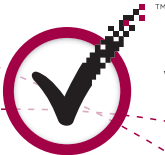
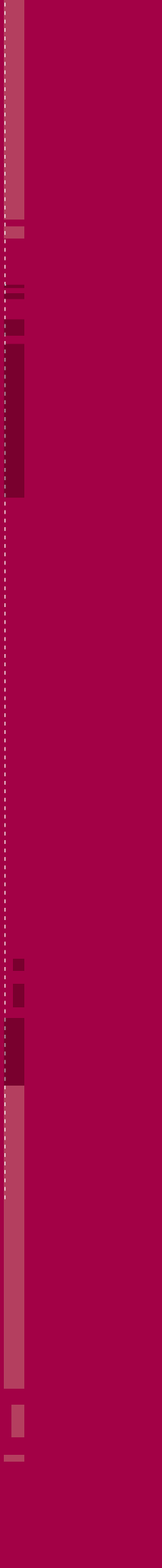





ANNUAL REPORT 2004




Where it all comes together.™





**Billions of times each day, the world interacts  
with a company you may not realize is there.**





*Every day, VeriSign® Intelligent Infrastructure Services enable businesses and people around the world to find, connect, secure, and transact across today's complex global networks.*

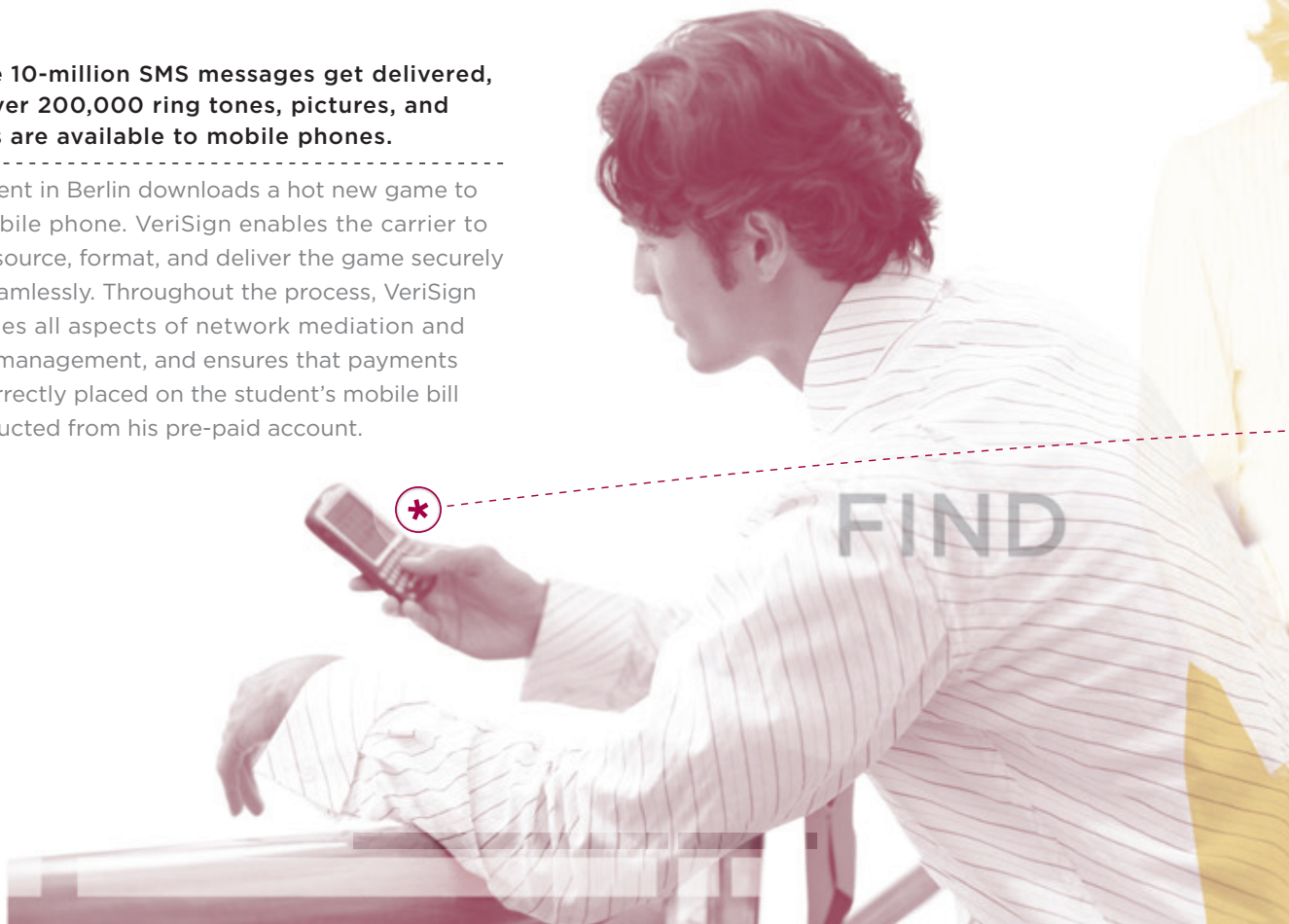
# Where it all comes together.™ *Every day.*

**Where 3,000 global enterprises and  
over 400,000 Web sites get secured.**

-----  
In New York, the chief security officer of a large bank confidently plans the rollout of a new brokerage service. VeriSign provides 24/7 protection for her network and her customers, proactively managing against global threats, while enabling all of her users to easily authenticate themselves as they access confidential information.

**Where 10-million SMS messages get delivered,  
and over 200,000 ring tones, pictures, and  
games are available to mobile phones.**

-----  
A student in Berlin downloads a hot new game to his mobile phone. VeriSign enables the carrier to easily source, format, and deliver the game securely and seamlessly. Throughout the process, VeriSign manages all aspects of network mediation and rights management, and ensures that payments get correctly placed on the student's mobile bill or deducted from his pre-paid account.



FIND


**Where 2.7-billion phone connections get routed.**

A vice president of sales closes a deal in a remote part of Brazil and places a cellular call to his office in Austin, Texas. VeriSign enables the call to move from carrier to carrier, and from country to country, seamlessly navigating networks, protocols, and relationships.



CONNECT





**Where 14-billion Web addresses  
and emails get directed.**

-----  
An interior designer in Rome enters a Web address to download new patterns from a vendor's Web site. As the operator of the intelligent infrastructure that powers *.com* and *.net*, VeriSign ensures that her query gets correctly directed to the right destination.

**Where \$100-million in e-commerce gets transacted.**

-----  
A new grandmother in Australia finds the perfect gift on a retail Web site. She enters her credit card number and clicks the "Buy" button. The number and the amount are securely transmitted via a VeriSign-powered Secure Sockets Layer (SSL) connection. VeriSign then handles all aspects of payment authorization, capture, and settlement, including comprehensive fraud screening.

SECURE

TRANSACTION



# LETTER TO OUR SHAREHOLDERS

By all accounts, 2004 was a year in which businesses and consumers everywhere continued to expand their dependence on a new generation of network services and digital infrastructure to support global commerce and communications. At VeriSign, we were focused on delivering the Intelligent Infrastructure Services that enable and protect the billions of interactions every day that are fundamental to driving this change.

Our growth strategy for 2004 focused on expanding the use of our core services, introducing compelling new offerings in security and mobile content, and increasing our presence in major accounts and international markets. We believe our team's execution to this plan resulted in strong financial results for the year. As we exited the year with record revenues, operating income, and cash flow, we also experienced continued momentum in our Internet and telecom services, positive early results with our new offerings in strong authentication and digital content, and initial progress on our longer-term initiatives in Voice over Internet Protocol (VoIP) and Radio Frequency Identification (RFID).

Demand for our Intelligent Infrastructure Services is being driven by an accelerating global migration from physical to digital infrastructure, a dramatic increase in broadband and wireless communications and commerce, and an emerging convergence of mobility and entertainment. We believe these trends will continue and potentially accelerate further in 2005. With that in mind, we have positioned the company to help our customers rapidly introduce new network-based services while effectively managing cost, complexity, and security on these modern networks.



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## Financial Highlights.

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In 2004, VeriSign recorded revenues of approximately \$1.17 billion and delivered non-GAAP\* operating income of \$238 million, while significantly expanding margins. We also continued to strengthen our balance sheet, ending the year with over \$789 million in cash, cash equivalents, restricted cash, and short-term investments driven by strong 2004 operating cash flow of over \$365 million.

\*These non-GAAP results exclude the following items, which are included under GAAP: amortization and write-down of goodwill and intangible assets related to acquisitions, the net gain on the sale of VeriSign Japan stock, the net gain or loss on the sale of other investments, the impairment of investments, restructuring and other charges, and stock-based compensation charges related to acquisitions. A table reconciling the non-GAAP to GAAP numbers reported above is available at the IR section of [verisign.com](http://verisign.com).

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## Business Highlights.

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### The Internet Services Group (ISG)

ISG contains our Naming and Directory Services, our Authentication and Managed Security Services, and our Payment Gateway Services. Increased demand, deeper international penetration, and new product traction combined to make 2004 a strong year, driving increases in almost every key business and financial metric in the Internet Services Group.

As the digital economy continued to expand in 2004, our Naming and Directory Services business grew significantly. We processed over 14 million new registrations for *.com* and *.net* domain names during the year and saw greater than 70 percent renewal rates for existing names. The total active base of domain names ending in *.com* and *.net* at the end of the year stood at a record 38.4 million, up over 26 percent from last year. Also in 2004, the Naming and Directory Services group was awarded the contract by EPCglobal™ to manage the database of Electronic Product Codes, establishing us in what we believe is a key role for the emerging RFID market.

In our Security Services group we saw growth of the SSL digital certificate business as we ended 2004 with a record 455,000 installed units, up 18 percent from last year. This increase was driven primarily by the expansion of e-commerce globally and deeper penetration of large enterprise accounts. In early 2004, we completed the acquisition of Guardent, which was integrated into our Managed Security Services business. We now actively manage over 3,400 network security devices, up 34 percent from 2003. In addition, we had several key customer wins with major accounts: Morgan Stanley, GlaxoSmithKline, Honeywell, Verizon, and British Petroleum.

One of the more significant events of the year for ISG was the launch of our VeriSign® Unified Authentication (VUA) platform and next-generation tokens. We believe this





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new offering is already proving to be easier to deploy, more cost-effective, and more flexible for our customers than other products on the market. VeriSign has already posted wins for VUA with industry leaders including US Bancorp and Bank of America. These early successes, along with the growing pipeline of trials and prospects, lead us to believe that we will see significant traction with this new product line in 2005.

In our Payment Gateway business, we closed 2004 with a total of 127,000 active merchants, up 25 percent from a year ago. Our gateway handled a record 118 million e-commerce transactions, for an aggregate value of \$9.5 billion during the fourth quarter of 2004.

VeriSign's domain name registry, Secure Sockets Layer (SSL), VUA, and Payment businesses are excellent examples of intelligent infrastructure services that enable network communications and commerce on a global basis. Given the recurring nature of the revenue in these lines of business, we believe the strong volume growth in 2004 should lead to continued revenue momentum for ISG in the present year.

### **The Communications Services Group (CSG)**

VeriSign's Communications Services Group provides intelligent communications, commerce, and content services to fixed line, mobile, and broadband carriers and service providers. Demand for our core services, coupled with strong growth in mobile content in the second half of 2004, drove overachievement in the CSG group. We ended the year with nearly 1,300 carrier customers, delivering over 12.8 billion database queries in the fourth quarter alone. We also processed billing and payment services for approximately 6.5 million wireless users.

VeriSign continued to expand our relationships with several first- and second-tier carriers during 2004, including Cingular, Vodafone, T-Mobile, Leap, MetroPCS, and XO Communications. In addition, we made progress on several strategic initiatives during 2004 including our IP Connect services for VoIP routing and interoperability, which received the Product of the Year Award from *Internet and Telephony Magazine*.

Of course, our mobile content services were the highlight of 2004 for CSG. In June of 2004, we completed the acquisition of Jamba!, a European mobile content company. Jamba! brought to VeriSign a rich portfolio of mobile content, a uniquely scalable platform, and a demand generation model that led to an incremental \$181 million in revenue. During 2004, we continued to expand Jamba!'s presence in Europe, launched the services in Australia, and began test marketing in the US under the Jamster! brand.

In 2005, CSG plans to broaden the mobile content and product catalog, establish additional carrier relationships, develop new demand-generation spots for popular artists and titles, and continue our geographic expansion to drive additional subscriber growth. As part of



our expanding mobile content strategy, VeriSign also recently announced our intent to acquire LightSurf Technologies, a leader in multimedia messaging services (MMS). We are committed to offering carriers a broad portfolio of services that can help them accelerate new revenues streams and build greater customer loyalty. LightSurf offers a suite of carrier-grade multimedia messaging service services that allow users to capture, view, annotate, and share multimedia messages with any handset or email address, regardless of device, file type, or network operator.

Overall, we worked very diligently this year to revamp our CSG portfolio of services to be positioned to help carriers drive new revenue streams in the converging world of voice and data. We're pleased with the results and proud that Frost and Sullivan recently named VeriSign Telecom Service Provider of the Year.

### **In Closing.**

---

The VeriSign management team and our 3,200 highly passionate and committed employees are focused on fulfilling the Intelligent Infrastructure needs of businesses, carriers, and consumers as the world marches forward in its migration to a digital society and economy. As the Internet and telecommunications networks become more converged and complex, VeriSign will continue with its core mission to build and operate transformational infrastructures that become indispensable to society.

The principles driving our growth strategy for 2005 include:

- + Growing the base in existing services
- + Driving compelling new services into the market
- + Capturing key vertical markets and major accounts
- + Expanding our reach internationally
- + Leveraging our unique synergies for competitive advantage

I want to thank our stockholders, employees, customers, and partners for the support and trust you place in VeriSign. We look forward to another successful year.

Stratton Sclavos

Chairman of the Board, President and CEO



## Corporate Overview

Across the world, a transformation is taking place.

A transformation that is accelerating each day. A transformation of the global economy into the digital economy. And with it, the world's reliance on a new digital infrastructure.

As a society, we have come to rely on this new digital infrastructure for our most critical functions, including communications, finance, healthcare, and even public safety. For businesses, as well as individuals, it has changed the way we work and live to the point where we almost take it for granted.

What was only aspiration a decade ago is very much reality today. We have easy and immediate access to email, Internet commerce, mobile communications, multimedia downloads, even up-to-date medical and financial information.

We connect from our desks at work, our desks at home, even when there's no desk at all. We collaborate and communicate like never before, exchanging not only critical information, but richer and richer content, including applications, games, music, and images. We buy and sell, as if a customer across the globe is as close as one across the street. And we expect to do it all reliably and securely, from our PCs, PDAs, and mobile phones.

At the very center of this dynamic transformation, billions of times each day, the world relies on a company you may not realize is there.

**VeriSign.**

With unequalled experience in the Internet, telecommunications, and security, we operate Intelligent Infrastructure Services that enable enterprises, carriers, governments, retailers, and individuals around the world to find, connect, secure, and transact across today's complex global networks.



## VeriSign® Intelligent Infrastructure Services

VeriSign plays an integral part in delivering the Intelligent Infrastructure Services that support today's digital economy. We operate the systems that manage .com and .net, handling 14-billion Web addresses and emails every day. We run one of the largest telecom signaling networks in the world, enabling services such as cellular roaming, caller ID, and text and multimedia messaging. We provide a full range of security services to over 3,000 enterprises and over 400,000 Web sites, including device monitoring, strong authentication, and email filtering to protect an organization's networks, users, content, and commerce. And, in North America alone, we handle over 30 percent of all e-commerce transactions, securely processing \$100-million in daily sales.

By leveraging our globally deployed infrastructure and robust platform set, VeriSign delivers a comprehensive portfolio of services—providing unmatched scale, interoperability, adaptability, and security around the world, all within an economically efficient business model.

This, in turn, gives our customers, including some of the world's leading enterprises, carriers, retailers, and manufacturers, a far greater ability to develop

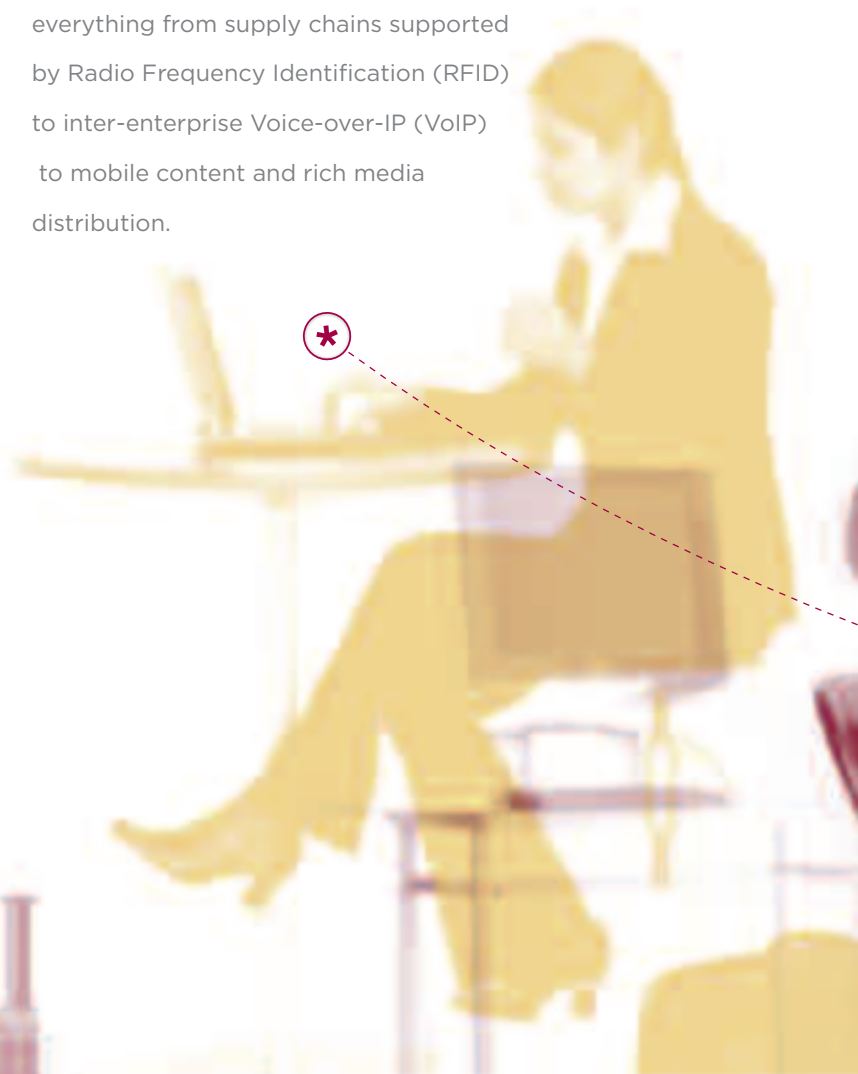
new revenue streams while mitigating issues of cost, compliance, and complexity. Allowing them to reap the full potential of the ongoing revolution in commerce and communications.

