11,281
Thereafter	30,051	(168)	29,883
Total	$ 119,598	$ (13,104)	$ 106,494

Future operating lease payments include payments related to leases on excess facilities included in VeriSign's restructuring plans.

Net rental expense under operating leases was $16.3 million in 2004, $23.6 million in 2003, and $21.8 million in 2002. VeriSign has subleased offices to various companies under non-cancelable operating leases. VeriSign received payments of $4.3 million in 2004, $1.6 million in 2003, and $3.1 million in 2002.

Restricted Cash

As of December 31, 2004, restricted cash includes $45.0 million of cash related to a trust established during the first quarter of 2004 for VeriSign's director and officer liability self-insurance coverage. As of December 31, 2004 and December 31, 2003, VeriSign has pledged approximately $6.5 million and $18.4 million, respectively, classified as restricted cash on the accompanying balance sheets, as collateral for standby letters of credit that guarantee certain of its contractual obligations, primarily relating to its real estate lease agreements, the longest of which is expected to mature in 2014.

Legal Proceedings

VeriSign is engaged in several 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 15. Foreign Currency and Hedging Instruments

VeriSign conducts business throughout the world and transacts in multiple foreign currencies. As VeriSign continues to expand its international operations, the Company is increasingly exposed to foreign currency risks. In the fourth quarter of 2003, VeriSign initiated a foreign currency risk management program designed to mitigate foreign exchange risks associated with the monetary assets and liabilities of its operations that are denominated in non-functional currencies. The primary objective of this hedging program is to minimize the gains and losses resulting from fluctuations in exchange rates. The Company does not enter into foreign currency transactions for trading or speculative purposes, nor does it hedge foreign currency exposures in a manner that entirely offsets the effects of changes in exchange rates. The program may entail the use of forward or option contracts and in each case these contracts are limited to a duration of less than 12 months.

At December 31, 2004, VeriSign held forward contracts in notional amounts totaling approximately $54.5 million to mitigate the impact of exchange rate fluctuations associated with certain foreign currencies. All hedge contracts were recorded at fair market value on the balance sheet and in earnings at year end 2004 and 2003. The Company attempts to limit its exposure to credit risk by executing foreign exchange contracts with high-quality financial institutions.

Note 16. Segment Information

Description of Segments

During 2004, VeriSign operated its business in two reportable segments: the Internet Services Group and the Communications Services Group. During 2003 and 2002, VeriSign operated its business in three reportable segments: the Internet Services Group, the Communications Services Group, and the Network Solutions business segment. The Network Solutions business provided domain name registration, and value added services such as business email, websites, hosting and other web presence services. On November 25, 2003, VeriSign completed the sale of its Network Solutions business to Pivotal Private Equity.

The Internet Services Group consists of the Security Services business and Naming and Directory Services business. The Security Services business provides products and services to enterprises and organizations that want to establish and deliver secure Internet-based services for their customers and business partners, including the following types of services: enterprise security services, including VeriSign's managed security and authentication services, and e-commerce services, including Web trust and payment services. The Naming and Directory Services business provides registry services as the exclusive registry of domain names in the *.com* and *.net* gTLDs and certain ccTLDs, as well as providing certain value added services.

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The Communications Services Group provides specialized managed communications services to wireline and wireless telecommunications carriers, cable companies and enterprise customers. VeriSign's managed communications service offerings include network services, intelligent database and directory services, application services, mobile content services, and billing and payment services.

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. Additionally, the performance of the Internet Services Group and the Communications Services Group is the measure used by the CODM for purposes of making decisions about allocating resources between the segments.

The accounting policies used to derive reportable segment results are generally the same as those described in Note 1.

The following table reflects the results of VeriSign's reportable segments. Internal revenues and segment gross margin include transactions between segments that are intended to reflect an arm's length transfer at the best price available for comparable external transactions.

	Internet Services Group	Communications Services Group	Network Solutions	Unallocated Corporate Expenses	Total
			(In thousands)		
Year ended December 31, 2004:					
Revenues	$564,148	$ 602,307	$ —	$ —	$1,166,455
Cost of revenues	124,859	291,613	—	28,287	444,759
Gross margin	$439,289	$ 310,694	$ —	$ (28,287)	$ 721,696
Year ended December 31, 2003:					
Total revenues	$484,139	$ 406,745	$211,819	$ —	$1,102,703
Internal revenues	(47,923)	—	—	—	(47,923)
External revenues	$436,216	$ 406,745	$211,819	$ —	$1,054,780
Total cost of revenues	$117,033	$ 225,890	$117,412	$ 33,795	$ 494,130
Internal cost of revenues	—	—	(47,923)	—	(47,923)
External cost of revenues	$117,033	$ 225,890	$ 69,489	$ 33,795	$ 446,207
Gross margin after eliminations	$319,183	$ 180,855	$142,330	$ (33,795)	$ 608,573
Year ended December 31, 2002:					
Total revenues	$613,022	$ 385,734	$311,169	$ —	$1,309,925
Internal revenues	(88,257)	—	—	—	(88,257)
External revenues	$524,765	$ 385,734	$311,169	$ —	$1,221,668
Total cost of revenues	$242,500	$ 210,327	$178,891	$ 27,906	$ 659,624
Internal cost of revenues	—	—	(88,257)	—	(88,257)
External cost of revenues	$242,500	$ 210,327	$ 90,634	$ 27,906	$ 571,367
Gross margin after eliminations	$282,265	$ 175,407	$220,535	$ (27,906)	$ 650,301

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Reconciliation to VeriSign, as Reported

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Revenues:			
Total segments	$1,166,455	$1,102,703	$ 1,309,925
Elimination of internal revenues	—	(47,923)	(88,257)
Revenues, as reported	$1,166,455	$1,054,780	$ 1,221,668
Net income (loss):			
Total segments' gross margin	$ 721,696	$ 608,573	$ 650,301
Operating expenses	(589,968)	(836,823)	(5,451,934)
Other income (expense), net	82,077	(8,276)	(149,289)
Income tax expense	(27,580)	(23,353)	(10,375)
Net income (loss), as reported	$ 186,225	$ (259,879)	$(4,961,297)

Geographic Information

The following table shows a comparison of our revenues by geographic region for each year presented:

	2004	2003	2002
		(In thousands)	
Americas:			
United States	$ 843,604	$ 941,913	$ 1,115,731
Other (1)	19,734	13,080	6,343
Total Americas	863,338	954,993	1,122,074
EMEA (2)	237,310	48,217	54,345
APAC (3)	65,807	51,570	45,249
Total revenues	$ 1,166,455	$ 1,054,780	$ 1,221,668

(1) Canada, Latin America and South America
(2) Europe, the Middle East and Africa ("EMEA")
(3) Australia, Japan and Asia Pacific ("APAC")

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

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Long-lived assets exclude goodwill, other intangible assets, and restricted cash. The following table shows a comparison of our domestic and international long-term assets:

	December 31, 2004	December 31, 2003
	(In thousands)	
Domestic tangible illiquid long-term assets	$541,988	$ 560,092
International tangible illiquid long-term assets	23,980	23,311
Total tangible illiquid long-term assets	$565,968	$ 583,403

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

Major Customers

No customer accounted for 10% or more of consolidated revenues in 2004, 2003 or 2002.

Note 17. Network Solutions and International Affiliates

VeriSign retained a 15% interest in Network Solutions domain name registrar business after the sale to Pivotal Private Equity on November 25, 2003. Through November 25, 2003, Network Solutions purchased certain products and services from the Company and these intercompany revenues were eliminated in the Company's consolidated financial statements through that date. VeriSign recognized $43.5 million and $3.9 million from Network Solutions as a customer in 2004 and 2003, respectively.

As consideration for the Company's sale of its Network Solutions domain name registrar business on November 25, 2003, VeriSign received a $40 million senior subordinated note that bears interest at 7% per annum for the first three years and 9% per annum thereafter and matures five years from the date of closing. The principal and interest are due upon maturity. This note is subordinated to a term loan made by ABLECO Finance to the Network Solutions business in the principal amount of approximately $40 million as of the closing date. The present value of the note at December 31, 2004 was approximately $40.0 million using a 10% market interest rate.

In addition to the above, VeriSign recognized revenues totaling $8.1 million in 2004, $10.3 million in 2003, and $27.1 million in 2002 from customers, including VeriSign Affiliates, in which it holds an equity investment.

Note 18. Subsequent Events

On January 10, 2005, VeriSign announced that it had executed a definitive agreement to acquire LightSurf Technologies, Inc. ("LightSurf"). Under the terms of the agreement, VeriSign agreed to issue shares of its Common Stock having a value of approximately $270 million for all of the outstanding capital stock, warrants and vested options of LightSurf and to pay certain transaction-related expenses of LightSurf. In addition, VeriSign will assume all unvested stock options of LightSurf. LightSurf is a leading privately held provider of multimedia messaging and interoperability solutions for the wireless market. The transaction is subject to certain closing conditions, including the issuance of a permit from the California Department of Corporations. The transaction is anticipated to close by the end of the first quarter of 2005.

In the first quarter of 2005, VeriSign completed a settlement of litigation with a telecommunications carrier, resolving disputes over certain tariff charges for SS7 traffic that VeriSign passed through to telecommunications carriers who purchased its SS7 services. Under the settlement, the carrier refunded and/or credited certain amounts to VeriSign and VeriSign refunded and/or credited certain amounts to its customers. As a result of the settlement, VeriSign will record a reduction in cost of revenues of approximately $5 million in the first quarter of 2005.

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EXHIBITS

As required under Item 15—Exhibits and Financial Statement Schedules, the exhibits filed as part of this report are provided in this separate section. The exhibits included in this section are as follows:

Exhibit Number	Exhibit Description
2.04	Sale and Purchase Agreement Regarding the Sale and Purchase of All Shares In Jamba! AG dated May 23, 2004 between the Registrant and certain other named individuals
10.04	Registrant's 1998 Equity Incentive Plan, as amended through 2/8/05
10.06	Form of 1998 Equity Incentive Plan Restricted Stock Unit Agreement
10.08	Summary of Director's Compensation Benefits, effective 7/1/04
21.01	Subsidiaries of the Registrant
23.01	Consent of Registered Independent Public Accounting Firm
31.01	Certification of President, Chief Executive Officer and Chairman of the Board pursuant to Exchange Act Rule 13a-14(a)
31.02	Certification of Executive Vice President of Finance and Administration and Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)
32.01	Certification of President, Chief Executive Officer and Chairman of the Board pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)**
32.02	Certification of Executive Vice President of Finance and Administration and Chief Financial Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)**

** As contemplated by SEC Release No. 33-8212, these exhibits are furnished with this Annual Report on Form 10-K and are not deemed filed with the Securities and Exchange Commission and are not incorporated by reference in any filing of VeriSign, Inc. under the Securities Act of 1933 or the Securities Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in such filings.

EXHIBIT 2.04

SALE AND PURCHASE AGREEMENT REGARDING
THE SALE AND PURCHASE OF ALL SHARES IN

Jamba! AG

SALE AND PURCHASE AGREEMENT
(the **"AGREEMENT"**)

between

1. **Summit Holding GmbH,** formerly Topas 30. V V GmbH, having its business seat at Invalidenstr. 112, 10115 Berlin, registered with the commercial register of the local court of Berlin-Charlottenburg under HRB 89697, duly represented by the undersigned,

2. **Akazien GmbH,** having its business seat at Weinbergstrasse 22, 16259 Beiersdorf-Freudenberg, registered with the commercial register of the local court of Frankfurt (Oder) under HRB 10058, duly represented by the undersigned;

3. **Media-Saturn-Holding GmbH,** having its business seat at Wankelstraße 5, 85046 Ingolstadt, registered with the commercial register of the local court of Ingolstadt under HRB 1123, duly represented by the undersigned;

4. **easyTel Telefongesellschaft mbH,** having its business seat at Mündelheimer Weg 40, 40472 Düsseldorf, registered with the commercial register of the local court of Düsseldorf under HRB 44703, duly represented by the undersigned;

5. **debitel Mobile Services Holding GmbH,** having its business seat at Gropiusplatz 10, 70563 Stuttgart-Vaihingen, registered with the commercial register of the local court of Stuttgart under HRB 23987, duly represented by the undersigned;

6. **Dangaard Telecom GmbH,** having its business seat at Industrieweg 10, 24955 Harrislee, registered with the commercial register of the local court of Flensburg under HRB 1767, duly represented by the undersigned;

   — the parties under Nos. 1.-6. are collectively hereinafter referred to as the **"SELLERS"**—

7. **ZZZ 423 Beteiligungsgesellschaft mbH** (in future: VeriSign Germany Holding GmbH), having its current business seat at Eifelweg 10, 73066 Uhingen, registered with the commercial register of the local court of Göppingen under HRB 3854, duly represented by the undersigned;

— hereinafter referred to as the **“PURCHASER”**—

8. **VeriSign, Inc.,** having its business seat at 487 E. Middlefield Road, Mountain View, CA 94043, U.S.A., duly represented by the undersigned, as guarantor of the obligations of the PURCHASER hereunder;

— hereinafter referred to as **“VERISIGN”** or the **“GUARANTOR”**—

9. **Marc Samwer,** having his residency at Akazienalle 32, 14050 Berlin;

10. **Oliver Samwer,** having his residency at Gartenstraße 3c, 10115 Berlin;

— the parties at Nos. 9. and 10. are collectively also hereinafter referred to as the **“SAMWER BROTHERS”**—

11. **Alexander Samwer,** having his residency at c/o Gartenstraße 3c, 10115 Berlin;

SELLERS, PURCHASER and SAMWER BROTHERS are hereinafter referred to individually as **“PARTY”** and jointly as **“PARTIES”**.

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V. PREAMBLE

1. **WHEREAS**, Jamba! AG (the "**COMPANY**") is a German stock corporation (*Aktiengesellschaft*) with its registered seat in Cologne and its main office in Berlin, registered with the commercial register of the local court of Cologne under HRB 33871.

2. **WHEREAS**, the shares in the COMPANY are registered shares with restricted transferability (*vinkulierte Namensaktien*). No share certificates have been issued by the COMPANY representing the shares (*nicht verbrieft*). The share capital of EUR 2,000,000 (in words: Euro two million) is divided into 2,000,000 registered shares.

3. **WHEREAS**, the shares in the COMPANY are currently held as set forth in Section 2.1.

4. **WHEREAS**, the PURCHASER is an affiliate of VERISIGN within the meaning of Section 15 et seq. of the German Stock Corporation Act (*AktG*).

5. **WHEREAS**, the SELLERS intend to sell and assign to the PURCHASER and the PURCHASER intends to purchase from the SELLERS all outstanding shares in the COMPANY.

6. **WHEREAS**, the COMPANY has prepared consolidated interim accounts (*Konzernquartalsbericht*) as per March 31, 2004, consisting of a consolidated balance sheet (*Bilanz*) and a consolidated profit and loss statement (*Gewinn und Verlustrechnung*) and notes thereto (the "**INTERIM ACCOUNTS**").

NOW, therefore, subject to and on the terms and conditions set forth herein, the PARTIES agree as follows:

VI.

VII. § 1
COMPANY

1.1 The COMPANY is a stock corporation duly incorporated and existing under the laws of the Federal Republic of Germany with its registered seat in Cologne and its main office in Berlin. It is registered in the commercial register of the local court of Cologne under HRB 33871.

1.2 The registered share capital (*Grundkapital*) of the COMPANY amounts to EUR 2,000,000 (in words: Euro two million). The SELLERS are the sole shareholders of the COMPANY. The SELLERS hold 2,000,000 registered shares (*Namensaktien*) with a calculated share in the share capital of EUR 1 each. No share certificates have been issued by the COMPANY representing the shares. Pursuant to its Mitarbeiterbeteiligungsprogramm I der Jamba! AG (*Aktienoptionsbedingungen*) dated March 2001 (the "**STOCK OPTION PLAN**"), the COMPANY has granted 57,610 subscription rights (*Bezugsrechte*) to EMPLOYEES (the "**STOCK OPTIONS**") as set forth in **APPENDIX 1.2** (the "**STOCK OPTIONS HOLDERS**"), of which none have yet been exercised. For this purpose, the COMPANY has available conditional share capital of EUR 105,263 (*bedingtes Kapital*), none of which has yet been effected. Further, until August 10, 2005, the COMPANY's management board (*Vorstand*) is authorized, with the consent of the COMPANY's supervisory board (*Aufsichtsrat*), to increase the COMPANY's share capital by up to EUR 1,000,000 by issuing up to 1,000,000 shares (*genehmigtes Kapital*), none of which has yet been effected.

VIII. § 2

SALE AND TRANSFER OF OWNERSHIP

2.1 The SELLERS herewith sell (*verkaufen*) and assign (*treten ab*), each individually, to the PURCHASER the shares in the COMPANY held by each of them, which in total comprise all of the shares in the COMPANY (the "**SHARES**") including all ancillary rights (*Nebenrechte*) pertaining thereto subject to Section 2.2. The PURCHASER herewith purchases and accepts the assignment of the SHARES from the SELLERS in accordance with the foregoing sentence and subject to Section 2.2. Profits (*Gewinne*) earned in the current fiscal year of the COMPANY as well as profits of prior fiscal years not distributed to shareholders of the COMPANY, shall belong to the PURCHASER, unless and as far as provided otherwise in the AGREEMENT.

