

ANNUAL REPORT

2005



VeriSign®



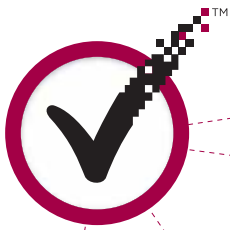


Where it all comes together.™



INTELLIGENT INFRASTRUCTURE AT WORK





3,000 global enterprises secured every day.



80-million text messages delivered every day.



700,000 ring tones, pictures, and games made available every day.



1-billion security events monitored every day.



Today's global economy is being transformed into a digital economy—enabled by a global digital infrastructure. Every day, the world relies on this digital infrastructure to support innovative ways of working and living. Through intelligent interactions with the Internet, we can use relevant, real-time information to make better business decisions. Through the digital marketplace we buy and sell a wide variety of rich content, including applications, games, music, video, and images.

Both businesses and consumers now demand the ability to communicate, to conduct commerce, access the latest content, and manage the latest information any

time, anywhere, on any device—and they expect to do so reliably and securely from their PCs, PDAs, and mobile phones. Yet while the opportunities of the digital economy are compelling, the complexities are equally challenging. Businesses looking to capitalize on the growing demands of this “Any Era” must confront issues such as scalability, interoperability, and security.

We are now at a critical turning point where such complexities are driving the need for intelligent infrastructure that spans Internet and telecommunications networks, simplifying transactions and processes. One company, more than any other, operates the intelligent infrastructure services that have

been instrumental in facilitating the global transformation to a digital economy. That company is VeriSign.

VeriSign operates intelligent infrastructure services that enable and protect billions of interactions across the world's voice and data networks every day. With a strong heritage in the Internet, security, and telecommunications, VeriSign allows global enterprises, operators, service providers, and media companies to improve operational efficiencies and rapidly pursue new revenue-generating opportunities.

Letter to Our Shareholders

2005 was a momentous year for VeriSign as we celebrated our 10th anniversary as a company capping a decade of dynamic growth and expansion. At the end of 1995, VeriSign employed 26 people in one office in Mountain View, California. Today, we have over 4,000 employees in 45 offices in 16 countries around the world. In 1995, VeriSign posted annual revenues of \$400 thousand, a distant memory to 2005's revenues of over \$1.6 billion. From a strategic perspective, we saw many of our businesses hit new milestones last year as new products, increasing unit volumes and international expansion all contributed to record results. These strong financial and business results have allowed us to make significant investments in new technologies and infrastructure that will help us deliver on our corporate mission to enable and protect all forms of interactions across the world's voice and data networks. As the tectonic shifts in communications and commerce continue, VeriSign is building and operating transformational infrastructures that we hope will become indispensable to society.

Our strategy for 2005 focused on growing our base of existing services, while driving compelling new offerings into the market and winning new business at major accounts domestically and internationally. Our team's execution of this plan resulted in strong financial results for 2005 as we exited the year with record revenues, operating income and cash flow. Our Internet Services Group grew by more than 20% this year, powered by continued momentum in our core domain name and SSL businesses, as well as strong growth in our Managed Security Services business. We also announced a strategic alliance with eBay and PayPal to deploy our new Unified Authentication technology, solidly anchoring our entry into the strong authentication market. Our new offerings in intelligent supply chain services and real-time Web services also demonstrated positive early results, supported by certain strategic acquisitions in these business lines during the year.

The Communications Services Group saw explosive growth in the first half of the year fueled by our rapidly growing mobile content business. The content business deteriorated significantly in the second half as new marketing restrictions and other challenges impacted new customer acquisition rates and subscriber churn. We strongly believe, however, that we are in the early stages of the move to mobile and broadband entertainment, and that our technology assets and expanding customer base have us positioned well for future growth in these markets.

Overall, we believe the end-market demand for our intelligent infrastructure services is accelerating as the world continues its rapid migration from physical to digital interactions. Motivated by these trends, we enter 2006 more determined than ever to leverage our unique assets in technology, infrastructure, and people to deliver innovative solutions that enable our customers to benefit from the amazing productivity and economic opportunities that lie ahead.

Financial Highlights*

In 2005, VeriSign delivered revenues of \$1.66 billion, up more than 40% from the previous year and non-GAAP operating income of \$362 million, an increase of 52% over 2004. Non-GAAP earnings per share were \$1.05 up 53% from the previous year. These results drove operating cash flow of \$511 million and free cash flow of \$370 million in 2005. With this strong cash generation, we made significant investments in future growth opportunities for our businesses and repurchased nearly 23 million shares of VeriSign common stock or approximately 9% of the shares outstanding. We also continued to strengthen our balance sheet ending 2005 with \$496 million in deferred revenue and \$906 million in cash and equivalents.

Business Highlights

Internet Services Group (ISG)*

The Internet Services Group, which contains our VeriSign Security Services (VSS) business and our VeriSign Information Services (VIS) business, performed extremely well in 2005 as evidenced by very strong financial results and increases in all key business metrics. For the year, ISG revenue was \$686 million, up 22% over 2004.

VeriSign's Naming and Directory Services business (VNDS) was renamed VeriSign Information Services (VIS) toward the end of 2005. We believe the new name more accurately reflects the expanded focus of the business, which is to provide relevant, real-time information that enables intelligent network interactions. In 2005, the acquisitions of R4 Global Systems and Retail Solutions International allowed us to broaden our position in the RFID market into intelligent supply chain services, while the acquisitions of Moreover and Weblog launched VeriSign into real-time publishing services. While these new businesses have exciting potential, the main driver in VIS continues to be the domain name registry business for .com and .net. It was a record year across the board in 2005 for this business, with increased overall demand, deeper international penetration and new

product traction combining to drive dramatic new unit growth and healthy renewal rates. During Q4 alone, we processed approximately 5.3 million new registrations for .com and .net domain names. We also saw another 6.4 million names renewed or extended, adding to 11.7 million domain name transactions in the quarter. The adjusted base of names for .com and .net in the directory at the end of 2005 stood at an all-time high of 50 million names, up 30% year over year.

VeriSign Security Services (VSS), which includes our Authentication, Managed Security Services and our Payment gateway services (which was sold on November 18, 2005) also had a successful year. One of our key objectives in 2005 was to both deepen and broaden the penetration of our services into major accounts. To this end, the Security Services group saw up-sell and cross-sell rates into our top 25 enterprise accounts reach new levels for the year.

The fourth quarter of 2005 culminated in record bookings in the Authentication business. The SSL business has been the foundation of VeriSign since our inception, and we now secure an active installed base of 489,000 Web servers across the Internet, up 7% year over year. Demand for our SSL services is being driven by the continued growth for secure e-commerce at Web sites, coupled with continued international expansion. One of the more significant events of the year for the Authentication business was our alliance with eBay and PayPal to deploy strong authentication technology to their active user bases. With a firm commitment to where we expect to deploy a million tokens and a comprehensive game plan to provide incentives for adoption and use, eBay and Paypal represent the ultimate anchor tenants for our unified authentication platform and for a push into second factor authentication for consumers.

Demand for our Managed Security Services was also strong in 2005 as we achieved 50% growth in revenues over the prior year. Having launched this business little more than two years ago, we are now recognized by the highly influential Gartner Group as one of the leaders in this space. At the end of the year, we were managing over 4,000 mission-critical devices for global corporations such as Merrill Lynch and GlaxoSmithKline.

We believe our VIS and VSS businesses are excellent proof points of the VeriSign intelligent infrastructure strategy. We have used our unique technology and global infrastructure to build our leadership position in these critical service areas where we act as the trusted and authoritative source for enabling and protecting network-based interactions. Once established, we then move into adjacent markets leveraging our technology, infrastructure, customer relationships, and premium brand to drive further growth for VeriSign.

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. CSG had a strong year as growth returned to our communications and commerce segment, while mobile entertainment services fueled a dramatic year-over-year rise in our content business. Driven primarily by dramatic growth in the first half of 2005 for our Jamba! and Jamster mobile offerings, as well as good performance in our core connectivity and messaging services, CSG achieved revenues of approximately \$976 million, up 62% over 2004.

In terms of business metrics, the communication and commerce segments delivered 15.9 billion database queries in Q4, up 24% year over year. We also processed billing and payment services for approximately 7.8 million wireless users, up 20% from one year ago.

During the first half of 2005, we experienced explosive growth in our mobile content business as demand for ringtones and mobile content accelerated and we expanded geographically. The Jamba! and Jamster consumer brands began to soften significantly, however, in the second half of the year with the cumulative effects of new marketing restrictions, competition, and a lack of new content stifling demand and leading to a decline in the number of subscribers. During this period, we began to diversify into business-to-business (B2B) services for media, network, and Internet portal companies and will continue to aggressively pursue these opportunities in 2006. Despite some challenges in the business-to-consumer (B2C) content business, we continue to be optimistic about the growth opportunities that exist across the portfolio, including messaging, international clearing, billing, and B2B services.

The strategy in CSG is consistent with our overall goals. We take our leadership position in delivering critical services to carriers and attempt to leverage those assets and customer relationships to move into adjacent service areas. Clearly, in the communications market, this strategy embodies helping our carrier and service provider customers transition from a voice-dominated circuit-based world to an IP-based world where voice and data coexist and converge.

In Closing

From our roots in Internet security and authentication, VeriSign has continued to expand its portfolio of intelligent infrastructure services to address the accelerating revolution in digital communications, commerce, and content. The VeriSign management team and our 4,000 highly passionate and committed employees are focused on enabling the world's network-based interactions through our combined efforts.

At VeriSign, we are proud of all that we have accomplished over the past 10 years, but we're even more excited and passionate about the next 10. With continued support from our stockholders, employees, customers, and partners, we look forward to another decade of innovation and growth.



Stratton Sclavos
Chairman of the Board, President and CEO

**These non-GAAP results exclude the following items, which are included under GAAP: amortization of intangible assets, acquired in-process research and development, stock-based compensation charges, litigation settlements, restructuring and other charges, the net gain on the sale of the payment gateway business, the net gain on the sale of investments, and income tax expense. These non-GAAP results include \$52 million of revenue and \$16 million net income from the payment gateway business for the year through November 18, 2005. A table reconciling the non-GAAP to GAAP net income reported above is available at the IR section of VeriSign.com.*

Investor Information

Quarterly earnings releases, corporate news releases, and Securities and Exchange Commission filings are available by contacting VeriSign Investor Relations or through our Web site at www.verisign.com. A copy of VeriSign's Annual Report on Form 10-K, containing additional information of possible interest to stockholders 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.
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Ridgefield Park, New Jersey 07660

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Stock Exchange Listing

Nasdaq National Market

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President and CEO
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Senior Vice President,
General Counsel and Secretary



**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, 2005

OR

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

For the transition period from _____ to _____

Commission File Number: 000-23593

VERISIGN, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3221585
(I.R.S. Employer
Identification No.)

487 E. Middlefield Road, Mountain View, CA
(Address of principal executive offices)

94043
(Zip Code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (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, 2005 was approximately \$7,599,805,698 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, 2006: 244,573,978 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the 2006 Annual Meeting of Stockholders are incorporated by reference into Part II and Part III.

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PART I

ITEM 1. BUSINESS

Overview

VeriSign, Inc. operates intelligent infrastructure services that enable and protect billions of interactions every day across the world's voice and data networks. Through our Internet Services Group and Communications Services Group, we offer a variety of Internet and communications-related services, including internet security services, information services, network connectivity and interoperability services, intelligent database services, 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 Information Services business, formerly known as Naming and Directory Services. 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 Information 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, as well as providing other value added services, including intelligent supply chain services, real-time publisher services and digital brand management services. The Communications Services Group provides communications services, such as network connectivity and interoperability services, Signaling System 7, or SS7, network services, and intelligent database services; content services, such as application and content services and messaging services; and commerce services, such as clearing and settlement services and billing and payment services to telecommunications carriers and other users.

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

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

Internet Services Group

The Internet Services Group consists of the Security Services business and Information 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 and applications security services, including our managed security and global security consulting services, authentication services, including our public key infrastructure ("PKI") and unified authentication services, and digital certificate services, including our commerce site. The Information 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 services, including intelligent supply chain services, real-time publisher services, and digital brand management services.

Security Services

Network and Application Security Services

Our network and application security services include managed security services, iDefense security intelligence 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:

- *Firewall Management Service.* Our Firewall Management 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 for health and security events 24x7. Ongoing device management services include rule changes, software patches and upgrades.
- *Intrusion Detection/Prevention Management Service.* Our Intrusion Detection/Prevention Management Service provides management and monitoring of intrusion detection/prevention sensors, designed to identify and counter malicious security events or potential attacks against an organization’s network.
- *Vulnerability Management Service.* Our Vulnerability Management Service provides customized identification of exploitable vulnerabilities and helps prioritize remediation by providing up-front risk assessment and recurring vulnerability scanning, vulnerability testing and penetration testing.

iDefense Security Intelligence Services. Our iDefense Security Intelligence Services provide information regarding network-based threats, vulnerabilities and malicious code to customers to aid them in making decisions in response to threats on a real-time basis. Our network of research contributors in over 30 countries provides information about the cyber underground and software vulnerabilities.

Global Security Consulting Services and Other Services. Our Global Security Consulting Services help enterprises assess, design, and deploy cost-effective and scalable network security solutions. Key offerings include Payment Card Industry security assessments, application security assessments, enterprise risk assessments, and security program development in support of compliance regulations and industry best practices in both the public and private sectors. Our consulting services are also available to help enterprises integrate our unified authentication and PKI services with existing applications and databases and advise on policies and procedures related to the management and deployment of digital certificates. Our Messaging Security and Compliance Services, which include Email Security Service, Message Continuity Service and Message Archive Service, provide enterprises the ability to secure their email system from unwanted messages and virus attacks; loss of email and email disruption due to disasters or system failure; and retain messages for extended periods of time to address compliance requirements. Using our Email Security Service, an enterprise’s in-bound email can be checked for spam and malicious code, such as viruses and worms. Legitimate email 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. In addition, outbound email can be checked for malicious code to protect itself and outside recipients from risk. Our Message Continuity Service makes identical copies of messages and retains them for thirty days, giving enterprises the ability to recover messages lost in the event of a disaster or accidental deletion. Our Message Archive Service stores identical copies of messages and retains them for extended periods defined by the enterprise to address compliance or internal audit requirements. Our Anti-Phishing Solution provides enterprises effective strategies for mitigating and eliminating “phishing” attempts by providing services for the prevention, detection, and response to, identity theft attacks.

Authentication Services. Our Authentication Services include our Managed PKI Services and Unified Authentication Services 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.

- *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.

Digital Certificate Services

Digital certificate services include our SSL digital certificate services and code signing digital certificate services. SSL 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 authenticate themselves to consumers and to encrypt communications between consumers and the merchant websites. Our code signing digital certificate services provide software developers the means to identify themselves and the authenticity of their software to consumers and relying software applications.

We currently offer the following SSL and code signing digital certificate services.

- *Secure Site and Secure Site Pro.* Both our Secure Site and Secure Site Pro certificates enable up to 256-bit SSL encryption when both the web server and the client browser support such sessions. Secure Site Pro, our premium certificate offering, implements Server Gated Cryptography, a technology which automatically steps-up encryption levels to 128-bit in certain client/browser configurations. 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.
- *Code 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.
- *Thawte Branded Digital Certificates.* We offer SSL and code signing certificates under the Thawte brand. These services use the same underlying infrastructure, and are targeted at small businesses and independent software developers.