And as next-generation networks emerge, VeriSign will be there, too, deploying the Intelligent Infrastructure Services necessary for everything from supply chains supported by Radio Frequency Identification (RFID) to inter-enterprise Voice-over-IP (VoIP) to mobile content and rich media distribution.

### Intelligent Infrastructure for the Digital Age

*What's happening today is not a new phenomenon. Throughout history, we've seen revolutionary transport infrastructures that have dramatically advanced communications and commerce—such as the railroad, air travel, electric grids, telephones, and others. However, all of these systems were unable to reach their full potential until they received the*

*overlay of coordination and control provided by intelligent infrastructures. In the 19<sup>th</sup> century, the railroad needed intelligence provided by the telegraph to go from limited local systems to an interconnected, continental transport network. In the 20<sup>th</sup> century, the airline industry needed air traffic control systems to enable cross-country flights. Utilities needed Supervisory Control and Data*



*VeriSign operates several state-of-the-art Network and Security Operations Centers around the globe. These highly secure, military-grade facilities enable VeriSign to provide our customers with unique insight and intelligence across the Internet and telecommunications networks.*



*Acquisition (SCADA) systems to make turning on a light, well, as simple as turning on a light. We are now at a critical turning point in the digital economy, where increased usage and complexity are driving the need for a new intelligent infrastructure that spans Internet, telecommunications, and converged networks. One that makes new services like VoIP,*

*mobile content, and RFID as simple as making a phone call. If history is any guide, the growth that follows the deployment of this intelligent infrastructure will dwarf anything we've seen to date. And no company is better poised to deliver the Intelligent Infrastructure Services for the 21<sup>st</sup> century than VeriSign.*



## For Enterprises

VeriSign provides the intelligence and control that enable over 3,000 businesses, governments, and other organizations to conduct commerce and communications with the utmost confidence.

VeriSign offers enterprises a comprehensive set of security solutions, including:

- + Authentication services that verify users and devices*
- + Email security solutions that protect enterprise environments from worms, viruses, and phishing attacks*
- + Managed Security Services (MSS) that remotely manage network security*
- + Commerce security solutions that ensure secure online communications and transactions*
- + Consulting services that augment our customers' existing security expertise*

With our unique view into global e-commerce, DNS, and email activity, as well as the insights we gain from managing some of the most sensitive networks in the world, we have unmatched visibility into trends and threats on the Internet. This experience enables us to provide greater intelligence and visibility to our customers.

Beyond security, our Intelligent Infrastructure Services allow enterprises to deploy a host of next-generation solutions for services ranging from RFID-enabled supply chains to mobile, two-way messaging to Voice- and Video-over-IP. What's more, our Digital Brand Management Services enable some of the world's leading companies to manage and protect their domains and other online assets.





## For Carriers

VeriSign operates intelligent communications, commerce, and content services that enable over 1,000 wireless, wireline, and cable providers to harness the power of their existing infrastructures. With our help, carriers are able to offer new, competitive services in a more timely and profitable way.

As the operator of much of the intelligent infrastructure supporting the Internet, and as the provider of the world's largest independent Signaling System 7 (SS7) network in support of the Public Switched Telephone Network (PSTN)—VeriSign brings the scale, technology, and expertise to support over 3-billion SS7 signals, 100-million intelligent database look-ups, 14-billion Internet interactions, and over \$100-million in e-commerce and mobile commerce—every day. We provide carriers a wide range of voice and data services that enable new revenue streams—while mitigating cost, compliance, and complexity.

As next-generation services come to the forefront, VeriSign is constantly adding new capabilities to our existing communication services platforms—delivering Internet security, VoIP, and comprehensive mobile data, content, and application services to carriers. As an example, we now offer advanced wireless content services that provide carriers and their customers with access to more than 200,000 pieces of content, including the latest music, graphics, games, and community services. We provide a complete solution for the mobile content value chain, including support for on-boarding, aggregation, formatting, mediation, rights management, copyright, and a variety of billing and payment options.



CARRIERS

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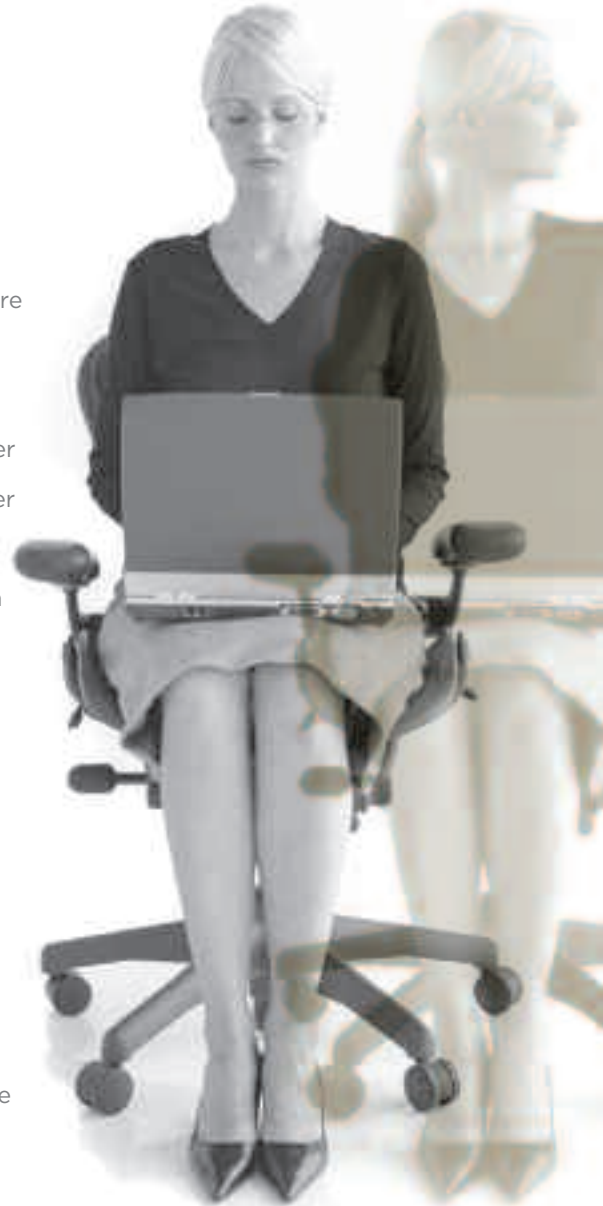
# RETAILERS

## For Retailers

A trusted partner to over 150,000 retailers, VeriSign brings together security, payment, and identification solutions that allow retailers to deploy comprehensive, secure e-commerce solutions that minimize fraud, secure customer interactions, and maximize end-user trust.

VeriSign e-commerce security and Secure Sockets Layer (SSL) services enable visitors to connect securely to over 400,000 Web sites. And, VeriSign's payment services process over 30 percent of e-commerce transactions in North America, amounting to \$100-million each day. We simplify payment processing for large and small organizations by providing services built around a fully customizable payment platform. One that is connected to all major financial networks, supports all major payment types, and is integrated with all major shopping-cart applications.

By leveraging our visibility into worldwide security and fraud trends, VeriSign provides rigorous, comprehensive defenses to protect merchants from revenue loss, account takeovers, and other business inefficiencies associated with fraudulent activities.



## VeriSign Secured™ Seal

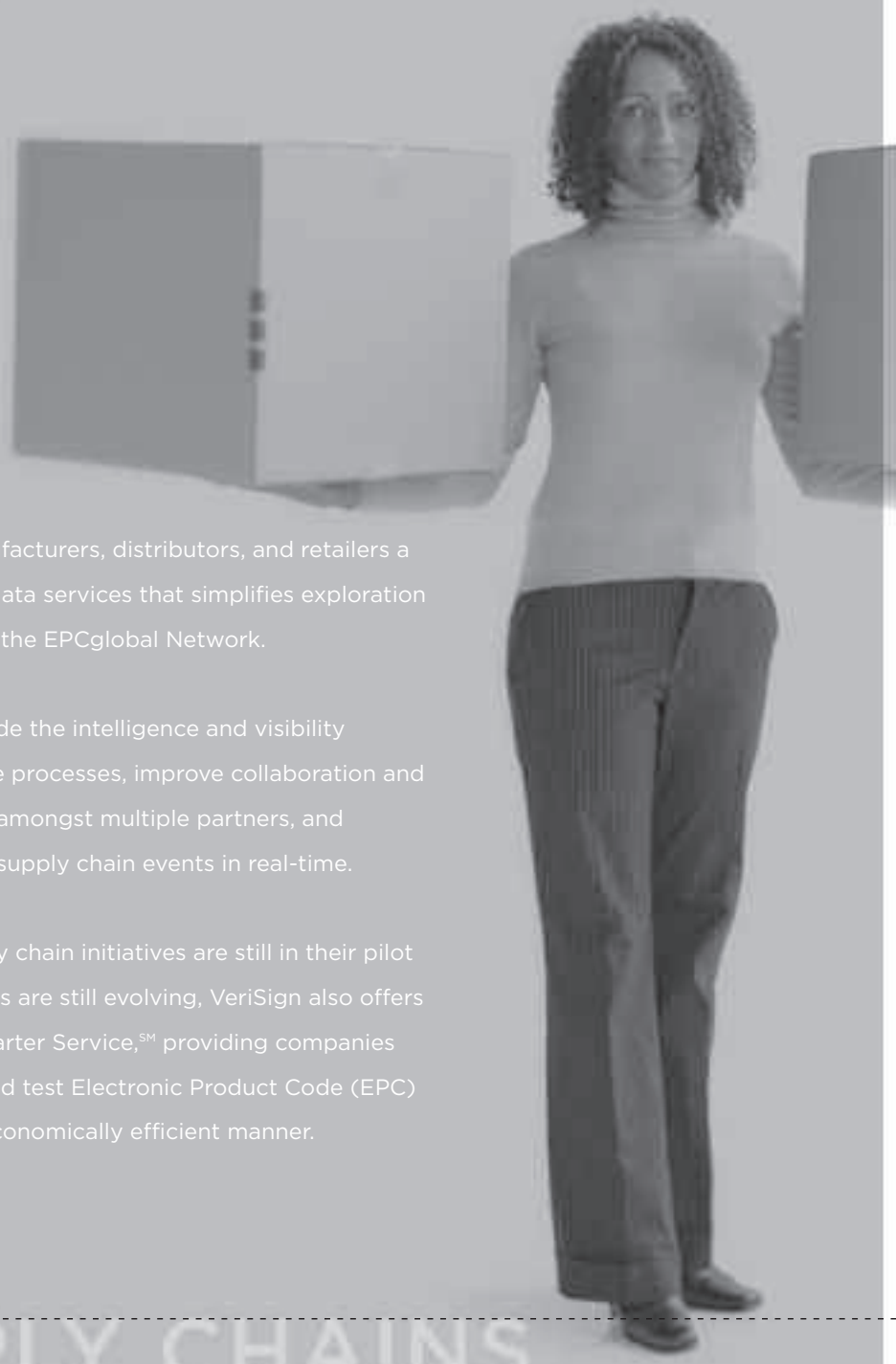
By displaying the VeriSign Secured™ Seal—the most recognized trust mark on the Internet—online retailers can bolster end-user confidence, inspiring the trust that can drive a dramatic increase in end-user sales.



## RFID and the EPCglobal Network™

The EPCglobal Network™ enables trading partners to realize the benefits of Radio Frequency Identification (RFID) by providing a low-cost, standards-based system for sharing product data with secure and trusted trading partner access. As the provider of Intelligent Infrastructure Services to EPCglobal, VeriSign is uniquely qualified to help you understand the EPCglobal Network's role in your plans for RFID-enabled supply chains.

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### For Supply Chains

VeriSign offers manufacturers, distributors, and retailers a suite of distributed data services that simplifies exploration and integration with the EPCglobal Network.

These services provide the intelligence and visibility needed to streamline processes, improve collaboration and information-sharing amongst multiple partners, and proactively manage supply chain events in real-time.

As many RFID supply chain initiatives are still in their pilot phases and standards are still evolving, VeriSign also offers an attractive EPC Starter Service,<sup>SM</sup> providing companies the ability to pilot and test Electronic Product Code (EPC) data-sharing in an economically efficient manner.

---

# SUPPLY CHAINS

## Board Of Directors

**Stratton D. Sclavos**  
Chairman of the Board,  
President and CEO  
VeriSign, Inc.

**D. James Bidzos**  
Vice Chairman of the Board

**William L. Chenevich**  
Vice Chairman of Technology and  
Operation Services  
US Bancorp

**Scott G. Kriens**  
President, Chief Executive Officer  
and Chairman of the Board  
Juniper Networks, Inc.

**Len J. Lauer**  
President and Chief Operating  
Officer  
Sprint Corp.

**Roger H. Moore**  
Former Chief Executive Officer  
Illuminet Holdings, Inc.

**Edward Mueller**  
Chief Executive Officer  
Williams-Sonoma, Inc.

**Gregory L. Reyes**  
Chairman of the Board and Chief  
Executive Officer  
Brocade Communications Systems,  
Inc.

**William A. Roper Jr.**  
Corporate Executive Vice President  
SAIC

## Executive Officers

**Stratton D. Sclavos**  
President and CEO

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

**Quentin P. Gallivan**  
Executive Vice President, Worldwide  
Sales and Services

**Vernon L. Irvin**  
Executive Vice President and  
General Manager, Communications  
Services

**Robert J. Korzeniewski**  
Executive Vice President, Corporate  
and Business Development

**Judy Lin**  
Executive Vice President and  
General Manager, Security Services

**Aristotle N. Balogh**  
Senior Vice President, Operations  
and Infrastructure

**Mark D. McLaughlin**  
Senior Vice President and General  
Manager, Naming and Directory  
Services

**James M. Ulam**  
Senior Vice President, General  
Counsel and Secretary

### Investor Information

Quarterly earnings releases, corporate news releases, and certain Securities and Exchange Commission filings are available by contacting VeriSign Investor Relations or through our Web site at [www.verisign.com](http://www.verisign.com). A copy of VeriSign's Annual Report on Form 10-K, containing additional information of possible interest to stockholders and filed with the Securities and Exchange Commission in March each year, will be sent without charge to any stockholder who requests it.

### Transfer Agent

If you have questions concerning stock certificates, change of address, consolidation of accounts, transfer of ownership, or other stock account matters, please contact VeriSign's transfer agent:

Mellon Investor Services L.L.C.  
Overpeck Centre, 85 Challenger Rd.  
Ridgefield Park, New Jersey 07660  
**Telephone:** 800-356-2017

**Stock Exchange Listing**  
Nasdaq National Market  
**Ticker Symbol:** VRSN

**VeriSign Investor Relations**  
487 East Middlefield  
Mountain View, California 94043  
**Telephone:** 866-447-8776 4IR-VRSN  
**Email:** [IR@verisign.com](mailto:IR@verisign.com)  
[www.verisign.com](http://www.verisign.com)

**Independent Public Accountants**  
KPMG  
500 East Middlefield Road  
Mountain View, California 94043



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**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)

**487 E. Middlefield Road, Mountain View, CA**

(Address of principal executive offices)

**94-3221585**

(I.R.S. Employer  
Identification No.)

**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](http://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](http://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.

*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<sub>2</sub>, 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:

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

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, Monsternob and Buongiorno/Vitaminic. This business also faces competition from mobile network operators such as Cingular, Verizon Wireless, Sprint, T-Mobile, Vodafone, O<sub>2</sub>, 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.

<u>Major Locations</u>	<u>Approximate Square Footage</u>	<u>Use</u>
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 refile. 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:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stratton D. Slavos . . . . .	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. Slavos** 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. Slavos 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. Slavos serves as a director of Juniper Networks, Inc., Intuit, Inc. and Salesforce.com, Inc. Mr. Slavos 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.



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

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs</u>
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 .....	<u>2,390,200</u>	<u>\$32.77</u>	<u>2,390,200</u>	

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.

## 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)				
<b>Consolidated Statement of Operations</b>					
<b>Data:</b>					
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)
<b>Consolidated Balance Sheet Data:</b>					
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.

	<u>2004</u>	<u>%</u> <u>Change</u>	<u>2003</u>	<u>%</u> <u>Change</u>	<u>2002</u>
	(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 . . . . .	<u>\$1,166,455</u>	11%	<u>\$1,054,780</u>	(14)%	<u>\$1,221,668</u>

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:

	<u>December 31,</u> <u>2004</u>	<u>%</u> <u>Change</u>	<u>December 31,</u> <u>2003</u>	<u>%</u> <u>Change</u>	<u>December 31,</u> <u>2002</u>
Active domain names ending in <i>.com</i> and <i>.net</i> . . . .	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:

	<u>December 31, 2004</u>	<u>% Change</u>	<u>December 31, 2003</u>	<u>% Change</u>	<u>December 31, 2002</u>
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:

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

(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:

	<u>December 31, 2004</u>	<u>% Change</u>	<u>December 31, 2003</u>	<u>% Change</u>	<u>December 31, 2002</u>
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 . . . . .	<u>3,206</u>	30%	<u>2,471</u>	(23)%	<u>3,193</u>

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.

	<u>2004</u>	<u>% Change</u>	<u>2003</u>	<u>% Change</u>	<u>2002</u>
	(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.

	<u>2004</u>	<u>%</u> <u>Change</u>	<u>2003</u>	<u>%</u> <u>Change</u>	<u>2002</u>
	(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.

	<u>2004</u>	<u>%</u> <u>Change</u>	<u>2003</u>	<u>%</u> <u>Change</u>	<u>2002</u>
	(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.

	<u>2004</u>	<u>% Change</u>	<u>2003</u>	<u>% Change</u>	<u>2002</u>
	(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:

	<u>2004</u>	<u>Change</u>	<u>2003</u>	<u>Change</u>	<u>2002</u>
	(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:

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

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:

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

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:

	<u>Internet Services Group</u>	<u>Communications Services Group</u>	<u>Network Solutions</u>	<u>Total Segments</u>
		(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 . . . . .	<u>—</u>	<u>71,534</u>	<u>—</u>	<u>71,534</u>
Total impairment of goodwill and other intangible assets . . . . .	<u>\$18,697</u>	<u>\$91,568</u>	<u>\$43,154</u>	<u>\$153,419</u>

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

	<u>Internet Services Group</u>	<u>Communications Services Group</u>	<u>Network Solutions</u>	<u>Total</u>
	(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 .....	<u>3,553</u>	<u>91,284</u>	<u>129,007</u>	<u>223,844</u>
Total impairment of goodwill and other intangible assets .....	<u>\$1,743,809</u>	<u>\$886,150</u>	<u>\$1,980,894</u>	<u>\$4,610,853</u>

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.