The individual SHARES sold and assigned by the SELLERS to the PURCHASER are as follows:

	Shares	Percentage	Share Numbers
Summit Holding GmbH	1.120.000	56%	1-227882
			1350001-1449580
			1449581-1505900
			1505901-1539440
			1539441-1546420
			1546421-1582613
			300001-500163
			600001-730874
			800001-831818
			850001-1146650
Media-Saturn-Holding GmbH	256.182	12,81%	227883-300000
			1582614-1584033
			1584034-1586193
			1586194-1766677
easyTel Telefongesellschaft mbH	128.506	6,43%	730875-800000
			1766678-1826057
debitel Mobile Services Holding GmbH	200.679	10,03%	500164-600000
			1826058-1926899
Akazien GmbH	266.760	13,34%	1146651-1350000
			1936591-2000000
Dangaard Telecom GmbH	27.873	1,39%	831819-850000
			1926900-1936590
Total	**2.000.000**	**100%**	

2.2 The assignment of the SHARES becomes effective as soon as the last of the conditions precedent listed in the following sentence has been fulfilled. The assignment of the SHARES is subject to the conditions precedent (*aufschiebende Bedingungen*) within the meaning of Section 158 para. 1 German Civil Code (*BGB*) that

2.2.1 payment and deliverance of the PURCHASE PRICE in accordance with Section 3.2 lit. a), b) and c) has been made;

2.2.2 the shareholder's meeting (*Hauptversammlung*) and the management board (*Vorstand*) of the COMPANY have approved the sale and the assignment of the SHARES to the PURCHASER;

2.2.3 the transaction, to the extent that it is subject to mandatory pre-merger notification, has been cleared by the competent competition authorities in the relevant jurisdiction or is deemed to be cleared due to the expiry of the relevant waiting periods;

2.2.4 the service agreements of the members of the management board of the COMPANY have been amended by the agreements in the form attached as **APPENDIX 2.2.4.1**;

2.2.5 there has been (i) no termination or material modification (which is adverse to the COMPANY) of any of the agreements listed in **APPENDIX 2.2.5** and (ii) no event, condition or development between January 1, 2004 and the CLOSING DATE which has had or could reasonably be expected to have a material adverse effect to the business, property, assets, liabilities or condition (financial or otherwise) (in each case as compared with the status as reflected in the 2003 ACCOUNTS) of the COMPANY and its SUBSIDIARIES taken as a whole (any such termination, modification or event shall be referred to hereinafter as "**MATERIAL ADVERSE CHANGE**") and the PURCHASER shall have received a written certificate dated as of the CLOSING DATE of the SELLERS and the SAMWER BROTHERS to the forgoing effect; provided, however, that for all purposes of this AGREEMENT none of the following shall be deemed in themselves, either alone or in combination, to constitute, (and none of the following shall be taken into account in determining whether there has been, a MATERIAL ADVERSE CHANGE): (i) any adverse changes, events, developments or effects arising from or relating to general business or economic conditions or the general conditions of the industry in which the COMPANY or its SUBSIDIARIES participates which are not specific to the COMPANY or its SUBSIDIARIES, (ii) any outbreak or escalation of hostilities involving the United States or Europe or the occurrence of any act of terrorism, (iii) any adverse change, result, event, development or effect arising from or relating to any change in International Accounting Standards ("IAS"), or (iv) any adverse changes, events, developments or effects solely attributable to the execution or announcement of this AGREEMENT.

2.2.6 The SELLERS and the SAMWER BROTHERS shall have performed in all material respects all agreements, covenants and obligations required to be performed under this AGREEMENT on or prior to the CLOSING DATE, and PURCHASER shall have received a written certificate dated as of the CLOSING DATE of the SELLERS and the SAMWER BROTHERS to the forgoing effect;

2.2.7 the representations and warranties contained in Section 5 of the AGREEMENT are still true and accurate as at the CLOSING DATE, and PURCHASER shall have received a written certificate dated as of the CLOSING DATE of the SELLERS and the SAMWER BROTHERS to the forgoing effect;

2.2.8 PURCHASER shall have received an executed counterpart of the investment representation letter executed by each of the SELLERS in the form as attached as **APPENDIX 2.2.8** (the “**INVESTMENT REPRESENTATION LETTERS**”);

2.2.9 the SELLERS REPRESENTATIVE on behalf of the SELLERS and the PURCHASER have executed the agreement on an escrow with respect to the ESCROW FUND (the “**ESCROW AGREEMENT**”) substantially in the form attached hereto as **APPENDIX 2.2.9**;

2.2.10 the SELLERS are not subject to any insolvency or insolvency plan proceedings or similar proceedings and no application has been filed for commencement of any such proceedings;

2.2.11 the SELLERS and the PURCHASER have executed the agreement on registration rights substantially in the form attached hereto as **APPENDIX 2.2.11;**

2.2.12 the PURCHASER has entered into the limited guaranty with Summit Ventures VI – A, L.P., Summit Ventures VI – B, L.P., Summit VI Entrepreneurs Fund, L.P., Summit VI Advisors Fund, L.P., Summit Ventures V, L.P., Summit V Companion Fund, L.P., Summit V Advisors Fund, L.P., Summit V Advisors Fund (QP), L.P. Summit Investors VI, L.P., substantially in the form attached hereto as **APPENDIX 2.2.12** and such Summit Funds have supplied sufficient proof for their incorporation and representation.

2.2.13 SELLERS, as far as they are represented pursuant to a power of attorney, have provided to the PURCHASER (i) certified (*notariellbeglaubigte*) copies of the original powers of attorney which certified copies shall carry signatures certified by a German notary of the persons who signed the original powers of attorneys and (ii) the original power of attorney of Alexander Samwer has been delivered to the PURCHASER.

2.3 The SELLERS and the PURCHASER shall inform each other in writing without undue delay as soon as any of the conditions precedent set forth in Sections 2.2.2 to 2.2.4, inclusive, have been satisfied. The PURCHASER and the SELLERS shall sign a joint protocol as set out in **APPENDIX 16.3** confirming that the conditions precedent listed in Sections 2.2.2 to 2.2.13, inclusive, have been fulfilled attaching the respective documents evidencing the fulfillment of the respective condition precedent.

2.4 The PURCHASER can waive the conditions precedent set forth in Sections 2.2.4 to 2.2.10, inclusive, in its free discretion.

IX. § 3

PURCHASE PRICE

3.1 The aggregate purchase price for the SHARES shall be USD ($) 273,291,691 (in words: USD two hundred seventy three Million two hundred and ninety one thousand six hundred and ninety one) consisting of cash and VERISIGN COMMON STOCK and shall be paid as set out in Section 3.2 lit. a), b) and c) (the "**PURCHASE PRICE**").

3.2 The PURCHASE PRICE shall be paid on the CLOSING DATE and shall be paid and delivered, as the case may be, by the PURCHASER to each of the SELLERS in accordance with the number of shares in the COMPANY sold and assigned to the PURCHASER by each of the SELLERS (the "**INDIVIDUAL PURCHASE PRICE PORTION**"). The PURCHASE PRICE shall consist of the following elements:

(a) PURCHASER shall pay an aggregate amount of USD 177,639,599.15 (in words: USD one hundred seventy-seven Million six hundred and thirty nine thousand five hundred and ninety nine and fifteen cents) in cash to the SELLERS divided among them in accordance with their INDIVIDUAL PURCHASE PRICE PORTION;

(b) PURCHASER shall deliver to the SELLERS a promise in the form attached hereto as **APPENDIX 3.2 b)** to deliver certificates evidencing unregistered VERISIGN common stock, USD .001 par value (the "**VERISIGN COMMON STOCK**") within five (5) business days after the CLOSING DATE, having an aggregate value of USD 68,322,922.75 (in words: USD sixty eight Million three hundred twenty two thousand nine hundred twenty two and seventy five cents) divided among them in accordance with their INDIVIDUAL PURCHASE PRICE PORTION. The VERISIGN COMMON STOCK shall consist of a number of VERISIGN common stock determined by taking the average of the closing prices of VERISIGN COMMON STOCK on the Nasdaq National Market as reported on www.nasdaq.com during the 10 consecutive trading days ending on the trading day preceding the CLOSING DATE (the "**REFERENCE PRICE**") and dividing the amount of USD 68,322,922.75 by such REFERENCE PRICE and rounding up to the next share in case the calculated number included a fraction of a share; and

(c) PURCHASER shall deliver to the SELLERS a promise in the form attached hereto as **APPENDIX 3.2 b)** to deliver in accordance with the ESCROW AGREEMENT certificates evidencing unregistered VERISIGN COMMON STOCK having an aggregate value of USD 27,329,169.10 (in words: USD twenty-seven Million three hundred and twenty nine thousand one hundred and sixty nine and ten cents) (the "**ESCROW FUND**") within five (5) business days after the CLOSING DATE, to the escrow agent described in the ESCROW AGREEMENT (the "**ESCROW AGENT**"), it being understood that such number of VERISIGN COMMON STOCK are to be determined in accordance with the REFERENCE PRICE.

3.3 The cash portion of the PURCHASE PRICE according to Section 3.2 lit. a) shall be divided among the individual SELLERS in accordance with their INDIVIDUAL PURCHASE PRICE PORTION and paid to them as follows:

a) The SELLERS hereby direct that an aggregate amount of USD 4,500,000 shall be paid by PURCHASER to an escrow account (the "**SELLERS SPECIAL ESCROW**") designated in writing to PURCHASER by SELLERS REPRESENTATIVE prior to the CLOSING DATE. The amount paid to the SELLERS SPECIAL ESCROW is a conditional component of the PURCHASE PRICE to be paid either to the SELLERS or to Akazien GmbH in proportion to their respective INDIVIDUAL PURCHASE PRICE PORTION pursuant to the terms and conditions of the escrow agreement pursuant to which the SELLERS SPECIAL ESCROW has been established. The PURCHASER shall have no liability with respect to amounts paid under this Section 3.3 lit. (a) after payment is made to the SELLERS SPECIAL ESCROW.

b) The SELLERS hereby direct that a further aggregate amount of USD 4,250,000 shall be paid to an account (the "**TRANSACTION FEE ACCOUNT**") designated by the SELLERS REPRESENTATIVE to be used to fund payment of transaction fees and expenses payable by the SELLERS with respect to the transaction described in this Agreement, and to fund expenses incurred by the SELLERS REPRESENTATIVE in his capacity as such. The PURCHASER shall have no liability with respect to amounts paid to the TRANSACTION FEE ACCOUNT once paid to such TRANSACTION FEE ACCOUNT.

(c) An amount equal to USD 168,889,599.15 (total cash after deducting payments described in paragraphs (a) and (b)) shall be paid to the SELLERS, in proportion to their INDIVIDUAL PURCHASE PRICE PORTION, to such accounts as the SELLERS may designate to the Purchaser in writing prior to the CLOSE DATE.

3.4 Each of the SELLERS is obligated to immediately inform the PURCHASER of the reception of their respective INDIVIDUAL PURCHASE PRICE PORTION.

X. § 3 A

CLOSING ACCOUNTS

3A.1 SELLERS shall instruct the management of the COMPANY to prepare consolidated accounts of the COMPANY and its subsidiaries (the "**CLOSING ACCOUNTS**") consisting of a balance sheet (*Bilanz*) (the "**CLOSING BALANCE SHEET**") as of the CLOSING DATE. However, if the assignment of the SHARES according to Section 2.2 becomes effective within five days before or following the lapse of a calendar month (*Monatsende)* **("CLOSING ACCOUNT MONTH END")** then the CLOSING ACCOUNTS shall be prepared at per the CLOSING ACCOUNT MONTH END.

3A.2 The CLOSING ACCOUNTS shall be prepared by the management of the COMPANY in accordance with IAS observing evaluation and accounting consistency with the INTERIM ACCOUNTS; provided, however, that in preparing the CLOSING ACCOUNTS bonuses in the aggregate amount of USD 1,708,309 paid with respect to the period prior to the CLOSING DATE shall be added back to the assets of the COMPANY. SELLERS shall further instruct the management of the COMPANY to deliver the CLOSING ACCOUNTS within 25 business days following the date as of which the CLOSING ACCOUNTS are prepared to the PURCHASER and an auditor designated before by the PURCHASER in writing (the "**PURCHASER's AUDITOR**") as well as to SELLERS. PURCHASER's AUDITOR and SELLERS shall receive all necessary assistance and are be given access to personnel and all relevant documentation of the COMPANY for the purpose of reviewing the CLOSING ACCOUNTS.

3A.3 The calculation of the CLOSING EQUITY will finally and with binding effect be based on the CLOSING ACCOUNTS to the extent that neither SELLERS, nor PURCHASER within 45 days after delivery of the CLOSING ACCOUNTS to SELLERS and PURCHASER, provides the respective other party with a written report asserting that the CLOSING ACCOUNTS do not meet the provisions of this AGREEMENT by way of stating specific objections to that effect and presenting revised CLOSING ACCOUNTS (the "**REVISED CLOSING ACCOUNTS**").

3A.4 If and to the extent the SELLERS and the PURCHASER do not, within 30 days after delivery of the REVISED CLOSING ACCOUNTS, reach AGREEMENT on final and binding CLOSING ACCOUNTS, then each, SELLERS and PURCHASER, shall be entitled to present the matter to the Institut der Wirtschaftsprüfer, Düsseldorf, which shall appoint an audit company that acts as a neutral audit company (herein "**NEUTRAL AUDITOR**"). The NEUTRAL AUDITOR shall, within 45 days thereafter, determine the disputed issues, taking into consideration the provisions and principles in this Section 3 A, unless PURCHASER and SELLERS jointly provide the Neutral Auditor with written instructions to act otherwise. The Neutral Auditor shall keep within the range of the values allocated to the disputed issues by the parties. The Neutral Auditor's decision with regard to the form and content of the CLOSING ACCOUNTS shall form the final and binding basis for the calculation of the CLOSING EQUITY. The Neutral Auditor shall act as expert and not as arbitrators.

3A.5 The relevant party shall bear the costs for the preparation of REVISED CLOSING ACCOUNTS. The costs for the Neutral Auditor shall be borne by SELLERS and PURCHASER according to Section 91 et seq. German Civil Procedure Code (*ZPO*) according to the proportion of their loss (*unterliegen*). The Neutral Auditor shall also decide on the (proportionate) costs.

XI.

XII. § 4

REPRESENTATIONS AND WARRANTIES OF THE PURCHASER AND THE GUARANTOR

4.1 Each of the PURCHASER and the GUARANTOR represents and warrants in the form of an independent promise of guarantee (*selbständiges Garantieversprechen*) within the meaning of Sec. 311 para. 1 German Civil Code (*BGB*) that the following statements are true and accurate as of the SIGNING DATE and the CLOSING DATE:

4.1.1 Each of the PURCHASER and the GUARANTOR have all necessary authority, including any required board approvals, to enter into and to perform this AGREEMENT. The execution and performance of this AGREEMENT will neither violate any legal duty nor breach any contractual obligation binding any of the PURCHASER and the GUARANTOR. The PURCHASER can freely acquire the SHARES sold and assigned pursuant to AGREEMENT and the purchase and acquisition does not require the approval of any third party with the exception of the clearance in Sec. 2.2.3.

4.1.2 The PURCHASER is a limited liability company (*GmbH*) duly incorporated and existing under the laws of Federal Republic of Germany and an affiliate of VERISIGN within the meaning of Section 15 et seq. of the German Stock Corporation Act (*AktG*).

4.1.3 The GUARANTOR is a Delaware incorporation duly incorporated and existing under the laws of Delaware, United States of America.

4.2 Section 442 German Civil Code (*BGB*) and Sections 377, 378 German Commercial Code (*HGB*) shall not apply.

XIII. § 5

REPRESENTATIONS AND WARRANTIES

5.1 The SELLERS and the SAMWER BROTHERS represent and warrant in the form of an independent promise of guarantee (*selbständiges Garantieversprechen*) within the meaning of Section 311 para. 1 German Civil Code (*BGB*) that the following statements are true, accurate and not misleading as of the signing of this <u>AGREEMENT</u> (the "**SIGNING DATE**") and the CLOSING DATE, unless stated otherwise in this Section 5.1. For the avoidance of doubt it is hereby clarified that this independent guarantee shall under no circumstances be interpreted as or deemed to be meant a guarantee according to Section 443 para 1 German Civil Code (BGB) (*Garantie über die Beschaffenheit*); Section 444 second alternative German Civil Code which inter alia restricts validity of limitations of liability with regard to such a guarantee (*Garantie für die Beschaffenheit der Sache*) shall not be applied thereto, neither directly nor mutatis mutandis. The PARTIES acknowledge that a disclosure by the SELLERS in an appendix shall not be deemed an acknowledgement of materiality to any third party.

(SELLERS and COMPANY)

5.1.1 Such SELLER has all necessary authority, including any required board approvals, to enter into and to perform this AGREEMENT. The execution and performance of this AGREEMENT by such SELLER will neither violate any legal duty nor breach any contractual obligation binding such SELLER or the COMPANY. Such SELLER can freely dispose of the SHARES sold and assigned by it pursuant to this AGREEMENT and the sale and assignment by such SELLER does not require the approval of any third party, with the exception of the clearance in Section 2.2.3. The spouse (*Ehegatte*) of Marc Samwer has consented to the sale and assignment of the SHARES held by Akazien GmbH and her consent is attached as **APPENDIX 5.1.1**.

5.1.2 (a) Such SELLER holds the legal title to the SHARES being sold and assigned by it. The SHARES are free of any encumbrances or other rights of third parties. In particular, there exist no liens (*Pfandrechte*), life interests (*Niessbräuche*), trustee agreements (*Treuhandverhältnisse*), silent partnerships (*stilleGesellschaften*), sub participations (*Unterbeteiligungen*) or comparable rights of third parties, nor do restitution rights, pre-emption rights or options or other rights to purchase such SHARES exist unless fully disclosed in **APPENDIX 5.1.2**.

(b) There exist no agreements or rights to acquire or subscribe for any of the capital stock or other securities of the COMPANY other than the STOCK OPTIONS listed in **APPENDIX 5.1.2**. None of the STOCK OPTIONS listed in **APPENDIX 5.1.2** may be exercised without the approval of the supervisory board of the COMPANY.

5.1.3 The statements made in Section 1 of this AGREEMENT are complete and accurate.

5.1.4 The COMPANY is a German stock corporation (*Aktiengesellschaft*) duly incorporated and existing under the laws of the Federal Republic of Germany.

5.1.5 **APPENDIX 5.1.5** to this AGREEMENT contains the complete and current articles of association (*Satzung*) of the COMPANY.

5.1.6 **APPENDIX 5.1.6** to this AGREEMENT contains a complete and current excerpt from the commercial register (*Handelsregisterauszug*) of the COMPANY. All and any notices, resolutions and other documents have been duly filed, as mandatory, with the commercial register. No shareholders resolutions amending the articles of association and no legal acts exist which would require registration but have not yet been registered. **APPENDIX 5.1.6** furthermore contains a complete and accurate list of all powers of attorneys granted by the COMPANY, other than those shown in the excerpt from the commercial register. The SAMWER BROTHERS and Alexander Samwer are the sole members of the management board of the COMPANY and as per the CLOSING DATE neither of them (i) has been terminated or (ii) has declared the termination with respect to their mandates and/or their service agreements.

5.1.7 The share capital (*Grundkapital*) of the COMPANY has been properly paid in full. No concealed non-cash capital contributions (*verdeckte Sacheinlagen)* have been made. No repayments (*Rückzahlungen*) of the share capital have been made, whether open or concealed. There are no other shareholders apart from the SELLERS. The SHARES constitute the entire share capital of the COMPANY and have been validly issued. For the avoidance of doubt it is hereby clarified that the transactions described in **APPENDIX 5.1.7** shall not be deemed a violation of this Section 5.1.7.