Information Services

VeriSign’s Information Services business includes our domain name registry services for the .com and .net gTLDs and certain ccTLDs, managed domain name services, intelligent supply chain services, real-time publisher services and digital brand management services.

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.

Intelligent Supply Chain Services. We offer supply chain information for retail, pharmaceutical and consumer goods customers for marketing and operations purposes. Our point-of-sale data service is a hosted, Web-based solution for accessing and managing daily updates of point-of-sale data from multiple key retailer partners. An electronic product code is a unique number that corresponds with an individual product (or container of products). Radio frequency identification (“RFID”) tags are small chips with antennas that contain an electronic product code (“EPC”). 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, the authoritative directory of information sources that are available to describe products assigned EPCs. 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. Additionally, we offer managed services that are designed to work in conjunction with RFID and bar code technology and the EPC root directory to facilitate the secure sharing of product data across diverse supply chains.

Real-Time Publisher Services. We offer a suite of intelligent infrastructure services that allow organizations to collect and organize large amounts of constantly updated content, and distribute it, in real time, to enterprises, web-portal developers, application developers, and consumers. The real-time publisher services also make it easier for publishers of all sizes to distribute and track their content feeds, which may improve the reliability and quality of their real-time content.

Digital Brand Management Services. We offer a range of services that we refer to as digital brand management services to help enterprises, 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.

Communications Services Group

The Communications Services Group provides managed solutions to fixed line, broadband, mobile operators and enterprise customers through our integrated communications, content and commerce platform. Our communications services offerings include network connectivity and interoperability services and intelligent database services; our content services offerings include content and application services and messaging services; and our commerce services offerings include clearing and settlement services, and billing and payment services.

Communications 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 protocols 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.

Content Services

Application and Content Services

Our application services enable providers to deliver content through secure customized, branded content acquisition portals and allow for the exchange of pictures, videos, alerts and other forms of multimedia content across a wide range of connected devices and networks. Our content services manage content aggregation, formatting, mediation, digital rights management and delivery through these services. We have a library of over 150,000 items, including ringtones, graphics, games and applications that we offer in over two dozen countries around the world. In the U.S., U.K., and Australia we operate under our Jamster brand, in the U.K. under our Ringtoneking brand, and in Europe under our Jamba! brand.

Messaging Services

Our Multi-Media Messaging services (“MMS”) allow 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 MMS messages between service providers. Through our hosted services we also facilitate the sharing, distribution and storage of multimedia messages for our customers in the U.S., Canada, New Zealand and Mexico. Our Inter-Carrier Messaging services allow wireless subscribers to send text and multi-media messages between different service providers and devices. Through our Metcalf™ Global Messaging services, we enable wireless carriers to offer short messaging services (“SMS”) between carrier systems and devices, and across disparate networks and technologies so that customers can exchange messages outside the carrier’s network.

Commerce Services

Clearing and Settlement Services

Through our Wireline 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.

Our Wireless Clearinghouse Services enable wireless carriers to clear and settle telephone traffic charges with their roaming partners domestically and internationally. We also provide wireless carriers with fraud management, SS7 monitoring, and other services.

Billing and Payment Services

We offer advanced billing, payment and customer care services to mobile operators. Through our speedSUITE™, SmartPay™ and PrePayIN™ 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 domain name servers that answer domain name lookups for the *.com* and *.net* zones. We also operate two of the thirteen externally visible root zone server addresses, 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 15 billion responses per day during 2005. 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 16 mated pairs of SS7 signal transfer points (“STPs”) that are specialized switches that route SS7 signaling messages, and into which our customers connect. We own ten pairs of STPs and lease capacity on six pairs of STPs from regional providers. Our SS7 network control center, located in Overland Park, Kansas, is staffed 24 hours a day, 365 days a year.

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 24 hours a day, 365 days a year and employs an automated call directory system to support our Security Services business. Our Georgia call center is staffed from 8:00 a.m. to 7:00 p.m. Eastern Time and our Washington state call center is staffed from 8:00 a.m. to 5:00 p.m. Pacific Time and employs an automated call directory system to support our Communications Services business. Our Virginia call center is staffed 24 hours a day, 365 days a year to support our Information Services business. All call centers have a staff of trained customer support agents and provide Web-based support services that are available 24 hours a day, 365 days a year, 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 and our global resolution systems. Our distributed Network Operations Centers are staffed 24 hours a day, 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 Information Services business maintains dual mirrored data centers that allow rapid failover with no data loss and no loss of function or capacity. Our PKI business is 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 remote 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, 2005 consisted of 763 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, 2005, we had 801 employees dedicated to research and development. Research and development expenses were \$95.3 million in 2005, \$60.4 million in 2004, and \$49.4 million in 2003. We believe that timely development of new and enhanced Internet security, e-commerce, information, 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 and validation, 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 GeoTrust 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 CyberTrust. 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.

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, IBM Global Services, Getronics 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 CyberTrust and Counterpane that offer managed security services exclusively. Telecommunications providers, such as MCI that acquired NetSec, provide managed security services and are 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 in-house services in their respective regions. In addition, we face direct competition from national, unregulated companies, including Syniverse Technologies, Telcordia, NeuStar and other carriers such as Southern New England Telephone Diversified Group, a unit of AT&T. 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 Commerce Services. Our wireless billing and payment services also are subject to competition from providers such as Comverse, Amdocs, Convergys Corporation and Boston Communications Group. 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 Content Services. The market for 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 Jamdat Mobile, LaNetro Zed, Infospace, Itouch, Wisdom Entertainment, Arvato mobile, Monsternob, Motricity and Buongiorno/Vitaminic. This business also faces competition from mobile network operators, such as Cingular, Verizon Wireless, Sprint, T-Mobile, Vodafone, O₂, Orange, E-Plus and Telefónica, as well as Internet portal operators, such as Yahoo!, AOL, T-Online and Google. Our inter-carrier messaging services face competition from Mobile 365, Openwave and Comverse. Additional competitors are handset manufacturers, such as Nokia and software providers such as Microsoft and Apple. As the market for wireless data, including information and entertainment data, matures, new categories of competitors, such as mobile phone companies, broadcasters, music publishers, other content providers or others have begun 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, the gTLDs .name, .pro, .aero, .museum and .coop were launched in 2002 and 2003, and the gTLD .mobi was launched in 2005. 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 Intelligent Supply Chain Services. There are a number of companies that provide intelligent supply chain services. For point-of-sale data, we face competition from IRI and AC Nielsen, as well as smaller software companies. For consulting services, we face competition from traditional consulting firms.

Competition in Real-Time Publisher Services. We face competition from various smaller companies providing similar services.

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 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

Information 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 *.net* registry services were subject to a competitive bidding process administered by ICANN. Our bid was determined by the outside evaluators selected by ICANN to be the top bid and VeriSign and ICANN have executed a new *.net* registry agreement that extends until September 30, 2011. 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 and hardware 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 and hardware 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 Information 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, 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, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Employee headcount from continuing operations:			
Cost of revenues	1,807	1,452	1,078
Sales and marketing	763	656	510
Research and development	801	408	245
General and administrative	<u>705</u>	<u>567</u>	<u>513</u>
Total	<u>4,076</u>	<u>3,083</u>	<u>2,346</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.

ITEM 1A. RISK FACTORS

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 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 content services;
- the timing and execution of individual customer contracts, particularly large contracts;
- the impact of price changes in our communications services and security 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 have acquired many companies, a number of which 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 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 will 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, Rhode Island, Texas, Virginia, and Washington, and globally in Australia, Europe, India, Japan, South Africa and South America;
- greater than expected costs and/or lower than expected revenues and the assumption of unknown liabilities.
- the diversion of management's attention from our other businesses 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;
- 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 37% of our total revenues for the year ended December 31, 2005. 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, Latin America and South America. We currently have facilities and over 550 employees in Germany. Expansion in 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 our international revenues from Europe, South Africa, Japan, South America and Australia are not denominated in U.S. Dollars;
- potential problems associated with adapting our content services to technical conditions existing in different countries;
- the necessity of developing foreign language portals and products for our content services;
- difficulty of authenticating customer information for digital certificates 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, 2005, we grew from 26 to 4,076 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 and validation, 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. and Entrust Technologies, which offer software applications and related digital certificate products that customers operate themselves; (2) companies such as GeoTrust 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 CyberTrust. 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.

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, IBM Global Services, Getronics 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 CyberTrust and Counterpane that offer managed security services. Telecommunications providers, such as MCI which 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 in-house services in their respective regions. In addition, we face direct competition from national, unregulated companies, including Syniverse Technologies, Telcordia, NeuStar and other carriers such as Southern New England Telephone Diversified Group, a unit of AT&T. 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 Commerce Services. Our wireless billing and payment services also are subject to competition from providers, such as Comverse, Amdocs, Convergys Corporation and Boston Communications Group. 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 Content Services. The market for 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 Jamdat Mobile, LaNetro Zed, Infospace, Itouch, Wisdom Entertainment, Arvato mobile, Monsternob, Motricity and Buongiorno/Vitaminic. This business also faces competition from mobile network operators such as Cingular, Verizon Wireless, Sprint, T-Mobile, Vodafone, O₂, 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 and Apple. As the market for wireless data, including information and entertainment data, matures, new categories of competitors, such as mobile phone companies, broadcasters, music publishers, other content providers or others have begun 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, the gTLDs .name, .pro, .aero, .museum and .coop were launched in 2002 and 2003, and the gTLD .mobi was launched in 2005. 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 Intelligent Supply Chain Services. There are a number of companies that provide intelligent supply chain services. For point-of-sale data, we face competition from IRI and AC Nielsen, as well as smaller software companies. For consulting services, we face competition from traditional consulting firms.

Competition in Real-Time Publisher Services. We face competition from various smaller companies providing similar services.

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 in part on the acceptance of our SS7 network and the telecommunications industry'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 and has 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 AT&T Wireless, MCI, Nextel and Price Communications, customers of our Communications Services Group. 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 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, or are amended to require us to change the way our content services are offered to customers, our business could be harmed.

Our 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 ringtones 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, our content services business 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, or our failure to enter into new relationships with additional wireless carriers on commercially reasonable terms, could prevent us from billing and receiving revenues from existing and new customers.

Some wireless carriers have implemented more detailed enrollment procedures before their customers can purchase content services such as those we offer. Similar enrollment procedures or other requirements affecting content services may be adopted by other wireless carriers or by trade associations seeking to establish industry-wide standards, and could adversely affect subscriber growth and renewal rates in our content services business.

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

Only some of the content used in our content services business is developed internally. We also receive content, such as ringtones, games and logos from third parties. If the market for mobile entertainment and information continues to grow, 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 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 content services business.

Our customer subscription agreements for our content services are typically cancelable and our business could be harmed if we fail to retain current customers or if we fail to obtain significant numbers of new customers to replace customers who cancel or fail to renew.

Our content services are typically sold as fixed weekly or monthly subscriptions. Our customers for these services may cancel their subscriptions for our service at the end of each service period and in fact, many customers 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' subscription and renewal rates may decline or fluctuate as a result of a number of factors, including customer dissatisfaction with the service, pricing pressure, changes in preferences and trends, competitive services, adverse coverage in the news media, changes in the way we advertise our services or other reasons. If our customers cancel or fail to renew their subscriptions for our content services or if we fail to obtain significant numbers of new customers to replace customers who cancel or fail to renew, our revenue could decline and our 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 commerce, 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. Our Communications Services Group is targeting the consumer market for content services. Our Information Services business unit is developing managed services designed to work with the EPCglobal Network and radio frequency identification (“RFID”), technology, point-of-sale data services and real-time publisher services. 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 market acceptance of 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;
- demand for supply chain information services, including acceptance of RFID technology, the EPCglobal Network and point-of-sale data services;
- 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.

Governmental regulation and the application of existing laws may slow business growth, increase our costs of doing business and create potential liability.

The growth and development of the Internet has led to new laws and regulations, as well as the application of existing laws to the Internet and wireless communications. Application of these laws can be unclear. The costs of complying or failure to comply with these laws and regulations could limit our ability to operate in our markets, expose us to compliance costs and substantial liability and result in costly and time-consuming litigation.

Foreign, federal or state laws could have an adverse impact on our business. For example, recent laws include those designed to restrict the on-line distribution of certain materials deemed harmful to children and impose additional restrictions or obligations for on-line services when dealing with minors. Such legislation may impose significant additional costs on our business or subject us to additional liabilities.

Due to the nature of the Internet, it is possible that the governments of other states and foreign countries might attempt to regulate Internet transmissions or prosecute us for violations of their laws. We might unintentionally violate such laws, such laws may be modified and new laws may be enacted in the future. Any such developments could increase the costs of regulatory compliance for us, force us to change our business practices or otherwise materially harm our business.

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, other communication networks, content, digital certificate, and domain name registration 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 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 *.net* registry services were subject to a competitive bidding process administered by ICANN. Our bid was determined by the outside evaluators selected by ICANN to be the top bid and VeriSign and ICANN have executed a new *.net* registry agreement that extends until September 30, 2011. 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 effect 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 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 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 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 content services, and news content, as part of our real-time publisher service. 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.

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.

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.

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

The Sarbanes-Oxley Act 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.

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 supersedes 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 first quarter of 2006. This change will have a material, negative impact on our reported earnings. Pro forma compensation expense disclosed in the current and prior years may not be indicative of future compensation expense under SFAS No. 123R. 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 \$115.7 million, \$136.8 million and \$215.9 million for the years ended December 31, 2005, 2004 and 2003, respectively. In addition, regulations adopted by the NASDAQ Stock Market require stockholder approval for stock option plans and 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.

Changes in, or interpretations of, tax rules and regulations may adversely affect our effective tax rates.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are subject to audit by various tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. Should additional taxes be assessed as a result of an audit or litigation, an adverse effect on our income tax provision and net income in the period or periods for which that determination is made could result.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

VeriSign's principal administrative, sales, marketing, research and development and operations facilities are located in Mountain View, California, Santa Cruz, California, Broomfield, Colorado, Savannah, Georgia, Overland Park, Kansas, Providence, Rhode Island, Dulles, Virginia, Lacey, Washington, Berlin, Germany, Bangalore, India, 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 facilities in Savannah, Georgia and 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; London, England; 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
320 Interlocken Parkway Broomfield, Colorado	25,000	Communications Services Group
21345-21355 Ridgetop Circle Dulles, Virginia	160,000	Internet Services Group; and Corporate Services
222 W Oglethorpe Ave Savannah, Georgia (owned)	70,000	Communications Services Group
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
110 Cooper Street Santa Cruz, California	15,000	Communications Services Group
Europe:		
Blandonnet International Business Center 8, Chemin De Blandonnet CH-1217 Vernier Geneva, Switzerland	17,000	Corporate European Headquarters; and Internet Services Group
Jamba! GmbH Dom Aquaree Building, Karl Liebknecht strasse 5, 10178 Berlin, Germany	70,000	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

On September 7, 2001, NetMoneyIN, an Arizona corporation, filed a 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 amended its 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. 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. 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 alleged that VeriSign's Payflow payment products and services directly infringe certain claims of NetMoneyIN's three patents and requested 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 withdrawn its allegations of infringement of the '584 patent and the Court has dismissed with prejudice all claims of infringement of the '584 patent. Fact discovery is now closed, and the Court has issued its ruling on the claim construction issues. In its ruling, the Court has found four of the five claims asserted against VeriSign, claims 1, 13 and 14 of the '737 patent and claim 1 of the '917 patent, invalid. NetMoneyIN may request reconsideration of this ruling by the Court prior to November 3, 2005, or may file an appeal after a final judgment seeking to overturn this ruling. Thus, only claim 23 of the '737 patent remains in the case. VeriSign and several other defendants have filed motions seeking partial summary judgment of no indirect infringement under 35 U.S.C. Sections 271 b and 271 c (i.e., no inducement of others to infringe and no contributory infringement). In response to these motions, the plaintiff has filed a motion seeking leave of the Court to amend its complaint to add a new claim of indirect infringement under 35 U.S.C. Section 271 b (inducement) against VeriSign and the other defendants. Briefing on these motions is completed and a hearing has not yet been scheduled by the judge. Expert witness discovery is proceeding. While we cannot predict the outcome of this lawsuit, VeriSign believes that the allegations are without merit.