	<u>2004</u>	<u>% Change</u>	<u>2003</u>	<u>% Change</u>	<u>2002</u>
	(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**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands)		
Cash and cash equivalents .....	\$330,641	\$301,593	\$254,505
Short-term investments .....	<u>406,784</u>	<u>422,093</u>	<u>130,963</u>
Subtotal .....	\$737,425	\$723,686	\$385,468
Restricted cash .....	<u>51,518</u>	<u>18,371</u>	<u>18,436</u>
Total .....	<u>\$788,943</u>	<u>\$742,057</u>	<u>\$403,904</u>
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:

	<u>2005 Budgeted</u>	<u>2004 Actual</u>	<u>2003 Actual</u>	<u>2002 Actual</u>
	(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				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
<u>Contractual obligations</u>	(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 . . . . .	<u>\$243,344</u>	<u>\$56,195</u>	<u>\$105,539</u>	<u>\$51,727</u>	<u>\$29,883</u>

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.

	<u>Maturing in</u>			<u>Total</u>	<u>Estimated Fair Value</u>
	<u>Six Months or Less</u>	<u>Six Months to One Year</u>	<u>More than One Year</u>		
	(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

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 or 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 or 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](http://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.

## 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*

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>			<u>Filed Herewith</u>
		<u>Form</u>	<u>Date</u>	<u>Number</u>	
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	

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>			<u>Filed Herewith</u>
		<u>Form</u>	<u>Date</u>	<u>Number</u>	
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

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- \* 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.





## 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:

<u>Financial Statement Description</u>	<u>Page</u>
• Reports of Independent Registered Public Accounting Firm .....	70
• Consolidated Balance Sheets As of December 31, 2004 and 2003 .....	72
• Consolidated Statements of Operations For the Years Ended December 31, 2004, 2003 and 2002 .....	73
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• Consolidated Statements of Comprehensive Income (Loss) For the Years Ended December 31, 2004, 2003 and 2002 .....	75
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## 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

**VERISIGN, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)

<u>ASSETS</u>	December 31,	
	2004	2003
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
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
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.

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

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
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 .....	<u>1,034,727</u>	<u>1,283,030</u>	<u>6,023,301</u>
Operating income (loss) .....	<u>131,728</u>	<u>(228,250)</u>	<u>(4,801,633)</u>
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 .....	<u>(2,999)</u>	<u>554</u>	<u>(343)</u>
Total other income (expense), net .....	<u>82,077</u>	<u>(8,276)</u>	<u>(149,289)</u>
Income (loss) before income taxes .....	213,805	(236,526)	(4,950,922)
Income tax expense .....	<u>27,580</u>	<u>23,353</u>	<u>10,375</u>
Net income (loss) .....	<u>\$ 186,225</u>	<u>\$ (259,879)</u>	<u>\$(4,961,297)</u>
Net income (loss) per share:			
Basic .....	<u>\$ 0.74</u>	<u>\$ (1.08)</u>	<u>\$ (20.97)</u>
Diluted .....	<u>\$ 0.72</u>	<u>\$ (1.08)</u>	<u>\$ (20.97)</u>
Shares used in per share computation:			
Basic .....	<u>250,564</u>	<u>239,780</u>	<u>236,552</u>
Diluted .....	<u>257,992</u>	<u>239,780</u>	<u>236,552</u>

See accompanying notes to consolidated financial statements.

**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

**VERISIGN, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**DECEMBER 31, 2004, 2003 AND 2002**

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 reacution 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

**VERISIGN, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**DECEMBER 31, 2004, 2003 AND 2002**

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

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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.

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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.

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***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.

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*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:

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(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) . . . . .	<u>\$ 49,408</u>	<u>\$(475,754)</u>	<u>\$(5,183,075)</u>
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 . . . . .	<u>\$ 0.20</u>	<u>\$ (1.98)</u>	<u>\$ (21.91)</u>
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 . . . . .	<u>\$ 0.19</u>	<u>\$ (1.98)</u>	<u>\$ (21.91)</u>

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:

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
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 .....	<u>1,454</u>	<u>1,308</u>	<u>2,762</u>
Balance, December 31, 2003 .....	\$(3,307)	\$ 1,305	\$(2,002)
Changes .....	<u>4,104</u>	<u>(3,513)</u>	<u>591</u>
Balance, December 31, 2004 .....	<u>\$ 797</u>	<u>\$(2,208)</u>	<u>\$(1,411)</u>

*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 .....	<u>(3,232)</u>	<u>(19,915)</u>	<u>(39,149)</u>
Balance, end of year .....	<u>\$11,450</u>	<u>\$ 13,993</u>	<u>\$ 27,853</u>

*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 reaction 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 reaction 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

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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:

	<u>June 3, 2004</u>	<u>Amortization</u>
	<u>(In thousands)</u>	<u>Period</u>
		<u>(Years)</u>
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 .....	<u>328,881</u>	
Current liabilities .....	(29,233)	
Deferred income tax liabilities .....	<u>(33,493)</u>	
Total liabilities assumed .....	<u>(62,726)</u>	
Net assets acquired .....	<u>\$266,155</u>	

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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:

	<u>February 27, 2004</u>	<u>Amortization</u>
	<u>(In thousands)</u>	<u>Period</u>
		<u>(Years)</u>
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 . . . . .	<u>147,239</u>	
Total liabilities assumed . . . . .	<u>(6,017)</u>	
Net assets acquired . . . . .	<u>\$141,222</u>	

*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

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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:

	<b>February 5, 2002</b>	<b>Amortization</b>
	<b>(In thousands)</b>	<b>Period</b>
		<b>(Years)</b>
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 . . . . .	<u>481,698</u>	
Current liabilities . . . . .	(36,022)	
Deferred income tax liabilities . . . . .	(84,542)	
Other long-term liabilities . . . . .	(16,538)	
Total liabilities assumed . . . . .	<u>(137,102)</u>	
Net assets acquired . . . . .	<u>\$ 344,596</u>	

**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:

	<u>November 25, 2003</u> (In thousands)
Proceeds from sale of Network Solutions:	
Cash received .....	\$ 57,621
Present value of note outstanding .....	33,916
	<u>\$ 91,537</u>
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 .....	<u>351,757</u>
Accrued vacation .....	(1,526)
Current deferred revenue .....	(114,346)
Long-term deferred revenue .....	(147,210)
Total liabilities divested .....	<u>(263,082)</u>
Net assets divested .....	<u>\$ 88,675</u>
Gain on sale of Network Solutions .....	<u>\$ 2,862</u>

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

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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 . . . . .	<u>\$32,352</u>	<u>\$29,135</u>	<u>\$(4,090)</u>	<u>\$25,045</u>	<u>\$311</u>	<u>\$(19,976)</u>	<u>\$(15,296)</u>	<u>\$22,436</u>
Included in current portion of accrued restructuring costs . . . . .	<u>\$11,835</u>							<u>\$ 8,711</u>
Included in long term restructuring costs . . . . .	<u>\$20,517</u>							<u>\$13,725</u>

*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.

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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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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
	<u>\$60,529</u>	<u>\$(31,457)</u>	<u>\$29,072</u>

**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
	<u>739,633</u>	<u>20</u>	<u>(2,228)</u>	<u>737,425</u>
Included in cash and cash equivalents .....				<u>\$330,641</u>
Included in short-term investments .....				<u>\$406,784</u>
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 .....	<u>58,327</u>	<u>—</u>	<u>—</u>	<u>58,327</u>
Total cash, cash equivalents, short and long-term investments, and restricted cash .....	<u>\$797,960</u>	<u>\$ 20</u>	<u>\$(2,228)</u>	<u>\$795,752</u>

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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			Estimated Fair Value
	Carrying Value	Unrealized Gains	Unrealized Losses	
	(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
	<u>723,345</u>	<u>491</u>	<u>(150)</u>	<u>723,686</u>
Included in cash and cash equivalents				<u>\$301,593</u>
Included in short-term investments				<u>\$422,093</u>
Long-term investments:				
Debt and equity securities of non-public companies	19,724	—	—	19,724
Other	2,025	—	—	2,025
	<u>21,749</u>	<u>—</u>	<u>—</u>	<u>21,749</u>
Restricted cash	18,371	—	—	18,371
Total long-term investments and restricted cash	<u>40,120</u>	<u>—</u>	<u>—</u>	<u>40,120</u>
Total cash, cash equivalents and short and long-term investments, and restricted cash	<u>\$763,465</u>	<u>\$491</u>	<u>\$(150)</u>	<u>\$763,806</u>

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.

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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
	<u>853,337</u>	<u>805,204</u>
Less accumulated depreciation and amortization .....	(340,716)	(284,985)
Property and equipment, net .....	<u>\$ 512,621</u>	<u>\$ 520,219</u>

**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 .....	<u>56,852</u>	<u>344,519</u>	<u>—</u>	<u>401,371</u>
Guardent acquisition .....	114,069	—	—	114,069
Jamba! acquisition .....	—	187,777	—	187,777
Other .....	18,506	3,704	—	22,210
December 31, 2004 .....	<u>\$189,427</u>	<u>\$536,000</u>	<u>\$ —</u>	<u>\$ 725,427</u>

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.



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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:

	<u>Internet Services Group</u>	<u>Communications Services Group</u>	<u>Network Solutions</u>	<u>Total Segments</u>
	(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 . . . . .	<u>—</u>	<u>71,534</u>	<u>—</u>	<u>71,534</u>
Total impairment of goodwill and other intangible assets . . .	<u>\$18,697</u>	<u>\$91,568</u>	<u>\$43,154</u>	<u>\$153,419</u>

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

	<u>Internet Services Group</u>	<u>Communications Services Group</u>	<u>Network Solutions</u>	<u>Total</u>
	(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 . .	<u>3,553</u>	<u>91,284</u>	<u>129,007</u>	<u>223,844</u>
Total impairment of goodwill and other intangible assets . . . . .	<u>\$1,743,809</u>	<u>\$886,150</u>	<u>\$1,980,894</u>	<u>\$4,610,853</u>

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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	<u>\$ 600,125</u>	<u>\$(356,287)</u>	<u>\$243,838</u>	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	<u>\$1,114,589</u>	<u>\$ 897,924</u>	<u>\$216,665</u>	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	<u>\$79,440</u>	<u>\$182,086</u>	<u>\$283,861</u>

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

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

**Note 8. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following:

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

**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:

	<u>Future Royalty Payment Obligations</u>
	<u>(In thousands)</u>
2006 .....	\$2,200
2007 .....	2,000
2008 .....	2,000
	<u>\$6,200</u>

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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**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.

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**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	—	—
	257,992	239,780	236,552
Shares used to compute diluted net income (loss) per share . . . .			
Basic net income (loss) per share . . . . .	<u>\$ 0.74</u>	<u>\$ (1.08)</u>	<u>\$ (20.97)</u>
Diluted net income (loss) per share . . . . .	<u>\$ 0.72</u>	<u>\$ (1.08)</u>	<u>\$ (20.97)</u>

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.

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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:

<u>Exercise Price Range of Original Option</u>	<u>Exchange Ratio</u>
\$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





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

<u>Range of Exercise Prices</u>	<u>Shares Outstanding</u>	<u>Weighted-Average Remaining Contractual Life</u>	<u>Weighted-Average Exercise Price</u>	<u>Shares Exercisable</u>	<u>Weighted-Average Exercise Price</u>
\$ .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
	<u>32,878,169</u>	4.74 years	33.74	<u>17,085,569</u>	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:

	<b>December 31,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(In thousands)</b>	
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 .....	<u>675,075</u>	<u>711,582</u>
Valuation allowance .....	<u>(608,204)</u>	<u>(637,662)</u>
Net deferred tax assets .....	<u>66,871</u>	<u>73,920</u>
Deferred tax liabilities:		
Non-deductible acquired intangibles .....	(78,889)	(56,631)
Unrealized gain .....	—	(5,666)
Other .....	<u>(244)</u>	<u>(957)</u>
Total deferred tax liabilities .....	<u>(79,133)</u>	<u>(63,254)</u>
Total net deferred tax (liabilities) assets .....	<u>\$ (12,262)</u>	<u>\$ 10,666</u>

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:

	<b>Operating Lease Payments</b>	<b>Sublease Income</b>	<b>Net Lease Payments</b>
	<b>(In thousands)</b>		
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,

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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.

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

**VERISIGN, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**DECEMBER 31, 2004, 2003 AND 2002**

*Reconciliation to VeriSign, as Reported*

	Year Ended December 31,		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(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 .....	<u>\$1,166,455</u>	<u>\$1,054,780</u>	<u>\$ 1,221,668</u>
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 .....	<u>\$ 186,225</u>	<u>\$ (259,879)</u>	<u>\$ (4,961,297)</u>

*Geographic Information*

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

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

- (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.

**VERISIGN, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**DECEMBER 31, 2004, 2003 AND 2002**

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	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.

**VERISIGN, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**DECEMBER 31, 2004, 2003 AND 2002**

**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.

## 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:

<u>Exhibit Number</u>	<u>Exhibit Description</u>
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.



**VeriSign, Inc.**  
487 East Middlefield Road  
Mountain View, California 94043-4047

April 26, 2005

To Our Stockholders:

You are cordially invited to attend the 2005 Annual Meeting of Stockholders of VeriSign, Inc. to be held at our corporate offices located at 487 East Middlefield Road, Mountain View, California on Thursday, May 26, 2005 at 10:00 a.m., Pacific Time.

The matters expected to be acted upon at the Meeting are described in detail in the following *Notice of the 2005 Annual Meeting of Stockholders and Proxy Statement*.

It is important that you use this opportunity to take part in the affairs of VeriSign by voting on the business to come before this meeting. **WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND PROMPTLY RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE SO THAT YOUR SHARES MAY BE REPRESENTED AT THE MEETING. A PROXY MAY ALSO BE COMPLETED ELECTRONICALLY OR BY PHONE AS DESCRIBED ON THE PROXY CARD AND UNDER "INTERNET AND TELEPHONE VOTING" IN THE ATTACHED PROXY STATEMENT.** Returning the Proxy does not deprive you of your right to attend the Meeting and to vote your shares in person.

We look forward to seeing you at our 2005 Annual Meeting of Stockholders.

Sincerely,

A handwritten signature in black ink, appearing to read "Stratton D. Scavos", written over a large, stylized graphic element that resembles a pair of large, open parentheses or a similar abstract shape.

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



VERISIGN, INC.  
487 East Middlefield Road  
Mountain View, California 94043-4047

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**Notice of the 2005 Annual Meeting of Stockholders**

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TO OUR STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the 2005 Annual Meeting of Stockholders of VeriSign, Inc. will be held at our corporate offices located at 487 East Middlefield Road, Mountain View, California on Thursday, May 26, 2005 at 10:00 a.m., Pacific Time. The 2005 Annual Meeting of Stockholders is being held for the following purposes:

1. To elect three Class I directors of VeriSign, each to serve a three-year term, or until a successor has been elected and qualified or until the director's earlier resignation or removal.
2. To amend our 1998 Directors Stock Option Plan to increase the size of initial option grants and annual option grants to non-employee directors to 50,000 shares and 25,000 shares, respectively.
3. To ratify the selection of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2005.
4. To transact such other business as may properly come before the Meeting or any adjournment thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this Notice.

Only stockholders of record at the close of business on March 28, 2005 are entitled to notice of and to vote at the 2005 Annual Meeting of Stockholders or any adjournment thereof.

By Order of the Board of Directors,

A handwritten signature in cursive script that reads "James M. Ulam".

James M. Ulam  
*Secretary*

Mountain View, California  
April 26, 2005

**WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND PROMPTLY RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE OR COMPLETE THE PROXY ELECTRONICALLY OR BY PHONE AS DESCRIBED ON THE PROXY CARD AND UNDER "INTERNET AND TELEPHONE VOTING" IN THE ATTACHED PROXY STATEMENT SO THAT YOUR SHARES MAY BE REPRESENTED AT THE MEETING.**



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**VERISIGN, INC.**  
**487 East Middlefield Road**  
**Mountain View, California 94043-4047**

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**PROXY STATEMENT**  
**FOR THE 2005 ANNUAL MEETING OF STOCKHOLDERS**

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**April 26, 2005**

The accompanying proxy is solicited on behalf of our Board of Directors for use at the 2005 Annual Meeting of Stockholders (the "Meeting") to be held at our corporate offices located at 487 East Middlefield Road, Mountain View, California on Thursday, May 26, 2005 at 10:00 a.m., Pacific Time. Only holders of record of our common stock at the close of business on March 28, 2005, which is the record date, will be entitled to vote at the Meeting. At the close of business on the record date, we had 254,566,319 shares of common stock outstanding and entitled to vote. All proxies will be voted in accordance with the instructions contained therein and, if no choice is specified, the proxies will be voted in favor of the nominees and the proposals set forth in this proxy statement. This proxy statement and the accompanying form of proxy were first mailed to stockholders on or about April 26, 2005. An annual report for the year ended December 31, 2004 is enclosed with this proxy statement.

**Voting Rights**

Holders of our common stock are entitled to one vote for each share held as of the record date.

**Vote Required to Approve the Proposals**

With respect to Proposal No. 1, three directors will be elected by a plurality of the votes of the shares of common stock present in person or represented by proxy at the Meeting and voting on the election of directors. With respect to Proposal No. 2, the 1998 Directors Stock Option Plan will be amended to increase the size of initial option grants and annual option grants to non-employee directors to 50,000 shares and 25,000 shares, respectively, by affirmative vote of the holders of a majority of the shares present or represented by proxy and entitled to vote at the Meeting.

None of the proposals is conditional upon the approval of any of the other proposals by the stockholders.

**Quorum**

A majority of the shares of common stock outstanding on the record date will constitute a quorum for the transaction of business at the Meeting. For purposes of the quorum and the discussion above regarding the vote necessary to take stockholder action, stockholders of record who are present at the meeting in person or represented by proxy and who abstain, including brokers holding customers' shares of record who cause abstentions to be recorded at the Meeting, are considered stockholders who are present and entitled to vote and count toward the quorum.