5.1.8 All provisions of the German Stock Corporations Act (*AktG*) have been complied with, in particular (without limitation) in relation to any capital increase, capital decrease or similar procedure affecting the share capital or profit distributions.

5.1.9 Neither the COMPANY nor to the KNOWLEDGE of the SELLERS any of the SELLERS are subject to any insolvency or insolvency plan proceedings or similar proceedings and no application has been filed for commencement of any such proceedings and to the KNOWLEDGE of the SELLERS there exist no current circumstances which could reasonably lead to any such proceedings with respect to the COMPANY within the next 12 months.

5.1.10 The COMPANY is not a party to any enterprise agreements (*Unternehmensverträge*) within the meaning of Sections 291 et seq. German Stock Corporation Act (*AktG*) or a party to any merger or secession agreement (*Verschmelzungs- oder Spaltungsverträge*) as defined in the German Legal Transformations Act (*Umwandlungsgesetz*) unless stated in **APPENDIX 5.1.10**.

5.1.11 The consolidated equity in the CLOSING BALANCE SHEET which comprises subscribed capital, capital reserve, accumulated profit (loss) and translation reserve (the "**CLOSING EQUITY**"), determined without taking into account any extraordinary actions taken by PURCHASER after the CLOSING DATE and without taking into account legal fees of the law firm Hengeler Mueller in an amount not to exceed EUR 600,000 to affect the CLOSING EQUITY, will amount to not less than EUR 17,365,000 (in words: Euro seventeen million three hundred sixty five thousand).

5.1.12 No member of the management board (*Vorstand*), supervisory board (*Aufsichtsrat*), management (*Geschäftsführung*) or, to the KNOWLEDGE of the SELLERS, any employee for whose acts the COMPANY or any of its SUBSIDIARIES may be liable, is or has been during the last two years involved in civil, criminal or administrative proceedings, including arbitration proceedings, either as plaintiff or defendant having a litigation value (*Streitwert*) exceeding EUR 50,000 in the individual case and there are no such proceedings pending. Neither the COMPANY nor any of its SUBSIDIARIES nor any current or former employee, officer or agent has been convicted of any offence (*Straftat*) in relation to the COMPANY or any of its SUBSIDIARIES, and, to the KNOWLEDGE of the SELLERS, no employee or officer has been convicted of any offence which reflects upon his suitability to hold his position or upon the reputation of the COMPANY or any of its SUBSIDIARIES. **APPENDIX 5.1.12** to this AGREEMENT contains a complete list of all minutes of the supervisory board (*Aufsichtsratsprotokolle*) and the management board (*Vorstandsprotokolle*) of the COMPANY.

(Financial statements)

5.1.13 The consolidated financial statements (*Konzernabschluss*) (consisting of the consolidated balance sheet, the consolidated profit and loss statement and the notes to the financial statements (*Anhang*)) and the consolidated statement of affairs (*Lagebericht*) of the COMPANY and its SUBSIDIARIES for the fiscal years ending December 31, 2002 (the "**2002 ACCOUNTS**") and December 31, 2003 (the "**2003 ACCOUNTS**") as well as the INTERIM ACCOUNTS and the CLOSING ACCOUNTS (jointly the "**ACCOUNTS**") have been prepared in accordance with the International Accounting Standards (IAS) observing evaluation and accounting consistency, are true, correct and complete in all material respects, and provide a fair view of the asset, financial and profit situation of the COMPANY and its SUBSIDIARIES. The 2002 ACCOUNTS and the 2003 ACCOUNTS have been audited by Ernst &Young, contain unqualified audit opinions and are together with the INTERIM ACCOUNTS fully disclosed in **APPENDIX 5.1.13.1**. The INTERIM ACCOUNTS were prepared observing evaluation and accounting consistency with the 2003 ACCOUNTS. The management of the COMPANY and of each of the SUBSIDIARIES gave a representation that all business activities were included and properly accounted for in the ACCOUNTS, which representations are attached as **APPENDIX 5.1.13.2**.

All accruals (*Rückstellungen*) required under IAS consistently applied have been made in the ACCOUNTS including all accruals for royalty payments and other potential claims and obligations regarding intellectual property infringements and any collecting society in Germany or elsewhere (including GEMA fees). Except as disclosed in **APPENDIX 5.1.13.3** and except in connection with the bonus payment totaling USD 1,708,309 approved in the minutes of the management board dated 23 May 2004, the COMPANY and its SUBSIDIARIES do not have any liabilities or obligations of any nature which (i) are to be recorded in the 2003 ACCOUNTS or the INTERIM ACCOUNTS under IAS consistently applied and are not disclosed, reflected or reserved against in the 2003 ACCOUNTS or the INTERIM ACCOUNTS, (ii) were incurred outside the ordinary course of business consistent with past practice after December 31, 2003, or (iii) were incurred in violation of the AGREEMENT.

Unless otherwise stated in **APPENDIX 5.1.13.4**, the books, records and accounts of the COMPANY and its SUBSIDIARIES (i) are in all material respects true, complete and accurate, (ii) have been maintained consistent with prior years, (iii) are stated in reasonable detail and accurately and fairly reflect the transactions and dispositions of their assets and properties and (iv) accurately and fairly reflect the basis for the ACCOUNTS in all material respects in accordance with IAS. The COMPANY and its SUBSIDIARIES have devised and maintain a system of internal accounting controls sufficient to provide reasonable assurances that, with respect to the COMPANY and its SUBSIDIARIES (i) transactions are executed in accordance with management's general or specific authorization, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with IAS and to maintain accountability for assets and (iii) the amount recorded for assets on the books and records of COMPANY and its SUBSIDIARIES is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

5.1.14 The consolidated equity (*Eigenkapital*) of the COMPANY under IAS and the respective equity of the SUBSIDIARIES shown in the 2003 ACCOUNTS and the INTERIM ACCOUNTS are reported correctly.

5.1.15 No circumstances have occurred after December 31, 2003, that were relevant for valuation purposes for the fiscal year ending December 31, 2003 (*bewertungserhebliche Umstände nach dem Bilanzstichtag*).

5.1.16 As of the SIGNING DATE there are no loans (*Darlehenforderungen*), other receivables (*Forderungen*) or obligations (*Verbindlichkeiten*) of the COMPANY towards a SUBSIDIARY (other than those which are eliminated in the consolidation of the ACCOUNTS) or the SELLERS, the SAMWER BROTHERS or Alexander Samwer unless stated in **APPENDIX 5.1.16**.

5.1.17 The COMPANY has not given any support letters (*Patronatserklärungen*) or similar statements other than those stated in the 2003 ACCOUNTS.

5.1.18 No advances (*Vorschüsse*), credits or contingencies and commitments (*Haftungsverhältnisse*) have been made by the COMPANY or its SUBSIDIARIES that have not been accrued under IAS consistently applied in the INTERIM ACCOUNTS or the CLOSING DATE ACCOUNTS.

5.1.19 There exist no convertible or other debt securities, nor any derivative financing instruments (*derivative Finanzinstrumente*) of the COMPANY or its SUBSIDIARIES.

(Assets)

5.1.20 With the exception of the assets listed in **APPENDIX 5.1.20** the COMPANY and its SUBSIDIARIES hold legal title to and are the beneficial owner of all material assets (including but not limited to all fixed assets (*Anlagevermögen*), it being understood that for purposes of this Section 5.1.20 an asset shall be considered material if its book value exceeds EUR 2,500, and working assets (*Umlaufvermögen*) required or used in the business operations of the COMPANY and its SUBSIDIARIES (the "**ASSETS**"). The COMPANY or its SUBSIDIARIES lawfully use the assets listed in **APPENDIX 5.1.20** based on lease agreements or other agreements that grant them a right of use. The ASSETS and the leased assets comprise all assets required to permit the COMPANY and its SUBSIDIARIES to carry on their business operations in the ordinary course of business in substantially the same fashion and manner as before the CLOSING DATE. All ASSETS are contained in the 2003 ACCOUNTS and the INTERIM ACCOUNTS. The ASSETS and the assets listed in **APPENDIX 5.1.20** have been duly maintained and are in all respects in a due and proper state and condition, taking into consideration ordinary wear and tear, which permits to carry on the business operations of the COMPANY and its SUBSIDIARIES in the ordinary course of business in substantially the same fashion and manner as before the CLOSING DATE unless stated in **APPENDIX 5.1.20**. The ASSETS are free of any encumbrances as well as any other rights granted to third parties with the exception of:

a) assets which have been sold in the ordinary course of business since the 2003 ACCOUNTS;

b) assets which are subject to statutory liens or retention rights (*gesetzliche Pfand- oder Zurückbehaltungsrechte*).

5.1.21 The COMPANY and its SUBSIDIARIES do not hold title to any real property (*Grundstücke*).

5.1.22 The receivables shown in the 2003 ACCOUNTS and the INTERIM ACCOUNTS arose in the ordinary course of business and are properly reflected in accordance with IAS consistently applied. In the 2003 ACCOUNTS and the INTERIM ACCOUNT the COMPANY and its SUBSIDIARIES has not accounted any failed collections from SUBSCRIPTION CUSTOMERS (see Section 5.1.26) as account receivables (*Forderungen*).

5.1.23 The COMPANY and its SUBSIDIARIES are not restricted in using the ASSETS required for the continuation of the business operation.

(Business Operation)

5.1.24 The COMPANY or its SUBSIDIARIES have not incurred any expenses, costs, fees and charges of advisors other than fees towards Corporate Finance Partners in the amount of EUR 2.000.000 and Deutsche Bank Securities Inc. in connection with this agreement.

5.1.25 The COMPANY has no outstanding loans (*Darlehen)* to or entered as creditor into credit agreements with third parties which are currently in effect unless stated in **APPENDIX 5.1.25**. No refund obligations exist on the COMPANY or its SUBSIDIARIES' part with regard to any down payments received in relation to any orders.

5.1.26 The COMPANY and its SUBSIDIARIES have concluded agreements with customers substantially on the basis of terms as set out in **APPENDIX 5.1.26.1**. The terms used by the COMPANY and its SUBSIDIARIES as well as the procedures to enter into such agreements and to process payment under the agreements comply with all applicable laws in all material aspects.

Processes for signing up for a subscription vary from country to country, from carrier to carrier, from customer group (prepaid customers versus contract customers) to customer group and from medium to medium (SMS, Internet, WAP). Each carrier and country has different regulations and restrictions for marketing, billing and contractual conclusion of subscriptions. Generally, the contractual restrictions and regulations of carriers and the statutory regulations of a country with regards to subscriptions via SMS, Internet or WAP change permanently and rapidly. Since November 2003 the German carriers T-Mobile, Vodafone and E-Plus and since May 2004 the carrier o2 require for the conclusion of subscription a subscription confirmation SMS as a so-called "hand shake procedure". As part of the hand shake procedure the COMPANY and its SUBSIDIARIES provide via SMS all necessary information including the information about the terms and conditions of the subscription and the monthly charge to the customer as required by the carriers. Since November 2003 (T-Mobile, Vodafone and E-Plus) and since May 2004 (o2) these German carriers require the hand shake procedure and since then no subscription agreement ordered via SMS has been concluded without the customer receiving such information and replying with an opt-in to conclude the subscription agreement. The COMPANY and its SUBSIDIARIES comply with all obligations under all contracts with carriers the COMPANY and its SUBSIDIARIES have entered into.

APPENDIX 5.1.26.2 sets out the actual lists as of April 30, 2004, of numbers of customers (the "**SUBSCRIPTION CUSTOMERS**") of the COMPANY and its SUBSIDIARIES with valid subscription agreements distinguishing between the type of agreement and the amount of monthly payments. The list provides for the number of monthly deletions, net take up and totals.

The COMPANY and its SUBSIDIARIES delete SUBSCRIPTION CUSTOMERS for failed collection in the immediately prior three months provided that any further attempts to collect the full charge following the first attempt at the regular payment date fail within this time period. SUBSCRIPTION CUSTOMERS challenging a charge made to their mobile phone bill get deleted without undue delay following the notice of such challenge by the carrier to the COMPANY or its SUBSIDIARIES. SUBSCRIPTION CUSTOMERS also get deleted without undue delay following a termination or complaint about validity of the subscription by the SUBSCRIPTION CUSTOMERS. Any deleted SUBSCRIPTION CUSTOMERS does not count as SUBSCRIPTION CUSTOMERS in the month following the month of deletion unless the customer enters into a new subscription for that month. These deletion rules are applied for and reflected in the lists provided in **APPENDIX 5.1.26.2**.

5.1.27 The COMPANY and it SUBSIDIARIES have registered the short numbers detailed in **APPENDIX 5.1.27**.

(Intellectual Property Rights)

5.1.28 **APPENDIX 5.1.28.1** to this AGREEMENT contains a complete and accurate list of all intellectual property rights (patents (*Patente*), trademarks (*Marken*), utility models (*Gebrauchsmuster*), design patents (*Geschmacksmuster*), copyrights (*Urheberrechte*), software and other intellectual property rights as well as rights to domain names), which are owned by the COMPANY or its SUBSIDIARIES or for which an application for registration has been filed by the COMPANY or its SUBSIDIARIES, as well as rights to which the COMPANY or its SUBSIDIARIES have been granted a right to use (*Nutzungsrecht*), including a list of license agreements, but excluding licenses for off the shelf products or shrink wrap used by the COMPANY or its SUBSIDIARIES (the "**INTELLECTUAL PROPERTY RIGHTS**"). Except for the INTELLECTUAL PROPERTY RIGHTS listed in **APPENDIX 5.1.28.1**, the COMPANY or its SUBSIDIARIES do not use other intellectual property rights for their business operation or the sale of its products and services. The COMPANY or its SUBSIDIARIES have the necessary INTELLECTUAL PROPERTY RIGHTS for their business operation or the sale of its products and services as listed in **APPENDIX 5.1.28.1** hereto and have made all required license payments in connection with the INTELLECTUAL PROPERTY RIGHTS.

All material rights in employee inventions were validly transferred to the COMPANY or its SUBSIDIARIES and there are no outstanding payments in compensation for the transfer of such rights. No compensation claim pursuant to the German Employees Inventions Act (*Arbeitnehmererfindungsgesetz*) or any similar law has been or is to the KNOWLEDGE of the SELLERS likely to be asserted against the COMPANY or its SUBSIDIARIES unless stated in **APPENDIX 5.1.28.2**.

Copyright licenses in the music and content areas (*Musikbereich und Contentbereich*) are of material importance to the business operations of the COMPANY and its SUBSIDIARIES and the COMPANY and its SUBSIDIARIES have concluded numerous license agreements in these areas to secure its offer-portfolio (*Angebots-Portfolio*) to customers. The COMPANY and its SUBSIDIARIES are not dependent on any single music or content provider with which they have concluded a license agreement.

The COMPANY and its SUBSIDIARIES have developed INTELLECTUAL PROPERTY RIGHTS for the business operations of the COMPANY and its SUBSIDIARIES. Such development took place solely by employees of the COMPANY and its SUBSIDIARIES with employment contracts defining the development of such INTELLECTUAL PROPERTY RIGHTS as a responsibility of the employees under their employment contracts or by non-employees who had signed contracts assigning to the COMPANY any INTELLECTUAL PROPERTY RIGHTS developed. The COMPANY and its SUBSIDIARIES own exclusive worldwide rights for any kind of use or distribution of such INTELLECTUAL PROPERTY RIGHTS and have not granted any license other than those listed in **APPENDIX 5.1.28.3** and the right to use to customers.

No freelance developers or other third parties have been involved in the development of the INTELLECTUAL PROPERTY RIGHTS other than those who signed agreements assigning to the COMPANY any INTELLECTUAL PROPERTY RIGHTS developed. INTELLECTUAL PROPERTY RIGHTS from third parties or parts hereof other than listed in **APPENDIX 5.1.28.1** have neither been used for the development process of the INTELLECTUAL PROPERTY RIGHTS nor does the COMPANY and its SUBSIDIARIES need such third party INTELLECTUAL PROPERTY RIGHTS for its business operation.

5.1.29 No INTELLECTUAL PROPERTY RIGHTS have been challenged by third parties other than listed in **APPENDIX 5.1.29**. None of the INTELLECTUAL PROPERTY RIGHTS infringe any third party rights. None of the INTELLECTUAL PROPERTY RIGHTS are subject to any pending or threatened proceedings for opposition, cancellation, revocation or rectification, and to the KNOWLEDGE of the SELLERS there exist no facts or circumstances which would be reasonably expected to give rise to any such proceedings.

5.1.30 The COMPANY and its AFFILIATES have implemented an effective Digital Rights Management (DRM)-System as described in **APPENDIX 5.1.13.4** to administer all INTELLECTUAL PROPERTY RIGHTS used for products distributed to customers. The System manages all necessary license payments for such distribution in accordance with the legal framework for INTELLECTUAL PROPERTY RIGHTS and license agreements with rights holders and collection societies (including GEMA fees). The COMPANY or its SUBSIDIARIES have taken appropriate measures to protect the know how of the COMPANY or its SUBSIDIARIES including non-disclosure agreements with third parties and confidentiality obligations in the employments contracts. Neither the COMPANY nor its SUBSIDIARIES have provided a third party with know how with material importance to the business operations unless the third party entered into a binding confidentiality agreement. To the KNOWLEDGE of the SELLERS there exists no illegal transfer of know how to third parties.