Beginning in May of 2002, several class action complaints were filed against VeriSign and certain of its current and former officers and directors in the United States District Court for the Northern District of California. These actions were consolidated under the heading *In re VeriSign, Inc. Securities Litigation*, Case No. C-02-2270 JW(HRL), on July 26, 2002. The consolidated action seeks unspecified damages for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, on behalf of a class of persons who purchased VeriSign stock from January 25, 2001 through April 25, 2002. An amended consolidated complaint was filed on November 8, 2002. On April 14, 2003, the court granted in part and denied in part the defendants' motion to dismiss the amended and consolidated complaint. On May 5, 2004, plaintiffs filed a second amended complaint that was substantially identical to the amended consolidated complaint except that it purported 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. Plaintiffs' second amended class action complaint was dismissed by the court on November 2, 2005 for failure to adequately plead loss causation. Plaintiffs were given leave to file an amended complaint. Plaintiffs filed a third amended class action Complaint on December 22, 2005. Defendants filed a motion to dismiss the third amended complaint, which is currently pending.

Parallel derivative actions have also been filed against certain of VeriSign's current and former officers and directors in state courts in California and Delaware. VeriSign is named as a nominal defendant in these actions. Several of these derivative actions were filed in Santa Clara County Superior Court of California and these actions have since been consolidated under the heading *In re VeriSign, Inc. Derivative Litigation*, Case No. CV 807719.

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

VeriSign and the individual defendants dispute all of these claims.

On August 27, 2004, VeriSign 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.

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 2001 .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 2001 agreement expires on or about June 30, 2005, ICANN is entitled to consider VeriSign's alleged breaches of the existing agreement. VeriSign cannot predict the outcome of this action or the affect this lawsuit will have on our relationship with ICANN.

On January 18, 2005, VeriSign filed a request for arbitration before the ICC against ICANN regarding the process by which ICANN solicited and reviewed bids from companies, including VeriSign, to become the "successor" registry operator for the .net top level domain after the 2001 Registry Agreement expired on or about June 30, 2005. VeriSign alleges that the "request for proposal" ("RFP") process constitutes a breach of the 2001 .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 2001 .net agreement. ICANN has not yet responded to our arbitration request. On June 8, 2005, ICANN announced that it had selected VeriSign as the "successor" registry operator for the .net top level domain, and ICANN and VeriSign have entered into a contract to confirm that selection. VeriSign anticipates that its selection as the .net registry operator will resolve its request for arbitration.

In October 2005, the Company and ICANN announced a proposed settlement of the various claims between them. The settlement is conditioned upon, among other things, the execution of a new .com Registry Agreement by both the Company and ICANN and approval of the agreement by the United States Department of Commerce. The proposed agreement has not yet been finally executed or approved. If the settlement is finalized and implemented, it will result in the dismissal of pending litigation with ICANN.

On February 14, 2005, Southeast Texas Medical Associates, LLP filed a putative class action lawsuit in the Superior Court of California, alleging violations of the unfair competition laws, breach of express warranty and unjust enrichment relating to our Secure Site Pro SSL certificates. The complaint is brought on behalf of a class of persons who purchased the Secure Site Pro certificate from February 2001 to present. VeriSign disputes these claims. While we cannot predict the outcome of this matter, VeriSign believes that the allegations are without merit.

On March 8, 2005, plaintiff Charles Ford filed a putative class action lawsuit in the Superior Court of California, County of San Diego, alleging fraud, negligent misrepresentation, false advertising, and violations of the California Consumers Legal Remedies Act and unfair competition laws relating to marketing and advertising of mobile phone “ringtones” and other content by VeriSign’s subsidiaries, Jamster International Sarl and Jamba! GmbH. The complaint is brought on behalf of classes of persons who responded to advertising by sending a text message on their mobile phones or registered over the Internet to purchase ringtone or other content. On April 18, 2005, VeriSign removed the action to the federal district court for the Southern District of California. VeriSign disputes the claims in this action. While we cannot predict the outcome of this matter, VeriSign believes that the allegations are without merit.

In August, 2005 and October 2005, respectively, VeriSign received two additional similar putative class action lawsuits, one in state court in Arkansas (short title, Page v. VeriSign), alleging claims for fraud, unjust enrichment, and violation of the Arkansas Deceptive Trade Practices Act, and one in federal district court for the Southern District of California (short title, Herrington v. VeriSign), alleging claims for fraud, negligence and negligent misrepresentation, unjust enrichment, quantum meruit, breach of contract, breach of warranty, false advertising, and unfair competition. These lawsuits relate to the marketing and advertising of mobile phone “ringtones” and other mobile phone content by VeriSign and its subsidiary Jamster International Sarl. VeriSign disputes the claims in these actions. In December 2005, plaintiffs in the Ford and Herrington cases filed motions with the Judicial Panel on Multidistrict Litigation seeking to coordinate the Ford, Page, and Herrington actions into a single proceeding for pre-trial purposes. While we cannot predict the outcome of these matters, VeriSign believes the allegations are without merit.

On June 2, 2005, the company received an access letter from the U.S. Federal Trade Commission (FTC) for information to determine whether VeriSign, using the trade name Jamster, was engaging in unfair or deceptive acts or practices in violation of Section 5 of the Federal Trade Commission Act in its advertising, offering and billing for content services and products. The company also received civil investigative demands from the Illinois State Attorney General (dated June 30, 2005) and from the Florida State Attorney General (dated October 6, 2005). Each of these letters requested information related to the marketing of Jamster ringtone and other downloadable content services.

On April 11, 2005, Prism Technologies, LLC filed a complaint against VeriSign in the U.S. District Court for the District of Delaware alleging that VeriSign’s “Go Secure suite of application and related hardware and software products and its Unified Authentication solution and related hardware and software products” infringe U.S. Patent No. 6,516,416, entitled “Subscription Access System for Use With an Untrusted Network.” Prism Technologies seeks judgment in favor of Prism Technologies, a permanent injunction from infringement, damages in an amount not less than a reasonable royalty, attorneys’ fees and costs. Prism Technologies has also named RSA Security, Inc., Netegrity, Inc. Computer Associates International, Inc and Johnson & Johnson as co-defendants. VeriSign responded on June 6, 2005 by filing a counterclaim for declaratory relief and an answer denying any infringement and asserting that the patent is invalid. The Court has not yet scheduled an initial scheduling conference or entered a scheduling order. The parties currently are engaging in fact discovery. While we cannot predict the outcome of this matter, VeriSign believes that the allegations are without merit and intends to vigorously defend against them.

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, 2005.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information regarding the executive officers of VeriSign as of February 28, 2006:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stratton D. Sclavos	44	President, Chief Executive Officer and Chairman of the Board of Directors
Dana L. Evan	46	Executive Vice President, Finance and Administration and Chief Financial Officer
Vernon L. Irvin	44	Executive Vice President and General Manager, Communications Services
Robert J. Korzeniewski	48	Executive Vice President, Corporate and Business Development
Judy Lin	41	Executive Vice President and General Manager, Security Services
Aristotle Balogh	41	Senior Vice President, Operations and Infrastructure
Mark McLaughlin	40	Senior Vice President and General Manager, Information Services
James M. Ulam	49	Senior Vice President, General Counsel and Secretary

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

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

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, Information Services since January 2005. From November 2003 through December 2004, Mr. McLaughlin was Senior Vice President and Deputy General Manager of Information 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, 2006:		
First Quarter (through February 28, 2006)	\$25.00	\$20.75
Year ended December 31, 2005:		
Fourth Quarter	\$24.48	\$19.01
Third Quarter	30.99	20.29
Second Quarter	33.36	24.65
First Quarter	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

On February 28, 2006, there were 942 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, 2006, the reported last sale price of our common stock was \$23.66 per share as reported by the NASDAQ National Market.

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. To the extent we have met or exceeded analyst or investor expectations in the past does not necessarily mean that we will be able to 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.

Information regarding 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 2006 Annual Meeting of Stockholders which information is incorporated herein by reference. Further information regarding our equity compensation plans may be found in Note 11 to our Consolidated Financial Statements.

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, 2005	1,210,000	\$20.69	1,210,000	\$385.1 million
November 1–30, 2005	11,475,017	23.12	11,475,017	119.7 million
December 1–31, 2005	—	—	—	119.7 million
Total	<u>12,685,017</u>	<u>\$22.89</u>	<u>12,685,017</u>	

On April 26, 2001, VeriSign announced that the Board of Directors authorized the repurchase of up to \$350 million of the Company’s common stock in open market, negotiated or block transactions. This stock repurchase program was completed in the third quarter of 2005.

On August 2, 2005, the Board of Directors of VeriSign authorized a new stock repurchase program to repurchase up to \$500 million of the Company’s common stock in open market, negotiated or block transactions. During 2005, a total of 16,495,224 shares were repurchased under this program for an aggregate cost of approximately \$380.3 million.

On November 21, 2005, VeriSign executed an accelerated share repurchase (“ASR”) agreement with a large investment bank for the acquisition of 10.8 million shares for an initial purchase price of \$23.14 per share. VeriSign acquired these shares as part of its \$500 million stock repurchase program authorized on August 2, 2005.

Under the ASR agreement, the investment bank will purchase an equivalent number of shares of common stock in the open market from time to time until it has acquired that number. At the end of this period, VeriSign may receive, and may be required to remit, a price adjustment based upon the volume weighted average price of its common shares during the period. The purchase price adjustment can be settled, at the election of the Company, in cash or in shares of its common stock. The program is subject to a cap that will establish the maximum price per share.

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 sold certain assets related to our payment gateway business in November 2005. We accounted for this business as discontinued operations and accordingly, we have reclassified the selected financial data for all periods to reflect this business as discontinued operations. 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,				
	2005	2004	2003	2002	2001
(In millions, except per share data)					
Consolidated Statement of Operations Data:					
Continuing Operations:					
Revenues	\$1,609	\$1,118	\$1,017	\$ 1,194	\$ 967
Income (loss) (1)	139	174	(268)	(4,946)	(13,275)
Income (loss) from continuing operations per share (1):					
Basic	0.54	0.69	(1.12)	(20.91)	(65.24)
Diluted	0.53	0.67	(1.12)	(20.91)	(65.24)
Discontinued Operations:					
Revenues	52	48	37	27	17
Income (loss) (3)	268	13	8	(15)	(81)
Income (loss) from discontinued operations per share:					
Basic	1.04	0.05	0.04	(0.06)	(0.40)
Diluted	1.01	0.05	0.04	(0.06)	(0.40)
Total:					
Revenues	1,661	1,166	1,055	1,222	984
Net Income (loss) (1)(3)	406	186	(260)	(4,961)	(13,356)
Net income (loss) per share (1):					
Basic	1.58	0.74	(1.08)	(20.97)	(65.64)
Diluted	1.54	0.72	(1.08)	(20.97)	(65.64)
Consolidated Balance Sheet Data:					
Total assets (1)	3,173	2,593	2,101	2,391	7,538
Other long-term liabilities (2)	5	7	9	17	17
Stockholders’ equity (1)	2,032	1,692	1,384	1,579	6,506

- (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 \$101.6 million, \$79.4 million, \$335.2 million, \$4.9 billion, and \$13.6 billion in 2005, 2004, 2003, 2002 and 2001, 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.
- (3) Net income for 2005 includes gain on sale of discontinued operations of \$251.8 million, net of tax.

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 1A "Risk Factors." 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 2006. 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 and protect billions of interactions everyday across the world's voice and data networks. In 2005 and 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 2005 in the U.S., Europe and Japan led to improved IT spending for security services and e-commerce activity in those markets. We also saw continued growth in domain name registrations and domain name renewals, with active domain names ending in .com and .net increasing by 30% during 2005. Communication Services Group revenues increased significantly primarily due to increases in content services revenues during the year. This increase was due primarily to recognizing a full year of revenue coupled with significant growth in our content business for the year. Our content business grew in the second, third and fourth quarters of 2005 compared to the comparable periods in 2004; however, revenues decreased sequentially in the third and fourth quarters of 2005 due to increased competition, pricing pressures and a decline in the number of subscribers.

We derive the majority of our revenues and cash flows from a relatively small number of services sold primarily in the United States, Europe and Japan. In the Internet Services Group, more than 87% of the revenues during 2005 were derived from the sale of registry services, managed authentication and security services and web certificates. In the Communications Services Group, approximately 89% of the revenues were derived from the sale of content services, signaling services, SS7 connectivity, billing services and calling name services during the same period.

For the Communications Services Group, we expect content services revenues to decline in the first quarter of 2006, compared to the fourth quarter of 2005, and expect connectivity, clearing and settlement, and billing-related revenues to be unchanged. Increased competition and continued consolidation in the telecommunications sector has increased pricing pressures and will continue to 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 continued growth in domain name registrations and renewals that we believe will result in revenue and deferred revenue growth for the first quarter of 2006.

Payment Gateway Business Sale

On November 18, 2005, we completed the sale of certain assets related to our payment gateway business to PayPal, Inc. and PayPal International Limited for \$370 million in cash. This transaction has been accounted for as a discontinued operation in accordance with SFAS No. 144 (“SFAS 144”), “*Accounting for the Impairment or Disposal of Long Lived Assets*” and, accordingly, we have reclassified the consolidated financial statements for all periods to reflect this transaction.

Domain Name Registrar Business 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 2005, we completed our acquisition of Retail Solutions International, Inc. (“RSI”), a Lincoln, Rhode Island-based privately-held provider of operational point-of-sale data to the retail industry. We paid approximately \$23.2 million in cash for all of the outstanding capital stock, vested stock options and assumed unvested stock options of RSI.

In October 2005, we completed our acquisition of Moreover Technologies, Inc., a privately held wholesale aggregator of real-time internet content. We paid approximately \$29.7 million in cash for all the outstanding capital stock, vested stock options and transaction related expenses of Moreover.

In October 2005, VeriSign Japan completed its acquisition of siteRock K.K., a Tokyo-based privately held remote network monitoring and outage managing and handling firm. VeriSign Japan paid approximately \$53.3 million in cash for siteRock K.K.

In July 2005, we completed our acquisition of iDefense, Inc., a Reston, Virginia-based privately held provider of detailed intelligence on network-based threats, vulnerabilities and malicious code. We paid approximately \$37.8 million in cash for all the outstanding capital stock, vested stock options and certain transaction-related expenses and assumed unvested stock options of iDefense. Payment of up to \$10 million of additional consideration may be made in the future, if additional contractual conditions are met.

In April 2005, we completed our acquisition of LightSurf Technologies, Inc., a Santa Cruz, California-based privately held provider of multimedia messaging and interoperability solutions for the wireless market. We paid approximately \$279 million in common stock for all of the outstanding capital stock, warrants, vested stock options and certain transaction-related expenses and assumed unvested stock options of LightSurf.