### **Effect of Abstentions**

Abstentions will not be taken into account in determining the outcome of the election of directors. Abstentions are considered shares entitled to vote on Proposal No. 2 and therefore would have the effect of a vote against the proposal.

### **Effect of Broker Non-Votes**

If a stockholder does not give a proxy to its broker with instructions as to how to vote the shares, the broker (under rules of New York Stock Exchange) has authority to vote those shares for or against certain “routine” matters, as are all of the proposals to be voted on at the Meeting. If a broker votes shares that are unvoted by its customers for or against a proposal, these shares are considered present and entitled to vote at the Meeting. These shares will count toward determining whether or not a quorum is present. These shares will also be taken into account in determining the outcome of all of the proposals.

Although Proposal No. 1 to be voted on at the Meeting is considered “routine,” Proposal No. 2 would not be “routine,” and where a matter is not “routine,” a broker generally would not be entitled to vote its customers’ unvoted shares. These shares would be considered present but are not considered entitled to vote on the matter. These shares would count toward determining whether or not a quorum is present. However, these shares would not be taken into account in determining the outcome of any of the proposals.

### **Adjournment of Meeting**

In the event that sufficient votes in favor of the proposals are not received by the date of the Meeting, the persons named as proxies may propose one or more adjournments of the Meeting to permit further solicitations of proxies. Any such adjournment would require the affirmative vote of the majority of the outstanding shares present in person or represented by proxy at the Meeting.

### **Expenses of Soliciting Proxies**

VeriSign will pay the expenses of soliciting proxies to be voted at the Meeting. Following the original mailing of the proxies and other soliciting materials, we and/or our agents may also solicit proxies by mail, telephone, telegraph, or in person. Following the original mailing of the proxies and other soliciting materials, we will request that brokers, custodians, nominees and other record holders of our shares forward copies of the proxy and other soliciting materials to persons for whom they hold shares and request authority for the exercise of proxies. In such cases, we will reimburse the record holders for their reasonable expenses if they ask us to do so.

### **Revocability of Proxies**

Any person signing a proxy in the form accompanying this proxy statement has the power to revoke it prior to the Meeting or at the Meeting prior to the vote pursuant to the proxy. A proxy may be revoked by any of the following methods:

- a written instrument delivered to VeriSign stating that the proxy is revoked;
- a subsequent proxy that is signed by the person who signed the earlier proxy and is presented at the Meeting; or
- attendance at the Meeting and voting in person.

Please note, however, that if a stockholder’s shares are held of record by a broker, bank or other nominee and that stockholder wishes to vote at the Meeting, the stockholder must bring to the Meeting a letter from the broker, bank or other nominee confirming that stockholder’s beneficial ownership of the shares.

### **Internet and Telephone Voting**

If you hold shares of record as a registered shareholder, you can simplify your voting process and save the company expense by voting your shares by telephone at 1-866-540-5760 or on the Internet at <http://www.proxyvoting.com/vrsn> twenty-four hours a day, seven days a week. Telephone and Internet voting is available through 11:59 p.m. Eastern time the day prior to the Meeting. More information regarding telephone and Internet voting is given on the proxy card. If you hold shares through a bank or brokerage firm, the bank or brokerage firm will provide you with separate instructions on a form you will receive from them. Many such firms make telephone or Internet voting available, but the specific processes available will depend on those firms' individual arrangements.

**PROPOSAL NO. 1  
ELECTION OF DIRECTORS**

Our Amended and Restated Bylaws currently authorize no fewer than six and no more than nine directors. Our Board of Directors is currently comprised of nine directors. The Bylaws divide the Board of Directors into three classes, Class I, Class II and Class III, with members of each class serving staggered three-year terms. One class of directors is elected by the stockholders at each annual meeting to serve a three-year term or until their successors are duly elected and qualified or their earlier resignation or removal. The Class I directors, Messrs. Kriens, Lauer and Sclavos, will stand for election at this Meeting, the Class II directors, Messrs. Moore, Mueller and Roper, will stand for election or reelection at the 2006 annual meeting, and the Class III directors, Messrs. Bidzos, Chenevich and Reyes, will stand for reelection at the 2007 annual meeting. If any nominee for any reason is unable to serve, or for good cause will not serve, as a director, the proxies may be voted for such substitute nominee as the proxy holder may determine. We are not aware of any nominee who will be unable to serve, or for good cause will not serve, as a director.

**Directors/Nominees**

The names of the nominees for election as Class I directors at this Meeting and of the incumbent Class II and Class III directors, and certain information about them, are included below.

<u>Name</u>	<u>Age</u>	<u>Position</u>
<b>Nominees for election as Class I directors for a term expiring in 2008:</b>		
Scott G. Kriens	47	Director
Len J. Lauer(1)	47	Director
Stratton D. Sclavos	43	President, Chief Executive Officer and Chairman of the Board
<b>Incumbent Class II directors with terms expiring in 2006:</b>		
Roger H. Moore	63	Director
Edward A. Mueller(2)	57	Director
William A. Roper, Jr.(2)	59	Director
<b>Incumbent Class III directors with terms expiring in 2007:</b>		
D. James Bidzos(1)(3)	50	Vice Chairman of the Board
William L. Chenevich(2)	61	Director
Gregory L. Reyes(1)	42	Director

- 
- (1) Member of the Compensation Committee
  - (2) Member of the Audit Committee
  - (3) Member of the Nominating and Corporate Governance Committee

**Scott G. Kriens** has served as a director since January 2001. Mr. Kriens has served as President, Chief Executive Officer and Chairman of the Board of Directors of Juniper Networks, a provider of Internet hardware and software systems, since October 1996. From April 1986 to January 1996, Mr. Kriens served as Vice President of Operations at StrataCom, Inc., a telecommunications equipment company, which he co-founded in 1986. Mr. Kriens serves as a director of Equinix, Inc. Mr. Kriens holds a B.A. in Economics from California State University, Hayward.

**Len J. Lauer** has served as a director since February 2004. Since September 2003 he has served as President and Chief Operating Officer of Sprint Corporation, a global communications company. Mr. Lauer

served as President—Sprint PCS from September 2002 to October 2004 and served as President—Global Markets Division since September 2000. Since joining Sprint in 1998, he has served as President—Sprint Business and President—Consumer Services Group of Sprint. From 1995 to 1998, he served as President and Chief Executive Officer of Bell Atlantic—New Jersey, a telecommunications company. Mr. Lauer holds a B.S. degree in Managerial Economics from the University of California, San Diego.

**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.

**Edward A. Mueller** has served as a director since March 2005. Since January 2003, he has served as Chief Executive Officer of Williams-Sonoma, Inc., a specialty retailer of home furnishings. Prior to joining Williams-Sonoma, Inc., Mr. Mueller served as President and Chief Executive Officer of Ameritech, a telecommunications company, from 2000 to 2002; as President of SBC International Operations, a telecommunications company, from 1999 to 2000; and as President and Chief Executive Officer of Pacific Bell, a telecommunications company, from 1997 to 1999. Mr. Mueller joined the SBC organization in 1968, and held other executive level positions in the company, including President and Chief Executive Officer of Southwestern Bell Telephone. Mr. Mueller serves as a director of Williams-Sonoma, Inc. Mr. Mueller holds a B.S. degree in Civil Engineering from the University of Missouri and an Executive M.B.A. degree from Washington University.

**Roger H. Moore** has served as a director since February 2002. He was President and Chief Executive Officer of Illuminet Holdings, Inc. from December 1995 until December 2001 when VeriSign acquired Illuminet Holdings. Prior to Illuminet Holdings, Mr. Moore spent ten years with Nortel Networks in a variety of senior management positions including President of Nortel Japan. Mr. Moore serves as a director of Tut Systems, Inc. and Western Digital Corporation. Mr. Moore holds a B.S. degree in General Science from Virginia Polytechnic Institute and State University.

**William A. Roper, Jr.** has served as a director since November 2003. Since April 2000, he has served as Corporate Executive Vice President of Science Applications International Corporation (SAIC), a diversified technology services company, and has previously served as SAIC's Senior Vice President from 1990 to 1999, Chief Financial Officer from 1990 to 2000, and Executive Vice President from 1999 to 2000. From 1987 to 1990, Mr. Roper was Executive Vice President and Chief Financial Officer of Intellogic Trace, Inc., nationwide computer support organization. Mr. Roper holds a B.A. degree in Mathematics from the University of Mississippi and graduated from Southwestern Graduate School of Banking at Southern Methodist University and Stanford University, Financial Management Program.

**D. James Bidzos** has served as Vice Chairman of the Board of Directors since December 2001. He served as Chairman of the Board of Directors of VeriSign from April 1995 until December 2001. Mr. Bidzos served as Vice Chairman of RSA Security, an Internet identity and access management solution provider, from March 1999 to May 2002 and Executive Vice President from July 1996 to February 1999. Prior thereto, he served as President and Chief Executive Officer of RSA Data Security from 1988 to February 1999.

**William L. Chenevich** has served as a director since April 1995. Mr. Chenevich has served as Vice Chairman of Technology and Operations for U.S. Bancorp, a financial holding company, since February 2001. He served as Vice Chairman of Technology and Operations Services of Firststar Corporation, a financial services company, from 1999 until its merger with U.S. Bancorp in February 2001. Prior thereto, he was Group Executive

Vice President of VISA International, a financial services company, from 1994 to 1999. Mr. Chenevich serves as a director of Longs Drug Stores Corporation. Mr. Chenevich holds a B.B.A. degree in Business from the City College of New York and a M.B.A. degree in Management from the City University of New York.

**Gregory L. Reyes** has served as a director since April 2001. From May 2001 to January 2005, Mr. Reyes served as Chairman of the Board of Directors and Chief Executive Officer of Brocade Communications Systems, Inc., a provider of an intelligent platform for networking storage. He is currently a member of the Board of Directors of, and consultant to, Brocade. From July 1998 to May 2001, Mr. Reyes served as President and Chief Executive Officer and was a member of the Board of Directors of Brocade. From January 1995 to June 1998, Mr. Reyes was President and Chief Executive Officer of Wireless Access, Inc., a wireless data communications products company. From January 1995 to November 1997, Mr. Reyes served as Chairman of the Board of Directors of Wireless Access. Mr. Reyes holds a B.S. degree in Economics and Business Administration from Saint Mary's College in Moraga, California.

### **Board and Committee Meetings**

The Board of Directors met five times and its committees collectively met fifteen times during 2004. No Director during the last fiscal year attended fewer than 75% of the aggregate of (i) the total number of meetings held by the Board of Directors and (ii) the total number of meetings held by all committees on which he served during 2004. The Board of Directors has affirmatively determined that each director who serves on each of its committees is independent, as the term is defined by rules of The Nasdaq Stock Market and the Securities and Exchange Commission ("SEC"). The Board of Directors will appoint a Lead Independent Director at a forthcoming meeting of the Board of Directors. The Lead Independent Director may schedule and conduct separate meetings of the independent directors and perform other similar duties.

### **Audit Committee**

The Board of Directors has established an audit committee that has responsibility for oversight of our financial, accounting and reporting processes and our compliance with legal and regulatory requirements, the appointment, termination, compensation and oversight of our independent auditors, including conducting a review of their independence, reviewing and approving the planned scope of our annual audit, overseeing the independent auditors' audit work, reviewing and pre-approving any non-audit services that may be performed by the independent auditors, reviewing with management and our independent auditors the adequacy of our internal financial controls, and reviewing our critical accounting policies and the application of accounting principles. See "Report of the Audit Committee" contained in this proxy statement. The audit committee is currently comprised of Messrs. Chenevich, Mueller and Roper. Each member of the audit committee meets the independence criteria of The Nasdaq Stock Market and the SEC. Each audit committee member meets The Nasdaq Stock Market's financial knowledge requirements, and the Board of Directors has further determined that Mr. Roper is (i) an "audit committee financial expert" as such term is defined in Item 401(h) of Regulation S-K of the Securities Exchange Act of 1934 and (ii) "financially sophisticated" as such term is defined in Rule 4350(d)(2) of The Nasdaq Stock Market. The audit committee operates pursuant to a written charter adopted by the Board of Directors, which complies with the applicable provisions of the Sarbanes-Oxley Act of 2002 and related rules of the SEC and The Nasdaq Stock Market. A copy of the audit committee charter is located on our website at [http://www.verisign.com/verisign-inc/vrsn-investors/Corporate\\_Governance/index.html](http://www.verisign.com/verisign-inc/vrsn-investors/Corporate_Governance/index.html). The audit committee met eight times during 2004.



## **Compensation Committee**

The Board of Directors has established a compensation committee to review the compensation and benefits for our executive officers, including the chief executive officer. The compensation committee also administers our stock purchase, equity incentive and stock option plans, makes grants to executive officers under such plans and makes recommendations to the Board of Directors regarding such matters. The compensation committee's charter is located at our website, [http://www.verisign.com/verisign-inc/vrsn-investors/Corporate\\_Governance/index.html](http://www.verisign.com/verisign-inc/vrsn-investors/Corporate_Governance/index.html). The compensation committee is currently comprised of Messrs. Bidzos, Lauer and Reyes, each of whom is an "independent director" under the rules of The Nasdaq Stock Market, and an "outside director" pursuant to Section 162(m) of the Internal Revenue Code. The compensation committee met six times during 2004.

## **Nominating and Corporate Governance Committee**

The Board of Directors has established a nominating and corporate governance committee to recruit, evaluate, and nominate candidates for appointment or election to serve as members of the Board of Directors, recommend nominees for committees of the Board of Directors, recommend corporate governance policies and periodically review and assess the adequacy of these policies, and review annually the performance of the Board of Directors. The nominating and corporate governance committee is currently comprised of Mr. Bidzos, who is an "independent director," under the rules of The Nasdaq Stock Market. The Board of Directors will appoint another director to the nominating and corporate governance committee at the Board of Director's next scheduled meeting. The nominating and corporate governance committee's charter is located on our website at [http://www.verisign.com/verisign-inc/vrsn-investors/Corporate\\_Governance/index.html](http://www.verisign.com/verisign-inc/vrsn-investors/Corporate_Governance/index.html). The nominating and corporate governance committee met two times during 2004.

In carrying out its function to nominate candidates for election to the Board of Directors, the nominating and corporate governance committee considers the performance and qualifications of each potential nominee or candidate, not only for their individual strengths but also for their contribution to the Board of Directors as a group.

The nominating and corporate governance committee considers candidates for director nominees proposed by directors, the chief executive officer and stockholders. The nominating and corporate governance committee may also from time to time retain one or more third-party search firms to identify suitable candidates. We engaged Spencer Stuart to assist us in our search for a candidate to fill a vacant seat on the Board of Directors, which resulted in the appointment of Edward A. Mueller to the Board of Directors.

If you would like the nominating and corporate governance committee to consider a prospective candidate, in accordance with our Bylaws, please submit the candidate's name and qualifications to: James M. Ulam, Secretary, VeriSign, Inc., 487 East Middlefield Road, Mountain View, California 94043-4047

The nominating and corporate governance committee will consider all candidates identified through the processes described above, and will evaluate each of them, including incumbents and candidates nominated by stockholders, based on the same criteria.

## **Communicating with the Board of Directors**

Any stockholder who desires to contact the Board of Directors may do so electronically by sending an e-mail to the following address: [bod@verisign.com](mailto:bod@verisign.com). Alternatively, a stockholder may contact the Board of Directors by writing to: Board of Directors, VeriSign, Inc., 487 East Middlefield Road, Mountain View, California 94043, Attention: Secretary. Communications received electronically or in writing are distributed to the Lead Independent Director or the other members of the Board of Directors, as appropriate, depending on the facts and circumstances outlined in the communication received.

## **Attendance at Annual Meeting**

Although we do not have a formal policy regarding attendance by members of the Board of Directors at our annual meeting of the stockholders, we encourage directors to attend. Our Chairman and Chief Executive Officer, Stratton Sclavos, attended our 2004 Annual Meeting of Stockholders.

## **Director Compensation**

Beginning July 1, 2004, directors who are not employees of VeriSign (or any parent, subsidiary or affiliate of VeriSign) receive cash compensation as follows:

- Each director receives an annual retainer of \$25,000.
- Directors who serve on the compensation or audit committees receive an additional annual retainer of \$20,000. Directors who serve on committees other than the compensation or audit committees receive an additional annual retainer of \$10,000.
- Compensation and audit committee chairpersons receive an additional annual retainer of \$10,000. The additional annual retainer for chairperson positions on committees other than the compensation or audit committees is \$5,000.
- No meeting fees are paid 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 receives a meeting fee of \$2,000. No meeting fees are paid for any special committee meetings.

From January 1, 2004 through June 30, 2004, directors who were not employees of VeriSign (or any parent, subsidiary or affiliate of VeriSign) received \$4,000 for each Board of Directors meeting attended. In addition, each director serving as a chairperson of a committee of the Board of Directors received \$4,000 for each committee meeting attended. They were additionally entitled to reimbursement of all reasonable out-of-pocket expenses incurred in connection with their attendance at Board of Directors and committee meetings.

Each member of the Board of Directors is eligible to receive stock options under VeriSign's stock option plans, and Directors who are not employees of VeriSign (or any parent, subsidiary or affiliate of VeriSign) are eligible to participate in the 1998 Directors Stock Option Plan (the "Directors Plan"). The option grants under the Directors Plan are automatic and nondiscretionary, and the exercise price of the options is 100% of the fair market value of the common stock on the date of grant. Currently, each new director who is eligible to participate will initially be granted an option to purchase 25,000 shares on the date such director first becomes a member of the Board of Directors. These grants are referred to as "Initial Grants." Currently, on each anniversary of the Initial Grant (or most recent grant if such director did not receive an Initial Grant), each eligible director will automatically be granted an additional option to purchase 12,500 shares 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). 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 VeriSign so specifies in the grant, as a consultant of VeriSign. In 2004, VeriSign granted under the Directors Plan to Messrs. Bidzos, Chenevich, Compton, Kriens, Moore, Reyes and Roper each options to purchase 12,500 shares of its common stock with a weighted average exercise price of \$19.10 per share, and to Mr. Lauer an option to purchase 25,000 shares of its common stock with an exercise price of \$18.45 per share. The Directors Plan has been amended to increase the number of stock options granted to each director, subject to the approval of "Proposal No. 2—Amendment to 1998 Directors Stock Option Plan" contained in this proxy statement.