(Agreements)

5.1.31 **APPENDIX 5.1.31** to this AGREEMENT contains a complete and accurate list of certain important agreements (including all ancillary or supplementary agreements (*Neben- und Nachtragsvereinbarungen*) to which the COMPANY or its SUBSIDIARIES are a party (concluded orally or written) (the "**IMPORTANT AGREEMENTS**"), regarding the following areas:

5.1.31.1 all agreements regarding the acquisition, the disposal, the encumbrance or other dispositions of fixed assets, including intangible assets and financial assets, with a value exceeding EUR 50,000 individually;

5.1.31.2 all lease agreements (*Pacht-*, *Miet- oder Leasing-Verträge*) with a yearly payment obligation exceeding EUR 50,000 individually;

5.1.31.3 all license agreements, concluded as licensor or licensee, as far as their yearly payment obligation exceeds EUR 50,000 individually;

5.1.31.4 all credit agreements, guarantee agreements (*Garantieverträge*), suretyships (*Bürgschaften*) or comparable agreements, to which the COMPANY or its SUBSIDIARIES are a party or a beneficiary with a financial exposure exceeding EUR 50,000 individually;

5.1.31.5 all agency agreements (*Vertragshändlerverträge oder Handelsvertreterverträge*) with foreign or domestic agents or comparable distribution agreements, which would lead to a compensation claim (*Ausgleichsanspruch*) in case of termination or which have a notice period for terminations exceeding three months;

5.1.31.6 all agreements with advisors (*Beratern*) exceeding a yearly payment obligation of EUR 50,000 for each advisor;

5.1.31.7 all co-operation agreements and similar agreements with third parties with an actual or potential financial impact for a party exceeding EUR 50,000 as well as all non competition agreements or obligations or any other agreement restricting the COMPANY's or the SUBSIDIARIES' business operations;

5.1.31.8 all agreements or obligations entered into outside of the ordinary course of business of the COMPANY or its SUBSIDIARIES; and all agreements or obligations which obligate the COMPANY or its SUBSIDIARIES beyond December 31, 2005, and can not be terminated without compensation before that date;

5.1.31.9 all agreements by which currency risks (*Fremdwährungsrisiken*) are to be secured as well as all agreements by speculative dealings, especially derivatives or similar financial products;

5.1.31.10 all agreements between the COMPANY or its SUBSIDIARIES and the SELLERS or companies affiliated with the SELLERS according to Section 15 et seq. of the German Stock Corporation Act (*AktG*) (the "**AFFILIATES**"). The COMPANY or its SUBSIDIARIES have no obligations or liabilities out of agreements with the SELLERS which are not disclosed in **APPENDIX 5.1.31**;

5.1.31.11 all agreements that contain a change of control clause and which may be terminated or automatically end in case of a change in the shareholdings in the COMPANY which are not disclosed in **APPENDIX 5.1.31**;

5.1.31.12 all agreements regarding services (including telecommunications and IT services) necessary for the business operation of the COMPANY or its SUBSIDIARIES;

5.1.31.13 all agreements regarding services (including the agreements with all mobile phone companies on factoring and SMS services) necessary for the business operation or the payment procedures of the COMPANY or its SUBSIDIARIES;

5.1.31.14 all other agreements or obligations exceeding a payment obligation or yearly payment obligation of EUR 50,000 and all agreements which grant the COMPANY a claim or account receivable (*Forderung*) exceeding EUR 50,000.

5.1.32 None of the IMPORTANT AGREEMENTS has been rescinded, terminated or challenged other then the ones listed in **APPENDIX 5.1.32.1**. To the KNOWLEDGE of the SELLERS no circumstances exist that will, or could reasonably be expected to, give any party to any IMPORTANT AGREEMENT the right to terminate or modify such IMPORTANT

AGREEMENT. No party to the IMPORTANT AGREEMENTS has given notice of termination or indicated to terminate or vary an IMPORTANT AGREEMENT. Neither the COMPANY nor, to the KNOWLEDGE of the SELLERS, the other contracting parties to IMPORTANT AGREEMENTS have breached their duties under these agreements or are in default with their obligations. The terms and conditions of this AGREEMENT and its execution will not give a party to an IMPORTANT AGREEMENT the right to terminate such agreement. All distribution and customer agreements can be performed in the ordinary course of business of the COMPANY or its SUBSIDIARIES. Revenues currently received under distribution contracts do not exceed license fees (including GEMA fees) payable with respect to content provided hereunder. All IMPORTANT AGREEMENTS are in full force and effect and are enforceable against the parties thereto in accordance with their terms. None of the IMPORTANT AGREEMENTS provide for any termination penalty, break up fee or similar penalty exceeding a total of EUR 25,000 for each IMPORTANT AGREEMENT.

5.1.33 **APPENDIX 5.1.33** provides a list of all non cancelable purchase commitments or other non cancelable contractual obligations of more than EUR 250,000 in any single agreement from the SIGNING DATE over the non cancelable life time of these commitments or obligations.

(Employment)

5.1.34 **APPENDIX 5.1.34** to this AGREEMENT contains a complete and accurate list of all members of the management board (*Vorstand*), managing directors (*Geschäftsführer*) and employees of the COMPANY and its SUBSIDIARIES (the "**EMPLOYEES**") as well as their gross salaries (including potential maximum bonus entitlements), their STOCK OPTIONS, their age and the starting day of their employment. The COMPANY and its SUBSIDIARIES have no further remuneration obligations towards EMPLOYEES other than those stated in **APPENDIX 5.1.34**. The COMPANY has observed the employment law principle of equal treatment (*arbeitsrechtlicher Gleichbehandlungsgrundsatz*). None of the EMPLOYEES in the list which are marked as important have informed the COMPANY or the SELLERS of their intention to terminate their employment with the COMPANY or its SUBSIDIARIES. There are no labor disputes nor, to the KNOWLEDGE of the

SELLERS, are such disputes imminent. As far as the COMPANY utilizes or has utilized the services of free lancers (*freie Mitarbeiter*), subcontractors or other companies, these persons are not considered or deemed EMPLOYEES of the COMPANY or its SUBSIDIARIES or mock self-employed persons (*Scheinselbständige*).

5.1.35 Save as disclosed in **APPENDIX 5.1.35**, since March 31, 2004, there have been no increases (or commitments with respect thereto) in the remuneration or other benefits of any of the EMPLOYEES of the COMPANY or its SUBSIDIARIES other than as required by applicable law, a prior existing agreement, collective bargaining agreements or shop agreements or other than in the ordinary course consistent with past practice.

5.1.36 All dates in **APPENDIX 5.1.36** to this AGREEMENT referring to an ending day of the respective employment relationship are effective ending dates. All time limitations of fixed-term employment contracts are valid.

5.1.37 With none of the employees with fixed-term contracts a prior employment relationship existed.

5.1.38 All wage withholding taxes (*Lohnsteuer*) and all social security contributions (*Sozialversicherungsbeiträge*) for the statutory pension insurance, health insurance, nursing care insurance, unemployment insurance and accident insurance have been paid completely and when due by the COMPANY or its SUBSIDIARIES or with respect to social security contributions have been accrued for. This also applies to students or persons on an educational training at the COMPANY or its SUBSIDIARIES.

5.1.39 There are no employment agreements with the COMPANY or its SUBSIDIARIES exceeding a total yearly remuneration of EUR 25,000 unless listed in **APPENDIX 5.1.39**.

5.1.40 There are no employees with specific protection against dismissal (*Sonderkündigungsschutz*) unless listed in **APPENDIX 5.1.40**.

5.1.41 There are no agreements and obligations of the COMPANY or its SUBSIDIARIES regarding pensions or pension benefits unless listed in **APPENDIX 5.1.41**.

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5.1.42 There are no agreements and obligations of the COMPANY or its SUBSIDIARIES regarding extra pay (*Lohnzuschläge/ Lohnzusatzzahlungen*), other social security benefits (*Sozialleistungen*), profit sharing (*Gewinnbeteiligungen*), turnover sharing (*Umsatzbeteiligung*), other bonuses or benefits as well as comparable agreements unless listed in **APPENDIX 5.1.42**.

5.1.43 There are no employees with notice periods diverging from the statutory provisions unless listed in **APPENDIX 5.1.43**.

5.1.44 There are no open obligations of the COMPANY or its SUBSIDIARIES regarding remuneration or comparable except as listed in **APPENDIX 5.1.44**. There are also no open obligations resulting from former labor disputes.

5.1.45 There are no cash loans *(Gelddarlehen)* which have been granted by the COMPANY or its SUBSIDIARIES to EMPLOYEES.

5.1.46 There are no EMPLOYEES other than stated in **APPENDIX 5.1.46** which need a residence and/or work permit to perform there work for the COMPANY or its SUBSIDIARIES. All EMPLOYEES are in the possession of a proper residence permit (*Aufenthaltsgenehmigung*) and/or a work permit (*Arbeitserlaubnis)*.

5.1.47 Neither the COMPANY nor its SUBSIDIARIES entered into after employment non-compete agreements (*nachvertragliches Wettbewerbsverbot*) with any of its EMPLOYEES.

5.1.48 There are no free lancers (*freie Mitarbeiter*), subcontractors or other companies other than stated in **APPENDIX 5.1.48** the COMPANY or its SUBSIDIARIES are currently contractually bound. With respect to former free lancers (*freie Mitarbeiter*), subcontractors or other companies neither the COMPANY nor its SUBSIDIARIES have open obligations.

5.1.49 There are no temporary workers (*Leiharbeitnehmer*) from other companies working at the COMPANY or its SUBSIDIARIES.

5.1.50 There are no tariff agreements (*Tarifverträge*), shop agreements (*Betriebsvereinbarungen*), general work terms (*allgemeine Arbeitsbedingungen*) and obligations arising out of customary operations (*betriebliche Übung*) to which the COMPANY or its SUBSIDIARIES are a party.

5.1.51 Neither at the COMPANY nor its SUBSIDIARIES a works council (*Betriebsrat*) is established.

5.1.52 Neither the COMPANY nor its SUBSIDIARIES are a member of an employers' association (*Arbeitgeberverband*).

(LITIGATION)

5.1.53 **APPENDIX 5.1.53** to this AGREEMENT contains a complete and accurate list of all legal disputes (*Rechtsstreitigkeiten*) including litigation proceedings, arbitration proceedings and regulatory/administrative proceedings (the "**LITIGATION**") in which the COMPANY or its SUBSIDIARIES or, to the KNOWLEDGE of the SELLERS, an EMPLOYEE of the COMPANY or its SUBSIDIARIES (as far as a liability of the COMPANY or its SUBSIDIARIES may arise due to the LITIGATION against the respective employee) is involved. No other legal disputes have been threatened in writing to be brought against the COMPANY or its SUBSIDIARIES by a third party (including by the SELLERS and its AFFILIATES). To the KNOWLEDGE of the SELLERS there exist no events, facts or circumstances which occurred which are reasonably likely to give rise to any litigation involving the COMPANY (whether as plaintiff, defendant or otherwise).

(Regulatory and Compliance)

5.1.54 The COMPANY and its SUBSIDIARIES have complied and are in compliance in all material respects with all applicable laws and regulations (including, without limitation, environmental, pollution, health and safety and subsidies and grants). The COMPANY and its SUBSIDIARIES duly possess and are in compliance with all permits and authorizations needed for the conduct of their business operations the way they are currently conducted. The permits are in full force and effect (*bestandskräftig*), are not challenged (*angefochten*) by any third party, and, to the KNOWLEDGE of the SELLERS, there are no circumstances which would justify such a challenge. The COMPANY has not received any written notices from any public authority with respect to any potential violations of the foregoing matters in this warranty. No proceedings regarding a revocation (*Widerruf*) or withdrawal (*Rücknahme*) of any permit have been initiated or threatened, and, to the KNOWLEDGE of the SELLERS, there are no circumstances which would justify the initiation of such proceedings.

(TAXES)

5.1.55 All tax returns, preliminary tax returns, reports and statements about any domestic and foreign TAXES as well as all other notices relating to TAXES to be submitted to any fiscal or other government authority (the "**TAX RETURNS**") required to have been filed by or with respect to the COMPANY and its SUBSIDIARIES have been filed. All TAXES imposed on or payable by the COMPANY and its SUBSIDIARIES with respect to tax periods ending on or before the CLOSING DATE have been paid or have been withheld and paid to the respective payee or have been accrued for in the ACCOUNTS. Any material delivery of services or goods (Leistungsbeziehung) between any of the COMPANY or any of the SUBSIDIARIES and any other SUBSIDIARY is made on the basis of written agreements which are based on the arm's length principle (*Fremdvergleichsmaßstab*). All profit and loss pooling agreements (*Ergebnisabführungsverträge*) have been in force in a legally valid manner without any interruption from the date when they were registered with the commercial register until the CLOSING DATE.

5.1.56 Except as disclosed in **APPENDIX 5.1.56**, the COMPANY and its SUBSIDIARIES have not received any written tax ruling or entered into any written and legally binding agreement with any tax authority. There is no action or suit pending or threatened with respect to TAXES.

5.1.57 No undisclosed dividend distributions have been made by the COMPANY and the SUBSIDIARIES. No shareholders' resolutions on any dividend distribution have been adopted since January 1, 2004, except as disclosed in **APPENDIX 5.1.57**.

5.1.58 The COMPANY has not written down the book entry for shares in any of the SUBSIDIARIES or Zingy, Inc., to the lower market value, except as disclosed in **APPENDIX 5.1.58**.

(SUBSIDIARIES)

5.1.59 **APPENDIX 5.1.59.1** to this AGREEMENT contains a complete, accurate and current list of all participations (*Beteiligungen*) the COMPANY holds in other companies including but not limited to companies as defined in Section 290 para 2 of the German Commercial Code (HGB) *(Tochterunternehmen)* (these Tochterunternehmen referred to as the "**SUBSIDIARIES**") and the COMPANY is not obligated to acquire any other participation. **APPENDIX 5.1.59.2** to this AGREEMENT contains a complete, accurate and current list of all participations (*Beteiligungen*) the SUBSIDIARIES hold in other companies including but not limited to companies as defined in Section 290 para 2 of the German Commercial Code (HGB) (*Tochterunternehmen*). The SUBSIDIARIES are duly incorporated and existing under the applicable laws and the COMPANY holds legal title to and is the beneficial (*wirtschaftlicher*) owner of its shares in the SUBSIDIARIES and Zingy, Inc. The shares of the COMPANY in the SUBSIDIARIES and Zingy, Inc., are free of any encumbrances or other rights of third parties. In particular, there exist no liens (*Pfandrechte*), life interests (*Niessbräuche*), trustee agreements (*Treuhandverhältnisse*), silent partnerships (*stilleGesellschaften*), sub participations (*Unterbeteiligungen*) or comparable rights of third parties, nor do restitution rights, pre-emption rights or options or other rights to purchase the shares in the SUBSIDIARIES exist. There are no agreements or rights to acquire or subscribe for any of the capital stock or other securities of the SUBSIDIARIES or Zingy, Inc., unless listed in **APPENDIX 5.1.59.3**. No shareholders resolutions exist amending the articles of association of the SUBSIDIARIES which are attached as **APPENDIX 5.1.59.4** except those listed in **APPENDIX 5.1.59.5** and no legal acts exist which would require registration in the commercial register of a SUBSIDIARY but have not yet been registered, except those listed in **APPENDIX 5.1.59.5**. The share capital (*Grundkapital/Stammkapital*) of the SUBSIDIARIES has been properly paid in full. No concealed non-cash capital contributions (*verdeckte Sacheinlagen)* have been made. No repayments (*Rückzahlungen*) of the share capital have been made, whether open or concealed. There are no other shareholders in the SUBSIDIARIES apart from the COMPANY, unless listed in **APPENDIX 5.1.59.6**. With respect to the SUBSIDIARIES, all provisions of the German Limited Liability Company Act (*GmbHG*) and other applicable laws have been complied with, in particular (without limitation) in relation to any capital increase, capital decrease or similar procedure affecting the share capital. None of the SUBSIDIARIES is subject to any insolvency or insolvency plan proceedings or similar procedures and no application has been filed for commencement of any such procedure and to the KNOWLEDGE of the SELLERS there exist no circumstances which could lead to any such procedure in the future. None of the SUBSIDIARIES is a party to any enterprise agreements (*Unternehmensverträge*) within the meaning of Sections 291 et seq. German Stock Corporation Act (*AktG*) or a party to any merger or secession agreement (*Verschmelzungs- oder Spaltungsverträge*) as defined in the German Legal Transformations Act (*Umwandlungsgesetz*) unless listed in **APPENDIX 5.1.59.7**.

5.1.60 Jamba! Service GmbH is a party to the agreements with AXA and DBV-Winterthur listed in **APPENDIX 5.1.60**, under which Jamba! Service GmbH offers insurances against accidental damage and theft of mobile phones and electronic devices. Jamba! Service GmbH is in full compliance with these agreements and neither AXA nor DBV-Wintherthur have claimed any violation of these agreements by Jamba! Service GmbH or have threatened to terminate these agreements.

(Miscellaneous)

5.1.61 **APPENDIX 5.1.61** to this AGREEMENT contains a complete and accurate list of all bank accounts of the COMPANY and its SUBSIDIARIES and the persons who are permitted to sign for these bank accounts.

5.1.62 **APPENDIX 5.1.62** to this AGREEMENT contains a complete and accurate list of the insurance policies concluded by the COMPANY and its SUBSIDIARIES or for the benefit of the COMPANY or its SUBSIDIARIES or its business operations. The respective policyholder (*Versicherungsnehmer*) is not in default with its payment obligations under the respective insurance policies. The insurance policies which terminate with the CLOSING DATE are marked. All risks of the business operations of the COMPANY and its SUBSIDIARIES are covered by usual (*verkehrsübliche*) Insurances. To the KNOWLEDGE of the SELLERS, there is no threatened termination of, material premium increase with respect to, or material alteration of coverage under, any of such policies.

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5.1.63 Since January 1, 2004, the business operations of the COMPANY and its SUBSIDIARIES have been solely conducted in the ordinary course of business and no MATERIAL ADVERSE CHANGE has occurred.

5.1.64 Neither the representations or warranties made by the SELLERS in this AGREEMENT, nor the appendices attached hereto or any other certificate executed and delivered to PURCHASER pursuant to this AGREEMENT, when taken together, contains any untrue statement of a material fact, or omits to state a material fact necessary to make the statements or facts contained herein or therein not misleading in light of the circumstances under which they were furnished.

5.1.65 Except as listed in **APPENDIX 5.1.65** neither the COMPANY nor any of its SUBSIDIARIES have received, applied for and used any public subsidies, grants (*Zuschüsse*) or similar benefits, allowances, aids or other subsidies (*Subventionen*) in whatever form (incl., without limitation, loans under the European Recovery Program) (the "**PUBLIC SUBSIDIES**"). No such PUBLIC SUBSIDIES are currently being reclaimed. To the KNOWLEDGE of the SELLERS no such PUBLIC SUBSIDIES are under threat to be reclaimed and there are no circumstances allowing any governmental authority to reclaim any of the PUBLIC SUBSIDIES unless listed in **APPENDIX 5.1.65**. The consummation of this AGREEMENT does not allow any governmental authority to reclaim any of the PUBLIC SUBSIDIES. Any received PUBLIC SUBSIDIES, grants or similar benefits have been used according to, and the COMPANY and the SUBSIDIARIES have complied with, the relevant legal provisions regulating the granting and usage of such benefits.

5.1.66 Each of the SELLERS warrants that its representations and warranties set forth in the respective SELLERS' INVESTMENT REPRESENTATION LETTERS are true and correct.