In June 2004, we completed our acquisition of Jamba!, a privately held provider of 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 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 addition to the above, we also completed several other acquisitions during 2005, 2004 and 2003 that were not material on an individual basis or in the aggregate.

We accounted for all of our acquisitions in 2005, 2004 and 2003 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. As a result of our sale of the Network Solutions domain name registrar business in 2003 and our acquisitions during 2005, 2004 and 2003, comparisons of revenues, costs and expenses for the year ended December 31, 2005 to the years ended December 31, 2004, and 2003 may not be relevant, as the businesses represented in the consolidated financial statements were not equivalent.

Subsequent events

On January 10, 2006, we completed our accelerated share repurchase program ("ASR") executed on November 21, 2005. The final discounted volume weighted average price was \$22.20. As a result of settling the ASR, we received an additional 482,459 shares of our common stock.

On January 9, 2006, Network Solutions repaid in full all amounts outstanding under the Secured Senior Promissory Note dated November 25, 2003. In addition, Network Solutions redeemed our 15% equity interest in Network Solutions. We received approximately \$50.3 million in total. As a result of the redemption of the membership interests, we no longer own equity interests in any Internet domain name registrars.

On January 24, 2006, we completed our acquisition of CallVizion, a Seattle-based privately-held provider of online analysis applications for mobile communications customers. We paid approximately \$38.2 million in cash for the acquisition.

On February 13, 2006, we entered into a \$75 million ASR agreement with Morgan Stanley & Co., Incorporated ("MSCO"). Under the ASR agreement, we purchased approximately 3.2 million shares of our common stock at a price per share of approximately \$23.70. We acquired these shares as part of our previously announced program to repurchase up to \$500 million of our common stock in open market, negotiated or block transactions. Under the ASR agreement, MSCO will purchase an equivalent number of shares of common stock in the open market from time to time until it has acquired that number. At the end of this period, we may receive, and may be required to remit, a price adjustment based upon the volume weighted average price of our common shares during the period. The purchase price adjustment can be settled, at our election, in cash or in shares of our common stock. The program is subject to a cap that will establish the maximum price per share.

On February 25, 2006, we entered into a definitive agreement to acquire Kontiki, Inc., a Mountain View, California-based privately-held provider of secure, broadband content delivery services. We have agreed to pay approximately \$62.1 million in cash subject to certain closing adjustments. The acquisition is expected to close during the first quarter of 2006.

On February 28, 2006, we completed our acquisition of 3united Mobile Solutions ag ("3united"), a Vienna, Austria-based provider of wireless application services, for approximately \$69.0 million in cash.

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, stock-based compensation, royalty liabilities, and deferred income taxes. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

Revenue recognition

We 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 proportional performance method or on a time-and-materials basis as work is performed. Proportional performance 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 contracts 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 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, 2005, the allowance for doubtful accounts represented approximately 4% of total accounts receivable, or approximately \$11.6 million. A change of 1% in our estimate would amount to approximately \$2.8 million.

Valuation of long-lived assets including goodwill and other intangibles

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 \$1.3 billion at December 31, 2005, which was comprised of \$1.1 billion of goodwill and \$0.2 billion of other intangible assets. Other intangible assets include customer relationships, technology in place, carrier relationships, non-compete agreements, trade names, and other. Factors we consider important which could trigger an impairment review include, but are not limited to, significant under-performance relative to 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 2005, we recorded net restructuring reversals of approximately \$0.5 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 \$19.2 million over the next nine years relating to our restructuring plans.

Accounting for Stock-Based Incentive Programs

Through December 31, 2005, we measured compensation expense for our stock-based incentive programs using the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "*Accounting for Stock Issued to Employees.*" Under this method, we did not record compensation expense when

stock options were granted to eligible participants as long as the exercise price was not less than the fair market value of the stock when the option was granted. We also did not record compensation expense for shares purchased in connection with our Employee Stock Purchase Plan as long as the purchase price of the stock was not less than 85% of the lower of the fair market value of the stock at the beginning of each offering period or at the end of each purchase period. In accordance with SFAS 123, “*Accounting for Stock-Based Compensation*,” and SFAS 148, “*Accounting for Stock-Based Compensation—Transition and Disclosure*,” we disclosed our pro forma net income (loss) and net income (loss) per share as if the fair value-based method had been applied in measuring compensation expense for our stock-based incentive programs.

To determine the pro forma impact of applying SFAS 123, we estimated the fair value of our options using the Black Scholes option valuation model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. This model also requires the input of highly subjective assumptions including the expected volatility of our common stock price. The assumptions we used for the valuation model are set forth in Note 1 of Notes to Consolidated Financial Statements. In the future, we may elect to use different assumptions under the Black Scholes valuation model or a different valuation model, which could result in a significantly different impact on our net income or loss.

In December 2004, the FASB issued SFAS No. 123R, (“SFAS 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 fiscal years beginning after June 15, 2005. We are required to adopt SFAS 123R in the first quarter of 2006 and will recognize stock-based compensation expense using the modified prospective method. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. 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.

Provision for royalty liabilities for intellectual property rights

Certain of our content services utilize intellectual property owned or held under license by others. Where we have not yet entered into a license agreement with the owner or license 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 determine deferred tax assets and liabilities based on the future tax consequences that can be attributed to net operating loss and credit carryforwards and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, using the tax rate expected to be in effect when the taxes are actually paid or recovered. The recognition of deferred tax assets is reduced by a valuation allowance if it is more likely than not that the benefits will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences become deductible. We consider past performance, expected future taxable income and prudent feasible tax planning strategies in assessing the amount of the valuation allowance. Our forecast of expected future taxable income is based over such future periods that we believe can be reasonably estimated. Changes in market conditions that differ materially from our current expectations and changes in future tax laws in the U.S. and in international jurisdictions may cause us to change our judgments of future taxable income. These changes, if any, may require us to adjust our existing tax valuation allowance higher or lower than the amount we have recorded.

In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations. We account for income tax contingencies in accordance with Statement of Financial Accounting Standards No. 5 (“SFAS 5”), “Accounting for Contingencies.”

Results of Operations

Revenues

In 2005 and 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 from continuing operations for the years ended December 31, 2005, 2004 and 2003 is presented below.

	<u>2005</u>	<u>% Change</u>	<u>2004</u>	<u>% Change</u>	<u>2003</u>
	(Dollars in thousands)				
Internet Services Group	\$ 633,784	23%	\$ 515,999	29%	\$ 398,781
Communications Services Group	975,710	62%	602,307	48%	406,745
Network Solutions	—	—	—	(100)%	211,819
Total revenues	<u>\$1,609,494</u>	44%	<u>\$1,118,306</u>	10%	<u>\$1,017,345</u>

Internet Services Group

Fiscal 2005 compared to fiscal 2004: Revenues from our Internet Services Group increased approximately by \$117.8 million in 2005, in comparison to 2004, primarily due to the increase in Information Services and Security Services revenues of approximately \$62.1 million and \$55.7 million, respectively. The Information Services revenue increase was attributed to an increase in the number of active domains ending in *.com* and *.net* under management. The increase in Security Services revenues was primarily due to an increase in Website digital certificate revenues of \$29.2 million and an increase in managed security services and security consulting revenues of \$17.2 million.

Fiscal 2004 compared to fiscal 2003: Internet Services Group revenues increased approximately \$117.2 million in 2004, as compared to 2003, primarily due to increases in Information Services and Security Services revenues of approximately \$65.7 million and \$51.5 million, respectively. Information Services revenues increased as a result of recognizing revenues from Network Solutions, that were previously eliminated prior to the sale of the domain name registrar business and as a result of 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 of \$22.3 million.

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

	<u>December 31, 2005</u>	<u>% Change</u>	<u>December 31, 2004</u>	<u>% Change</u>	<u>December 31, 2003</u>
Active domain names ending in <i>.com</i> and <i>.net</i> . . .	50.0 million	30%	38.4 million	26%	30.4 million
Installed base of Web site digital certificates	489,000	7%	455,000	18%	384,000

We expect Internet Services Group revenues will grow in the first quarter of 2006 as demand for domain names as well as the number of installed digital certificates is expected to continue to increase.

Communications Services Group

Fiscal 2005 compared to fiscal 2004: Revenues from our Communications Services Group increased approximately \$373.4 million primarily due to a \$377.1 million increase in content services revenues during the year. This increase was due primarily to recognizing a full year of revenue in 2005 as compared to the last seven months of 2004 coupled with significant growth in our content business for the year. The content business grew in the second, third and fourth quarters of 2005 compared to the comparable periods in 2004; however, revenues decreased sequentially in the third and fourth quarters of 2005 due to increased competition, pricing pressures and a decline in the number of subscribers. Network services and connectivity revenues increased approximately \$7.0 million and clearing, roaming, settlement and intelligent network services revenues also increased by approximately \$10.9 million primarily due an increase in the number of records and transactions cleared. These increases were offset by a decline in billing and payment services of approximately \$24.7 million primarily due to a decline in the customer base and pricing reductions for these services during the year. Intelligent database services revenues were unchanged from 2004 as increases in queries were off-set by price declines in our calling name (CNAM) service.

Fiscal 2004 compared to fiscal 2003: Communications Services Group revenues increased approximately \$195.6 million primarily due to an increase in 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.

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

	<u>December 31, 2005</u>	<u>% Change</u>	<u>December 31, 2004</u>	<u>% Change</u>	<u>December 31, 2003</u>
Annual database queries	57.4 billion	21%	47.3 billion	44%	32.8 billion

We expect Communications Services Group revenues to decrease in the first quarter of 2006 principally as a result of continued declines in the number of subscribers in our content business.

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 2005 or 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.

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 continuing revenues by geographic region for each year presented:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands)		
Americas:			
United States	\$1,012,486	\$ 796,123	\$ 904,478
Other (1)	25,213	19,734	13,080
Total Americas	<u>1,037,699</u>	<u>815,857</u>	<u>917,558</u>
EMEA (2)	<u>473,188</u>	<u>237,310</u>	<u>48,217</u>
APAC (3)	<u>98,607</u>	<u>65,139</u>	<u>51,570</u>
Total revenues	<u>\$1,609,494</u>	<u>\$1,118,306</u>	<u>\$1,017,345</u>

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

Fiscal 2005 compared to fiscal 2004: Revenues increased approximately \$221.8 million in the Americas region primarily as a result of the increase in domain names ending in *.com* and *.net* under management coupled with an increase in the installed base of website digital certificates. Revenues in our EMEA region increased approximately \$235.9 million primarily due to recognizing a full year of revenue from our content business in the region coupled with strong growth in our content business in the first half of 2005. The increase in APAC revenues of approximately \$33.5 million was attributed to increased enterprise security revenues in both Japan and Australia and increased managed security services revenue in Japan.

Fiscal 2004 compared to fiscal 2003: Revenues decreased \$101.7 million in the Americas region 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 revenues of 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 revenues as we continued to move to a direct distribution model through international subsidiaries in certain larger European markets. The increase in APAC revenues of \$13.6 million in 2004 as compared to 2003 was primarily related to increased enterprise security revenues in both Japan and Australia, partially offset by a decrease in VeriSign Affiliate revenues.

We expect international revenues will decrease in absolute dollars and as a percentage of revenues in the first quarter of 2006 primarily due to an anticipated decline in content revenues in the EMEA region.

Cost of revenues

Cost of revenues consists primarily of content licensing costs, carrier costs for our SS7 and IP-based networks, costs related to providing digital certificate enrollment and issuance services, billing 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, and costs of facilities and computer equipment used in these activities.

We anticipate that our overall cost of revenues will increase in 2006, but that our overall cost of revenues as a percentage of revenues will stay flat or decrease modestly in 2006 primarily due to greater cost efficiencies from our current businesses and recently acquired businesses.

A comparison of cost of revenues and employee headcount for the years ended December 31, 2005, 2004 and 2003 is presented below.

	2005	% Change	2004	% Change	2003
	(Dollars in thousands)				
Cost of revenues	\$512,225	17%	\$436,016	(1)%	\$439,152
Percentage of revenues	32%		39%		43%
Employee headcount	1,807	24%	1,452	35%	1,078

Fiscal 2005 compared to fiscal 2004: Cost of revenues increased approximately \$76.2 million primarily due to an increase of approximately \$35.6 million in salary and employee benefit costs from increased headcount related to content services and acquisitions. Contract and professional services increased approximately \$25.5 million in 2005, due to increased third-party customer care services, consulting costs for billing services and service development costs for prepaid services. Retailer commissions related to content services increased approximately \$7.4 million over 2004. Other increases in cost of revenues were related to cost of maintenance of equipment and software.

As a percentage of revenues, cost of revenues decreased in 2005 as compared to 2004 primarily from leveraging our existing capital equipment and service delivery platforms. Overall depreciation expense on our new and existing equipment was unchanged in 2005 as compared to 2004.

Fiscal 2004 compared to fiscal 2003: Cost of revenues decreased approximately \$3.1 million 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.

As a percentage of revenues, cost of revenues decreased primarily due to the sale of the Network Solutions domain name registrar business, which was a business with higher costs of revenue as a percentage of revenue than our other business segments.

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.

We expect overall sales and marketing expenses in absolute dollars and as a percentage of revenues to decrease as we expect to optimize our advertising expenses in certain countries for our content services. Efforts in marketing new products such as Unified Authentication and related services will continue in the first quarter of 2006.

A comparison of sales and marketing expenses and employee headcount for the years ended December 31, 2005, 2004 and 2003 is presented below.

	2005	% Change	2004	% Change	2003
	(Dollars in thousands)				
Sales and marketing	\$480,543	99%	\$241,747	29%	\$187,334
Percentage of revenues	30%		22%		18%
Employee headcount	763	16%	656	29%	510

Fiscal 2005 compared to fiscal 2004: Sales and marketing expenses increased approximately \$238.8 million primarily due to an increase of approximately \$204.1 million relating to advertising, marketing and promotional expenses for our content and application services business. Salary and employee benefits increased approximately \$30.0 million due to an increase in overall sales and marketing headcount. Increase in corporate brand advertising, including the re-launch of our brand, and corporate marketing amounted for approximately \$4.4 million.

As a percentage of revenues, sales and marketing expenses increased in 2005 compared to 2004, primarily due to an increase in advertising and marketing spending in our content and application services business in 2005 as compared to 2004.

Fiscal 2004 compared to fiscal 2003: Sales and marketing expenses increased approximately \$54.4 million 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.

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

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.

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 in absolute dollars and increase modestly as a percentage of revenues in 2006.

A comparison of research and development expenses and employee headcount for the years ended December 31, 2005, 2004 and 2003 is presented below.

	<u>2005</u>	<u>% Change</u>	<u>2004</u>	<u>% Change</u>	<u>2003</u>
	(Dollars in thousands)				
Research and development	95,339	58%	\$60,405	22%	\$49,408
Percentage of revenues	6%		5%		5%
Employee headcount	801	96%	408	67%	245

Fiscal 2005 compared to fiscal 2004: Research and development expenses increased approximately \$34.9 million primarily due to an increase in headcount from our acquisitions, resulting in an increase of approximately \$26.5 million in salary and employee related benefit costs. Other increases included approximately \$3.3 million in occupancy related costs related to acquisitions and approximately \$2.0 million of costs related to outside services.

As a percentage of revenues, research and development expenses increased due to the increase in overall spending in 2005 compared to 2004.

Fiscal 2004 compared to fiscal 2003: Research and development expenses increased \$11.0 million 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.

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

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.

We anticipate that general and administrative expenses in 2006 will increase marginally in absolute dollars and as a percentage of overall revenues.