### **Compensation Committee Interlocks and Insider Participation**

All members of the compensation committee during 2004 were independent directors, and none of them were employees or former employees of VeriSign. No executive officer of VeriSign has served on the compensation committee of the board of directors of any other entity that has or has had one or more executive officers who served as a member of the Board of Directors or the compensation committee of VeriSign during the 2004 fiscal year. Mr. Slavos, President, Chief Executive Officer and Chairman of the Board of Directors of VeriSign, served on the board of directors of Juniper Networks during the 2004 fiscal year. Mr. Kriens, a member of the Board of Directors of VeriSign, is President, Chief Executive Officer and Chairman of the board of directors of Juniper Networks.

**The Board Recommends a Vote “FOR” the Election of Each of the Nominated Directors.**

**PROPOSAL NO. 2**  
**AMENDMENT TO THE 1998 DIRECTORS STOCK OPTION PLAN**

The following is a summary of the principal provisions of our 1998 Directors Stock Option Plan (the “Directors Plan”). This summary is qualified in its entirety by reference to the full text of the Directors Plan, which is attached to this Proxy Statement as Appendix A.

Stockholders are being asked to approve an amendment to the Directors Plan, which only affects non-employee members of the Board of Directors. The Board of Directors recommends a vote “FOR” approval of the amendment to the Directors Plan to increase the size of initial option grants and annual option grants to non-employee directors to 50,000 shares and 25,000 shares, respectively.

**Proposed Amendment to the Directors Plan**

The proposed amendment would effect the following changes:

(1) Each newly elected or appointed non-employee director will receive an automatic grant of an option to purchase 50,000 shares of our common stock upon first becoming a member of the Board. Previously, such a newly elected or appointed non-employee director would have received an initial grant of an option to purchase 25,000 shares.

(2) Each continuing non-employee director will receive an automatic grant of an option to purchase 25,000 shares of common stock on each anniversary of the initial grant, provided the continuing non-employee director is a member of the Board on such anniversary date and has served continuously as a member of the Board since the date of the initial grant. Previously, such a continuing non-employee director would have received an automatic grant of an option to purchase 12,500 shares of our common stock on each anniversary of the initial grant.

The proposed amendment is intended to provide equity incentives to attract and retain the services of highly qualified and experienced non-employee directors. The proposed amendment was adopted by the Board of Directors on August 3, 2004 subject to stockholder approval at the Meeting. If approved, the automatic, initial grant increases will take effect as of August 3, 2004 for any members appointed to the Board of Directors after August 3, 2004, but before the Meeting.

**Plan History**

In October 1997, the Board of Directors adopted, and in January 1998, the stockholders approved, the Directors Plan and reserved a total of 500,000 shares, as adjusted for stock splits, of common stock for issuance under the Directors Plan. In March 2000, the Board of Directors adopted, and in June 2000, the stockholders approved, an amendment to the Directors Plan to increase the number of shares reserved for issuance under the Directors Plan by an additional 250,000 shares. In February 2003, the Board of Directors adopted, and in May 2003, the stockholders approved, an amendment to the Directors Plan to increase the number of shares reserved under the Directors Plan by an additional 500,000 shares. As of December 31, 2004, options to purchase 787,500 shares of common stock had been granted under the Directors Plan and 510,781 shares remain available for future grant. The Directors Plan authorizes the award of stock options only, which we also refer to as an Award.

**Administration**

The Directors Plan may be administered by the Board of Directors or by a committee of not less than two members of the Board of Directors appointed to administer the Directors Plan. The compensation committee of the Board of Directors currently administers the Directors Plan. The Board of Directors, or the committee appointed by the Board of Directors, has the authority to construe and interpret any of the provisions of the Directors Plan or any options thereunder.

## **Eligibility**

Members of the Board of Directors who are not employees of VeriSign, or of any parent, subsidiary or affiliate thereof, are eligible to participate in the Directors Plan.

## **Stock Options**

The option grants under the Directors Plan are automatic and nondiscretionary, and the exercise price of the options is 100% of the fair market value of the common stock on the date of grant. Prior to the Amendment, each new Director who is eligible to participate was initially granted an option to purchase 25,000 shares of our common stock on the date the Director first becomes a member of the Board of Directors. These grants are referred to as “initial grants.” Prior to the Amendment, on each anniversary of the initial grant (or most recent grant if that Director did not receive an initial grant), each eligible Director was automatically be granted an additional option to purchase 12,500 shares of common stock so long as that Director served continuously as a member of the Board of Directors since the date of the initial grant (or most recent grant if that Director did not receive an initial grant).

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 VeriSign so specifies in the grant, as a consultant of VeriSign.

Subject to Section 402 of the Sarbanes-Oxley Act of 2002, the exercise price of options granted under the Directors Plan may be paid as approved by the Board or Directors or by a committee appointed by the Board of Directors at the time of grant: (1) in cash (by check); (2) by cancellation of indebtedness of VeriSign to the participant; (3) by surrender of shares of VeriSign’s common stock owned by the participant for at least six months and having a fair market value on the date of surrender equal to the aggregate exercise price of the option; (4) by waiver of compensation due to or accrued by the participant for services rendered; (5) by a “same-day sale” commitment from the participant and a National Association of Securities Dealers, Inc., or NASD, broker; (6) by a “margin” commitment from the participant and a NASD broker; or (7) by any combination of the above, to the extent legally permitted.

## **Termination of Options**

The term of options granted under the Directors Plan is ten years. The options will terminate seven months following the date the Director ceases to be a Director (or, if specified in the grant, a consultant of VeriSign) and will terminate twelve months following the date the Director ceases to be a Director in the result of death or disability.

## **Dissolution, Liquidation or Change of Control**

Immediately prior to the dissolution or liquidation of VeriSign or a “change in control” transaction, the vesting of all options granted pursuant to the Directors Plan will accelerate and the options will become exercisable in full prior to the consummation of such event, and must be exercised, if at all, within six months of the consummation of said event, after which period any unexercised options will expire.

## **Amendment of the Plan**

The Board of Directors may at any time amend or terminate the Directors Plan, including amendment of any form of award agreement or instrument to be executed pursuant to the Directors Plan. However, the Board of Directors may not amend the Directors Plan in any manner that requires stockholder approval pursuant to the Internal Revenue Code or the regulations promulgated thereunder, or the Securities Exchange Act of 1934 or Rule 16b-3, or any successor, promulgated thereunder.

## **Term of the Plan**

The Directors Plan will terminate on October 31, 2007, unless sooner terminated in accordance with the terms of the plan.

## **Adjustments**

In the event that the number of outstanding shares of our common stock is changed by a stock dividend, stock split, reverse stock split, combination, reclassification or similar change in our structure without consideration, the number of shares available under the Directors Plan and the number of shares subject to outstanding options and the exercise price per shares of such outstanding options will be proportionately adjusted, subject to any required action by the Board of Directors or stockholders and compliance with applicable securities laws.

## **Federal Income Tax Information**

The following is a general summary as of the date of this proxy statement of the federal income tax consequences to VeriSign and participants under the Directors Plan. The federal tax laws may change and the federal, state and local tax consequences for any participant will depend upon his or her individual circumstances. Each participant has been, and is, encouraged to seek the advice of a qualified tax advisor regarding the tax consequences of participation in the Directors Plan.

*Nonqualified Stock Options.* A participant will not recognize any taxable income at the time a Nonqualified Stock Option (“NQSO”) is granted. However, upon exercise of a NQSO, the participant will include in income as compensation an amount equal to the difference between the fair market value of the shares on the date of exercise and the participant’s exercise price. The included amount will be treated as ordinary income by the participant and may be subject to income tax and FICA withholding by VeriSign, either by payment in cash or withholding out of the participant’s salary. Upon resale of the shares by the participant, any subsequent appreciation or depreciation in the value of the shares will be treated as capital gain or loss. Special rules apply where all, or a portion, of the exercise price is paid by tendering shares of common stock.

*Maximum Tax Rates for Noncorporate Taxpayers.* The maximum federal tax rate for noncorporate taxpayers applicable to ordinary income is 35%. Long-term capital gain for noncorporate taxpayers on stock held for more than twelve months will be taxed at a maximum rate of 15%. Capital gains will continue to be offset by capital losses and up to \$3,000 of capital losses may be offset annually against ordinary income.

*Tax Treatment of VeriSign.* We will be entitled to a deduction in connection with the exercise of a NQSO by a participant or the receipt of restricted stock or stock bonuses by a participant to the extent that the participant recognizes ordinary income.

## **ERISA**

The Directors Plan is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974 or “ERISA” and is not qualified under section 401(a) of the Internal Revenue Code.

## **Shares Subject to the Plan**

The shares subject to issuance under the Directors Plan consist of authorized but unissued shares of Common Stock. The aggregate number of shares reserved for awards under the Directors Plan is 1,250,000 shares, subject to an adjustment as provided in the Directors Plan. As of December 31, 2004, 510,781 shares of common stock remain available for future grant under the Directors Plan.

Neither our named executive officers nor our other executive officers have been granted options to purchase shares under the Directors Plan.

Our current non-employee directors as a group have been granted options to purchase 862,500 shares under the Directors Plan, over the life of the plan.

### **New Plan Benefits**

Under the current Directors Plan, each of our non-employee directors is automatically granted an option to purchase 25,000 shares of our common stock on the date he or she first becomes a director, and on each anniversary of a director's initial grant, each eligible director will automatically be granted an additional option to purchase 12,500 shares of our common stock if the director has served continuously as a director since the date of the initial grant or most recent grant. If this proposal is adopted, immediately following the Meeting, each non-employee director who was newly appointed to the Board will automatically be granted an option to purchase 50,000 shares of our common stock, and on each anniversary of a non-employee such director's initial grant each eligible director will automatically be granted an option to purchase 25,000 shares of our common stock provided such director is a member of the Board on such anniversary date and has served continuously as a member of the Board. The exercise prices at which the remaining grants will be made are not determinable because they will be based upon the fair market value of our common stock on the date of grant. The closing price per share of our common stock on the Nasdaq National Market on April 15, 2005 was \$25.33.

**The Board of Directors Recommends a Vote "FOR" the Amendment to the 1998 Directors Stock Option Plan.**



**PROPOSAL NO. 3**

**RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The audit committee of the Board of Directors has selected KPMG LLP as our independent registered public accounting firm to perform the audit of our financial statements for the year ending December 31, 2005, and our stockholders are being asked to ratify this selection. Representatives of KPMG LLP, expected to be present at the Meeting, will have the opportunity to make a statement at the Meeting if they desire to do so and are expected to be available to respond to appropriate questions.

**The Board of Directors Recommends a Vote “FOR” the Ratification of the Selection of KPMG LLP as VeriSign’s Independent Registered Public Accounting Firm.**

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of February 28, 2005 by:

- each stockholder who is known to own beneficially more than 5% of our common stock;
- each director;
- each of the Named Executive Officers (see the “Summary Compensation Table” in this proxy statement); and
- all directors and executive officers as a group.

The percentage ownership is based on 254,409,722 shares of common stock outstanding at February 28, 2005. Shares of common stock that are subject to options currently exercisable or exercisable within 60 days of February 28, 2005 are deemed outstanding for the purpose of computing the percentage ownership of the person holding such options but are not deemed outstanding for computing the percentage ownership of any other person. Unless otherwise indicated in the footnotes following the table, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

<u>Name of Beneficial Owner</u>	<u>Shares Beneficially Owned</u>	
	<u>Number</u>	<u>Percent</u>
Barclays Global Investors, NA(1) . . . . .	13,875,986	5.45%
Stratton D. Sclavos(2) . . . . .	4,447,589	1.80
Quentin P. Gallivan(3) . . . . .	814,658	*
Dana L. Evan(4) . . . . .	782,649	*
Robert J. Korzeniewski(5) . . . . .	514,520	*
Judy Lin(6) . . . . .	505,963	*
Russell S. Lewis(7) . . . . .	432,440	*
Kevin R. Compton(8) . . . . .	261,152	*
Scott G. Kriens(9) . . . . .	126,874	*
D. James Bidzos(10) . . . . .	105,626	*
William L. Chenevich(11) . . . . .	65,938	*
Gregory L. Reyes(12) . . . . .	43,750	*
Roger H. Moore(13) . . . . .	28,616	*
William A. Roper, Jr.(14) . . . . .	8,594	*
Len J. Lauer(15) . . . . .	6,250	*
Edward A. Mueller(16) . . . . .	—	—
All executive officers and directors as a group (19 persons)(17) . . . . .	8,787,784	3.45

\* Less than 1% of VeriSign’s outstanding common stock.

- (1) Based on Schedule 13G filed on February 14, 2005 with the SEC by Barclays Global Investors, NA (“Barclays”), Barclays Global Fund Advisors (“Barclays Global Fund”), Barclay Global Investors, Ltd. (Barclays Global Investors”), Barclays Global Investors Japan Trust and Banking Company Limited (“Barclays Japan”), Barclays Life Assurance Company Limited, Barclays Bank PLC, Barclays Capital Securities Limited (“Barclays Capital Securities”), Barclays Capital Inc., Barclays Private Bank & Trust (Isle of Man) Limited, Barclays Private Bank and Trust (Jersey Limited, Barclays Bank Trust Company Limited, Barclays Bank (Suisse) SA, Barclays Private Bank Limited, Bronco (Barclays Cayman) Limited, Palomino Limited (“Palomino”) and HYMF Limited, with respect to beneficial ownership of 13,875,986 shares. Barclays has sole voting power over 8,941,721 of these shares and sole dispositive power over 10,382,062 of these shares. Barclays Global Fund has sole voting power over 791,630 of these shares and

sole dispositive power over 849,292 of these shares. Barclays Global Investors has sole voting power over 2,272,245 of these shares and sole dispositive power of 2,288,263 of these shares. Barclays Japan has sole voting power over 213,161 of these shares and sole dispositive power over 213,161 of these shares. Barclays Capital Securities has sole voting power over 7,300 of these shares and sole dispositive power over 7,300 of these shares. Palomino has sole voting power over 135,908 of these shares and sole dispositive power over 135,908 of these shares. The principal business addresses are as follows: Barclays and Barclays Global Fund: 45 Fremont Street, San Francisco, CA 94105; Barclays Global Investors: Murray House, 1 Royal Mint Court, London EC3N 4HH; Barclays Japan: Ebisu Prime Square Tower, 8th Floor, 1-1-39 Hiroo Shibuya-Ku, Tokyo 150-0012 Japan; Barclays Life Assurance Company Limited: Unicorn House, 5th Floor, 252 Romford Road, Forest Gate, London 37 9JB England; Barclays Bank PLC: 54 Lombard Street, London, England EC3P 3AH; Barclays Capital Securities: 5 The North Colonnade, Canary Wharf, London, England E14 4BB; Barclays Capital Inc.: 200 Park Ave., NY, NY 10166; Barclays Private Bank & Trust (Isle of Man) Limited: 4th Floor, Queen Victoria House, Isle of Man, IM99 IDF; Barclays Private Bank and Trust (Jersey) Limited: 39/41 Broad Street, St. Helier, Jersey, Channel Islands JE4 8PU; Barclays Bank (Suisse) SA: 10 rue d'Italie CH-1204, Geneva, Switzerland; Barclays Private Bank Limited: 59/60 Grosvenor Street, London, W1X 9DA England; Bronco (Barclays Cayman) Limited, Palomino and HYMF Limited: Walker House Mary Street, PO Box 908 GT, George Town, Grand Cayman.

- (2) Includes 85,600 shares held by Eladha Partners, LP under which Stratton D. Sclavos and his spouse are limited partners with an ownership interest of 98%. Includes 18,333 shares held by Sclavos Family Partners, LP under which Mr. Sclavos and his spouse are limited partners with an ownership interest of 50% and Mr. Sclavos' children are limited partners with a 48% ownership interest. Includes 227,621 shares held by the Sclavos 1990 Revocable Trust under which Mr. Sclavos and his spouse are co-trustees. Includes 12,205 shares held by the Sclavos Family Foundation under which Mr. Sclavos is the beneficial owner. Also includes 2,998,216 shares subject to options held by Mr. Sclavos, and 1,071,875 shares subject to options held by Boutari Ventures, LLC, that are exercisable within 60 days of February 28, 2005. Mr. Sclavos and his spouse are co-managers of Boutari Ventures, LLC. Mr. Sclavos is President, Chief Executive Officer and Chairman of the Board of Directors.
- (3) Includes 664,227 shares subject to options held by Quentin P. Gallivan that are exercisable within 60 days of February 28, 2005. Includes 30,000 shares subject to the provisions of that certain Restricted Stock Purchase Agreement by and between Mr. Gallivan and the Registrant dated August 11, 2003. Mr. Gallivan is Executive Vice President, Worldwide Sales and Services.
- (4) Includes 18,242 shares held by TDC&R Investments LP under which Dana L. Evan and her spouse are 1% general partners and Ms. Evan's children are limited partners with an ownership interest of 99%. Includes 51,030 shares held by the Evan 1991 Living Trust under which Ms. Evan and her spouse are co-trustees. Includes 673,215 shares subject to options held by Ms. Evan that are exercisable within 60 days of February 28, 2005. Includes 30,000 shares subject to the provisions of that certain Restricted Stock Purchase Agreement by and between Ms. Evan and the Registrant dated August 11, 2003. Ms. Evan is the Executive Vice President, Finance and Administration and Chief Financial Officer.
- (5) Includes 427,813 shares subject to options held by Robert J. Korzeniewski that are exercisable within 60 days of February 28, 2005. Includes 30,000 shares subject to the provisions of that certain Restricted Stock Purchase Agreement by and between Mr. Korzeniewski and the Registrant dated August 11, 2003. Mr. Korzeniewski is Executive Vice President, Corporate and Business Development.
- (6) Includes 423,917 shares subject to options held by Judy Lin that are exercisable within 60 days of February 28, 2005. Includes 10,000 shares subject to the provisions of that certain Restricted Stock Purchase Agreement by and between Ms. Lin and the Registrant dated August 11, 2003. Ms. Lin is Executive Vice President and General Manager, Security Services.
- (7) Includes 362,440 shares subject to options held by Russell S. Lewis that are exercisable within 60 days of February 28, 2005. Includes 20,000 shares subject to the provisions of that certain Restricted Stock

Purchase Agreement by and between Mr. Lewis and the Registrant dated August 11, 2003. Mr. Lewis resigned from his executive position on December 17, 2004.