5.1.67 Except as disclosed in **APPENDIX 5.1.67** (i) no written notice, request for information, order, complaint or penalty has been received, and there are no judicial, administrative or other actions, suits or proceedings pending or, to the KNOWLEDGE of the SELLERS, threatened which allege a violation of any environmental law (including but not limited to the Bundesbodenschutzgesetz), in each case relating to the COMPANY and its SUBSIDIARIES and arising out of any environmental law, (ii) there has been no written environmental audit conducted within the past five years by the COMPANY or its SUBSIDIARIES of any property currently owned or leased by the COMPANY or its SUBSIDIARIES which has not been delivered to the PURCHASER prior to the date hereof, (iii) no hazardous materials or materials of environmental concern are used or have been used, stored, or disposed of by the COMPANY or its SUBSIDIARIES, or, to the KNOWLEDGE of the SELLERS, by any other person on any property owned, leased or used by the COMPANY or its SUBSIDIARIES and (iv) to the KNOWLEDGE of the SELLERS, there are no liabilities arising in connection with or in any way relating to the COMPANY or its SUBSIDIARIES or their business, arising under or relating to any environmental law.

For purposes of this Section 5.1.67, the term “the COMPANY” shall include any entity which is, in whole or in part, a predecessor of the Company; “hazardous materials” shall mean (a) materials which are listed or otherwise defined as “hazardous” or “toxic” under any applicable local, state, federal laws and regulations that govern the existence and/or remedy of contamination on property, the protection of the environment from contamination, the control of hazardous wastes, or other activities involving hazardous substances, including building materials, or (b) any petroleum products or nuclear materials; and “materials of environmental concern” shall mean any chemicals, pollutants or contaminants, hazardous substances, hazardous wastes, toxic materials, oil or petroleum and petroleum products, or any other material subject to regulation under any environmental law.

5.2 To the extent disclosures are made in the appendices relating to the representations and warranties contained in Section 5.1, claims of the PURCHASER for breach of a warranty shall only be restricted with respect to the warranty to which the respective appendix relates and only to the extent specific risks are described in the respective appendix, unless there is no reasonable doubt that a specific risk disclosed in an appendix under Section 5.1 relates to another appendix under Section 5.1.

5.3 Section 442 German Civil Code (*BGB*) and Sections 377, 378 German Commercial Code (*HGB*) shall not apply.

5.4 For the purpose of this AGREEMENT, knowledge of the SELLERS shall mean the actual knowledge (*Kenntnis*) of any of the persons set forth in **APPENDIX 5.4** hereto ("**KNOWLEDGE**"). Any of the persons set forth in **APPENDIX 5.4** shall be deemed to have actual knowledge of a particular fact, circumstance, event or other matter if (i) such fact, circumstance, event or other matter is reflected in one or more documents (whether written or electronic) contained in books and records of the COMPANY or its SUBSIDIARIES in the meaning of Section 257 German Commercial Code or (ii) such knowledge could be obtained by reasonable inquiry of the persons set forth in **APPENDIX 5.4** that would reasonably be expected to be made by an individual who has the duties and responsibilities of the persons set forth in **APPENDIX 5.4** in the customary performance of such duties and responsibilities.

5.5 The representations and warranties contained in the AGREEMENT and any document to be delivered in accordance with this AGREEMENT, including but not limited to the INVESTMENT REPRESENTATION LETTERS, are the sole representations and warranties made by the SELLERS with respect to the transaction contemplated by this AGREEMENT, and the SELLERS do not make any other representation or warranty, express or implied.

XIV. § 6 A
REMEDIES

6.1 Should any of the representations or warranties contained in Section 5 be inaccurate in full or in part, the SELLERS shall use their best efforts to put the PURCHASER or the COMPANY, at the PURCHASER's sole discretion, within a period of four weeks after receipt of written notice by the PURCHASER, in the situation which corresponds to the situation warranted. After futile expiry of the four week period or if a cure (*Herstellung*) of the warranted situation is not possible, the PURCHASER shall be entitled to claim money damages (*Schadensersatz*) in the amount necessary to put it or the COMPANY or its SUBSIDIARIES, at the PURCHASER's sole discretion, in the economic situation it would have been in if the representations or warranties had been accurate. In case of a breach of a representation or warranty contained in Section 5, PURCHASER's rights are limited to those set out in the AGREEMENT and other statutory rights are hereby explicitly excluded, including but not limited to rescission of this AGREEMENT (*Rücktritt*), price reductions (*Minderung*), performance (*Nacherfüllung*), avoidance on the grounds of lack of material characteristics (*Anfechtung wegen Fehlen einer wesentlichen Eigenschaft*) or all claims based on the violations of contractual or pre-contractual duties (*positive Vertragsverletzung* or culpa in contrahendo, Section 311 para 2 of the German Civil Code) or due to frustration of the contract (*Wegfall der Geschäftsgrundlage*, Section 313 Civil Code), unless otherwise provided in this AGREEMENT or in case of fraud or intentional misconduct.

6.2 The SELLERS shall indemnify (*freistellen*) the PURCHASER or the COMPANY, at the PURCHASER's sole discretion, immediately from any damage claims (*Schadensersatzansprüchen*) or obligations towards third parties for which the SELLERS are liable under this AGREEMENT. In the event the PURCHASER becomes aware of a third-party claim which the PURCHASER believes may result in a demand against the ESCROW FUND, the PURCHASER shall promptly notify the SELLERS REPRESENTATIVE of such claim, and the SELLERS REPRESENTATIVE shall be entitled, at its expense, to participate in any defense of such claim. The PURCHASER shall have the right to settle any such claim; provided, however, that the PURCHASER may not effect the settlement of any such claim without the prior written consent of the SELLERS REPRESENTATIVE, which consent shall not be unreasonably withheld.

6.3 In case (i) not all the SHARES are validly assigned to the PURCHASER, (ii) the SHARES do not constitute the entire share capital of the COMPANY or (iii) further stock options or related subscription rights (*Bezugsrechte*) other than those listed in **APPENDIX 5.1.2** exist and SELLERS therefore breach a warranty under Section 5, SELLERS shall in addition to damage claims under Section 6.1 pay to the PURCHASER, at PURCHASER's sole discretion, (i) any amount necessary to purchase any shares or stock options not held by the PURCHASER or (ii) all costs necessary to prepare and execute a squeeze-out within the meaning of § 327a German Stock Corporation Act (*AktG*) et seq., including, but not limited to, all reasonable legal costs incurred by the PURCHASER. PURCHASER is free to choose any law firm at customary hourly rates in order to purchase shares not held by it or to prepare and execute the squeeze-out.

6.4 No liability under Section 6.1 and 6.2 (to the extent a third party claim constitutes a breach of the representations and warranties contained in Section 5.1) or under Section 7.3 shall arise for the SELLERS if the aggregate amount of claims under Sections 6.1 and 6.2 (to the extent a third party claim constitutes a breach of the representations and warranties contained in Section 5.1) and 7.3 (inclusive of reasonable legal, accounting or other fees and expenses) of the PURCHASER falls short of an amount of USD 500,000 (the “**DEMINIMIS CAP**”); if the amount of USD 500,000 is exceeded, the PURCHASER shall have the right to recover the total amount of the claim from the first US Dollar. The DEMINIMIS CAP is not applicable if (i) a claim resulted from a breach of a SPECIAL REPRESENTATION, excluding a claim for breach of Sections 5.1.55, 5.1.58 or 7.3, as to which the DEMINIMIS CAP shall apply, or (ii) fraud or intentional misconduct of the SELLERS. For purposes of this AGREEMENT, the term “intentional misconduct” shall mean a knowing or intentional (*vorsätzlich*) act or omission irrespective of whether damages arising from such act or omission were foreseeable.

6.5 Purchaser shall not have a claim for breach of representations and warranties under Section 5 if and to the extent to which a provision has been made in the ACCOUNTS with respect to a specific matter which is the subject of an inaccurate guarantee. In case the PURCHASER has made a claim for breach of representations and warranties under Section 5 against the SELLERS which SELLERS have satisfied, the PURCHASER shall pay to the SELLERS any amounts received in case if and to the extent such damage is (a) recovered by insurance or (b) PURCHASER and/or the COMPANY or the relevant SUBSIDIARY enforces a claim for compensation against a third person.

6.6 SELLERS’ aggregate liability under Section 6.1 and 6.2 (to the extent a third party claim constitutes a breach of the representations and warranties contained in Section 5.1) shall be limited to the VERISIGN COMMON STOCK held in the ESCROW FUND under the ESCROW AGREEMENT (the “**LIABILITY CAP**”); provided, however, that claims made by the PURCHASER for breach of Sections 5.1.2, 5.1.3, 5.1.55, 5.1.58 and 5.1.66 (the “**SPECIAL REPRESENTATIONS**”) and claims under Section 7.3, and claims resulting from fraud or intentional (*vorsätzlich*) misconduct of the SELLERS are not subject to the LIABILITY CAP. If a claim is made by the PURCHASER for a breach of a SPECIAL REPRESENTATION, SELLERS’ aggregate liability under this AGREEMENT shall be limited to the PURCHASE PRICE, unless a claim has been caused by fraud or intentional misconduct of the SELLERS, in which case no limitation of liability shall apply. In case of a claim for breach of a SPECIAL REPRESENTATION, excluding a claim for breach of Sections 5.1.55 and 5.1.58, or in case of a claim resulting from fraud or intentional misconduct of the SELLERS, the PURCHASER shall not be obligated to claim damages against the ESCROW FUND prior to claiming damages against the SELLERS. Claims for breaches of Sections 5.1.55, 5.1.58 and

7.3 have to be made against the ESCROW FUND prior to claiming damages against the SELLERS, provided that there are sufficient assets in the ESCROW FUND that are not subject to another claim of the PURCHASER.

6.7 With respect to claims of the PURCHASER for breach of SPECIAL REPRESENTATIONS or claims for fraud or intentional misconduct, SELLERS shall be severally liable (*teilschuldnerische Haftung*) to the PURCHASER; provided, however, that SELLERS shall be jointly and severally liable with respect to claims of the PURCHASER for breach of Sections 5.1.3, 5.1.55 and 5.1.58 and claims under Section 7.3. In case fraud or intentional misconduct was performed by more than one of the SELLERS, the acting SELLERS shall be jointly and severally liable (*gesamtschuldnerische Haftung*). No SELLER shall be responsible for fraud or intentional misconduct of any other SELLER unless he participated therein. In case of a breach of a SPECIAL REPRESENTATION a SELLER's liability shall be limited pro rata (*im Verhältnis*) of his INDIVIDUAL PURCHASE PRICE PORTION compared to the PURCHASE PRICE. In case of fraud or intentional misconduct a SELLER's liability shall be unlimited.

6.8 Any VERISIGN COMMON STOCK held in the ESCROW FUND shall serve exclusively as a security for all claims of the PURCHASER until released in accordance with the AGREEMENT and the ESCROW AGREEMENT. The ESCROW FUND shall be governed by the terms set forth herein and in the ESCROW AGREEMENT. Within five days after the CLOSING DATE, the PURCHASER shall deposit the ESCROW FUND with the ESCROW AGENT. Any disposal of the ESCROW FUND shall only be effected by the ESCROW AGENT in accordance with this AGREEMENT and the ESCROW AGREEMENT.

6.9 In case an EMPLOYEE claims against the COMPANY that he or she has not validly waived his or her rights under the STOCK OPTION PLAN including the right to exercise STOCK OPTIONS or that he or she should have received stock options or related subscription rights (*Bezugsrechte*) of the COMPANY under the employment law principle of equal treatment (*arbeitsrechtlicher Gleichbehandlungsgrundsatz*) or from customary operations (*betriebliche Übung*), SELLERS shall upon first written demand of the PURCHASER indemnify PURCHASER or the COMPANY, at PURCHASER's sole discretion, from any and all claims made by such EMPLOYEE, including but not limited to all reasonable legal, accounting or advisory fees involved in defending such claims. In case an EMPLOYEE is awarded stock options or related subscription rights (*Bezugsrechte*) by a court, Section 6.3 shall apply accordingly. Sections 6.4 to 6.7, inclusive, shall not apply. A SELLER’s aggregate liability under Section 6.9 and the other sections of this Section 6 and under Section 7.3 shall not exceed his INDIVIDUAL PURCHASE PRICE PORTION of the PURCHASE PRICE, with the exception of fraud and intentional misconduct.

6.10 It is the understanding of the PARTIES that any payment of indemnification hereunder shall be treated for tax purposes as an adjustment to the PURCHASE PRICE.

XV.

XVI. § 6 B

REMEDIES OF THE SELLERS

Should any of the representations and warranties contained in Sec. 4 above which given by the PURCHASER and the GUARANTOR be inaccurate in full or in part, the PURCHASER and the GUARANTOR shall put each of the SELLERS within a period of four weeks after receipt of written notice by the SELLERS, in the situation which corresponds to the situation warranted. After futile expiry of the four-week-period or if a cure (*Herstellung*) of the warranted situation is not possible, each of the SELLERS (individually or together) shall be entitled to claim money damages in the amount necessary to put each of the SELLERS in the economic situation it would have been in, if the representations or warranties had been accurate.

XVII. § 7

TAXES

It is the joint understanding of the PARTIES that the SELLERS bear the risk that any competent governmental authority or political subdivision thereof assesses any TAXES against the COMPANY, any of its SUBSIDIARIES or the PURCHASER relating to any time period prior to, and including, the CLOSING DATE, subject to the qualifications set out in Section 7.3 sentence 2 below. Therefore, the PARTIES agree that the liability for TAXES shall be allocated between the PARTIES as follows:

7.1 Within the scope of this AGREEMENT, “**TAXES**” are in particular any German and foreign (a) customs duties (*Zölle*) and (b) taxes (*Steuern*) (including withholdings of any kind), e.g. corporation tax (*Körperschaftsteuer*), trade tax (*Gewerbesteuer*), value added tax (*Umsatzsteuer*), wage withholding tax (*Lohnsteuer*), capital withholding tax (*Kapitalertragsteuer oder andere Abzugsteuer*) or withholding tax in case of limited tax liability (*Steuerabzug bei beschränkt*

Steuerpflichtigen) levied or imposed by any competent governmental authorities or political subdivisions thereof. TAXES also include any penalties, administrative fines, interest or other additional payments levied for e.g. late filing of the appropriate returns or late payment of the initial tax liability as well as any additional charges (*steuerliche Nebenleistungen*). Tax consequences of any concealed non-cash capital contributions (*verdeckte Sacheinlagen*) or hidden profit distribution (*verdeckte Gewinnausschüttungen*), if any, are treated as TAXES within the scope of this AGREEMENT**.**

7.2 The SELLERS shall cause the COMPANY and its SUBSIDIARIES to file all TAX RETURNS which are due to be filed on or before the CLOSING DATE.

7.2a If the PURCHASER has a claim under Section 7.3 below such claim shall be reduced by an amount equal to any refund of TAXES relating to the COMPANY or its SUBSIDIARIES which is attributable to any period ending on or before the CLOSING DATE and which has been received by the COMPANY or its SUBSIDIARIES.

7.3 The SELLERS are obliged to indemnify the PURCHASER for and to hold the PURCHASER harmless from any payment of TAXES or liability for TAXES assessed against the COMPANY or its SUBSIDIARIES in respect of periods up to the CLOSING DATE when the actual tax liability arises or becomes due for payment. No such obligation shall exist with regard to any income TAXES which become payable for operational profit stemming from the ordinary course of business (*Ergebnis aus gewöhnlicher Geschäftstätigkeit*) of the COMPANY or the SUBSIDIARIES, respectively, in financial year 2004. Should any tax recoverable (*Steuererstattungsanspruch*), which is included in the 2003 ACCOUNTS or the INTERIM ACCOUNTS, be recovered at a lower value than accounted for, or not recovered at all, then the SELLERS shall pay to the PURCHASER the shortfall to the amount recovered. PURCHASER may demand that SELLERS indemnify and hold harmless the COMPANY or its SUBSIDIARIES with respect to their obligation under Section 7.3. Any indemnification payments will be due and payable, upon PURCHASER's written request to SELLERS' REPRESENTATIVE, 10 bank working days (*Bankarbeitstage*) before they become payable by the PURCHASER, the COMPANY or the SUBSIDIARIES, respectively. Section 6.4 shall apply accordingly, provided, however, that any claims made under Section 6 or Section 7 shall be added together for purposes of calculating whether the amount of USD 500,000 is exceeded.

7.4 If the PURCHASER has a claim under Section 7.3 above due to a surplus tax basis (*steuerliches Mehrergebnis*) of the COMPANY or any of its SUBSIDIARIES based on a revised assessment following a TAX audit relating to the period ending on or before the end of the CLOSING DATE which results in a minor tax basis (*steuerliches Minderergebnis*) of the COMPANY and/or its SUBSIDIARIES, e.g. because of higher depreciations, in the period ending after the CLOSING DATE, the claim of the PURCHASER shall be reduced by the saved taxes resulting from such minor tax basis (*steuerliches Minderergebnis*), calculated on a lump sum basis with a tax rate of 38% for any income TAXES for not more than 5 years and discounted by 5.5% per annum. Such reduction shall be made 10 bank working days after the first tax assessment which takes into account the respective minor tax basis or surplus tax basis has been issued.

7.5 The PURCHASER shall procure that all TAX matters of the COMPANY or its SUBSIDIARIES for the period up to and including the CLOSING DATE shall be handled in cooperation and consultation with the SELLERS' REPRESENTATIVE.

7.5.1 Prior to any relevant statements (whether by filing tax returns, giving official comments or otherwise) to be made by the COMPANY or its SUBSIDIARIES for the period up to and including the CLOSING DATE to the TAX authorities whether for purposes of TAXES (or in connection with the representations and warranties the SELLERS undertake according to this AGREEMENT) the SELLERS' REPRESENTATIVE shall have the opportunity to review and provide its comments to any such statements. Therefore, the PURCHASER shall cause the COMPANY and its SUBSIDIARIES to provide SELLERS' REPRESENTATIVE with a copy of all such written statements for review at least 10 bank working days prior to the due date (including any extension thereof) for the filing of such statements. PURCHASER shall ensure that any changes and amendments reasonably requested by SELLERS' REPRESENTATIVE are made prior to filing if and to the extent the respective requests and instructions comply with the applicable laws and the past practice of the COMPANY and its SUBSIDIARIES prior to the CLOSING DATE.

7.5.2 At the request of the SELLERS' REPRESENTATIVE and at the expense of the SELLERS, but only to the extent legally possible, PURCHASER shall appeal (*Einlegung eines Einspruchs*) and, if necessary, take legal action (*Klageerhebung*) against any notice of TAX assessment relating to the period ending on or before the end of the CLOSING DATE. The

SELLERS shall bear the costs of any appeal and/or action it caused to be pursued. However, PURCHASER may refuse to take such action. In the event the Purchaser so refuses any claim for indemnification in the hands of the PURCHASER, which could have arisen against the SELLERS should the appeal or legal action (if it were taken) not have been successful, shall lapse.