A comparison of general and administrative expenses and employee headcount for the years ended December 31, 2005, 2004 and 2003 is presented below.

	<u>2005</u>	<u>% Change</u>	<u>2004</u>	<u>% Change</u>	<u>2003</u>
	(Dollars in thousands)				
General and administrative	194,597	19%	\$164,029	(5)%	\$173,094
Percentage of revenues	12%		15%		17%
Employee headcount	705	24%	567	11%	513

Fiscal 2005 compared to fiscal 2004: General and administrative expenses increased approximately \$30.6 million primarily due to an increase of approximately \$18.4 million in salary and employee benefit costs as a result of increased headcount. Equipment and software related expenses increased approximately \$7.4 million, primarily due to an increase in hardware maintenance costs, software licenses and depreciation expense. Legal costs increased approximately \$3.1 million primarily due to litigation settlements during the year. Contract and professional services increased approximately \$3.1 million primarily due to services related to audit, tax and Sarbanes-Oxley compliance. These increases were partially offset by decreases in other corporate expenses.

As a percentage of revenues, general and administrative expenses decreased primarily due to increased revenues from our content services business, which has lower general and administrative expenses as a percentage of revenues than other businesses, coupled with our ability to leverage existing general and administrative costs.

Fiscal 2004 compared to fiscal 2003: General and administrative expenses decreased approximately \$9.1 million, primarily due to a decrease of \$9.8 million attributable to the sale of our Network Solutions business, partially offset by increases in general and administrative expenses from our acquisitions.

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 \$13.3 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 \$5.6 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 \$11.0 million as a result of costs associated with litigation, and increases in contract and professional services of approximately \$7.5 million primarily due to expenses related to Sarbanes-Oxley compliance.

As a percentage of revenues, general and administrative expenses decreased due to a decrease in general and administrative expenses in 2004 as described above.

The following table shows a comparison of our bad debt expense and our days sales outstanding (“DSO”) for 2005, 2004 and 2003:

	<u>2005</u>	<u>Change</u>	<u>2004</u>	<u>Change</u>	<u>2003</u>
	(Dollars in thousands)				
Bad debt expense	\$1,041	51%	\$472	(86)%	\$4,826
DSO	45 days	1 day	44 days	5 days	39 days

DSO increased in 2005 as compared to 2004 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 2006.

Restructuring and Other Charges

Below is a comparison of the restructuring and other charges for the years ended December 31, 2005, 2004, and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands)		
2003 Restructuring Plan (reversals) charges	\$ (1,941)	\$ 4,973	\$54,152
2002 Restructuring Plan (reversals) charges	1,363	(265)	20,481
Other charges	21,631	20,072	—
Total restructuring and other charges	<u>\$21,053</u>	<u>\$24,780</u>	<u>\$74,633</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. During 2004, we recorded restructuring charges of \$2.7 million related to non-cancelable lease costs for excess facilities, \$1.1 million related to workforce reduction charges, \$1.0 million for exit costs and \$0.2 million for other charges relating to property and equipment write-offs. During 2005, we recorded reversals to excess facilities of approximately \$1.9 million relating to certain operating leases.

2002 Restructuring Plan. In 2002, we announced plans to restructure our operations to rationalize, integrate and align resources. 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. In 2005, we recorded charges of approximately \$1.4 million relating to excess facilities that were either abandoned or downsized due to lease terminations and non-cancelable lease costs.

Other charges. During 2004, we recorded other charges of approximately \$20.1 million relating to certain asset write-offs. During 2005, we abandoned the development efforts related to an internally developed software project and recorded an expense of approximately \$21.6 million to other charges.

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, 2005, 2004, and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands)		
Impairment of goodwill	\$ —	\$ —	\$ 81,885
Impairment of other intangible assets	—	—	71,534
Amortization of other intangible assets	<u>101,638</u>	<u>79,440</u>	<u>181,736</u>
Total amortization and impairment of goodwill and other intangible assets	<u>\$101,638</u>	<u>\$79,440</u>	<u>\$335,155</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 tests conducted in June 2005 and 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. We recorded an additional impairment of goodwill of \$30.2 million in the third quarter of 2003 as a result of entering into an agreement to sell our 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, we 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 our 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>

Fiscal 2005 compared to fiscal 2004: Amortization of other intangible assets increased approximately \$22.2 million primarily due to a full year of amortization related to intangible assets acquired in our acquisition of Jamba! in June of 2004 and amortization expense related to our acquisition of LightSurf in April of 2005. Amortization of intangible assets acquired from Jamba! accounted for approximately \$10.2 million of the increase. Amortization of intangible assets acquired from LightSurf accounted for approximately \$8.8 million of the increase.

Fiscal 2004 compared to fiscal 2003: Amortization of other intangible assets decreased approximately \$102.3 million as other intangible assets related to prior acquisitions became fully amortized.

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

Acquired in-process research and development

During 2005, we wrote off \$7.7 million of in-process research and development acquired in the purchase of LightSurf, iDefense, Moreover and RSI. At the date of each acquisition, the projects associated with the IPR&D efforts had not yet reached technological feasibility and the research and development in process had no alternative future uses. Accordingly, these amounts were charged to expense on the respective acquisition date of each of the acquired companies.

Minority interest

Minority interest represents the portion of net income belonging to minority shareholders of our consolidated subsidiaries.

A comparison of minority interest for the years ended December 31 2005, 2004 and 2003 is presented below:

	<u>2005</u>	<u>%</u> <u>Change</u>	<u>2004</u>	<u>%</u> <u>Change</u>	<u>2003</u>
	(Dollars in thousands)				
Minority interest	\$4,702	80%	\$2,618	452%	\$474

Fiscal 2005 compared to fiscal 2004: Minority interest increased primarily from increased net income from our VeriSign Japan subsidiary primarily due to an increase in the installed base of website security certificates and increased demand for managed security services in Japan.

Fiscal 2004 compared to fiscal 2003: Minority interest increased in primarily from increased net income from our VeriSign Japan subsidiary. In June 2004, we acquired the remaining 49% minority interest in VeriSign Australia, which is now a wholly-owned subsidiary.

Other income (expense), net

Other income, net consists primarily of interest earned on our cash, cash equivalents, and investments, gains and losses on the sale or impairment of equity investments, and the net effect of foreign currency gains and losses.

The following table presents the components of other income, net for years ended December 31, 2005, 2004 and 2003:

	<u>2005</u>	<u>%</u> <u>Change</u>	<u>2004</u>	<u>%</u> <u>Change</u>	<u>2003</u>
Interest income	\$30,041	64%	\$18,325	132%	\$ 7,905
Net gain (impairment) on sale of investments, net of impairments (gains)	11,310	238%	(8,200)	50%	(16,541)
Gain on sale of VeriSign Japan stock	—	(100)%	74,925	—	—
Other, net	10,155	2,961%	(355)	(143)%	833
Total other income, net	<u>51,506</u>	<u>(39)%</u>	<u>84,695</u>	<u>1,185%</u>	<u>(7,803)</u>

Fiscal 2005 compared to fiscal 2004: Other income decreased approximately \$33.2 million primarily due to the gain on sale of VeriSign Japan of approximately \$74.9 million recorded in 2004, partially offset by an increase in realized gains on investments, net of losses and impairments, in 2005, of approximately \$19.5 million. Interest income increased \$11.7 million, primarily as a result of higher cash balances and slightly higher interest rates during 2005. In addition, we recorded a gain of approximately \$6.0 million related to the resolution of a dispute with a telecommunications carrier customer during 2005.

Fiscal 2004 compared to fiscal 2003: Other income increased approximately \$92.5 million primarily due to the gain on sale of VeriSign Japan. Interest income increased approximately \$10.4 million primarily due to higher cash balances.

Income tax expense

In the years ended December 31, 2005, 2004 and 2003, we recorded income tax expense from continuing operations of \$104.7 million, or 43.0% of pretax income, \$20.4 million, or 10.5% of pretax income, and \$18.2 million, or (7.3)% 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 our 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. However, depending on our continued ability to achieve profitability, and on the potential impact of SFAS 123R, we may have sufficient evidence in 2006 to conclude that realization of additional deferred tax assets is more likely than not and thus realize a tax benefit in that period from a reduction of our deferred tax asset valuation allowance.

If the valuation allowance relating to deferred tax assets were released as of December 31, 2005, approximately \$237.7 million would be credited to the statement of operations, and \$101.2 million would be credited to additional paid-in capital. Management would continue to apply a valuation allowance of \$55.8 million to the deferred tax asset relating to the write-down of investments, due to the limited carryover life and character of such tax attributes. Management does not believe it is more likely than not that \$8.3 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, 2005, we had federal net operating loss carryforwards of approximately \$231.4 million, state net operating loss carryforwards of approximately \$242.5 million, and foreign net operating loss carryforwards of approximately \$31.1 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 2006 through 2023. Most of our foreign net operating loss carryforwards do not expire, but could be subject to future restrictions based on changes in the business or ownership of the foreign subsidiary. We had research and experimentation tax credits for federal income tax purposes of approximately \$7.0 million available for carryover to future years, and for state income tax purposes of approximately \$3.8 million available for carryover to future years. The federal research and experimentation tax credits will expire, if not utilized, in 2010 through 2025. 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. We experienced cumulative changes in ownership of greater than 50 percent in 2003 and 2002. These changes in ownership resulted in the imposition of an annual limitation on our ability to utilize U.S. Federal and certain state net operating loss carryforwards of \$232.9 million and \$116.5 million, respectively. Losses not utilized due to these limitations can be carried forward, but are subject to the expiration dates described in the prior paragraph.

In the consolidated balance sheets, we have not included deferred tax assets of \$151.1 million for a capital loss carryforward, and \$67.0 million for a net operating loss generated by stock options. The capital loss and the net operating loss generated by the stock options are each subject to a ruling request currently on file with the IRS and will be allowed if and when we receive a favorable ruling. If the IRS issues favorable rulings to us, the deferred tax assets could be recognized and, if recognized, the \$151.1 million will be credited to income tax expense and the \$67.0 million will be credited to additional paid-in capital. The outcome of these ruling requests is uncertain as the rulings are solely dependent on the IRS' discretion.

Liquidity and Capital Resources

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands)		
Cash and cash equivalents	\$476,826	\$328,842	\$298,472
Short-term investments	<u>378,006</u>	<u>406,784</u>	<u>422,093</u>
Subtotal	\$854,832	\$735,626	\$720,565
Restricted cash and investments	<u>50,972</u>	<u>51,518</u>	<u>18,371</u>
Total	<u>\$905,804</u>	<u>\$787,144</u>	<u>\$738,936</u>
Working capital from continuing operations	\$291,669	\$309,151	\$325,523

At December 31, 2005, our principal source of liquidity was \$854.8 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.

Net cash provided by operating activities

Net cash provided by operating activities was \$510.8 million in 2005 primarily due to an overall increase in net income after adjustments for non-cash items such as amortization of intangible assets and the depreciation of property and equipment. Additionally, cash flows from operating activities increased in 2005 as compared to 2004 due to an increase in deferred revenues of \$72.8 million and an increase in accounts payable and accrued liabilities of \$100.3 million, partially offset by an increase in accounts receivable of \$63.8 million.

Net cash provided by operating activities was \$365.3 million in 2004 primarily due to an overall increase in net income after adjustments for non-cash items such as amortization of intangible assets and the depreciation of property and equipment. Additionally, cash flows from operating activities increased during 2004 as compared to 2003 due to an increase in deferred revenues of \$69.3 million and an increase in accounts payable and accrued liabilities of \$44.9 million, partially offset by an increase in accounts receivable of \$65.8 million.

Net cash provided by operating activities was \$358.4 million in 2003 primarily as a result of 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.

Net cash used in investing activities

Net cash provided by investing activities was \$113.9 million in 2005, primarily as a result of net proceeds of \$367.2 million from the sale of our payment gateway business, partially offset by \$161.3 million used for our acquisitions and \$140.5 million for purchases of capital equipment. Other increases in cash were from net proceeds of investments of approximately \$37.0 million and a \$16.0 million payment on a long-term note receivable.

Net cash used in investing activities was \$284.9 million in 2004, primarily as a result of \$253.8 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 \$21.2 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 financing activities

Net cash used in financing activities was \$469.5 million in 2005 primarily due to \$548.6 million used to repurchase shares of our common stock in the open market under an existing repurchase program, partially offset by \$80.5 million provided by the proceeds from issuance of common stock from option exercises and employee stock purchase plan purchases.

Net cash used in financing activities was \$54.5 million in 2004 primarily due to \$113.3 million used to repurchase shares of our common stock in the open market under an existing repurchase program, partially offset by \$62.4 million provided by the proceeds from issuance of common stock from option exercises and employee stock purchase plan purchases.

Net cash provided by financing activities was \$55.9 million in 2003 primarily due to \$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.

Net cash provided by discontinued operations

Net cash provided by operating activities from discontinued operations for 2005, 2004 and 2003 was primarily from net income related to our discontinued payment gateway business of \$16.1 million, \$12.6 million and \$8.0 million respectively.

Net cash used in investing activities of discontinued operations was approximately \$1.5 million and \$2.8 million for 2004 and 2003, respectively, primarily for purchases of property and equipment.

Capital property and equipment expenditures

The following table shows our budgeted capital property and equipment expenditures in 2006 and our actual expenditures in 2005, 2004 and 2003:

	<u>2006</u> <u>Budgeted</u>	<u>2005</u> <u>Actual</u>	<u>2004</u> <u>Actual</u>	<u>2003</u> <u>Actual</u>
	(In thousands)			
Capital property and equipment expenditures	\$140,000	\$140,499	\$91,002	\$105,045

Our planned capital property and equipment expenditures for 2006 are anticipated to be approximately \$140.0 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.

Contractual obligations

The following table summarizes our significant non-cancelable contractual obligations at December 31, 2005, 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
	(In thousands)				
Contractual obligations					
Operating lease obligations, net of sublease income	\$156,377	\$30,193	\$51,616	\$42,100	\$32,468
Purchase obligations	69,750	27,200	42,300	250	—
Other long-term liabilities	6,200	2,200	4,000	—	—
Total	<u>\$232,326</u>	<u>\$59,593</u>	<u>\$97,915</u>	<u>\$42,350</u>	<u>\$32,468</u>

As of December 31, 2005, we had commitments under non-cancelable operating leases for our facilities for various terms through 2014. See Note 13 of Notes to Consolidated Financial Statements.

Future operating lease payments include payments related to leases on excess facilities included in our 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 \$19.2 million over the next nine years relating to our restructuring plans. Cash payments totaling approximately \$39.6 million related to the abandonment of excess facilities will be paid over the next nine years. See Note 5 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 \$25 to \$30 million in 2005 and are estimated to be approximately the same in 2006.

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 \$6.2 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 \$6.0 million pursuant to such agreements classified as restricted cash and investments on the accompanying balance sheet as of December 31, 2005. In addition, we established a trust during the first quarter of 2004 in the amount of \$45.0 million classified as restricted cash and investments on our balance sheet for our director and officer liability self-insurance coverage.

To facilitate our stock repurchase program, designed to return value to our stockholders and minimize dilution from stock issuances, we repurchase shares in the open market and from time to time enter into structured stock repurchase agreements with third parties.

On November 21, 2005, we entered into a \$250 million ASR agreement with a large investment bank. Under the ASR agreement, we purchased approximately 10.8 million shares of our common stock at a price per share of approximately \$23.14.