- (8) Includes 114,626 shares subject to options held by Kevin R. Compton that are exercisable within 60 days of February 28, 2005. Mr. Compton resigned as a director on Registrant's Board effective March 21, 2005.
- (9) Represents 80,000 shares held by the Kriens 1996 Trust under which Scott G. Kriens is a trustee. Includes 46,874 shares subject to options held by Mr. Kriens that are exercisable within 60 days of February 28, 2005.
- (10) Includes 100,626 shares subject to options held by D. James Bidzos that are exercisable within 60 days of February 28, 2005.
- (11) Includes 65,938 shares subject to options held by William L. Chenevich that are exercisable within 60 days of February 28, 2005.
- (12) Includes 43,750 shares subject to options held by Gregory L. Reyes that are exercisable within 60 days of February 28, 2005.
- (13) Includes 28,125 shares subject to options held by Roger H. Moore that are exercisable within 60 days of February 28, 2005.
- (14) Includes 8,594 shares subject to options held by William A. Roper, Jr. that are exercisable within 60 days of February 28, 2005.
- (15) Includes 6,250 shares subject to options held by Len J. Lauer that are exercisable within 60 days of February 28, 2005.
- (16) Edward A. Mueller was appointed to the Board of Directors on March 21, 2005.
- (17) Includes the shares described in footnotes (2)-(16) and 518,165 shares beneficially held by four additional executive officers, of which 479,785 shares are subject to options held that are exercisable within 60 days of February 28, 2005. Includes 30,000 shares subject to the provisions of a Restricted Stock Purchase Agreement by and between three of the four additional executive officers and the Registrant, all respectively dated August 11, 2003.

## EXECUTIVE COMPENSATION

The following table sets forth certain summary information concerning the compensation awarded to, earned by, or paid for services rendered to us in all capacities during 2004, 2003 and 2002 by our chief executive officer, the four most highly compensated executive officers, other than the chief executive officer, who were serving as executive officers at the end of 2004, as well as one individual who would have been among the four most highly compensated executive officers for 2004 but for the fact that the individual was not serving as an executive officer at the end of 2004. These officers are referred to together in this proxy statement as the Named Executive Officers.

### SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year End	Annual Compensation		Long Term Compensation Awards		All Other Compensation(3)(4)
		Salary(1)	Bonus(2)	Restricted Stock Award(s)	Securities Underlying Options SARs	
Stratton D. Sclavos . . . . . President, Chief Executive Officer and Chairman of the Board	2004	\$742,308	\$1,050,000	\$4,172,500(5)	650,000	\$6,239
	2003	626,923	682,525	—	690,717	5,635
	2002	450,000	229,500	—	1,200,000	5,500
Dana L. Evan . . . . . Executive Vice President, Finance and Administration and Chief Financial Officer	2004	\$367,692	\$ 320,000	\$ —	135,000	\$6,106
	2003	331,315	260,000	386,370(6)(7)	80,000	5,894
	2002	305,789	69,854	—	175,000	5,500
Quentin P. Gallivan . . . . . Executive Vice President, Worldwide Sales and Services	2004	\$323,504	\$ 326,750	\$ —	112,500	\$2,815
	2003	296,655	233,800	386,370(6)(8)	80,000	2,983
	2002	300,033	40,828	—	175,000	2,200
Robert J. Korzeniewski . . . . . Executive Vice President, Corporate and Business Development	2004	\$323,331	\$ 275,000	\$ —	112,500	\$5,302
	2003	309,322	250,000	386,370(6)(9)	80,000	3,751
	2002	300,303	66,535	—	175,000	3,300
Judy Lin . . . . . Executive Vice President and General Manager, Security Services	2004	\$297,692	\$ 260,000	\$ —	112,500	\$4,073
	2003	276,110	225,000	128,790(6)(10)	55,000	3,175
	2002	220,507	55,884	—	150,000	2,200
Russell S. Lewis(11) . . . . . Former Executive Vice President and General Manager, Naming and Directory Services	2004	\$318,846	\$ 287,000	\$ —	50,000	\$6,215
	2003	310,000	286,000	257,580(6)(12)	60,000	5,785
	2002	299,231	55,000	—	280,000	5,500

- (1) Includes, where applicable, amounts electively deferred by each Named Executive Officer under our 401(k) Plan.
- (2) Bonus amounts are paid annually for services performed in the immediately preceding year.
- (3) In accordance with SEC rules, the compensation described in this table does not include medical, group life insurance or other benefits received by the Named Executive Officers which are available generally to all salaried employees, and certain perquisites and other personal benefits received by the Named

Executive Officers that do not exceed the lesser of \$50,000 or 10% of any such officer's salary and bonus disclosed in this table.

- (4) Represents matching contributions made by VeriSign under the terms of our 401(k) plan.
- (5) In December 2004, VeriSign issued 125,000 restricted stock units under its 1998 Equity Incentive Plan to Mr. Sclavos. 25,000 shares vest ratably over a four-year period as follows: 25% vest on the first anniversary of the date of grant (one-year cliff), and, thereafter, 6.25% of the shares vest quarterly until fully vested. 100,000 shares vest ratably over a four-year period as follows: 10% on the first anniversary, 20% on the second anniversary, 30% on the third anniversary, and 40% on the fourth anniversary of the date of grant. The aggregate market value of the restricted stock units at the date of issuance was \$4,172,500, which was calculated by multiplying the fair market value per share of our common stock as quoted on the Nasdaq National Market on the date of issuance by the number of shares awarded. As of December 31, 2004, the aggregate market value of the restricted stock units was \$4,200,000 based on the fair market value per share of VeriSign common stock as quoted on the Nasdaq National Market of \$33.60 on that date.
- (6) In August 2003, VeriSign issued 150,000 shares of restricted stock under its 1998 Equity Incentive Plan to certain executive officers. The restricted stock vests 100% on the second anniversary of the date of grant (two-year cliff), after which two-thirds of the shares may be sold or otherwise transferred. The remaining one-third of the shares may only be sold or otherwise transferred on or after the third anniversary of the date of grant. The aggregate market value of the restricted stock at the date of issuance was \$1,932,000, which was calculated by multiplying the fair market value per share of our common stock as quoted on the Nasdaq National Market on the date of issuance by the number of shares awarded.
- (7) As of December 31, 2004, Ms. Evan held 30,000 shares of VeriSign common stock subject to the vesting and transfer restrictions described in footnote 7 above with an aggregate market value of \$1,008,000 based on the fair market value per share of VeriSign common stock as quoted on the Nasdaq National Market of \$33.60 on that date.
- (8) As of December 31, 2004, Mr. Gallivan held 30,000 shares of VeriSign common stock subject to the vesting and transfer restrictions described in footnote 7 above with an aggregate market value of \$1,008,000 based on the fair market value per share of VeriSign common stock as quoted on the Nasdaq National Market of \$33.60 on that date.
- (9) As of December 31, 2004, Mr. Korzeniewski held 30,000 shares of VeriSign common stock subject to the vesting and transfer restrictions described in footnote 7 above with an aggregate market value of \$1,008,000 based on the fair market value per share of VeriSign common stock as quoted on the Nasdaq National Market of \$33.60 on that date.
- (10) As of December 31, 2004, Ms. Lin held 10,000 shares of VeriSign common stock subject to the vesting and transfer restrictions described in footnote 7 above with an aggregate market value of \$336,000 based on the fair market value per share of VeriSign common stock as quoted on the Nasdaq National Market of \$33.60 on that date.
- (11) Russell S. Lewis resigned from his executive position on December 17, 2004. Mr. Lewis' bonus in 2004 and 2003 includes a bonus for relocation from Pennsylvania to Virginia.
- (12) As of December 31, 2004, Mr. Lewis held 20,000 shares of VeriSign common stock subject to the vesting and transfer restrictions described in footnote 7 above with an aggregate market value of \$672,000 based on the fair market value per share of VeriSign common stock as quoted on the Nasdaq National Market of \$33.60 on that date.

## OPTION GRANTS IN FISCAL YEAR 2004

The following table sets forth certain information regarding stock options granted to each of the Named Executive Officers during the year ended December 31, 2004.

Name	Individual Grants(1)				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Terms(2)	
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year(3)	Exercise Price Per Share	Expiration Date	5%	10%
	Stratton D. Sclavos . . . . .	250,000	2.5670%	\$33.38(4)	12/17/11	\$3,397,253
	400,000	4.1072	35.05(5)	12/17/11	4,768,005	11,999,671
Dana L. Evan . . . . .	135,000	1.3862	26.53(4)	11/03/11	1,458,051	3,397,878
Quentin P. Gallivan . . . . .	112,500	1.1551	26.53(4)	11/03/11	1,215,042	2,831,565
Robert J. Korzeniewski . . . . .	112,500	1.1551	26.53(4)	11/03/11	1,215,042	2,831,565
Judy Lin . . . . .	112,500	1.1551	26.53(4)	11/03/11	1,215,042	2,831,565
Russell S. Lewis . . . . .	50,000	0.5134	26.53(4)	11/03/11	540,019	1,258,473

- (1) All options were granted under the 1998 Equity Incentive Plan and become exercisable with respect to 25% of the shares covered by the option on the first anniversary of the date of grant and with respect to an additional 6.25% of these shares each quarter thereafter. These options have a term of seven years. Upon certain changes in control, the vesting schedule accelerates as to 50% of any shares that are then unvested for officers at the level of senior vice president and above and as to 100% of any shares that are then unvested for the president and chief executive officer.
- (2) Potential realizable values are net of exercise price but before taxes, and are based on the assumption that our common stock appreciates at the annual rate shown, compounded annually, from the date of grant until the expiration of the applicable term. These numbers are calculated based on SEC requirements and do not reflect our projection or estimate of future stock price growth.
- (3) We granted options to purchase 9,739,004 shares of common stock to employees during 2004.
- (4) Options were granted at an exercise price equal to the fair market value per share of our common stock as quoted on the Nasdaq National Market.
- (5) Options were granted at an exercise price equal to five percent (5%) above the fair market value per share of our common stock quoted on the Nasdaq National Market.



**AGGREGATE OPTION EXERCISES IN FISCAL YEAR 2004 AND  
FISCAL YEAR-END OPTION VALUES**

The following table sets forth for each of the Named Executive Officers the shares acquired and the value realized on each exercise of stock options during the year ended December 31, 2004 and the year-end number and value of exercisable and unexercisable options.

<u>Name</u>	<u>Shares Acquired on Exercise</u>	<u>Value Realized</u>	<u>Number of Securities Underlying Unexercised Options at 12/31/04(1)</u>		<u>Value of Unexercised In-the-Money Options at 12/31/04(2)</u>	
			<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
Stratton D. Sclavos .....	50,429	\$794,761	3,822,189	1,825,225	\$43,661,932	\$16,573,689
Dana L. Evan .....	38,000	744,587	651,860	262,292	3,549,072	3,095,863
Quentin P. Gallivan .....	20,000	210,362	643,081	239,583	3,572,614	2,936,788
Robert J. Korzeniewski .....	—	—	406,667	239,583	2,369,188	2,936,788
Judy Lin .....	38,624	667,888	409,646	203,854	4,759,512	2,687,138
Russell S. Lewis .....	—	—	358,690	190,833	3,206,138	2,702,763

- (1) All options exercised and shown in this table were granted under our 1995 Stock Option Plan, 1997 Stock Option Plan, 1998 Equity Incentive Plan or 2001 Stock Incentive Plan.
- (2) Based on a value of \$33.60, the closing price per share of our common stock on the Nasdaq National Market on December 31, 2004, net of the option exercise price.

## EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2004.

<u>Plan Category</u>	<u>Equity Compensation Plan Information</u>		
	(A)	(B)	(C)
	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))</u>
Equity compensation plans approved by stockholders .....	13,399,445	\$50.72	20,203,730(1)
Equity compensation plans not approved by stockholders .....	17,715,369(2)(3)	\$17.99	7,743,290(2)
Total .....	<u>31,114,814</u>	\$32.08	<u>27,947,020</u>

- (1) Includes 6,139,707 shares available for purchase under the 1998 Employee Stock Purchase Plan (the "Purchase Plan"). The Purchase Plan contains an "evergreen" provision whereby the aggregate number of shares available for issuance increases automatically on January 1 of each year by 1% of our outstanding shares of common stock on each immediately preceding December 31.
- (2) Includes securities to be issued upon exercise of outstanding options under VeriSign's 2001 Stock Incentive Plan (the "Incentive Plan"). The Incentive Plan contains an "evergreen" provision whereby the aggregate number of shares available for issuance increases automatically on January 1 of each year by 2% of our outstanding shares of common stock on each immediately preceding December 31. The Incentive Plan authorizes the award of non-qualified stock options and restricted stock awards to eligible employees and 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 Incentive Plan. Options may be granted at an exercise price not less than the fair market value of VeriSign's common stock on the date of grant. All options are granted at the discretion of the Board or the compensation committee 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 Incentive Plan. All of the shares authorized for issuance under the Incentive Plan are available for issuance pursuant to awards of restricted stock or restricted stock units.
- (3) Does not include options to purchase 1,763,355 shares of common stock with a weighted average exercise price of \$63.07 that were assumed in various business combinations.

*Under Items 306 and 402(a)(9) of Regulation S-K promulgated by the SEC, neither the "Report of the Compensation Committee," the "Report of the Audit Committee" nor the "Stock Price Performance Graph" shall be deemed to be "soliciting material" or to be "filed" with the SEC for purposes of the Securities Exchange Act of 1934, as amended, nor shall either report or the graph be deemed to be incorporated by reference in any past or future filing by the Company under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended.*

## REPORT OF THE COMPENSATION COMMITTEE

The compensation committee of the Board of Directors administers our executive compensation program. The current members of the compensation committee are D. James Bidzos (Chairman), Len J. Lauer and Gregory L. Reyes. Each of these persons is a non-employee director within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code, and an "independent director" under the rules of the Nasdaq Stock Market. None of the committee members has any interlocking relationships as defined by the rules promulgated by the SEC.

### General Compensation Philosophy

The role of the compensation committee is to review the salaries and other compensation of the executive officers and certain other key employees of VeriSign, and to make grants under, and to administer, the stock option and other employee equity and bonus plans. VeriSign's compensation philosophy for executive officers is to relate compensation to corporate performance and increases in stockholder value, while providing a total compensation package that is competitive and enables VeriSign to attract, motivate, reward and retain key executives and employees. Accordingly, each executive officer's compensation package may, in one or more years, be comprised of the following three elements:

- base salary that is designed primarily to be competitive with base salary levels in effect at high technology companies in the Silicon Valley and other locations where we have employees that are of comparable size to VeriSign and with which VeriSign competes for executive personnel;
- annual variable performance awards, such as bonuses, payable in cash and tied to the achievement of performance goals, financial or otherwise, established by the compensation committee; and
- long-term stock-based incentive awards which strengthen the mutuality of interests between the executive officers and VeriSign's stockholders.

### Executive Compensation

*Base Salary.* Salaries for executive officers for 2004 were generally determined on an individual basis by evaluating each executive's scope of responsibility, performance, prior experience and salary history, as well as the salaries for similar positions at comparable companies. In addition, VeriSign's Human Resources Department provided information to us regarding salary range guidelines for specific positions.

Base salary is adjusted each year to take into account the executive officer's performance and to maintain a competitive salary structure. We conduct reviews of executive compensation practices on an annual basis and may change each executive officer's salary based on the individual's contributions and responsibilities over the prior twelve months and any change in median comparable company pay levels. We believe that, on the basis of our knowledge of executive compensation in the industry, that VeriSign's salary levels for the executive officers are reasonable and necessary given the competition for executive talent in the industry and VeriSign's financial resources.

*Bonus Plan.* VeriSign has established a bonus plan that rewards employees who are identified as key contributors to the success of the company. Target bonuses are established based on a percentage of base salary

and become payable upon the achievement of specified total company financial goals and personal and team objectives. We administer this plan with regard to the chief executive officer and the other executive officers of VeriSign. The executive management team administers the plan for all other employees.

VeriSign's total compensation philosophy is based on the concept that variable pay is earned through effective performance and contribution to the success of the company. Bonus payments are based on actual performance in achieving corporate, business unit (or divisional) and individual targets. Each year, the compensation committee, working with the executive management team, establishes the corporate goals for bonus measurement purposes and determines weightings for each element. The executive management team is responsible for ensuring that actual results are confirmed before they are applied against the bonus plan for payment purposes. Each business unit or divisional executive vice president is responsible for developing the targets and objectives for their division. All targets and objectives are aligned with the business plan for the fiscal year and monitored by VeriSign's corporate finance department. Individual performance is measured relative to the individual's personal contribution to the success of the organization. This element is objective and tied to individual documented objectives for the bonus year. All targets and related objectives are defined and measured on an annual basis.

For 2005, corporate goals for VeriSign's executive management members have been set in the following areas:

- Financial performance goals that include specific objectives relating to revenues, operating margin and other financial metrics;
- Strategic goals applicable to each business unit designed to extend the reach of VeriSign's service offerings in existing markets while enabling us to enter new geographic markets and offer new services for the current year and the future; and
- Organizational development goals that will help us give our employees the tools they need to execute more effectively against our strategic plan over the near-term and the long-term.

*Long-Term Incentive Awards.* We believe that equity-based compensation in the form of stock options, restricted stock units and restricted stock awards links the interests of executive officers with the long-term interests of VeriSign's stockholders and encourages executive officers to remain in VeriSign's employ. Stock options, restricted stock units and restricted stock awards generally have value for executive officers only if the officer remains in VeriSign's employ for the period required for the shares to vest, and, in the case of stock options, only if the price of VeriSign's stock increases above the fair market value on the grant date.

VeriSign grants stock options, restricted stock units and restricted stock awards in accordance with the 1998 Equity Incentive Plan and 2001 Stock Incentive Plan. In 2004, stock options and restricted stock units were granted to executive officers to aid in the retention of executive officers and to align their interests with those of the stockholders. Stock options typically have been granted to executive officers when the executive first joins VeriSign; in connection with a significant change in responsibilities; annually as part of the VeriSign Key Contributor Stock Option Program; and, occasionally, to achieve equity within a peer group. We may, however, grant additional stock options, restricted stock units and restricted stock awards to executive officers for other reasons. The number of shares subject to each stock option granted, restricted stock unit granted and restricted stock award is within our discretion and is based on anticipated future contribution and ability to impact VeriSign's results, past performance or consistency within the executive officer's peer group. In 2004, we considered these factors, as well as the number of unvested option shares held by the executive officer as of the date of grant. We may also grant stock options, restricted stock units and restricted stock awards to executive officers to provide greater incentives to continue their employment with VeriSign and to strive to increase the value of VeriSign's common stock. The stock options generally become exercisable over a four-year period and are granted at a price that is equal to the fair market value of VeriSign's common stock on the date of grant. Shares granted under restricted stock awards generally vest over a two year period, although one-third of the shares may not be disposed of until after three years.