7.5.3 Notwithstanding the foregoing provisions, the PURCHASER shall or shall cause the COMPANY and/or its SUBSIDIARIES to

(a) submit as promptly as practicable any TAX returns of the COMPANY and/or its SUBSIDIARIES relating to any period starting prior to the CLOSING DATE to the SELLERS' REPRESENTATIVE for its review, comment and approval before filing them with the TAX authorities within due course;

(b) inform the SELLERS' REPRESENTATIVE of any notice of a TAX audit and of all TAX assessments of the COMPANY and/or its SUBSIDIARIES relating to any period starting prior to the CLOSING DATE within 10 bank working days after the receipt of the respective order or TAX assessment, and to provide SELLERS' REPRESENTATIVE with copies of any notice and all correspondence with respect to a TAX audit relating to any period starting prior to the CLOSING DATE, including but not limited to TAX audit announcements, TAX audit requests, TAX audit findings (including documents related to preliminary findings), TAX audit reports (drafts and final versions), assessments after completed TAX audits, within 10 bank working days after receipt of the respective notice or documents for their review and comments;

(c) keep all books and records of the COMPANY and/or its SUBSIDIARIES relating to any period starting prior to the CLOSING DATE in accordance with and during the periods required under applicable statutory law;

(d) provide to the SELLERS' REPRESENTATIVE, at its request, access to copies of all relevant documents and information and permit the SELLERS' REPRESENTATIVE to have access, during regular business hours and upon reasonable advance notice, to the employees and copies of books and records of the COMPANY and its

SUBSIDIARIES, to the extent relevant with respect to TAX audits and TAX assessments of the COMPANY and/or its SUBSIDIARIES relating to any period starting prior to the CLOSING DATE;

(e) at the request of the SELLERS' REPRESENTATIVE, but only to the extent legally possible, appeal (*Einlegung eines Einspruchs*) and, if necessary, take legal action (*Klageerhebung*) against revised assessment of TAXES which results from a TAX audit covering any period starting prior to the CLOSING DATE. The SELLERS shall bear the costs of any appeal and/or action it caused to be pursued. However, PURCHASER may refuse to take such action. In the event the Purchaser so refuses any claim for indemnification in the hands of the PURCHASER, which could have arisen against the SELLERS should the appeal or legal action (if it were taken) not have been successful, shall lapse.

7.5.4 If the PURCHASER violates materially any of its obligations under this Section 7.5, the PURCHASER shall not be entitled to indemnification for any TAXES arising in connection with (i) the relevant TAX audit or TAX assessments and (ii) the relevant TAX under consideration.

7.6 Claims of PURCHASER against SELLERS under this Section 7 are due as soon as the claim constituting SELLERS' liability under this section has been raised against the COMPANY and/or its SUBSIDIARIES and is payable and enforceable. SELLERS' REPRESENTATIVE may instruct PURCHASER, the COMPANY or its SUBSIDIARIES to apply or not to apply for a suspension of execution if a security for a suspension interest is provided by SELLERS.

7.7 SELLERS shall not be liable in respect of any claim under this Section 7,

– to the extent resulting from any acts or transactions of PURCHASER and/or the COMPANY and/or its SUBSIDIARIES after the CLOSING DATE which are not in the ordinary course of business, including but not limited to any post acquisition restructuring measures undertaken with regard to the COMPANY and its SUBSIDIARIES which result in an increase of the taxable income in a period commencing prior to the CLOSING DATE,

- to the extent attributable to PURCHASER's relevant failure to satisfy any of its obligations pursuant to this Section 7,
- to the extent attributable to elections with regard to TAXES made or omitted to be made after the CLOSING DATE by PURCHASER, the COMPANY and its SUBSIDIARIES.
- to the extent that the matter giving rise to the claim would not have arisen but for the passing of, or a change in a law, rule, regulation, interpretation of the law by competent administrative bodies and competent courts or administrative practice of a government, governmental department, agency or regulatory body or an increase in the TAX rates or an imposition of TAX, in each case not actually or prospectively in force at the date of this AGREEMENT;
- to the extent that the matter giving arise to the claim is a TAX liability or provision of the COMPANY or its SUBSIDIARIES taken into account in the 2003 ACCOUNTS or the INTERIM ACCOUNTS;
- to the extent that the matter giving arise to the claim would not have arisen but for COMPANIES' or SUBSIDIARIES' relevant failure or omission to make a claim, election, surrender or disclaimer, or give a notice, or consent or do another thing, under, or in connection with, a provision or an enactment or regulation relating to TAX after the CLOSING DATE;
- if the COMPANY or its SUBSIDIARIES have not utilized TAX losses (including net operating losses) available to the COMPANY or its SUBSIDIARIES in the relevant assessment year for which TAXES become payable to the extent the additional taxable income on which the claim would be based can be offset against such TAX losses of the relevant COMPANY or SUBSIDIARY;
- to the extent that the amount of the liability reduces the taxable income (*steuerliches Ergebnis*) of the COMPANY or its SUBSIDIARIES, e.g. because the amount of the liability is TAX deductible; the relevant amount has to be calculated on a lump sum basis by applying a tax rate of 38% for any income TAXES;

7.8 Any claims of PURCHASER or SELLERS under this Section 7 shall be time-barred six months after the COMPANY or its SUBSIDIARIES has received the final and unappealable assessments.

XVIII.

XIX. § 8

SPECIAL STOCK TRANSFER RESTRICTIONS

8.1 Of the PURCHASE PRICE that is to be paid and delivered to Akazien GmbH in accordance with its INDIVIDUAL PURCHASE PRICE PORTION (the "**AKAZIEN PURCHASE PRICE PORTION**"), a percentage of 25% shall have attached special transfer restrictions for a period of up to five (5) years following the CLOSING DATE (the "**SPECIAL TRANSFER RESTRICTION**"). The SPECIAL TRANSFER RESTRICTION shall apply to the VERISIGN COMMON STOCK that is to be delivered to Akazien GmbH in accordance with its INDIVIDUAL PURCHASE PRICE PORTION under Section 3.2 lit. b) (the "**RESTRICTED VERISIGN COMMON STOCK**"). Akazien GmbH shall be the legal and beneficial owner of and shall have any and all voting rights and rights to receive distributions and dividends payable with respect to the RESTRICTED VERISIGN COMMON STOCK. Immediately following its receipt of the RESTRICTED VERISIGN COMMON STOCK, Akazien GmbH shall deliver such shares to an account at a bank to be agreed upon by Akazien GmbH and PURCHASER (the "**RESTRICTED ACCOUNT**") in order to keep such shares in custody for the period of the SPECIAL TRANSFER RESTRICTION. Promptly following the fifth anniversary of the CLOSING DATE, such bank shall, pursuant to written instructions signed by PURCHASER and Akazien GmbH deliver the RESTRICTED VERISIGN COMMON STOCK with the legend removed to Akazien GmbH; provided that if the legend is removed with respect to any of the RESTRICTED VERISIGN COMMON STOCK pursuant to Section 8.2, PURCHASER and Akazien GmbH shall promptly deliver written instructions to such bank to deliver such shares promptly to Akazien GmbH.

8.2 The RESTRICTED VERISIGN COMMON STOCK shall be registered in the name of Akazien GmbH and shall bear a legend which restricts any sale, transfer; assignment, pledge or other disposition for a period of five years from the CLOSING DATE; provided, however, that

(i) on the 1st anniversary of the CLOSING DATE, the legend will be removed as to a number of shares of the RESTRICTED VERISIGN COMMON STOCK equal to an amount of USD 3,645,165 (valued at the REFERENCE PRICE) if there has been no termination for CAUSE of the service agreement (*Dienstvertrag*) of either of the SAMWER BROTHERS and neither of the SAMWER BROTHERS has terminated his employment with the COMPANY for other than GOOD REASON; and

(ii) on the 2nd anniversary of the CLOSING DATE, the legend will be removed as to a number of shares of the RESTRICTED VERISIGN COMMON STOCK equal to an amount of USD 5,467,747 (valued at the REFERENCE PRICE) if there has been no termination for CAUSE of the service agreement (*Dienstvertrag*) of either of the SAMWER BROTHERS and neither of the SAMWER BROTHERS has terminated his employment with the COMPANY for other than GOOD REASON.

8.3 "***CAUSE"*** shall include only one or more of the following: (1) any material breach by one of the SAMWER BROTHERS of any of the terms and conditions contained in his service or any other written agreement entered into after the SIGNING DATE between one of the SAMWER BROTHERS, the PURCHASER or VERISIGN or any of its affiliates, provided however that the breach constitutes an important reason in the meaning of § 626 para. 1 German Civil Code *(BGB)*; (2) intentional failure and/or refusal to perform lawful duties for the COMPANY; (3) commission of an act of dishonesty (including but not limited to any acts of embezzlement or misappropriation of funds) or fraud; (4) serious dereliction of fiduciary obligation; (5) commission of an act of moral turpitude; (6) material violation of any VERISIGN regulation or policy; (7) commission of any act materially adverse to the interests of VERISIGN, provided however that the act constitutes an important reason in the meaning of § 626 para. 1 German Civil Code *(BGB)*; (8) any material breach of one of the SAMWER BROTHERS regarding the bylaws of the management board (*Geschäftsordnung des Vorstands*) or the articles of association (*Satzung)* of the COMPANY; and (9) any other important reason (*wichtiger Grund*) within the meaning of Section 626 para. 1 German Civil Code or Section 84 para. 3 sentence 1 German Stock Corporation Act, however excluding a vote of mistrust by the shareholder meeting of the COMPANY (*Vertrauensentzug duch die Hauptversammlung*); *provided, however*, that CAUSE shall not be found to exist based on (1), (2), (4), (6) and (8) above unless VERISIGN has provided the respective SAMWER BROTHER with written notice of the conduct constituting CAUSE which notice specifies in reasonable detail the nature of the conduct constituting CAUSE and the respective SAMWER BROTHER has failed to cure such inappropriate conduct within ten (10) business days from the date notice is delivered to him; and further provided that with respect to (8) above, no such notice requirement shall apply in the event of one of the SAMWER BROTHERS acting without approval from the supervisory board of the COMPANY where required by the bylaws of the management board or the articles of association of the COMPANY.

8.4 The following only shall constitute "GOOD REASON" for TERMINATION of one of the SAMWER BROTHERS: (i) recurring or permanent assignment of duties inconsistent with the duties of a member of the management board and the respective service agreement; (ii) failure of the COMPANY to provide compensation in accordance with the terms of his service agreement, (iii) relocation of his office more than 50 miles from its location on the CLOSING DATE, in each case without his consent, or (iv) the death or mental or physical disability (as determined by a physician appointed by the supervisory board) of such SAMWER BROTHER; provided, however, that the respective SAMWER BROTHER shall notify the supervisory board of the COMPANY in writing within twenty one days of the occurrence of any event they believe constitutes Good Reason (the "Good Reason Notice"); provided, however that failure to do so shall be deemed a waiver of the right to assert that there has been GOOD REASON. The COMPANY shall have fifteen days from the receipt of the GOOD REASON NOTICE to dispute it or to cure the events which the respective SAMWER BROTHER asserts constitutes GOOD REASON.

XX. § 9

STATUTE OF LIMITATIONS

9.1 All warranty claims of the PURCHASER under Section 6.1 shall become time-barred (*verjährt*) one year after the CLOSING DATE unless otherwise provided in this Section 9. Claims for breach of SPECIAL REPRESENTATIONS, excluding for TAXES, shall become time-barred four years after the CLOSING DATE. Claims for fraud and intentional misconduct shall become time-barred upon the earlier of (i) one year following the date when the PURCHASER has knowledge of such claim (ii) 10 years after the CLOSING DATE. Purchaser shall notify the SELLERS and the SAMWER BROTHERS of a claim for fraud promptly after the PURCHASER has reasonable and substantiated belief of such claim, provided, however, that any omission of such notice shall not effect the statute of limitations.

9.2 All claims regarding TAXES under Section 6 and 7 shall become time-barred 6 months after the date of the final, non-appealable assessment of the relevant liability of the COMPANY or its SUBSIDIARIES.

9.3 All claims of the PURCHASER for breaches of covenants set out in Section 10 and 11 (with the exception of Section 11.6) shall become time-barred (*verjährt*) one year after the CLOSING DATE.

9.4 The aforesaid statute of limitations shall be suspended (*gehemmt*) within the meaning of § 209 German Civil Code (BGB) if the PURCHASER notifies a substantiated warranty claim in good faith to the SELLERS in writing before a warranty claim becomes time-barred. This suspension shall last for a period of 150 days and shall expire after this period if the PURCHASER does not file a law suit before the competent court.

XXI. § 10

COVENANTS PRIOR TO CLOSING

10.1 In the period between the SIGNING DATE and the CLOSING DATE, except as otherwise contemplated or permitted by this AGREEMENT or approved by the PURCHASER in writing, SELLERS shall use their best efforts to cause that the COMPANY and its SUBSIDIARIES will:

10.1.1 Conduct the business operation of the COMPANY and its SUBSIDIARIES, and maintain the ASSETS related to their business, in the usual and ordinary course consistent with past practice except as expressly otherwise provided in this AGREEMENT;

10.1.2 Use their best efforts to preserve their relationships with employees, customers, clients, suppliers and others having material business dealings with the COMPANY and its SUBSIDIARIES;

10.1.3 Be available upon request to discuss with the PURCHASER on a regular basis the general status of essential ongoing operations of the COMPANY and its SUBSIDIARIES;

10.1.4 Keep in full force and effect insurance comparable in amount and scope of coverage to insurance carried by the COMPANY as of the date of this AGREEMENT;

10.1.5 Pay accounts payable in a manner consistent with prior practice and pay other obligations (including, without limitation, any amounts in respect of TAXES) when they become due and payable in the ordinary course of business of the COMPANY and its SUBSIDIARIES, subject to any such accounts payable or other obligations being disputed in good faith;

10.1.6 Maintain their books of account and records in a manner consistent with applicable laws and IAS;

10.1.7 Not amend any organizational documents or agreements (i.e. articles of association (*Satzung*), partnership agreements, etc.), except with the written consent of the PURCHASER and not take any shareholders' resolutions regarding distribution of profits, capital increases, capital reductions, issuance of convertible bonds, participation rights, stock options or other securities or create rights or claims for the issuance of any shares or other securities or make any withdrawals;

10.1.8 Not merge or consolidate with, or agree to merge or consolidate with, or purchase substantially all of the assets of, or otherwise acquire any business or other business organization or division thereof;

10.1.9 Not settle any tax audit in a manner that could result in a material adverse consequence to PURCHASER or COMPANY or its SUBSIDIARIES after the CLOSING DATE;

10.1.10 Not sell, transfer or otherwise dispose of any material assets;

10.1.11 Not increase the current compensation or benefits granted and not make severance, termination or bonus payments to any of its EMPLOYEES except in connection with the bonus payment totaling USD 1,708,309 approved in the minutes of the management board dated 23 May 2004, which are attached as **APPENDIX 10.1.11** and which may neither be amended nor revoked, and except in the ordinary course of business consistent with past practice or as required by law, common practice (*betriebliche Übung*) or contracts or agreements in effect prior to the date of this AGREEMENT;

10.1.12 Not execute any agreements with the SELLERS or a company affiliated with SELLERS or the COMPANY;

10.1.13 Not execute, change or terminate an IMPORTANT AGREEMENT within the meaning of Section 5.1.31 without the approval of the PURCHASER, provided that, in case the respective IMPORTANT AGREEMENT is defined as such in Section 5.1.31 by a EUR threshold with respect to liabilities and obligations, the approval of the PURCHASER for such execution, change or termination is only required if the liabilities or obligations exceed a threshold of EUR 25,000;

10.1.14 Not acquire any fixed assets for a purchase price exceeding EUR 25,000 in the individual case other than in the ordinary course of business consistent with past practice;

10.1.15 Not make any capital expenditure which is not provided for as a capital expenditure in the annual budget and exceeding an amount of EUR 25,000 or incur liabilities exceeding an amount of EUR 75,000;

10.1.16 Amend the articles of association of the COMPANY in Sections 4 (2) to 4 (9) to convert the preferred shares (*Vorzugsaktien*) back into common shares (*Stammaktien*);

10.1.17 Not pay any dividend to any shareholder except those dividend payments set forth in **APPENDIX 10.1.17**;

10.1.18 Not issue, grant or approve any issuance of stock options or shares to employees and holders of STOCK OPTIONS or modify any existing terms relating to STOCK OPTIONS, including but not limited to the STOCK OPTION PLAN of the COMPANY dated March 2001, except for the envisaged waiver of the STOCK OPTION PLAN as contemplated by the agreement attached in **APPENDIX 11.6**;

10.1.19 Grant the PURCHASER and the PURCHASER’s auditor and tax advisor all necessary assistance and give access to personnel and all relevant documentation of the COMPANY for the purpose of reviewing the INTERIM ACCOUNTS;

10.1.20 Grant the PURCHASER and the PURCHASER's auditor and tax advisor all necessary assistance and give access to personnel and all relevant documentation of the COMPANY and its auditor, including the working papers of the Auditors for the purpose of reviewing the 2003 ACCOUNTS.

10.2 The SELLERS shall indemnify and hold harmless (*freistellen*) the PURCHASER or, at the PURCHASER's absolute discretion, the COMPANY or its SUBSIDIARIES, irrespective of SELLERS having used their best efforts to cause the COMPANY or its SUBSIDIARIES to comply with Section 10.1 or not, from and against any and all damages and losses on part of the PURCHASER, the COMPANY or its SUBSIDIARIES, arising from or in connection with a non-compliance by the COMPANY or its SUBSIDIARIES with any of the covenants set forth in Section 10.1 hereof, irrespective of whether the COMPANY or its SUBSIDIARIES acted intentionally or not. The liability of the SELLERS shall be limited pro rata (*im Verhältnis*) of their INDIVIDUAL PURCHASE PRICE PORTION compared to the PURCHASE PRICE.

XXII. § 11

FURTHER COVENANTS

11.1 Based on the representations of the SELLERS in the INVESTMENT REPRESENTATION LETTERS, shares of VERISIGN as provided in Section 3.2 lit. b) pursuant to an exemption or exemptions from registration under Section 4(2) of the (U.S.) Securities Act of 1933 as amended, Regulation D and/or Regulation S promulgated under the (U.S.) Securities Act of 1933 as amended and the exemptions from qualification under applicable state securities laws. Shares shall be issued in compliance with all applicable provisions of, and rules under, the (U.S.) Securities Act of 1933 as amended in connection with the offering and issuance of shares of VERISIGN COMMON STOCK pursuant to this AGREEMENT. Holders of shares of VERISIGN COMMON STOCK to be issued pursuant to this AGREEMENT shall be wholly responsible for compliance with all United States federal and state securities laws regarding the sale, transfer or other disposition of such shares.