On August 2, 2005, our Board of Directors authorized a new stock repurchase program to use up to \$500 million to repurchase shares of our common stock on the open market, or in negotiated or block trades. During 2005, 16,495,224 shares were repurchased at an aggregate cost of \$380.3 million. At December 31, 2005, approximately \$119.7 million remained available for future repurchases under this program.

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 2005, 6,322,203 shares were repurchased at an aggregate cost of \$167.0 million. We completed the 2001 stock repurchase program in the third quarter of 2005.

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.

If we liquidated certain available-for-sale investments as of December 31, 2005, we would have recognized losses of approximately \$5.4 million in our statement of operations. Instead, these unrecognized losses, partially offset by unrecognized gains, are recorded as a separate component of equity and are included in accumulated other comprehensive loss on our consolidated balance sheet.

We believe existing cash and short-term investments, together with funds generated from operations should be sufficient to meet our working capital and capital expenditure requirements for the next 12 months. Our philosophy regarding the maintenance of a balance sheet with a large component of cash, cash equivalents and short-term investments reflects our views on potential future capital requirements relating to expansion of our businesses, acquisitions, and share repurchases. We regularly assess our cash management approach and activities in view of our current and potential future needs.

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 statement 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 first quarter of 2006 and will recognize stock-based compensation expense using the modified prospective method. 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 2003 through 2005, 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 Staff Position No. 109-1 (“FSP 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 Staff Position No. 109-2 (“FSP 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. FSP 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 May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 (“SFAS 154”), “*Accounting Changes and Error Corrections*” which replaces APB Opinion No. 20 “*Accounting Changes*” and SFAS No. 3, “*Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28*”. SFAS 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principal unless it is not practicable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted by the Company in the first quarter of fiscal 2006. The impact that the adoption of SFAS 154 will have on our results of operations and financial position will depend on the nature of future accounting changes adopted by VeriSign and the nature of transitional guidance provided in future accounting pronouncements.

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 2005, 2004 and 2003, we determined the decline in value of certain public and non-public equity investments was other-than-temporary and we recognized impairments totaling \$0.8 million, \$12.6 million, and \$17.0 million, respectively. Due to the inherent risk associated with some of our investments, 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, short-term investments and long-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, 2005, 45% of our investments subject to interest rate risk mature in less than one year. If market interest rates were to increase immediately and uniformly by 10 percent from levels at December 31, 2005, 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, 2005. This table does not include money market funds because those funds are not subject to interest rate risk.

	Maturing in			Total	Estimated Fair Value
	Six Months or Less	Six Months to One Year	More than One Year		
	(Dollars in thousands)				
Included in cash and cash equivalents . . .	\$ 26,253	\$ —	\$ —	\$ 26,253	\$ 26,246
Weighted-average interest rate	2.55%	—	—		
Included in short-term investments	\$115,396	\$62,577	\$204,777	\$382,750	\$378,006
Weighted-average interest rate	3.27%	3.48%	4.11%		
Included in restricted cash and investments	\$ —	\$ —	\$ 50,972	\$ 50,972	\$ 50,972
Weighted-average interest rate	—	—	3.82%		

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 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, 2005, we held forward contracts in notional amounts totaling approximately \$173.2 million to mitigate the impact of exchange rate fluctuations associated with certain foreign currencies. All forward 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, 2005 and 2004:

	2005				
	First Quarter (2)	Second Quarter (3)	Third Quarter (4)	Fourth Quarter (5)	Year Ended December 31
	(In thousands, except per share data)				
Continuing operations:					
Revenues	\$387,267	\$430,408	\$399,705	\$392,114	\$1,609,494
Costs and expenses	331,832	374,930	344,216	362,087	1,413,065
Operating income	55,435	55,478	55,489	30,027	196,429
Net income	45,160	36,946	39,695	16,777	138,578
Net income per share: (1)					
Basic	\$ 0.18	\$ 0.14	\$ 0.15	\$ 0.07	\$ 0.54
Diluted	\$ 0.17	\$ 0.14	\$ 0.15	\$ 0.07	\$ 0.53
Discontinued operations:					
Revenues	\$ 13,724	\$ 14,422	\$ 15,061	\$ 8,466	\$ 51,673
Costs and expenses	7,747	7,948	7,797	4,210	27,702
Operating income	5,977	6,474	7,264	4,256	23,971
Net income	4,015	4,349	4,879	2,859	16,102
Net income per share: (1)					
Basic	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.01	\$ 0.06
Diluted	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.01	\$ 0.06
Total:					
Revenues	\$400,991	\$444,830	\$414,766	\$400,580	\$1,661,167
Costs and expenses	339,579	382,878	352,013	366,297	1,440,767
Operating income	61,412	61,952	62,753	34,283	220,400
Net income	49,175	41,295	44,574	271,417	406,461
Net income per share: (1)					
Basic	\$ 0.19	\$ 0.16	\$ 0.17	\$ 1.08	\$ 1.58
Diluted	\$ 0.19	\$ 0.15	\$ 0.17	\$ 1.06	\$ 1.54
	2004				
	First Quarter (6)	Second Quarter (7)	Third Quarter (8)	Fourth Quarter (9)	Year Ended December 31
	(In thousands, except per share data)				
Continuing operations:					
Revenues	\$218,003	\$244,489	\$312,863	\$342,951	\$1,118,306
Costs and expenses	207,708	210,473	285,560	302,679	1,006,420
Operating income	10,295	34,016	27,303	40,272	111,886
Net income	6,141	19,080	37,132	111,248	173,601
Net income per share: (1)					
Basic	\$ 0.03	\$ 0.08	\$ 0.15	\$ 0.44	\$ 0.69
Diluted	\$ 0.02	\$ 0.08	\$ 0.14	\$ 0.42	\$ 0.67
Discontinued operations:					
Revenues	\$ 11,110	\$ 11,556	\$ 12,448	\$ 13,035	\$ 48,149
Costs and expenses	6,507	7,054	7,315	7,431	28,307
Operating income	4,603	4,502	5,133	5,604	19,842
Net income	2,928	2,865	3,266	3,565	12,624
Net income per share: (1)					
Basic	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.05
Diluted	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.05
Total:					
Revenues	\$229,113	\$256,045	\$325,311	\$355,986	\$1,166,455
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	9,069	21,945	40,398	114,813	186,225
Net income per share: (1)					
Basic	\$ 0.04	\$ 0.09	\$ 0.16	\$ 0.45	\$ 0.74
Diluted	\$ 0.04	\$ 0.09	\$ 0.16	\$ 0.43	\$ 0.72

- (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 \$1.9 million credit for net restructuring charge and \$0.9 million of realized gains on investments, net of impairments.
- (3) Results include a \$0.1 million credit for net restructuring charges and \$0.1 million of investment impairments, net of realized gains.
- (4) Results include a \$0.5 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 \$8.2 million of realized gains on investments, net of impairments.
- (5) Net income for 2005 includes gain on sale of discontinued operations of \$251.8 million, and other charges of approximately \$21.6 million related to the abandonment of the development efforts related to an internally developed software project.
- (6) 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.
- (7) Results include a \$3.6 million credit for net restructuring charges and \$0.3 million of investment impairments, net of realized gains.
- (8) Results include a \$7.7 million restructuring charge in connection with workforce reductions, closures of excess facilities, disposal of abandonment of property and equipment, exit costs and other charges and \$4.6 million of investment impairments, net of realized gains.
- (9) Results include a \$5.2 million restructuring charge in connection with workforce reductions, closures of excess facilities, disposal of abandonment of property and equipment, exit costs and other charges, and a \$74.9 million gain related to the sale of stock in our VeriSign Japan subsidiary.

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 “Risk Factors—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, 2005, 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.

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.

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, 2005. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report that is included herein.

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 2006 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 http://www.verisign.com/verisign-inc/vrsn-investors/Corporate_Governance/.

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 2006 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 2006 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 2006 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 2006 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, 2005 and 2004
 - Consolidated Statements of Operations
For the Years Ended December 31, 2005, 2004 and 2003
 - Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2005, 2004 and 2003
 - Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2005, 2004 and 2003
 - Consolidated Statements of Cash Flows
For the Years Ended December 31, 2005, 2004 and 2003
 - 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	10-K	3/16/05	2.04	
2.05	Asset Purchase Agreement dated October 10, 2005, as amended, among the Registrant, eBay, Inc. and the other parties thereto.	8-K	11/23/05	2.1	
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	

<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>	
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	
3.05	Amended and Restated Article II, Section 2 of the Bylaws of Registrant, effective May 3, 2005	8-K	5/6/05	3.01	
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	10-K	3/16/05	10.04	
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	10-K	3/16/05	10.06	
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 10/1/05				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	

<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>	
10.13	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	
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	
10.28	Accelerated Share Repurchase Transaction at Discount to VWAP dated November 21, 2005 between the Registrant and Morgan Stanley & Co. Incorporated				X
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

<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>	
32.01	Certification of President, Chief Executive Officer and Chairman of the Board pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)**				X
32.02	Certification of Executive Vice President of Finance and Administration and Chief Financial Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)**				X

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

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

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	74
• Consolidated Balance Sheets As of December 31, 2005 and 2004	76
• Consolidated Statements of Operations For the Years Ended December 31, 2005, 2004 and 2003	77
• Consolidated Statements of Stockholders' Equity For the Years Ended December 31, 2005, 2004 and 2003	78
• Consolidated Statements of Comprehensive Income (Loss) For the Years Ended December 31, 2005, 2004 and 2003	79
• Consolidated Statements of Cash Flows For the Years Ended December 31, 2005, 2004 and 2003	80
• Notes to Consolidated Financial Statements	81

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. (the Company) maintained effective internal control over financial reporting as of December 31, 2005, 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 VeriSign, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by COSO. Also, in our opinion, VeriSign, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by 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, 2005 and 2004, 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, 2005, and our report dated March 10, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Mountain View, California
March 10, 2006

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, 2005 and 2004, 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, 2005. 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, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, 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. as of December 31, 2005, 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 10, 2006 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 10, 2006

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

<u>ASSETS</u>	December 31,	
	2005	2004
Current assets:		
Cash and cash equivalents	\$ 476,826	\$ 328,842
Short-term investments	378,006	406,784
Accounts receivable, net of allowance for doubtful accounts of \$11,559 in 2005 and \$10,708 in 2004	271,883	192,638
Prepaid expenses and other current assets	80,079	51,299
Deferred tax assets	16,186	19,057
Current assets of discontinued operations	5,295	7,503
Total current assets	1,228,275	1,006,123
Property and equipment, net	553,036	508,363
Goodwill	1,071,910	725,427
Other intangible assets, net	225,302	243,838
Restricted cash and investments	50,972	51,518
Long-term note receivable	26,419	39,956
Other assets, net	16,985	13,391
Long-term assets of discontinued operations	—	4,258
Total long-term assets	1,944,624	1,586,751
Total assets	\$ 3,172,899	\$ 2,592,874
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 555,458	\$ 380,625
Accrued restructuring costs	7,440	11,696
Deferred revenue	368,413	297,148
Current liabilities of discontinued operations	6,822	10,126
Total current liabilities	938,133	699,595
Long-term deferred revenue	127,175	106,870
Long-term accrued restructuring costs	10,876	19,276
Other long-term liabilities	4,995	6,815
Deferred tax liabilities	18,560	31,319
Long-term liabilities of discontinued operations	—	725
Total long-term liabilities	161,606	165,005
Total liabilities	1,099,739	864,600
Minority interest in subsidiaries	41,485	36,277
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: 246,418,940, excluding 28,981,444 shares held in treasury, at December 31, 2005; 253,341,383, excluding 6,164,017 shares held in treasury, at December 31, 2004	246	253
Additional paid-in capital	23,205,261	23,253,111
Unearned compensation	(13,911)	(6,127)
Accumulated deficit	(21,147,368)	(21,553,829)
Accumulated other comprehensive loss	(12,553)	(1,411)
Total stockholders' equity	2,031,675	1,691,997
Total liabilities and stockholders' equity	\$ 3,172,899	\$ 2,592,874

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2005	2004	2003
Revenues	\$1,609,494	\$1,118,306	\$1,017,345
Costs and expenses:			
Cost of revenues	512,225	436,016	439,152
Sales and marketing	480,543	241,747	187,334
Research and development	95,339	60,405	49,408
General and administrative	194,597	164,029	173,094
Restructuring and other charges	21,053	24,780	74,633
Impairment of goodwill	—	—	81,885
Impairment of other intangible assets	—	—	71,534
Amortization of other intangible assets	101,638	79,440	181,736
Acquired in-process research and development	7,670	—	—
Total costs and expenses	<u>1,413,065</u>	<u>1,006,417</u>	<u>1,258,776</u>
Operating income (loss) from continuing operations	<u>196,429</u>	<u>111,889</u>	<u>(241,431)</u>
Non-operating income (expense):			
Minority interest	(4,702)	(2,618)	(474)
Other income (expense), net	<u>51,506</u>	<u>84,695</u>	<u>(7,803)</u>
Total other income (expense), net	<u>46,804</u>	<u>82,077</u>	<u>(8,277)</u>
Income (loss) from continuing operations before income taxes	243,233	193,966	(249,708)
Income tax expense	<u>104,655</u>	<u>20,365</u>	<u>18,199</u>
Net income (loss) from continuing operations	138,578	173,601	(267,907)
Discontinued operations:			
Net income from discontinued operations, net of tax	16,102	12,624	8,028
Gain on sale of discontinued operations, net of tax	<u>251,781</u>	<u>—</u>	<u>—</u>
Net income from discontinued operations	<u>267,883</u>	<u>12,624</u>	<u>8,028</u>
Net income (loss)	<u>\$ 406,461</u>	<u>\$ 186,225</u>	<u>\$ (259,879)</u>
Basic net income (loss) per share from:			
Continuing operations	\$ 0.54	\$ 0.69	\$ (1.12)
Discontinued operations	<u>1.04</u>	<u>0.05</u>	<u>0.04</u>
Net income	<u>\$ 1.58</u>	<u>\$ 0.74</u>	<u>\$ (1.08)</u>
Diluted net income (loss) per share from:			
Continuing operations	\$ 0.53	\$ 0.67	\$ (1.12)
Discontinued operations	<u>1.01</u>	<u>0.05</u>	<u>0.04</u>
Net income	<u>\$ 1.54</u>	<u>\$ 0.72</u>	<u>\$ (1.08)</u>
Shares used in per share computation:			
Basic	<u>257,369</u>	<u>250,564</u>	<u>239,780</u>
Diluted	<u>264,513</u>	<u>258,154</u>	<u>239,780</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,		
	2005	2004	2003
Common stock:			
Balance, beginning of year:			
253,341,383 shares at January 1, 2005			
241,829,274 shares at January 1, 2004			
237,510,063 shares at January 1, 2003	\$ 253	\$ 242	\$ 238
Issuance of common stock for business combinations:			
9,083,074 shares in 2005			
9,282,349 shares in 2004	9	9	—
Issuance of common stock under employee stock purchase plan:			
1,318,406 shares in 2005			
2,312,572 shares in 2004			
1,997,230 shares in 2003	1	2	2
Issuance of common stock upon exercise of options and restricted stock:			
5,493,504 shares in 2005			
4,391,205 shares in 2004			
2,321,981 shares in 2003	6	4	2
Repurchase of common stock:			
22,817,427 shares in 2005			
4,474,017 shares in 2004	(23)	(4)	—
Balance, end of year:			
246,418,940 shares at December 31, 2005			
253,341,383 shares at December 31, 2004			
241,829,274 shares at December 31, 2003	246	253	242
Additional paid-in capital:			
Balance, beginning of year	23,253,111	23,128,095	23,072,212
Issuance of common stock and common stock options for business combinations	288,402	165,632	—
Issuance of common stock under employee stock purchase plan	18,815	13,961	10,658
Income tax benefit from exercise of employee stock options	126,520	4,748	5,004
Issuance of common stock upon exercise of stock options and other	61,632	49,756	21,018
Gain on issuance of consolidated subsidiary stock	—	—	17,272
Issuance of restricted stock and restricted stock units	5,388	4,172	1,931
Repurchase of common stock	(548,607)	(113,253)	—
Balance, end of year	23,205,261	23,253,111	23,128,095
Unearned compensation:			
Balance, beginning of year	(6,127)	(2,628)	(8,086)
Unearned compensation resulting from business combinations	(8,708)	(2,463)	—
Issuance of restricted stock and restricted stock units	(5,388)	(4,172)	(1,931)
Amortization of unearned compensation	6,312	3,136	7,389
Balance, end of year	(13,911)	(6,127)	(2,628)
Accumulated deficit:			
Balance, beginning of year	(21,553,829)	(21,740,054)	(21,480,175)
Net income (loss)	406,461	186,225	(259,879)
Balance, end of year	(21,147,368)	(21,553,829)	(21,740,054)
Accumulated other comprehensive income (loss):			
Balance, beginning of year	(1,411)	(2,002)	(4,764)
Translation adjustments	(7,988)	4,104	1,454
Change in unrealized gain (loss) on investments, net of tax	(3,154)	(3,513)	1,308
Balance, end of year	(12,553)	(1,411)	(2,002)
Total stockholders' equity	\$ 2,031,675	\$ 1,691,997	\$ 1,383,653

See accompanying Notes to Consolidated Financial Statements.