## **Chief Executive Officer Compensation**

Mr. Sclavos' base salary, target bonus, bonus paid and long-term incentive awards for 2004 were determined by us in a manner consistent with the factors described above for all executive officers. Mr. Sclavos' base salary for 2004 was set at the annual rate of \$750,000; he was eligible for a target bonus of \$750,000, up to a maximum of \$1,500,000. Mr. Sclavos' long-term incentive award for 2004 consisted of a grant of options to purchase 650,000 shares of VeriSign common stock and 125,000 restricted stock units. In order to more effectively align these awards with the maximization of long-term shareholder value, a majority of the options were granted at exercise prices above fair market value, while most of the restricted stock units vest in the last two years of the four-year vesting period. Specifically, options with respect to 400,000 shares were granted at an exercise price of 5% above the fair market value of our common stock on the date of grant, and 100,000 of the restricted stock units will vest over a four-year period as follows: 10% on the first anniversary, 20% on the second anniversary, 30% on the third anniversary, and 40% on the fourth anniversary of the date of grant. Mr. Sclavos was paid a bonus in 2004 in accordance with VeriSign's regular bonus plan based on VeriSign's actual performance in fiscal year 2003 in achieving corporate financial and other targets described above as compared to planned results for these criteria. We also considered Mr. Sclavos' achievement of his individual objectives. An important aspect of VeriSign's continued success was, and will continue to be, Mr. Sclavos' leadership in developing and articulating the long-term strategic direction of VeriSign, as well as his continued attention to the development of the appropriate senior management team to support and execute that strategy. Finally, in considering competitive compensation practices with respect to Mr. Sclavos' total compensation, we paid particular attention to the compensation practices of competitor companies and sought to assure that Mr. Sclavos' total compensation was appropriate relative to the total compensation paid to the chief executive officers at similarly situated companies.

We have reviewed all components of Mr. Sclavos' and our executive officers' compensation, including salary, bonus, and long-term equity compensation. Based on this review, the compensation committee finds Mr. Sclavos' and our executive officers' total compensation to be reasonable.

## **Internal Revenue Code Section 162(m) Limitation**

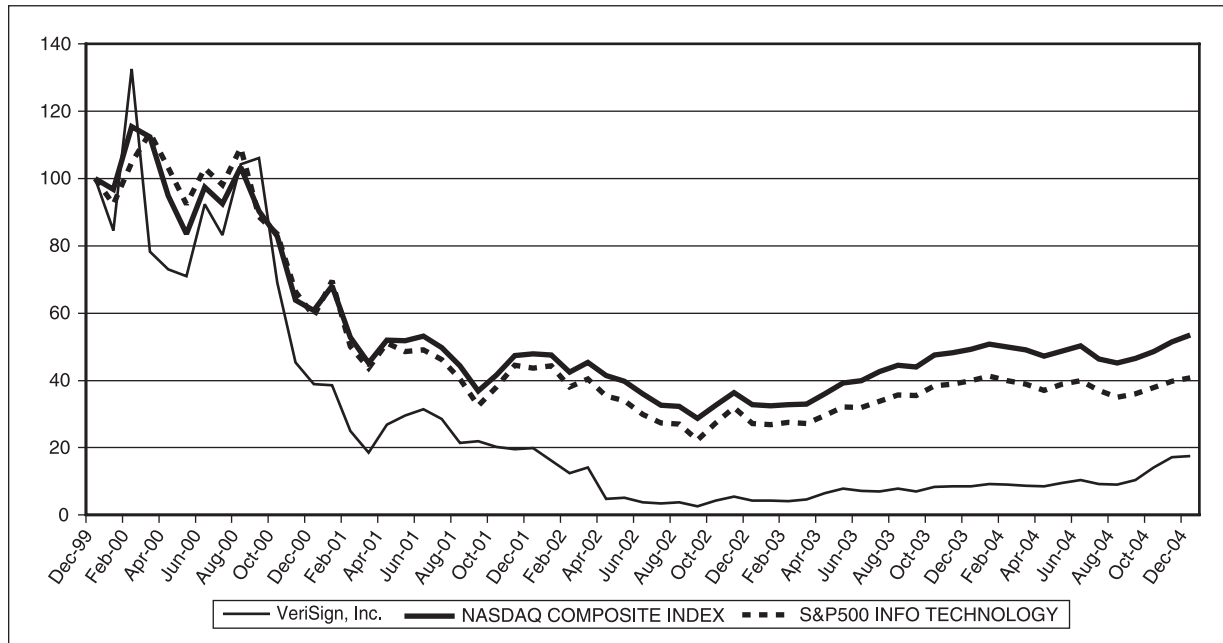
Section 162(m) of the Internal Revenue Code limits the tax deduction to \$1.0 million for compensation paid to certain executives of public companies, unless compensation is commission- or performance-based. Having considered the requirements of Section 162(m), we believe that option grants made pursuant to the 1998 Equity Incentive Plan meet the requirements that such grants be "performance based" and are, therefore, exempt from the limitations on deductibility. However, restricted stock units granted under the 1998 Equity Incentive Plan and options granted under the 2001 Stock Incentive Plan may not be deductible depending on the date that such restricted stock units vest or the options are exercised. Historically, the combined salary and bonus of each executive officer has been below the \$1.0 million limit. In 2004, Mr. Sclavos received in excess of \$1.0 million which excess will not be deductible.

This report is submitted by the Compensation Committee.

D. James Bidzos (Chairman)  
Len J. Lauer  
Gregory L. Reyes

## STOCK PRICE PERFORMANCE GRAPH

The following graph compares the cumulative total stockholder return on our common stock, the Nasdaq Composite Index, and the S&P 500 Information Technology Index. The graph assumes that \$100 was invested in our common stock, the Nasdaq Composite Index and the S&P 500 Information Technology Index on December 31, 1999, and calculates the return quarterly through December 31, 2004. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



	<u>12/31/1999</u>	<u>12/29/2000</u>	<u>12/31/2001</u>	<u>12/31/2002</u>	<u>12/31/2003</u>	<u>12/31/2004</u>
VeriSign, Inc. . . . .	\$100	\$39	\$20	\$ 4	\$ 9	\$18
Nasdaq Composite Index . . . . .	\$100	\$61	\$48	\$33	\$49	\$53
S&P 500 Information Technology Index . . .	\$100	\$59	\$44	\$27	\$40	\$41

## REPORT OF THE AUDIT COMMITTEE

The audit committee of the Board of Directors is composed of three non-management directors who meet the independence and experience requirements of The Nasdaq Stock Market. The audit committee operates under a written charter adopted by the Board of Directors. The members of the audit committee are Messrs. Roper (Chairman), Chenevich and Mueller.

Management is responsible for the preparation, presentation and integrity of VeriSign's financial statements, accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent registered public accounting firm, KPMG LLP, are responsible for performing an independent audit of VeriSign's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The audit committee is responsible for oversight of our financial, accounting and reporting processes and our compliance with legal and regulatory requirements. The audit committee is also responsible for the appointment, compensation and oversight of our independent registered public accounting firm, which includes reviewing the independent registered public accounting firm's independence, reviewing and approving the planned scope of the annual audit, overseeing the independent auditors' audit work, reviewing and pre-approving any non-audit services that may be performed by the independent auditors, reviewing with management and the independent auditors the adequacy of our internal financial controls, and reviewing our critical accounting policies and the application of accounting principles.

We have adopted a policy regarding rotation of the audit partners responsible for the audit of VeriSign's financial statements. No audit partner (as defined under SEC rules) of the public accounting firm providing audit services to VeriSign shall have served as the lead or coordinating audit partner (having primary responsibility for the audit) or as the audit partner responsible for reviewing the audit for more than five consecutive fiscal years.

During 2004, at each of our meetings, we met with the senior members of VeriSign's financial management team and our independent registered public accounting firm. We recommended to the Board of Directors that KPMG LLP be engaged as VeriSign's independent registered public accounting firm and we reviewed with KPMG LLP the overall audit scope and plans. We met privately with KPMG LLP to discuss the results of the audit, evaluations by the auditors of VeriSign's accounting and internal controls and quality of VeriSign's financial reporting. The audit committee met eight times during 2004.

Our review of the audited financial statements contained in VeriSign's Annual Report on Form 10-K for the year ended December 31, 2004 included a discussion of the accounting principles, reasonableness of significant judgments, and clarity of disclosures in the financial statements. Management represented to us that VeriSign's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and we have reviewed and discussed the consolidated financial statements with management and KPMG LLP.

We discussed with KPMG LLP matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees." We also discussed with KPMG LLP their annual written disclosures and letter on their independence from VeriSign and its management, as required by Independent Standards Board Standard No. 1, "Independence Discussions with Audit Committees." The audit committee has also considered whether the non-audit services provided by KPMG LLP to VeriSign during 2004 are compatible with maintaining the auditors' independence.

Based upon our discussions with management and KPMG LLP and our review of the representations of management, and the report of KPMG LLP to the audit committee, we recommended to the Board of Directors that the audited consolidated financial statements be included in VeriSign's Annual Report on Form 10-K for the year ended December 31, 2004, for filing with the SEC.

This report is submitted by the Audit Committee.

William A. Roper, Jr. (Chairman)  
William L. Chenevich  
Edward A. Mueller



## PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents fees for professional services rendered by KPMG LLP for the audit of our annual consolidated financial statements for the years ended December 31, 2004 and December 31, 2003, and fees billed for other services provided by KPMG LLP.

	<u>2004 Fees</u>	<u>2003 Fees</u>
Audit Fees (including quarterly reviews):		
Consolidated audit . . . . .	\$2,581,000	\$1,419,000
Statutory Audits . . . . .	252,206	156,000
Consent on SEC filing . . . . .	20,000	10,000
Total Audit Fees . . . . .	<u>2,853,206</u>	<u>1,585,000</u>
Audit-Related Fees(1) . . . . .	599,419	725,000
Tax Fees(2) . . . . .	354,360	854,000
All Other Fees(3) . . . . .	30,500	177,000
Total Fees . . . . .	<u>\$3,837,485</u>	<u>\$3,341,000</u>

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- (1) Audit-Related Fees consist principally of attestation of internal controls for service organizations under Statement on Accounting Standards No. 70 (SAS 70).
  - (2) Tax Fees include federal, state and international tax compliance, tax advice and tax planning.
  - (3) All Other Fees include reimbursement of professional and administrative costs incurred by KPMG LLP for compliance with a subpoena request related to certain class action complaints filed against VeriSign and other administrative services.

### **Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors**

The audit committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management are required to periodically report to the audit committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Since January 1, 2004, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we or any of our subsidiaries was or is to be a party in which the amount involved exceeded or will exceed \$60,000 and in which any director, executive officer or holder of more than 5% of the common stock of VeriSign or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest other than the transactions described below.

*Reimbursement Payments to Mr. Sclavos for Use of Airplane.* In February 2004, the compensation committee approved a policy for the partial reimbursement of certain expenses incurred by Stratton D. Sclavos in the operation of his private plane when used for VeriSign business. Under this policy, we will reimburse Mr. Sclavos \$2900 per flight hour up to \$650,000 per year. During 2004, we reimbursed approximately \$560,419 under this policy. All amounts reimbursed to Mr. Sclavos were approved by the compensation committee of the Board of Directors. Mr. Sclavos is President, Chief Executive Officer and Chairman of the Board of Directors.

*Executive Relocation Loan.* In March 2001, we loaned \$2,000,000 to James M. Ulam, our Senior Vice President and General Counsel, in connection with his relocation from Virginia to California. This loan, which is secured by Mr. Ulam's principal residence, does not accrue interest. The remaining principal amount of the loan of \$1,250,000 was forgiven in full on October 1, 2004.

*Severance Arrangement with Mr. Irvin.* In May 2003, we entered into an agreement with Vernon L. Irvin that provides for payment of six months' base salary in the event he is terminated for reasons other than for cause or resignation. Mr. Irvin is Executive Vice President and General Manager, Communications Services.

*Acceleration of Option Vesting in the Event of a Change of Control.* Options generally vest at the rate of 25% of the shares subject to the option on the first anniversary of the date of the grant and thereafter with respect to 6.25% each quarter. However, upon certain changes in control, the options vesting schedule accelerates as to 50% of any shares that are then unvested for officers at the level of senior vice president and above and as to 100% of any shares that are then unvested for the president and chief executive officer.

## **STOCKHOLDER PROPOSALS FOR THE 2006 ANNUAL MEETING OF STOCKHOLDERS**

Proposals of stockholders intended to be presented at our 2006 Annual Meeting of Stockholders and included in our proxy statement and form of proxy relating to the meeting, pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, must be received by us at our principal executive offices no later than 120 calendar days before the one year anniversary of the date of this proxy statement, or December 27, 2005.

In accordance with our bylaws, we have established an advance notice procedure for stockholder proposals not included in our proxy statement to be brought before an annual meeting of stockholders. In general, nominations for the election of directors may be made:

- pursuant to VeriSign's notice of such meeting;
- by or at the direction of the Board of Directors; or
- by any stockholder of the corporation who was a stockholder of record at the time of giving notice who is entitled to vote at such meeting and complies with the notice procedures set forth below.

The only business that will be conducted at an annual meeting of our stockholders is business that is brought before the meeting by or at the direction of the chairman of the meeting or by any stockholder entitled to vote who has delivered timely written notice to the Secretary of VeriSign sixty days or no more than ninety days prior to the first anniversary of this year's annual meeting. In the event that the date of the annual meeting is more than thirty days before or more than sixty days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the ninetieth day prior to the annual meeting and not later than the close of business on the later of the sixtieth day prior to the annual meeting or the close of business on the tenth day following the day on which public announcement of the date of such meeting is first made by us. The stockholder's notice must contain specified information concerning the matters to be brought before the meeting and concerning the stockholder proposing those matters. If a stockholder who has notified us of his intention to present a proposal at an annual meeting does not appear or send a qualified representative to present his proposal at the meeting, we need not present the proposal for a vote at the meeting. We reserve the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements, including conditions established by the SEC. A copy of the full text of the bylaw provisions discussed above may be obtained by writing to the Secretary of VeriSign. All notices of proposals by stockholders, whether or not included in our proxy materials, should be sent to the Secretary of VeriSign at our principal executive offices at 487 East Middlefield Road, Mountain View, California 94043-4047.

## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16 of the Securities Exchange Act of 1934, as amended, requires our directors and officers, and persons who own more than 10% of VeriSign's common stock to file initial reports of ownership and reports of changes in ownership with the SEC, and The Nasdaq Stock Market. These persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms that they file.

Based solely on our review of the copy of the forms furnished to us and written representations from the executive officers and directors, we believe that all filing requirements applicable to our directors and executive officers were timely met except that each of Aristotle N. Balogh and Dana L. Evan had one delinquent filing during the fiscal year ended December 31, 2004.

## **CODE OF ETHICS**

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 [http://www.verisign.com/verisign-inc/vrsn-investors/Corporate\\_Governance/index.html](http://www.verisign.com/verisign-inc/vrsn-investors/Corporate_Governance/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.

## **OTHER BUSINESS**

The Board of Directors does not presently intend to bring any other business before the Meeting, and, so far as is known to the Board of Directors, no matters are to be brought before the Meeting except as specified in the Notice of the Meeting. As to any business that may properly come before the Meeting, however, it is intended that proxies, in the form enclosed, will be voted in respect thereof in accordance with the judgment of the persons voting such proxies.

**Whether or not you expect to attend the Meeting, please complete, date, sign and promptly return the accompanying proxy in the enclosed postage paid envelope or complete the proxy electronically or by phone as described on the proxy card and under “Internet and Telephone Voting” in this proxy statement so that your shares may be represented at the Meeting.**

## COMMUNICATING WITH VERISIGN

We have from time-to-time received calls from stockholders inquiring about the available means of communication with VeriSign. We thought that it would be helpful to describe these arrangements which are available for your use.

- If you would like to receive information about VeriSign, you may use one of these convenient methods:
  1. To have information such as our latest Annual Report on Form 10-K or Quarterly Report on Form 10-Q mailed to you, please call our Investor Relations Department at (866) 447-8776 (4IR-VRSN).
  2. To view our home page on the Internet, use our Internet address: *www.verisign.com*. Our home page gives you access to product, marketing and financial data, and an on-line version of this proxy statement, our Annual Report on Form 10-K and other filings with the SEC.
- If you would like to write to us, please send your correspondence to the following address:

VeriSign, Inc.  
Attention: Investor Relations  
487 East Middlefield Road  
Mountain View, CA 94043-4047
- If you would like to inquire about stock transfer requirements, lost certificates and change of stockholder address, please call our transfer agent, Mellon Investor Services LLC at (800) 356-2017. Foreign stockholders please call (201) 329-8660. You may also visit their web site at *www.melloninvestor.com* for step-by-step transfer instructions.

APPENDIX A  
VERISIGN, INC.  
1998 DIRECTORS STOCK OPTION PLAN

As Adopted October 31, 1997  
and Amended June 8, 2000, January 26, 2001, May 24, 2003 and August 3, 2004

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

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

**3. Types of Options and Shares.** Options granted under this Plan shall be non-qualified stock options (“*NQSOs*”). The shares of stock that may be purchased upon exercise of Options granted under this Plan (the “*Shares*”) are shares of the Common Stock of the Company.

**4. Number of Shares.** The maximum number of Shares that may be issued pursuant to Options granted under this Plan (the “*Maximum Number*”) is 1,250,000 Shares, subject to adjustment as provided in this Plan. If any Option is terminated for any reason without being exercised in whole or in part, the Shares thereby released from such Option shall be available for purchase under other Options subsequently granted under this Plan. At all times during the term of this Plan, the Company shall reserve and keep available such number of Shares as shall be required to satisfy the requirements of outstanding Options granted under this Plan; provided, however that if the aggregate number of Shares subject to outstanding Options granted under this Plan plus the aggregate number of Shares previously issued by the Company pursuant to the exercise of Options granted under this Plan equals or exceeds the Maximum Number, then notwithstanding anything herein to the contrary, no further Options may be granted under this Plan until the Maximum Number is increased or the aggregate number of Shares subject to outstanding Options granted under this Plan plus the aggregate number of Shares previously issued by the Company pursuant to the exercise of Options granted under this Plan is less than the Maximum Number.

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

**6. Eligibility and Award Formula.**

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

**6.2 Initial Grant.** Each Optionee who on or after the Effective Date first becomes a member of the Board will automatically be granted an Option for 50,000 Shares (an “*Initial Grant*”) on the date such Optionee becomes a member of the Board.