11.2 From and after the date of this AGREEMENT until the earlier of the CLOSING DATE or a date a rescission of this AGREEMENT in accordance with Section 15 becomes effective, none of SELLERS or the SAMWER BROTHERS shall, directly or indirectly, including through any officer, director, employee, representative or agent, nor shall they permit the COMPANY to, (i) solicit, initiate, or knowingly encourage any inquiries or proposals that constitute, or could reasonably be expected to lead to, a proposal or offer for a merger, consolidation, business combination, sale of all or substantially all of the assets, sale of shares of capital stock (including without limitation by way of a tender offer or initial public offering) or similar transactions involving the COMPANY and its SUBSIDIARIES (any of the foregoing inquiries or proposals being referred to in this AGREEMENT as a "**TAKEOVER PROPOSAL**") other than the transactions contemplated by this AGREEMENT, (ii) engage in negotiations or discussions concerning, or provide any non-public information to any person relating to any TAKEOVER PROPOSAL, or (iii) agree to, approve or recommend any TAKEOVER PROPOSAL.

The SELLERS shall notify the PURCHASER immediately (and no later than 24 hours) after receipt by the SELLERS, the COMPANY or its SUBSIDIARIES (or its advisors or agents) of any bonafide TAKEOVER PROPOSAL or any request for information in connection with a bonafide TAKEOVER PROPOSAL or for access to the properties, books or records of the COMPANY or its SUBSIDIARIES by any person that informs the SELLERS, the COMPANY or its SUBSIDIARIES that it is considering making, or has made, a bonafide TAKEOVER PROPOSAL. Such notice shall be made orally and in writing and shall indicate in reasonable detail the identity of the offeror and the terms and conditions of such proposal, inquiry or contact.

11.3 For each violation of Section 11.2 a violating party shall be obligated to pay an amount of EUR 1.000.000 to the PURCHASER. A violation does not require any fault, whether negligent or intentional, by the individual party. Each week of a violation of Section 11.3 shall be deemed as a separate violation within the meaning of sentence 1. The right of the PURCHASER for damages or injunctive relief shall remain unaffected. Contractual penalties paid according to Section 11.3 sentence 1 shall be credited towards a claim for damages.

11.4 The SELLERS shall promptly notify the PURCHASER of (i) any notice or other communication from any person alleging that the consent of such person is or may be required in connection with the transactions contemplated by this AGREEMENT, (ii) any notice or other communication from any government entity in connection with the transactions contemplated by this AGREEMENT, (iii) any event or circumstance that would reasonably be likely to give rise to a MATERIAL ADVERSE CHANGE or (iv) any action, suit, claim, investigation or proceeding commenced relating to the COMPANY or any of its SUBSIDIARIES that, if pending on the date of this AGREEMENT, would have been required to have been disclosed pursuant to Section 5.1.53.

11.5 The SELLERS shall use commercially reasonable best efforts to cause the COMPANY to cooperate with the PURCHASER regarding the implementation of processes and procedures for compliance with Section 404 of the Sarbanes-Oxley Act of 2002, it being specifically understood and agreed that such implementation shall not be a condition to closing hereunder.

11.6 The SELLERS shall use their best efforts to cause the COMPANY to enter into agreements in the form attached hereto as **APPENDIX 11.6** with all holders of STOCK OPTIONS as set out in **APPENDIX 5.1.2** according to which these holders waive any and all rights arising from their respective STOCK OPTIONS and current and future rights under the STOCK OPTION PLAN and arising from and in connection with the prior granting of STOCK OPTIONS of the COMPANY. The SELLERS shall bear any and all costs involved with such waiver agreements, including, but not limited to any and all social security contributions and taxes that are required to be withheld in accordance with applicable laws, and shall indemnify and hold harmless the PURCHASER or the COMPANY, at the PURCHASER's sole discretion, from any such costs that have not been properly paid or withheld.

XXIII. § 12

NON COMPETITION

12.1 Akazien GmbH, Alexander Samwer and the SAMWER BROTHERS hereby undertake that during a period of two (2) years after the CLOSING DATE and with respect to COMPETITIVE ACTIVITIES in the countries where the COMPANY or its SUBSIDIARIES are operating, they shall not themselves engage in such COMPETITIVE ACTIVITIES. The term competitive activity shall mean, whether directly or indirectly (including, for the avoidance of doubt, as a shareholder, partner or holder of other ownership interest), activities in the area of content production or distribution via mobile phones as well as in the area of mobile phone billing and factoring methods (the "**COMPETITIVE ACTIVITIES**"). Akazien GmbH, Alexander Samwer and the SAMWER BROTHERS shall also be liable that none of its affiliates within the meaning of Section 15 et seq. of the German Stock Corporation Act or near relatives (*Angehörige*) within the meaning of Section 15 German Fiscal Code (*AO*) engage in any COMPETITIVE ACTIVITY. The foregoing non-compete covenant shall, however, not restrict Akazien GmbH, Alexander Samwer and the SAMWER BROTHERS or any of its affiliates within the meaning of Section 15 et seq. of the German Stock Corporation Act (a) from carrying on their businesses as currently conducted and (b) from owning an interest of 1% or less in any publicly traded entity that competes with the COMPANY.

12.2 The SELLERS hereby undertake that during a period of two years from the SIGNING DATE and with respect to EMPLOYEES of the COMPANY or its SUBSIDIARIES they shall not, whether directly or indirectly, solicit (*abwerben)* any such EMPLOYEE. In addition, the SELLERS hereby undertake that during a period of two years from the SIGNING DATE and with respect to EMPLOYEES of the COMPANY or its SUBSIDIARIES they shall not hire any such EMPLOYEE.

12.3 For each violation of the non competition clause under Section 12.1 a violating party shall be obligated to pay an amount of EUR 500,000 to the PURCHASER. For each violation of Section 12.2 a violating party shall be obligated to pay an amount of EUR 25,000 to the PURCHASER. A violation does not require any fault, whether negligent or intentional, by the individual party. Each week of a violation of Section 12.1 or 12.2 shall be deemed as a separate violation within the meaning of sentences 1 and 2. The right of the PURCHASER for damages or injunctive relief shall remain unaffected. Contractual penalties paid according to Section 12.3 sentence 1 and 2 shall be credited towards a claim for damages.

XXIV. § 13

CONFIDENTIALITY, RESTRICTION OF ANNOUNCEMENT

13.1 The PURCHASER and the SELLERS agree that all financial or other information of the PURCHASER, the COMPANY or the SELLERS of a confidential or proprietary nature, disclosed to PURCHASER or SELLERS at any time in connection with the negotiation, execution and the performance of this AGREEMENT shall be kept confidential by the PURCHASER and the SELLERS and shall not be disclosed to any person (other than to their agents or employees) or used by the PURCHASER or the SELLERS except (a) with the prior written consent of the PURCHASER or the SELLERS or, (b) if required by applicable law or, (c) if such information has been acquired or obtained by the PURCHASER or the SELLERS other than through disclosure by SELLERS or PURCHASER in connection with the transaction contemplated by this AGREEMENT or (d) if such information is or becomes generally available to the public other than as a result of a violation of this provision.

13.2 The SELLERS shall keep all information they have about the COMPANY and the COMPANY's business operation confidential and shall not use the information for their own or third parties purposes.

13.3 The PARTIES agree to consult with each other, and, in case of the SELLERS, obtain the consent of the PURCHASER (which consent may be withheld for any reason) before issuing any press release or making any public statement with respect to this AGREEMENT or the transactions contemplated hereby and, except for any press releases and public announcements the making of which may be required by applicable law or any listing agreement with any national securities exchange, will not issue any such press release or make any such public statement prior to such consultation. After the initial announcement by the PURCHASER of the transaction described herein, Summit Holding GmbH may make one or more announcements with respect to the transaction contemplated herein with the consent of VERISIGN.

13.4 For each violation of the terms under this Section 13 the violating PARTY shall be obligated to pay an amount of EUR 50,000 to the respective other PARTY. A violation does not require any fault, whether negligent or intentional, of the violating PARTY. Each week of a violation shall be deemed as a separate violation within the meaning of sentence 1. The right of the respective other PARTY for damages or injunctive relief shall remain unaffected. Contractual penalties paid according to Section 13.4 sentence 1 shall be credited towards a claim for damages.

XXV. § 14

MERGER CONTROL

14.1 According to Section 2.2.3, merger control clearance or expiry of the relevant waiting periods is a condition precedent for this AGREEMENT to the extent that this transaction is subject to merger control. Should a merger control clearance be issued under certain conditions and/or obligations (*Bedingungen und/oder Auflagen*), the condition precedent in Section 2.2.3 shall be treated as fulfilled if (i) the PURCHASER notifies the SELLERS in writing that it accepts such conditions and/or obligations and wishes to continue with the envisaged transaction and (ii) as soon as the conditions set by the competent competition authorities have been fulfilled.

14.2 This AGREEMENT does not constitute an obligation of any PARTY to appeal any decision by the competent competition authorities (including any prohibition, any clearance under any condition, and any obligation) or to appeal a court judgment upholding such decision.

14.3 The PURCHASER shall make the necessary filings to the competent competition authorities as soon as possible after the SIGNING DATE. The SELLERS shall provide and shall cause the COMPANY to provide to the PURCHASER and the competent competition authorities all required information and documents.

XXVI. § 15

RESCISSION

15.1 The PURCHASER shall have the right to rescind (*zurücktreten*) the AGREEMENT by written notice, if the conditions precedent set forth in Section 2.2.2, 2.2.4 to 2.2.13, inclusive, hereof, and SELLERS shall have the right to rescind the AGREEMENT by written notice, if the conditions precedent set forth in Section 2.2.4 and 2.2.9 hereof, have not been fulfilled by June 15, 2004, it being understood that the PARTIES may agree on an extension of this period in writing. In addition, the SELLERS and the PURCHASER may rescind the AGREEMENT if the condition precedent set forth in Section 2.2.3 has not been fulfilled by June 30, 2004, unless the competent competition authorities are still reviewing the transaction contemplated herein, in which case the aforementioned date shall extend to September 30, 2004. The right to terminate this AGREEMENT pursuant to the preceding sentence will not be available to any party whose failure to fulfill any obligation under this AGREEMENT has been a significant cause of, or resulted in, the failure of the respective condition precedent to be satisfied.

In case the PURCHASER or the SELLERS rescind the AGREEMENT, they shall notify each other of the rescission in writing. If a rescission of the AGREEMENT is permitted under this Section 15.1, such rescission shall be without liability of any PARTY of the AGREEMENT, provided that, if such rescission shall result from the negligent or intentional failure of either the PURCHASER or the SELLERS to fulfill a condition precedent, the PURCHASER or the SELLERS, as the case may be, shall be fully liable for any and all damages incurred or suffered by the SELLERS or the PURCHASER as a result of such failure. If the AGREEMENT is rescinded, the provisions in the AGREEMENT shall become null and void with the exception of the terms set out in this Section 15.1, Sections 13, 17, 18 and 20.1 sentence 1.

15.2 The PURCHASER shall have the right to rescind the AGREEMENT prior to the fulfillment of the CLOSING MEASURES by written notice at any time if and when the PURCHASER becomes aware that (i) a MATERIAL ADVERSE CHANGE has occurred or (ii) there has been a material breach of any of the SELLERS's covenants above or (iii) there has been a material breach of a representation and warranty under Section 5 or (iv) if the consummation of the transactions contemplated by the AGREEMENT would violate any nonappealable final order, decree or judgment of any government entity having competent jurisdiction. If a rescission of the AGREEMENT is permitted under this Section 15.2, the SELLERS shall be liable for any and all damages incurred or suffered by the PURCHASER as a result of negligent or intentional misconduct of the SELLERS or the SAMWER BROTHERS. If the PURCHASER rescinds the AGREEMENT, the AGREEMENT shall become null and void with the exception of the terms set out in this Section 15.2, Sections 13, 17, 18 and 20.1 sentence 1.

XXVII. § 16
CLOSING

16.1 This AGREEMENT shall be closed two (2) business days after the conditions precedent in Section 2.2.2 to 2.2.4, inclusive, have been fulfilled or at a date to which the Parties have agreed in writing, and on which the CLOSING MEASURES shall take place (the "**CLOSING DATE**"). The Parties shall inform each other as soon as any and as soon as all of the conditions precedent have been fulfilled. The CLOSING MEASURES shall take place at the offices of Latham & Watkins LLP, Reuterweg 20, 60323 Frankfurt am Main.

16.2 On the CLOSING DATE the PARTIES shall carry out the following measures (the "**CLOSING MEASURES**") as far as the PURCHASER has not waived a measure listed in Section 16.2.1 to 16.2.4 entirely or in part.

16.2.1 The SELLERS and the SAMWER BROTHERS shall provide to the PURCHASER the written certificates described in Sections 2.2.5, 2.2.6 and 2.2.7 in the form as attached in **APPENDIX 16.2.1**;

16.2.2 The SELLERS shall hand over to the PURCHASER written resignations of the persons listed in **APPENDIX 16.2.2** as members of the supervisory board;

16.2.3 The SELLERS shall hand over to the PURCHASER the protocol of the shareholder's meeting (*Hauptversammlung*) of the COMPANY and the declaration of the management board of the COMPANY by which the sale and assignment of the SHARES to the PURCHASER has been approved;

16.2.4 The SELLERS shall hand over to the PURCHASER the INVESTMENT REPRESENTATION LETTERS as described in Section 2.2.8.

16.3 The PARTIES shall sign a protocol as set out in **APPENDIX 16.3** confirming that the CLOSING MEASURES and the conditions precedent in Section 2.2.2 to 2.2.13 have been duly carried out or have been waived.

16.4 As soon as the protocol as set out in **APPENDIX 16.3** has been duly signed, PURCHASER shall pay and deliver to the SELLERS the PURCHASE PRICE in accordance with Section 3.2. and the PURCHASER and the SELLERS shall sign a protocol as set out in **APPENDIX 16.4** confirming that the condition precedent in Section 2.2.1 has been duly carried out.

XXVIII. § 17
GOVERNING LAW

This AGREEMENT shall be governed by and construed in accordance with the laws of the Federal Republic of Germany, excluding the United Nations Convention on Contracts for the International Sale of Goods (CISG) and further excluding its conflicts of laws provisions, that lead to the application of the laws of another country.

XXIX. § 18

JURISDICTION

Exclusive jurisdiction (*ausschließlicher Gerichtsstand*) shall vest in the courts of Frankfurt am Main, Germany.

XXX. § 19

NOTICES, SELLERS REPRESENTATIVE

19.1 All notices, requests and other communications to the PURCHASER and SELLERS (duly represented by the SELLERS REPRESENTATIVE) shall be in writing (including facsimile transmission). Any notice, requests and other communications hereunder shall be deemed duly delivered three business days after being sent by registered or certified mail, return receipt requested, postage prepaid, or two business days after it is sent via a reputable nationwide overnight courier service or upon receipt if sent via facsimile (with acknowledgement of complete transmission) with a confirmation copy by registered or certified mail, in each case to the intended recipient as set forth below (PURCHASER and SELLERS REPRESENTATIVE being entitled to change their addresses at any time, such change to become effective upon receipt of the relevant notice by to the other):

If to PURCHASER, to:

Attention: Marcus Ross

Tempelhofer Ufer 37, 10963 Berlin
Fax: +49 (0)30-269-32-100

with a copy to:

VeriSign, Inc.
487 E. Middlefield Road
Mountain View, CA 94043, U.S.A.
Attention: General Counsel
Fax: + 1 650 426 5113

If to SELLERS REPRESENTATIVE, to:

Attention: Scott Collins

Summit Holding GmbH
c/o Summit Partners Limited
8 Clifford Street
London, W1S2LQ
Fax: 011-44-207-851-6172

with a copy to:

Attention: James Westra

Weil, Gotshal & Manges LLP
100 Federal Street, 34th Floor
Boston, Massachusetts 02110
Fax: (617) 772-8333

19.2 Summit Holding GmbH shall be hereby constituted and appointed as agent (the "**SELLERS REPRESENTATIVE**") for and on behalf of the SELLERS to give and receive notices and communications, to authorize delivery to the PURCHASER of property from the ESCROW FUND in satisfaction of claims by the PURCHASER, to object to such deliveries, to agree to, negotiate, enter into settlements and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to such claims, and to take all actions necessary or appropriate in the judgment of the SELLERS REPRESENTATIVE for the accomplishment of the foregoing. Notices or communications to or from the SELLERS REPRESENTATIVE shall constitute notice to or from each of the SELLERS.

19.2.1 The SELLERS REPRESENTATIVE shall not be liable for any act done or omitted hereunder as SELLERS REPRESENTATIVE while acting in good faith and in the exercise of reasonable judgment and any act done or omitted pursuant to the advice of counsel shall be conclusive evidence of such good faith. The SELLERS shall severally indemnify the SELLERS REPRESENTATIVE and hold him harmless against any loss, liability or expense incurred without gross negligence or bad faith on the part of the SELLERS REPRESENTATIVE and arising out of or in connection with the acceptance or administration of his duties hereunder.

19.2.2 The SELLERS REPRESENTATIVE will not be entitled to receive any compensation from the PURCHASER or VERISIGN in connection with this AGREEMENT. Any fees and expenses incurred by SELLERS REPRESENTATIVE in connection with actions taken pursuant to the terms of the ESCROW AGREEMENT will be paid by the SELLERS to the SELLERS REPRESENTATIVE.

19.2.3 A decision, act, consent or instruction of the SELLERS REPRESENTATIVE shall constitute a decision of all SELLERS and shall be final, binding and conclusive upon each of the SELLERS, and the ESCROW AGENT and PURCHASER may rely upon any decision, act, consent or instruction of the SELLERS REPRESENTATIVE as being the decision, act, consent or instruction of each of the SELLERS. The ESCROW AGENT and the PURCHASER are hereby relieved from any liability to any person for any acts done by them in accordance with such decision, act, consent or instruction of the SELLERS REPRESENTATIVE.