VERISIGN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net income (loss)	\$406,461	\$186,225	\$(259,879)
Other comprehensive income:			
Unrealized (loss) gain on investments	(4,573)	(3,462)	1,307
Reclassification adjustment for (gains) losses included in net income ...	1,419	(51)	1
Translation adjustments	<u>(7,988)</u>	<u>4,104</u>	<u>1,454</u>
Net gain (loss) recognized in other comprehensive income	<u>(11,142)</u>	<u>591</u>	<u>2,762</u>
Comprehensive income (loss)	<u>\$395,319</u>	<u>\$186,816</u>	<u>\$(257,117)</u>

● Form 10-K

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net income (loss)	\$ 406,461	\$ 186,225	\$(259,879)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on sale of discontinued operations	(251,781)	—	—
Depreciation and amortization of property and equipment	89,309	85,641	114,475
Amortization and impairment of other intangible assets and goodwill	101,638	79,440	335,505
Acquired in-process research and development	7,670	—	—
Provision for doubtful accounts	1,041	689	6,055
Non-cash restructuring and other charges	22,658	19,954	27,634
Net (gain) loss on sale and impairment of investments	(11,310)	8,200	16,541
Gain on sale of VeriSign Japan stock	—	(74,925)	—
Minority interest in net income of consolidated subsidiary	4,702	2,618	474
Tax benefit associated with stock options	60,778	4,748	5,004
Deferred income taxes	(9,890)	(8,390)	3,321
Amortization of unearned compensation	6,312	3,136	7,389
Loss on disposal of property and equipment	186	—	388
Gain on sale of business	—	—	(2,862)
Changes in operating assets and liabilities, excluding effects of acquisitions:			
Accounts receivable	(63,819)	(65,822)	27,950
Prepaid expenses and other current assets	(26,279)	9,596	12,753
Accounts payable and accrued liabilities	100,315	44,911	38,148
Deferred revenue	72,796	69,317	25,544
Net cash provided by operating activities	<u>510,787</u>	<u>365,338</u>	<u>358,440</u>
Cash flows from investing activities:			
Net proceeds from sale of discontinued operations	367,222	—	—
Purchases of investments	(276,869)	(1,083,203)	(627,278)
Proceeds from maturities and sales of investments	313,845	1,067,258	334,472
Purchases of property and equipment	(140,499)	(92,532)	(108,034)
Proceeds from sale of VeriSign Japan stock	—	78,317	—
Proceeds from sale of business	—	—	57,621
Payments received on long term note receivable	15,990	—	—
Cash paid for business combinations, net of cash acquired	(151,669)	(246,356)	(16,052)
Merger related costs	(9,665)	(7,420)	(5,120)
Other assets	(4,424)	(927)	(4,171)
Net cash provided by (used in) investing activities	<u>113,931</u>	<u>(284,863)</u>	<u>(368,562)</u>
Cash flows from financing activities:			
Proceeds from issuance of common stock from option exercises and employee stock purchase plan	80,454	62,426	31,680
Repurchase of common stock	(548,630)	(113,257)	—
Proceeds from sale of consolidated subsidiary stock	863	850	37,403
Repayment of long term liabilities	(2,200)	(4,491)	(13,199)
Net cash (used in) provided by financing activities	<u>(469,513)</u>	<u>(54,472)</u>	<u>55,884</u>
Effect of exchange rate changes on cash and cash equivalents	(7,186)	3,045	1,326
Net increase in cash and cash equivalents	148,019	29,048	47,088
Cash and cash equivalents of at beginning of year	330,641	301,593	254,505
Cash and cash equivalents at end of year	<u>\$ 478,660</u>	<u>\$ 330,641</u>	<u>\$ 301,593</u>
Cash and cash equivalents included in discontinued operations	(1,834)	(1,799)	(3,121)
Cash and cash equivalents of continuing operations at the end of the year	<u>\$ 476,826</u>	<u>\$ 328,842</u>	<u>\$ 298,472</u>
Cash flows from discontinued operations:			
Net cash provided by operating activities	\$ 18,574	\$ 16,045	\$ 13,885
Net cash used in investing activities	—	(1,530)	(2,804)
Net cash provided by discontinued operations	<u>\$ 18,574</u>	<u>\$ 14,515</u>	<u>\$ 11,081</u>
Supplemental cash flow disclosures:			
Noncash investing and financing activities:			
Issuance of restricted stock and restricted stock units	\$ 5,388	\$ 4,172	\$ 1,931
Issuance of common stock for business combinations	<u>\$ 288,411</u>	<u>\$ 165,641</u>	<u>\$ —</u>
Unrealized (loss) gain on investments	\$ (3,154)	\$ (3,513)	\$ 1,308
Cash paid for income taxes	<u>\$ 26,440</u>	<u>\$ 26,497</u>	<u>\$ 12,304</u>

See accompanying Notes to Consolidated Financial Statements.

VERISIGN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005, 2004 AND 2003

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 and protect billions of interactions everyday across the world’s voice and data 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, information services, network connectivity and interoperability services, intelligent database services, 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 service-based segments: the Internet Services Group and the Communications Services Group. The Internet Services Group consists of the Security Services business and the Information 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 Information 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, 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.

Basis of Presentation

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, 2005, 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 is included in minority interest 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. VeriSign accounted for the November 2005 sale of its payment gateway business as a discontinued operation in accordance with SFAS No. 144 (“SFAS 144”), “*Accounting for the Impairment or Disposal of Long Lived Assets*”. Accordingly, the consolidated financial statements have been reclassified for all periods presented to reflect its payment gateway business as discontinued operations. Unless noted otherwise, discussions in the notes to consolidated financial statements pertain to continuing operations.

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 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

VERISIGN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2005, 2004 AND 2003

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, stock-based compensation, royalty liabilities, and deferred taxes. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Cash and Cash Equivalents

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

Short-Term Investments

Highly liquid investments with original maturities greater than three months are considered short-term investments. VeriSign invests in debt and equity securities of companies for business and investment purposes.

Fair Value of Financial Instruments

The fair value of VeriSign's cash equivalents, short-term investments, accounts receivable, restricted cash and investments, accounts payable and other long-term liabilities 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 other assets 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 provided by 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 anticipated 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 2005, 2004 and 2003, VeriSign determined that the decline in value of certain of its non-public equity investments was other-than-temporary and recorded impairments of these investments totaling \$0.8 million, \$12.6 million, and \$17.0 million, respectively. As of December 31, 2005 and 2004, long-term investments totaling \$6.7 million and \$6.8 million have been included in other assets on the respective consolidated balance sheets.

Trade Accounts Receivable and Allowances for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and generally do not include finance charges. 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

VERISIGN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2005, 2004 AND 2003

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. For those invoices not specifically reviewed, VeriSign maintains general reserve provisions based upon the age of the receivable. In determining these reserves, VeriSign analyzes its historical collection experience and current economic trends. If the historical data VeriSign uses to calculate the allowance for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected.

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”. The following table summarizes the capitalized costs related to third party implementation and consulting services as well as costs related to internally developed software:

	Year ended December 31,	
	2005	2004
	(In thousands)	
Internally used third-party software	\$21,657	\$14,473
Internally developed software	13,362	10,357

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.” As of December 31, 2005, there were no other intangible assets with an indefinite useful life. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized 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.”

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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 VeriSign content services utilize intellectual property owned or held under license by others. Where VeriSign has not yet entered into a license agreement with a holder, VeriSign records a provision for royalty payments that it estimates will be due once a license agreement is concluded. VeriSign estimates the royalty payments based on the prevailing royalty rate for the type of intellectual property being utilized. VeriSign's 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 VeriSign would record a royalty expense materially different than its estimate.

Foreign Currency Translation

VeriSign conducts business throughout the world and transacts in multiple 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.

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. This translation results in a cumulative translation adjustment that is included in accumulated other comprehensive income or loss, which is a separate component of stockholders' equity.

VeriSign maintains 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 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.

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At December 31, 2005, VeriSign held forward contracts in notional amounts totaling approximately \$173.2 million to mitigate the impact of exchange rate fluctuations associated with certain foreign currencies. All forward contracts were recorded at fair market value on the balance sheet and gains and losses were included in earnings at year end 2005 and 2004. Notional amounts of forward contracts approximated the fair market values as of December 31, 2005 and 2004. The Company attempts to limit its exposure to credit risk by executing foreign exchange contracts with high-quality financial institutions.

Revenue Recognition

VeriSign derives its revenues from two reportable segments: (i) the Internet Services Group, which consists of Security Services and Information Services; and (ii) the Communications Services Group, which consists of Network Connectivity and Interoperability Services, Intelligent Database Services, Content and Application Services, Clearing and Settlement Services, and Billing and Payment Services. 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.

VeriSign also provides global security consulting services to help enterprises assess, design, and deploy network security solutions. Revenues from global security consulting services are recognized either on a time and materials basis as the services are performed, or for fixed price consulting as services are performed, completed and accepted. In some cases fixed price consulting is measured using the proportional performance method of accounting. Proportional performance is based upon the ratio of hours incurred to total hours estimated to be incurred for the project. VeriSign has a history of accurately estimating project status and the hours required to complete projects. If different conditions were to prevail such that accurate estimates could not be made, then the use of the completed contract method would be required and all revenue and costs would be deferred until the project was completed. Revenues from time-and-materials are recognized as services are performed.

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

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

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VeriSign recognizes 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. VeriSign defines each of these four criteria as follows:

- *Persuasive evidence of an arrangement exists.* It is the Company’s customary practice to have a written contract, which is signed by both the customer and VeriSign, or a purchase order from those customers who have previously negotiated a standard license arrangement with VeriSign.
- *Delivery has occurred.* VeriSign’s 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. Where 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.
- *The fee is fixed or determinable.* It is VeriSign’s policy to not provide customers the right to a refund of any portion of their paid license fees. Generally, at least 80% of the arrangement fees are due within one year or less, but VeriSign may agree to payment terms with a foreign customer based on local customs. 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. VeriSign typically sells 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 VeriSign determines from the outset of an arrangement that collectibility is not probable based upon its credit review process, revenues are recognized as cash is collected.

The Company’s determination of fair value of each element in multiple-element software arrangements is based on vendor-specific objective evidence (“VSOE”) of fair value. VeriSign limits its assessment of VSOE for each element to the price charged when the same element is sold separately. VeriSign has analyzed all of the elements included in its multiple-element software arrangements and determined that it has sufficient VSOE to allocate revenues to PCS and professional services components of its perpetual license arrangements. VeriSign sells its professional services separately, and has 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.

VeriSign’s consulting services generally are not essential to the functionality of the software. The Company’s 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 VeriSign’s technology and dedicate personnel to participate in the services being performed, but customers 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.

VeriSign also receives ongoing royalties from each digital certificate or authentication service sold by the VeriSign Affiliate to an end user. The Company recognizes 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.

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Digital Certificate Services. Revenues from digital certificate services include the sale or renewal of digital certificates. These revenues are deferred and recognized ratably over the life of the digital certificate, which is generally 12 to 36 months.

Information Services

Domain Name Registry Services. VeriSign's Information Services revenues primarily include registry services for the .com and .net gTLDs and certain ccTLDs, and managed domain name 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.

Digital Brand Management Services. Revenues from digital brand management services include VeriSign's domain name registration services and its 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, which is generally one to ten years.

Communications Services Group

Revenues from Communications Services business are comprised of network connectivity and interoperability services, intelligent database services, content and application services, clearing and settlement services, and billing and payment services.

Network Connectivity and Interoperability Services

Through VeriSign's network connectivity and interoperability services, VeriSign provides 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 VeriSign's 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 and recognized monthly based on the number of switches to which a customer signals.

Wireless Roaming. Wireless roaming revenues are derived from enabling service providers to offer wireless data roaming to their subscribers. Revenues from wireless account management services and unregistered wireless roaming services are based on the revenue retained by VeriSign 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.

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Content and Application Services

Content services revenues are derived by providing content services including content, aggregation, formatting, mediation and billing and payment services. Revenues from content services primarily consist of weekly, biweekly or monthly subscriber fees. VeriSign records these revenues net of the fees from its wireless carriers in accordance with EITF No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." VeriSign also provides content services on a transaction basis and recognizes revenue upon delivery. VeriSign's content subscription plans allow for a specified number of content downloads per subscription period and give the customer the ability to rollover unused content downloads to future periods. VeriSign considers historical customer usage patterns to estimate and defer revenue for the number of content downloads expected to be rolled over and utilized prior to termination of the subscription plan.

Revenues from application services are derived by providing multimedia, global and short messaging services between carrier systems and devices, and across disparate networks and technologies so the carrier's customers can exchange messages outside their carrier's network. Revenues from application services primarily represent fees charged and recognized for the messaging services either based on a monthly fee or number of messages processed. VeriSign also provides consulting services to provide multimedia messaging and interoperability solutions. These fees are charged on a transaction or fixed-fee basis. The revenues associated with interoperability solutions are typically recognized over the estimated useful life, which is generally one to two years.

Clearing and Settlement Services

The Communications Services Group also offers advanced billing and customer care services to wireline and wireless carriers. VeriSign's 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. Revenues from clearinghouse services are earned based on the number of messages processed. Amounts due from customers that are related to VeriSign's telecommunications services for third-party network access, database charges and clearinghouse toll amounts that have been invoiced and remitted to the customer are included in prepaid expenses and other current assets.

Billing and Payment Services

Revenues from billing and payment services primarily represent a monthly recurring fee for every subscriber activated by VeriSign's wireless carrier customers.

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 \$287.7 million in 2005, \$87.9 million in 2004, and \$24.8 million in 2003.

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

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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.