6.3 *Succeeding Grants.* On each annual anniversary of an Optionee's Initial Grant (or previous grant from the Company outside this Plan if such Optionee was ineligible to receive an Initial Grant), provided the Optionee is a member of the Board on such anniversary date and has served continuously as a member of the Board since the date of such Optionee's Initial Grant or previous grant, as the case may be, the Optionee will automatically be granted an Option for 25,000 Shares (a "***Succeeding Grant***").

**7. Terms and Conditions of Options.** Subject to the following and to Section 6 above:

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

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

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

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

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

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

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

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

## **8. Exercise of Options.**

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

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

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

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

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

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

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

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

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

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

**12. No Obligation to Continue as Director.** Nothing in this Plan or any Option granted under this Plan shall confer on any Optionee any right to continue as a director of the Company.

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

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

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

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

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

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

17.2 **“Subsidiary”** means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the

unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

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

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

- (a) if such Common Stock is then quoted on the Nasdaq National Market, its closing price on the Nasdaq National Market on the date of determination as reported in *The Wall Street Journal*;
- (b) if such Common Stock is publicly traded and is then listed on a national securities exchange, its closing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading as reported in *The Wall Street Journal*;
- (c) if such Common Stock is publicly traded but is not quoted on the Nasdaq National Market nor listed or admitted to trading on a national securities exchange, the average of the closing bid and asked prices on the date of determination as reported in *The WallStreet Journal*;
- (d) in the case of an Option granted on the Effective Date, the price per share at which shares of the Company’s Common Stock are initially offered for sale to the public by the Company’s underwriters in the initial public offering of the Company’s Common Stock pursuant to a registration statement filed with the SEC under the Securities Act; or
- (e) if none of the foregoing is applicable, by the Committee in good faith.

**INITIAL GRANT**  
**VERISIGN, INC.**  
**1998 DIRECTORS STOCK OPTION PLAN**  
**DIRECTORS NONQUALIFIED INITIAL STOCK OPTION GRANT**

This Stock Option Grant (this “*Grant*”) is made and entered into as of the date of grant set forth below (the “*Date of Grant*”) by and between VeriSign, Inc., a Delaware corporation (the “*Company*”), and the Optionee named below (“*Optionee*”).

Optionee: \_\_\_\_\_  
Optionee’s Address: \_\_\_\_\_  
Total Shares Subject to Option: \_\_\_\_\_  
Exercise Price Per Share: \_\_\_\_\_  
Date of Grant: \_\_\_\_\_  
Expiration Date: \_\_\_\_\_

**1. Grant of Option.** The Company hereby grants to Optionee an option (this “*Option*”) to purchase up to the total number of shares of Common Stock of the Company set forth above (collectively, the “*Shares*”) at the exercise price per share set forth above (the “*Exercise Price*”), subject to all of the terms and conditions of this Grant and the Company’s 1998 Directors Stock Option Plan (the “*Plan*”). Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Plan.

**2. Exercise and Vesting of Option.** Subject to the terms and conditions of the Plan and this Grant, this Option shall become exercisable as it vests. Subject to the terms and conditions of the Plan and this Grant, this Option shall vest as to six and twenty-five one-hundredths percent (6.25%) of the Shares on each three-month anniversary of the Date of Grant so long as the Optionee continuously remains a member of the Board of Directors (a “*Board Member*”) [OPTIONAL, IF PERMITTED BY THE COMMITTEE: OR A CONSULTANT OF THE COMPANY].

**3. Restriction On Exercise.** This Option may not be exercised unless such exercise is in compliance with the Securities Act, and all applicable state securities laws, as they are in effect on the date of exercise, and the requirements of any stock exchange or national market system on which VeriSign, Inc. Directors Stock Option Grant—Initial Grant the Company’s Common Stock may be listed at the time of exercise. Optionee understands that the Company is under no obligation to register, qualify or list the Shares with the SEC, any state securities commission or any stock exchange or national market system to effect such compliance.

**4. Termination Of Option.** Except as provided below in this Section, this Option shall terminate and may not be exercised if Optionee ceases to be a Board Member [OPTIONAL, IF PERMITTED BY THE COMMITTEE: OR CONSULTANT OF THE COMPANY]. The date on which Optionee ceases to be a Board Member [OPTIONAL, IF PERMITTED BY THE COMMITTEE: OR A CONSULTANT OF THE COMPANY] shall be referred to as the “*Termination Date.*”

**4.1 Termination Generally.** If Optionee ceases to be a Board Member, [OPTIONAL, IF PERMITTED BY THE COMMITTEE: OR A CONSULTANT OF THE COMPANY] for any reason except death or disability, then this Option, to the extent (and only to the extent) that it would have been exercisable by Optionee on the Termination Date, may be exercised by Optionee within seven (7) months after the Termination Date, but in no event later than the Expiration Date.

**4.2 Death or Disability.** If Optionee ceases to be a Board Member [OPTIONAL, IF PERMITTED BY THE COMMITTEE: OR A CONSULTANT OF THE COMPANY] because of the death of Optionee or the

disability of Optionee, then this Option, to the extent (and only to the extent) that it would have been exercisable by Optionee on the Termination Date, may be exercised by Optionee (or Optionee's legal representative) within twelve (12) months after the Termination Date, but in no event later than the Expiration Date.

## **5. Manner Of Exercise.**

**5.1 Exercise Agreement.** This Option shall be exercisable by delivery to the Company of an executed written Directors Stock Option Exercise Agreement in the form attached hereto as Exhibit A, or in such other form as may be approved by the Committee, which shall set forth Optionee's election to exercise some or all of this Option, the number of shares being purchased, any restrictions imposed on the Shares and such other representations and agreements as may be required by the Company to comply with applicable securities laws.

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

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

**5.4 Issuance of Shares.** Provided that such notice and payment are in form and substance satisfactory to counsel for the Company, the Company shall cause the Shares to be issued in the name of Optionee or Optionee's legal representative. To enforce any restrictions on Optionee's Shares, the Committee may require Optionee to deposit all certificates, 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.

**6. Nontransferability Of Option.** During the lifetime of the Optionee, this Option shall be exercisable only by Optionee or by Optionee's guardian or legal representative, unless otherwise permitted by the Committee. This Option may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent and distribution.

**7. Interpretation.** Any dispute regarding the interpretation of this Grant shall be submitted by Optionee or the Company to the Committee that administers the Plan, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Committee shall be final and binding on the Company and on Optionee. Nothing in the Plan or this Grant shall confer on Optionee any right to continue as a Board Member.

**8. Entire Agreement.** The Plan and the Directors Stock Option Exercise Agreement in the form attached hereto as Exhibit A, and the terms and conditions thereof, are incorporated herein by reference. This Grant, the

Plan and the Directors Stock Option Exercise Agreement constitute the entire agreement and understanding of the parties hereto with respect to the subject matter hereof and supersede all prior understandings and agreements with respect to such subject matter.

**VERISIGN, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**ACCEPTANCE OF STOCK OPTION GRANT**

Optionee hereby acknowledges receipt of a copy of the Plan, represents that Optionee has read and understands the terms and provisions thereof, and accepts this Option subject to all the terms and conditions of the Plan and this Grant. Optionee acknowledges that there may be adverse tax consequences upon exercise of this Option or disposition of the Shares and that Optionee has been advised by the Company that Optionee should consult a qualified tax advisor prior to such exercise or disposition.

\_\_\_\_\_  
\_\_\_\_\_, Optionee

[ACCEPTANCE SIGNATURE PAGE TO  
DIRECTORS NONQUALIFIED INITIAL STOCK OPTION GRANT]

**SUCCEEDING GRANT**  
**VERISIGN, INC.**  
**1998 DIRECTORS STOCK OPTION PLAN**  
**DIRECTORS NONQUALIFIED SUCCEEDING STOCK OPTION GRANT**

This Stock Option Grant (this “*Grant*”) is made and entered into as of the date of grant set forth below (the “*Date of Grant*”) by and between VeriSign, Inc., a Delaware corporation (the “*Company*”), and the Optionee named below (“*Optionee*”).

Optionee: \_\_\_\_\_  
Optionee’s Address: \_\_\_\_\_  
Total Shares Subject to Option: \_\_\_\_\_  
Exercise Price Per Share: \_\_\_\_\_  
Date of Grant: \_\_\_\_\_  
Expiration Date: \_\_\_\_\_

**1. Grant of Option.** The Company hereby grants to Optionee an option (this “*Option*”) to purchase up to the total number of shares of Common Stock of the Company set forth above (collectively, the “*Shares*”) at the exercise price per share set forth above (the “*Exercise Price*”), subject to all of the terms and conditions of this Grant and the Company’s 1998 Directors Stock Option Plan (the “*Plan*”). Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Plan.

**2. Exercise and Vesting of Option.** Subject to the terms and conditions of the Plan and this Grant, this Option shall become exercisable as it vests. Subject to the terms and conditions of the Plan and this Grant, this Option shall vest as to six and twenty-five one-hundredths (6.25%) of the Shares on each three-month anniversary of the Date of Grant so long as the Optionee continuously remains a member of the Board of Directors (a “*Board Member*”) [OPTIONAL, IF PERMITTED BY THE COMMITTEE: OR A CONSULTANT OF THE COMPANY].

**3. Restriction on Exercise.** This Option may not be exercised unless such exercise is in compliance with the Securities Act, and all applicable state securities laws, as they are in effect on the date of exercise, and the requirements of any stock exchange or national market system on which the Company’s Common Stock may be listed at the time of exercise. Optionee understands that the Company is under no obligation to register, qualify or list the Shares with the SEC, any state securities commission or any stock exchange or national market system to effect such compliance.

**4. Termination of Option.** Except as provided below in this Section, this Option shall terminate and may not be exercised if Optionee ceases to be a Board Member [OPTIONAL, IF PERMITTED BY THE COMMITTEE: OR A CONSULTANT OF THE COMPANY]. The date on which Optionee ceases to be a Board Member [OPTIONAL, IF PERMITTED BY THE COMMITTEE: OR A CONSULTANT OF THE COMPANY] shall be referred to as the “*Termination Date*.”

**4.1 Termination Generally.** If Optionee ceases to be a Board Member [OPTIONAL, IF PERMITTED BY THE COMMITTEE: OR A CONSULTANT OF THE COMPANY] for any reason except death or disability, then this Option, to the extent (and only to the extent) that it would have been exercisable by Optionee on the Termination Date, may be exercised by Optionee within seven (7) months after the Termination Date, but in no event later than the Expiration Date.

**4.2 Death or Disability.** If Optionee ceases to be a Board Member [OPTIONAL, IF PERMITTED BY THE COMMITTEE: OR A CONSULTANT OF THE COMPANY] because of the death of Optionee or the

disability of Optionee, then this Option, to the extent (and only to the extent) that it would have been exercisable by Optionee on the Termination Date, may be exercised by Optionee (or Optionee's legal representative) within twelve (12) months after the Termination Date, but in no event later than the Expiration Date.

## **5. Manner Of Exercise.**

**5.1 Exercise Agreement.** This Option shall be exercisable by delivery to the Company of an executed written Directors Stock Option Exercise Agreement in the form attached hereto as Exhibit A, or in such other form as may be approved by the Committee, which shall set forth Optionee's election to exercise some or all of this Option, the number of shares being purchased, any restrictions imposed on the Shares and such other representations and agreements as may be required by the Company to comply with applicable securities laws.

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

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

**5.4 Issuance of Shares.** Provided that such notice and payment are in form and substance satisfactory to counsel for the Company, the Company shall cause the Shares to be issued in the name of Optionee or Optionee's legal representative. To enforce any restrictions on Optionee's Shares, the Committee may require Optionee to deposit all certificates, 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.

**6. Nontransferability of Option.** During the lifetime of the Optionee, this Option shall be exercisable only by Optionee or by Optionee's guardian or legal representative, unless otherwise permitted by the Committee. This Option may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent and distribution.

**7. Interpretation.** Any dispute regarding the interpretation of this Grant shall be submitted by Optionee or the Company to the Committee that administers the Plan, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Committee shall be final and binding on the Company and on Optionee. Nothing in the Plan or this Grant shall confer on Optionee any right to continue as a Board Member.

**8. Entire Agreement.** The Plan and the Directors Stock Option Exercise Agreement in the form attached hereto as Exhibit A, and the terms and conditions thereof, are incorporated herein by reference. This Grant, the

Plan and the Directors Stock Option Exercise Agreement constitute the entire agreement and understanding of the parties hereto with respect to the subject matter hereof and supersede all prior understandings and agreements with respect to such subject matter.

**VERISIGN, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**ACCEPTANCE OF STOCK OPTION GRANT**

Optionee hereby acknowledges receipt of a copy of the Plan, represents that Optionee has read and understands the terms and provisions thereof, and accepts this Option subject to all the terms and conditions of the Plan and this Grant. Optionee acknowledges that there may be adverse tax consequences upon exercise of this Option or disposition of the Shares and that Optionee has been advised by the Company that Optionee should consult a qualified tax advisor prior to such exercise or disposition.

\_\_\_\_\_  
\_\_\_\_\_, Optionee

[ACCEPTANCE SIGNATURE PAGE TO  
DIRECTORS NONQUALIFIED SUCCEEDING STOCK OPTION GRANT]

Exhibit A

VERISIGN, INC.

1998 DIRECTORS STOCK OPTION PLAN (THE "PLAN")  
DIRECTORS STOCK OPTION EXERCISE AGREEMENT

I hereby elect to purchase the number of shares of common stock of VERISIGN, INC. (the "*Company*") as set forth below:

Optionee: \_\_\_\_\_  
Number of Shares Purchased: \_\_\_\_\_  
Social Security Number: \_\_\_\_\_  
Purchase Price per Share: \_\_\_\_\_  
Address: \_\_\_\_\_  
Aggregate Purchase Price: \_\_\_\_\_  
Date of Stock Option Grant: \_\_\_\_\_  
Type of Stock Option: Nonqualified Stock Option  
Exact Name of Title to Shares: \_\_\_\_\_

**1. Delivery of Purchase Price.** Optionee hereby delivers to the Company the Aggregate Purchase Price, to the extent permitted in the Directors Nonqualified Stock Option Grant referred to above (the "Grant") as follows (check as applicable and complete):

- in cash or by check in the amount of \$ \_\_\_\_\_, receipt of which is acknowledged by the Company;
- by delivery of \_\_\_\_\_ fully-paid, nonassessable and vested shares of the Common Stock of the Company owned by Optionee for at least six (6) months prior to the date hereof (and which have been paid for within the meaning of SEC Rule 144), or obtained by Optionee in the open public market, and owned free and clear of all liens, claims, encumbrances or security interests, valued at the current Fair Market Value of \$ \_\_\_\_\_ per share;
- by the waiver hereby of compensation due or accrued to Optionee for services rendered in the amount of \$ \_\_\_\_\_;
- through a "same-day-sale" commitment, delivered herewith, from Optionee and the NASD Dealer named therein, in the amount of \$ \_\_\_\_\_; or
- through a "margin" commitment, delivered herewith from Optionee and the NASD Dealer named therein, in the amount of \$ \_\_\_\_\_.

**2. Market Standoff Agreement.** Optionee, if requested by the Company and an underwriter of Common Stock (or other securities) of the Company, agrees not to sell or otherwise transfer or dispose of any Common Stock (or other securities) of the Company held by Optionee during the period requested by the managing underwriter following the effective date of a registration statement of the Company filed under the Securities Act, provided that all officers and directors of the Company are required to enter into similar agreements. Such agreement shall be in writing in a form satisfactory to the Company and such underwriter. The Company may impose stop-transfer instructions with respect to the shares (or other securities) subject to the foregoing restriction until the end of such period.

**3. Tax Consequences.** OPTIONEE UNDERSTANDS THAT OPTIONEE MAY SUFFER ADVERSE TAX CONSEQUENCES AS A RESULT OF OPTIONEE'S PURCHASE OR DISPOSITION OF THE SHARES. OPTIONEE REPRESENTS THAT OPTIONEE HAS CONSULTED WITH ANY TAX CONSULTANT(S) OPTIONEE DEEMS ADVISABLE IN CONNECTION WITH THE PURCHASE OR

DISPOSITION OF THE SHARES AND THAT OPTIONEE IS NOT RELYING ON THE COMPANY FOR ANY TAX ADVICE.

**4. Entire Agreement.** The Plan and the Grant are incorporated herein by reference. This Agreement, the Plan and the Grant constitute the entire agreement of the parties and supersede in their entirety all prior understandings and agreements of the Company and Optionee with respect to the subject matter hereof, and are governed by California Law except for that body of law pertaining to conflict of laws.

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature of Optionee



**VERISIGN, INC.**  
**1998 DIRECTORS STOCK OPTION PLAN**  
**SPOUSE'S CONSENT**

I acknowledge that I have read the foregoing Directors Stock Option Exercise Agreement (the "Agreement") and that I know its contents. I hereby consent to and approve all the provisions of the Agreement and agree that the shares of the Common Stock of VeriSign, Inc. purchased thereunder (the "Shares") and any interest I may have in such Shares are subject to all the provisions of the Agreement. I will take no action at any time to hinder operation of the Agreement on these Shares or any interest I may have on them.

\_\_\_\_\_ Date: \_\_\_\_\_  
**Signature of Optionee's Spouse**

\_\_\_\_\_  
**Optionee's Name—Typed or Printed**

\_\_\_\_\_  
**Spouse's Name—Typed or Printed**

## VeriSign Worldwide

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**Fax:** +1-650-961-7300

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Statements in this report other than historical data and information, including but not limited to statements regarding new business relationships and new service offerings, constitute 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 statements involve risks and uncertainties that could cause VeriSign's actual results to differ materially from those stated or implied by such forward-looking statements. The potential risks and uncertainties include, among others, the uncertainty of future revenue and profitability and potential fluctuations in quarterly operating results due to such factors as increasing competition and pricing pressure from competing services offered at prices below our prices and market acceptance of our existing services; the inability of VeriSign to successfully develop and market new services and the uncertainty of whether new services as provided by VeriSign will achieve market acceptance or result in any revenues; risks related to potential security breaches; and the risk that the VeriSign and Jamba! businesses as well as other acquired businesses will not be integrated successfully and unanticipated costs of such integration. More information about potential factors that could affect the company's business and financial results is included in VeriSign's filings with the Securities and Exchange Commission, including in the company's Annual Report on Form 10-K for the year ended December 31, 2004, quarterly reports on Form 10-Q or current reports on Form 8-K. VeriSign undertakes no obligation to update any of the forward-looking statements after the date of this report. VeriSign is a registered trademark of VeriSign, Inc. Other names used in this report may be trademarks of their respective owners.



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