XXXI. § 20

FINAL PROVISIONS

20.1 All expenses, costs, fees and charges in connection with the negotiation, execution or performance of this AGREEMENT, including, without limitations, legal and accounting fees, shall be borne by the PARTY incurring the same. All fees charged by the competent competition authorities in connection with the merger control proceeding shall be equally borne by the PURCHASER and the SELLERS, provided, however that the SELLERS share of the fees shall not exceed EUR 15,000. The PURCHASER or an affiliate within the meaning of Sections 15 et seq. of the German Stock Corporation Act shall bear the costs of Corporate Finance Partner, Bettinastraße 35-37, Frankfurt am Main, and any other legal, accounting and consultancy fees incurred by the COMPANY in connection with the transactions contemplated by this AGREEMENT pursuant to the agreement attached as **APPENDIX 20.1** for an amount of up to USD 2,000,000. Expenses, costs, fees and charges of the COMPANY in excess of such amount shall be exclusively born by the SELLERS. SELLERS represent that other than Deutsche Bank AG or one of its affiliates within the meaning of Sections 15 et seq. of the German Stock Corporation Act, including Deutsche Bank Securities, Inc., whose expenses, costs, fees and charges shall be exclusively born by the SELLERS, no agent, broker, investment banker or other person is or will be entitled to a broker’s or finder’s fee or commission or similar fee in connection with the transactions contemplated by this AGREEMENT. SELLERS agree to indemnify and hold PURCHASER harmless from and against any and all claims, liabilities or obligations with respect to any other fees, commissions or expenses asserted by any person on the basis of any act or statement alleged to have been made by SELLERS.

20.2 Any modifications of and amendments to this AGREEMENT including any waiver of this form requirement must be in writing and signed to be binding to the PARTIES, unless any stricter form requirements exist.

20.3 The respective rights and obligations of the PARTIES under this AGREEMENT shall not be assignable by a PARTY hereto without the prior written consent of the other PARTY.

20.4 This AGREEMENT including its appendices replaces any former stipulations between the PARTIES on the subject matter of this AGREEMENT.

20.5 The appendices to this AGREEMENT constitute an integral part of this AGREEMENT.

20.6 The failure of a PARTY at any time to require performance by another PARTY of any provision of this AGREEMENT shall in no way affect the right of such PARTY to require performance of that provision and shall not be construed as a waiver to such provision. Any waiver by a PARTY of any breach of any provision of this AGREEMENT shall not be construed as a waiver of any continuing or succeeding breach of such provision.

20.7 Terms in capital letters used herein shall have the meaning defined herein, be it by a definition set forth in brackets or by making reference to a schedule attached hereto

20.8 Should any provision of this AGREEMENT be or become partly or entirely invalid or unenforceable, this shall not affect the validity of the remaining provisions. The PARTIES are obligated to replace the partly or entirely invalid or unenforceable provision by a valid or enforceable provision which comes as close as possible to the PARTIES' original economic intent and purpose underlying the invalid or unenforceable provision. The same applies if this AGREEMENT proves to be incomplete; in such event the PARTIES are obligated to agree to the inclusion of a provision which comes as close as possible to the PARTIES' original economic intent and purpose underlying the missing provision.

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Frankfurt am Main, May 23, 2004

For Summit Holding GmbH:

/s/ Dr. Uwe Hartmann

Dr. Uwe Hartmann (pursuant to a power of attorney)

For debitel Mobile Services Holding GmbH:

/s/ Dirk Hoffman

Dirk Hoffmann (pursuant to a power of attorney)

For Akazien GmbH:

/s/ Marc Samwer

Marc Samwer

For Marc Samwer

/s/ Marc Samwer

Marc Samwer

For Alexander Samwer

/s/ Marc Samwer

Marc Samwer (pursuant to a power of attorney)

For easy Tel Telefongesellschaft mbH:

/s/ Marc Samwer

Marc Samwer (pursuant to a power of attorney)

For Dangaard Telecom GmbH:

/s/ Marc Samwer

Marc Samwer (pursuant to a power of attorney)

For Media-Saturn-Holding GmbH:

/s/ Andreas Schiele

Andreas Schiele (pursuant to a power of attorney)

For Oliver Samwer

/s/ Marc Samwer

Marc Samwer (pursuant to a power of attorney)

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For ZZZ 423 Beteiligungsgesellschaft mbH:	For VeriSign, Inc.:
/s/ Marcus Ross	/s/ Stratton D. Sclavos
Marcus Ross (Geschäftsführer)	Stratton D. Sclavos (Chief Executive Officer)

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VERISIGN, INC.
1998 EQUITY INCENTIVE PLAN

As Adopted October 31, 1997
and Amended Effective June 8, 2000, May 24, 2001, May 21, 2002 and February 8, 2005

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, Restricted Stock Units and Stock Bonuses. Capitalized terms not defined in the text are defined in Section 24.

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

2.1 Number of Shares Available. Subject to Sections 2.2 and 19, 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 19, 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 or Restricted Stock Units) 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. **RESTRICTED STOCK UNITS**

9.1 Awards of Restricted Stock Units. A Restricted Stock Unit (“RSU”) is an award to an eligible person covering a number of Shares that may be settled in cash, or by issuance of those Shares (which may consist of Restricted Stock) for services to be rendered or for past services already rendered to the Company or any Parent or Subsidiary. All RSUs shall be made pursuant to an RSU Agreement, which shall be in substantially a form (which need not be the same for each Participant) that the Committee has from time to time approved, and will comply with and be subject to the terms and conditions of the Plan.

9.2 Terms of RSUs. The Committee will determine the terms of an RSU including, without limitation: (a) the number of Shares deemed subject to the RSU; (b) the time or times during which the RSU may be exercised; (c) the consideration to be distributed on settlement, and the effect on each RSU of the Participant’s Termination. An RSU may be awarded upon satisfaction of such performance goals based on Performance Factors during any Performance Period as are set out in advance in the Participant’s individual RSU Agreement. If the RSU is being earned upon satisfaction of performance goals, then the Committee will: (x) determine the nature, length and starting date of any Performance Period for the RSU; (y) select from among the Performance Factors to be used to measure the performance, if any; and (z) determine the number of Shares deemed subject to the RSU. Prior to settlement of any RSU earned upon the satisfaction of performance goals pursuant to an RSU Agreement, the Committee shall determine the extent to which such RSU has been earned. Performance Periods may overlap and participants may participate simultaneously with respect to RSUs 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 RSUs to take into account changes in law and accounting 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.

9.3 Form and Timing of Settlement. To the extent permissible under applicable law and as may be determined by the Committee, the Committee may also permit a Participant to defer payment under an RSU to a date or dates after the RSU is earned. 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 determines.

10. **WITHHOLDING TAXES.**

10.1 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.

10.2 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.

11. **PRIVILEGES OF STOCK OWNERSHIP.**

11.1 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 13.

11.2 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.

12. **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.

13. **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.

14. **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.

15. **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.

16. **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.

17. **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.

18. **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.

19. **CORPORATE TRANSACTIONS**.

19.1 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 19.1, 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.

19.2 Other Treatment of Awards. Subject to any greater rights granted to Participants under the foregoing provisions of this Section 19, in the event of the occurrence of any transaction described in Section 19.1, any outstanding Awards will be treated as provided in the applicable agreement or plan of merger, consolidation, dissolution, liquidation, or sale of assets.

19.3 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.

20. **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.

21. **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.

22. **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.

23. **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.

24. **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 Award, Restricted Stock Unit 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, Restricted Stock Units 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 of the Plan.

"***Restricted Stock Unit***" means an Award granted pursuant to Section 9 of the Plan.

"***RSU Agreement***" means an agreement evidencing a Restricted Stock Unit Award granted pursuant to Section 9 of the Plan.

"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 of the Plan.

"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.

EXHIBIT 10.06
No. ______

VERISIGN, INC.

1998 EQUITY INCENTIVE PLAN

RESTRICTED STOCK UNIT AGREEMENT

The Board of Directors of VeriSign, Inc. has approved a grant to you (the "***Participant***" named below) [______] Restricted Stock Units ("***RSUs***") pursuant to the VeriSign, Inc. 1998 Equity Incentive Plan (the "***Plan***"), as described below. Capitalized terms not defined herein shall have the meaning ascribed to them in the Plan.

Participant:	________________________
Number of RSUs:	________________________
Fair Market Value/RSU:	$______ per RSU as of Date of Grant
Date of Grant:	________________________
First Vesting Date:	First anniversary of the Date of Grant
Expiration Date:	The date on which settlement of all RSUs granted hereunder occurs, with earlier expiration upon the Termination Date.

Vesting Schedule: The RSUs will vest as follows:

[INSERT VESTING SCHEDULE]

(a) Settlement. Settlement of vested RSUs shall be made within 30 days following the later of: (i) the applicable date of vesting under the above vesting schedule, or (ii) the date of certification of achievement of the applicable Performance Factors by the Committee. Settlement of vested RSUs shall be in Shares or cash (or some combination thereof), as determined by the Committee in its discretion at the time of payment. The Participant shall pay to the Company the aggregate par value of the Shares issued prior to their issuance (par value being $0.001 per Share). Participant hereby agrees that the Company may satisfy Participant's obligation to pay to the Company each Share's par value by making appropriate payroll deductions from funds due the Participant.

(b) No Stockholder Rights. Unless and until such time as Shares are issued in settlement of vested RSUs, the Participant shall have no ownership of the Shares allocated to the RSUs and shall have no right to vote such Shares, subject to the terms, conditions and restrictions described in the Plan and herein

(c) Dividend Equivalents. Any dividends paid in cash on Shares of the Company shall be credited to the Participant as additional RSUs as if the RSUs previously held by the Participant were outstanding Shares (in such number as determined by the Committee), as follows: such credit shall be made in whole and/or fractional RSUs and shall be based on the Fair Market Value of the Shares on the date of payment of such dividend. All such additional RSUs shall be subject to the same vesting requirements applicable to the RSUs in respect of which they were credited and shall be settled in accordance with, and at the time of, settlement of the vested RSUs to which they are related.

(d) No Transfer. The RSUs and any interest therein: (i) shall not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of, and (ii) shall, if the Participant's continuous employment with the Company or any of its affiliates shall terminate for any reason (except as otherwise provided in the Plan or herein), be forfeited to the Company forthwith, and all the rights of the Participant to such RSUs shall immediately terminate.

(e) Termination. In the event of Termination by the Company or the Participant, the Committee shall settle, in Shares, the value of any vested RSUs (based on the then Fair Market Value of Shares deemed allocated to such vested RSUs on the date of such Termination) as soon as practicable thereafter. In case of any dispute as to whether Termination has occurred, the Committee shall have sole discretion to determine whether such Termination has occurred and the effective date of such Termination.

(f) Acknowledgement. By their signatures below, the Company and the Participant agree that the RSUs are granted under and governed by this Restricted Stock Unit Agreement and by the provisions of the Plan (incorporated herein by reference). The Participant: (i) acknowledges receipt of a copy of the Plan and the Plan prospectus, (ii) represents that the Participant has carefully read and is familiar with their provisions, and (iii) hereby accepts the RSUs subject to all of the terms and conditions set forth herein and those set forth in the Plan.

(g) Tax Consequences. The Participant acknowledges that there may be adverse tax consequences upon settlement of the RSUs or disposition of the Shares, if any, received in connection therewith and that Participant should consult a tax adviser prior to such settlement or disposition. In particular, Participant must make arrangements, satisfactory to the Company, for satisfaction of any applicable foreign, federal, state or local income tax withholding requirements or social security requirements related to the grant of the RSUs or Participant's receipt of Shares in settlement thereof, including, in either case, any dividend paid in respect thereof. In the event settlement of the RSUs is made in Shares, such arrangements may include, with the consent of the Committee, an election by Participant (a "Withholding Election") to pay the minimum statutory withholding tax obligation by withholding a certain number of Shares otherwise deliverable from the total number of Shares deliverable to the Participant upon settlement in accordance with rules and procedures established by the Committee. The Withholding Election must be made prior to the date on which the amount to be withheld is determined. All Withholding Elections are subject to the approval of the Committee and must be made in compliance with rules and procedures established by the Committee. The Committee may require, in its discretion, that some portion of vested Shares be retained by (or returned to) the Company to satisfy such withholding requirements. In the absence of such arrangements Participant hereby authorizes the Company to withhold the required minimum amount from Participant's other sources of compensation from the Company or any Parent or Subsidiary.

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

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

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

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

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

(m) Headings. The captions and headings of this Agreement are included for ease of reference only and are to be disregarded in interpreting or construing this Agreement.

(n) **Entire Agreement.** The Plan and this Restricted Stock Unit Agreement for these RSUs constitute the entire agreement and understanding of the parties with respect to the subject matter herein and supersede all prior understandings and agreements, whether oral or written, between the parties hereto with respect to the specific subject matter hereof.

Please sign your name in the space provided below on this Restricted Stock Unit Agreement and return an executed copy to: Stock Administration, Attn: Linda Hart, VeriSign, Inc., 487 East Middlefield Road, Mountain View, CA 94043.

VERISIGN, INC.	**PARTICIPANT**
By:____________________	____________________ Signature
Its:____________________	

EXHIBIT 10.08

SUMMARY OF DIRECTOR COMPENSATION BENEFITS

EFFECTIVE JULY 1, 2004

CASH COMPENSATION

1. Each director shall receive an annual retainer of $25,000.
2. Directors who serve on the Compensation or Audit Committees will receive and additional annual retainer of $20,000. Directors who serve on committees other than the Compensation or Audit Committees will receive an additional annual retainer of $10,000.
3. Compensation and Audit Committee Chairpersons will receive an additional annual retainer of $10,000. The additional annual retainer for Chairperson positions on committees other than the Compensation or Audit Committees will be $5,000.
4. There will be no meeting fees for director attendance of the five scheduled Board meetings per year. For each Special Meeting of the Board called pursuant to proper notice, in person or by telephone, beyond the five scheduled Board meetings per year, each director will receive a meeting fee of $2,000. There will be no meeting fees for any special committee meetings.

STOCK OPTIONS

1. Upon election as a director, the director shall receive a stock option grant of 50,000 shares (an "***Initial Grant***") in accordance to the Company's 1998 Directors Stock Option Plan (the "***Directors Plan***") (subject to stockholder approval at the 2005 Annual Meeting of the Stockholders).
2. Each director will receive an annual refresh option grant of 25,000 shares in accordance to the Directors Plan (a "***Succeeding Grant***") on the anniversary of the Initial grant (or most recent grant if such director did not receive an Initial Grant) (subject to stockholder approval at the 2005 Annual Meeting of the Stockholders) so long as such director has served continuously as a member of the Board of Directors since the date of the Initial Grant (or most recent grant if such director did not receive an Initial Grant).
3. The exercise price of any option granted under the Directors Plan shall be 100% of the fair market value of the Company's common stock on the date of grant.
4. All options granted under the Directors Plan will vest as to 6.25% of the shares each quarter after the date of grant, provided the optionee continues as a director or, if the Company so specifies in the grant, as a consultant of the Company.

Subsidiaries of the Registrant

Name of Subsidiary	Country/State of Incorporation/Organization
Domainnames.com Brasil Ltda.	Brazil
EMBP 455, LLC	California
EMBP 685, LLC	California
eNIC Corporation	Washington
Garden Acquisition LLC	Delaware
Global Registration Services Limited	United Kingdom
iLove GmbH	Germany
Jamba! GmbH	Germany
Jamba! AG Schweiz	Switzerland
Jamba! BV	Netherlands
JAMBA Service GmbH	Germany
Jamster International Sarl	Switzerland
Lorena Medienagentur GmbH	Germany
Name Engine, Inc.	Delaware
NameSecure, Inc.	Delaware
NS Holding Company	Delaware
Ojom GmbH	Germany
Thawte, Inc.	Delaware
Thawte Consulting (Pty) Ltd	South Africa
Thawte Holdings (Pty) Ltd	South Africa
Thawte On-Line Security Services (Pty) Ltd	South Africa
Thawte Technologies, Inc.	Delaware
The .TV Corporation International	Delaware
TLDS, Inc.	Delaware
VeriSign .US Registrar, Inc.	Delaware
VeriSign Australia (Pty) Limited	Australia
VeriSign Brazil Ltda.	Brazil
VeriSign Canada Limited	Canada
VeriSign Capital Management, Inc.	Delaware
VeriSign Denmark ApS	Denmark
VeriSign Deutschland GmbH	Germany
VeriSign France SA	France
VeriSign France SARL	France
VeriSign Germany Holding GmbH	Germany
VeriSign Holding AB	Sweden
VeriSign Hong Kong Limited	Hong Kong
VeriSign India Private Limited	India
VeriSign International Sarl	Switzerland
VeriSign International Holdings, Inc.	Delaware
VeriSign Italy S.r.l.	Italy
VeriSign Japan K.K.	Japan
VeriSign Korea Ltd.	Korea
VeriSign Naming and Directory Services, Inc.	Delaware
VeriSign Netherlands B.V.	Netherlands
VeriSign Norway AS	Norway
VeriSign Real Estate Holdings, Inc.	Nevada
VeriSign Reinsurance Company, Ltd.	Bermuda
VeriSign Spain S.L.	Spain
VeriSign Sweden AB	Sweden
VeriSign Switzerland SA	Switzerland
VeriSign UK Limited	United Kingdom
Vintage Media Sarl	Switzerland

EXHIBIT 23.01

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

VeriSign, Inc.:

We consent to incorporation by reference in the registration statements (Nos. 333-45237, 333-46803, 333-58583, 333-82941, 333-39212, 333-50072, 333-53230, 333-59458, 333-69818, 333-75236, 333-86178, 333-86188, 333-106395 and 333-113431) on Form S-8, and registration statements (Nos. 333-74393, 333-77433, 333-89991, 333-94445, 333-72222, and 333-76386) on Form S-3 of VeriSign, Inc. of our reports dated March 15, 2005, with respect to the consolidated balance sheets of VeriSign, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2004, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004, and the effectiveness of internal control over financial reporting as of December 31, 2004 appearing elsewhere in this Form 10-K.

/s/ KPMG LLP

Mountain View, California
March 15, 2005

EXHIBIT 31.01

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a) AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stratton D. Sclavos, certify that:

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

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

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

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

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: March 15, 2005

By: /s/ STRATTON D. SCLAVOS

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

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a) AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dana L. Evan, certify that:

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

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

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

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

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: March 15, 2005

By: /s/ DANA L. EVAN

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

EXHIBIT 32.01

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

I, Stratton D. Sclavos, President, Chief Executive Officer and Chairman of the Board of Directors of VeriSign, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2004, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2005

/s/ STRATTON D. SCLAVOS

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

EXHIBIT 32.02

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

I, Dana L. Evan, Executive Vice President of Finance and Administration and Chief Financial Officer of VeriSign, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2004, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2005

/s/ DANA L. EVAN

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