Stock Compensation Plans and Unearned Compensation

As of December 31, 2005, VeriSign has four stock-based employee compensation plans, including two terminated plans under which options are outstanding but no further grants can be made, and two active plans. VeriSign accounts for these plans under the recognition and measurement principles of Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees.” The following table illustrates the effect on net income (loss) and net income (loss) per share if VeriSign had applied the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” to stock-based employee compensation:

	Year Ended December 31,		
	2005	2004	2003
	(In thousands, except per share data)		
Net income (loss), as reported	\$ 406,461	\$ 186,225	\$(259,889)
Add: Amortization of unearned compensation, net of tax	3,936	3,136	7,389
Deduct: Stock-based compensation determined under the fair value method for all awards, net of tax	(119,598)	(139,953)	(223,264)
Pro forma net income (loss)	\$ 290,799	\$ 49,408	\$(475,754)
Basic:			
As reported	\$ 1.58	\$ 0.74	\$ (1.08)
Pro forma stock-based compensation	(0.45)	(0.54)	(0.90)
Pro forma net income (loss) per share	\$ 1.13	\$ 0.20	\$ (1.98)
Diluted:			
As reported	\$ 1.54	\$ 0.72	\$ (1.08)
Pro forma stock-based compensation	(0.44)	(0.53)	(0.90)
Pro forma net income (loss) per share	\$ 1.10	\$ 0.19	\$ (1.98)

On December 29, 2005, the Board of Directors of VeriSign approved the acceleration of the vesting of unvested and “out-of-the-money” stock options that had an exercise price per share in excess of \$24.99, all of which were previously granted under VeriSign’s stock option plans and that were outstanding on December 29, 2005. Options to purchase approximately 8.8 million shares of common stock or 47% of our total outstanding unvested options on December 29, 2005 were subject to the acceleration. The options accelerated included certain options previously granted to executive officers and directors of VeriSign.

The acceleration was accompanied by restrictions imposed on any shares purchased through the exercise of accelerated options. Those restrictions will prevent the sale of any such shares prior to the date such shares would have originally vested had the optionee been employed on such date (whether or not the optionee is actually an employee at that time).

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The purpose of the accelerated vesting was to enable the Company to reduce compensation expense associated with these options in future periods, beginning with the first quarter of 2006, in its consolidated financial statements, pursuant to the Statement of Financial Accounting Standards No. 123R (“SFAS 123R”), “Share-Based Payment” issued by FASB in December 2004. As a result of the acceleration, VeriSign expects to reduce the stock option expense it otherwise would have been required to record by approximately \$27.7 million in 2006. The acceleration of the vesting of these options did not result in a charge to our expenses in 2005.

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. Under the Employee Stock Purchase Plan, rights to purchase shares are only granted during the first and third quarter of each year. The following table sets forth the weighted-average assumptions used to estimate the fair value of the stock options and Employee Stock Purchase Plan options for each period presented:

	Year Ended December 31,		
	2005	2004	2003
Stock options:			
Volatility	56%	82%	100%
Risk-free interest rate	3.91%	2.81%	2.00%
Expected life	3.1 years	2.9 years	2.6 years
Dividend yield	zero	zero	zero
Employee Stock Purchase Plan options:			
Volatility	55%	53%	94%
Risk-free interest rate	2.51%	2.22%	1.49%
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, \$10.80 and \$9.00 during 2005, 2004 and 2003, respectively.

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 2004 and 2005:

	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, 2003	\$ (3,307)	\$ 1,305	\$ (2,002)
Changes	4,104	(3,513)	591
Balance, December 31, 2004	\$ 797	\$ (2,208)	\$ (1,411)
Changes	(7,988)	(3,154)	(11,142)
Balance, December 31, 2005	<u>\$ (7,191)</u>	<u>\$ (5,362)</u>	<u>\$ (12,553)</u>

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Concentration of Credit Risk

Financial instruments that potentially subject VeriSign to significant concentrations of credit risk consist principally of cash, cash equivalents, short-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:

	2005	2004	2003
	(In thousands)		
Allowance for doubtful accounts:			
Balance, beginning of year	\$10,708	\$13,405	\$ 27,514
Add: charged to costs and expenses	1,041	472	4,826
Less: write-offs, net of recoveries and other adjustments	(190)	(3,169)	(18,935)
Balance, end of year	\$11,559	\$10,708	\$ 13,405

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 the Company's consolidated statement 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 first quarter of 2006 and will recognize stock-based compensation expense using the modified prospective method. 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 2003 through 2005, 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 expects the adoption to have a significant adverse impact on its consolidated statements of operations and net income per share.

In December 2004, the FASB issued Staff Position No. 109-1 ("FSP 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. FSP 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 its consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued Staff Position No. 109-2 ("FSP 109-2"), "*Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creations Act of 2004.*"

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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. FSP 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 its consolidated financial position, results of operations or cash flows.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 (“SFAS 154”), “*Accounting Changes and Error Corrections*” which replaces APB Opinion No. 20 “*Accounting Changes*” and SFAS No. 3, “*Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28*”. SFAS 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principal unless it is not practicable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted by the Company in the first quarter of fiscal 2006. The impact that the adoption of SFAS 154 will have on VeriSign’s results of operations and financial position will depend on the nature of future accounting changes adopted by VeriSign and the nature of transitional guidance provided in future accounting pronouncements.

Note 2. Business Combinations

RSI

On October 17, 2005, VeriSign completed its acquisition of Retail Solutions International, Inc. (“RSI”), a Lincoln, Rhode Island-based privately-held provider of operational point-of-sale data to the retail industry. VeriSign’s purchase price of \$25.2 million for all of the outstanding capital stock and vested options of RSI consisted of approximately \$23.2 million in cash consideration and \$0.4 million in direct transaction costs. VeriSign also assumed unvested stock options of RSI with a fair value of \$1.6 million. The acquisition has been accounted for as a purchase of a business 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. RSI’s results of operations have been included in the consolidated financial statements from the date of acquisition. RSI’s results of operations for periods prior to the date of acquisition were not material when compared with VeriSign’s consolidated results. As a result of the acquisition of RSI, VeriSign recorded goodwill of \$17.1 million and intangible assets of \$6.4 million, which have been assigned to the Internet 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 increase the scope of services VeriSign offers to retail supply chain participants and enhances the infrastructure VeriSign has been developing in the RFID/EPC and pharmaceutical supply chain markets to deliver real time, relevant data for decision making. None of the goodwill for RSI is expected to be deductible for tax purposes. The overall weighted-average life of the identified amortizable assets acquired in the purchase of RSI is 5.3 years. These identified intangible assets will be amortized on a straight-line basis over their useful lives.

The in-process research and development acquired in the RSI acquisition consisted primarily of research and development efforts required for the completion of all planning, design, development, and test activities that are necessary to establish that the product or service can be produced to meet its design specifications including features, functions, and performance.

VeriSign determined the fair value of the acquired in-process research and development by estimating the projected cash flows related to the project or service and future revenues to be earned upon commercialization of the service. VeriSign discounted the resulting cash flows back to their net present values. VeriSign based the net cash flows from such projects on its analysis of the respective markets and estimates of revenues and operating

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profits related to these projects. The in-process research and development was expensed upon acquisition because they had not yet reached technological feasibility and had no future alternative uses.

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

	<u>October 17, 2005</u>	<u>Amortization</u>
	<u>(In thousands)</u>	<u>Period</u>
		<u>(Years)</u>
Current assets	\$ 2,540	—
Long-term assets	637	—
Goodwill	17,144	—
Customer relationships	2,870	7
Core technology	1,480	5
Existing technology	1,260	3
Non-compete agreement	400	2
In-process research and development	270	—
Trade name	80	5
Data content	40	2
	<u>26,721</u>	
Liabilities assumed	<u>(1,512)</u>	
Net assets acquired	<u>\$25,209</u>	

Moreover

On October 4, 2005, VeriSign completed its acquisition of Moreover Technologies, Inc. (“Moreover”), a San Francisco, California-based privately-held wholesale aggregator of real-time content for Web sites, search engines and enterprise customers. VeriSign’s purchase price of \$29.7 million for all of the outstanding capital stock of Moreover consisted of approximately \$28.7 million in cash consideration and \$1.0 million in direct transaction costs. The acquisition has been accounted for as a purchase of a business 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. Moreover’s results of operations have been included in the consolidated financial statements from the date of acquisition. Moreover’s results of operations for periods prior to the date of acquisition were not material when compared with VeriSign’s consolidated results. As a result of the acquisition of Moreover, VeriSign recorded goodwill of \$13.9 million and intangible assets of \$11.7 million, which have been assigned to the Internet 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 bloggers, publishers, enterprises and Web portals a more intelligent and scalable, real-time content platform. None of the goodwill for Moreover is expected to be deductible for tax purposes. The overall weighted-average life of the identified amortizable assets acquired in the purchase of Moreover is 5.5 years. These identified intangible assets will be amortized on a straight-line basis over their useful lives.

The in-process research and development acquired in the Moreover acquisition consisted primarily of research and development required for the completion of all planning, design, development, and test activities that are necessary to establish that the product or service can be produced to meet its design specifications including features, functions, and performance.

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VeriSign determined the fair value of the acquired in-process research and development by estimating the projected cash flows related to the project or service and future revenues to be earned upon commercialization of the service. VeriSign discounted the resulting cash flows back to their net present values. VeriSign based the net cash flows from such projects on its analysis of the respective markets and estimates of revenues and operating profits related to these projects. The in-process research and development was expensed upon acquisition because they had not yet reached technological feasibility and had no future alternative uses.

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

	<u>October 4, 2005</u>	<u>Amortization</u>
	<u>(In thousands)</u>	<u>Period</u>
		<u>(Years)</u>
Current assets	\$ 7,513	—
Long-term assets	220	—
Goodwill	13,943	—
Customer relationships	3,900	9
Existing Technology	3,300	4
Non-compete agreement	1,900	2
In-process research and development	1,300	—
Content source database	560	5
Content relationships	440	5
Trade Name	260	1
Total assets acquired	<u>33,336</u>	
Liabilities assumed	<u>(3,591)</u>	
Net assets acquired	<u>\$29,745</u>	

siteRock

On October 3, 2005, VeriSign Japan K.K. (“VSJ”) completed its acquisition of siteRock K.K. (“siteRock”), a Tokyo, Japan-based privately-held remote network monitoring and outage managing and handling firm. VSJ paid approximately \$53.3 million in cash for all of the outstanding capital stock and certain transaction related expenses of siteRock. The acquisition has been accounted for as a purchase of a business by VSJ 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. siteRock’s results of operations have been included in the consolidated financial statements from the date of acquisition. SiteRock’s results of operations for periods prior to the date of acquisition were not material when compared with our consolidated results. As a result of the acquisition of siteRock, VSJ recorded goodwill of \$36.4 million and intangible assets of \$11.8 million. The goodwill represents the excess value over both tangible and intangible assets acquired. The goodwill in this transaction is attributable to the anticipated strategic fit with VSJ’s existing business and will create service and consulting offerings, that offer managed security services. None of the goodwill for siteRock is expected to be deductible for tax purposes. The overall weighted-average life of the identified amortizable assets acquired in the purchase of siteRock is approximately 4.5 years. These identified intangible assets will be amortized on a straight-line basis over their useful lives.

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The allocation of the purchase price to the net assets acquired based on the estimated fair value of siteRock was as follows:

	<u>October 3, 2005</u>	<u>Amortization</u>
	<u>(In thousands)</u>	<u>Period</u>
		<u>(Years)</u>
Current assets	\$ 4,600	—
Long-term assets	500	—
Goodwill	36,400	—
Customer relationships	7,000	5
Non-compete agreement	300	3
Existing Technology	4,300	4
Trade Name	<u>200</u>	<u>2</u>
Assets acquired	<u>53,300</u>	

iDefense

On July 13, 2005, VeriSign completed its acquisition of iDefense, Inc. (“iDefense”), a Reston, Virginia-based privately held company. iDefense is a leading security intelligence services company providing detailed intelligence on network-based threats, vulnerabilities and malicious code. VeriSign paid approximately \$37.8 million in cash for all the outstanding capital stock, vested stock options and certain transaction related expenses of iDefense and assumed unvested stock options. Payment of up to \$10 million of additional consideration may be made in the future, if additional contractual conditions are met, which will be recorded as goodwill. The acquisition has been accounted for as a purchase of a business 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. iDefense’s results of operations have been included in the consolidated financial statements from its date of acquisition. As a result of the acquisition of iDefense, VeriSign recorded goodwill of \$34.7 million and intangible assets of \$7.5 million, which have been assigned to the Internet 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 provide “intelligence” services to VeriSign’s customer base. None of the goodwill for iDefense is expected to be deductible for tax purposes. The overall weighted average life of the identified amortizable assets acquired in the purchase of iDefense is 5.6 years. These identified intangible assets will be amortized on a straight line basis over their useful lives.

The acquired in-process research and development was written off upon acquisition and consisted primarily of research and development related to the efforts required to develop the acquired in process technology.

VeriSign determined the fair value of the acquired in-process technology by estimating the projected cash flows related to the project or service and future revenues to be earned upon commercialization of the service. VeriSign discounted the resulting cash flows back to their net present values. VeriSign based the net cash flows from such projects on its analysis of the respective markets and estimates of revenues and operating profits related to these projects.

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

	<u>July 13, 2005</u>	<u>Amortization</u>
	<u>(In thousands)</u>	<u>Period</u>
		<u>(Years)</u>
Current assets	\$ 657	—
Long-term assets	368	—
Goodwill	34,696	—
Content	700	2
Customer relationships	2,500	7
Non-compete agreement	200	2
Existing Technology	700	2
In-process research and development	1,800	—
Trade Name	1,600	7
Total assets acquired	<u>43,221</u>	
Liabilities assumed	<u>(5,408)</u>	
Net assets acquired	<u>\$37,813</u>	

LightSurf

On April 6, 2005, VeriSign completed its acquisition of LightSurf Technologies, Inc. (“LightSurf”), a Santa Cruz, California-based privately held provider of multimedia messaging and interoperability solutions for the wireless market. VeriSign paid approximately \$279.2 million in common stock for all of the outstanding capital stock, warrants, vested stock options and certain transaction-related expenses and assumed unvested stock options. The acquisition has been accounted for as a purchase of a business 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. LightSurf’s results of operations have been included in the consolidated financial statements from its date of acquisition. As a result of the acquisition of LightSurf, VeriSign recorded goodwill of \$222.4 million and intangible assets of \$44.4 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 LightSurf’s current capabilities with VeriSign’s existing communications services platforms. None of the goodwill for LightSurf is expected to be deductible for tax purposes. The overall weighted-average life of the identified amortizable assets acquired in the purchase of LightSurf is 3.2 years. These identified intangible assets will be amortized on a straight-line basis over their useful lives.

The in-process technology acquired in the LightSurf acquisition consisted primarily of research and development efforts required for the completion of all planning, design, development, and test activities that are necessary to establish that the product or service can be produced to meet its design specifications including features, functions, and performance.

VeriSign determined the fair value of the acquired in-process technology by estimating the projected cash flows related to the project or service and future revenues to be earned upon commercialization of the service. VeriSign discounted the resulting cash flows back to their net present values. VeriSign based the net cash flows from such projects on its analysis of the respective markets and estimates of revenues and operating profits related to these projects.

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

	<u>April 6, 2005</u>	<u>Amortization</u>
	<u>(In thousands)</u>	<u>Period</u>
		<u>(Years)</u>
Current assets	\$ 19,677	—
Long-term assets	7,225	—
Goodwill	222,356	—
Customer relationships	9,000	5
Non-compete agreement	1,700	2.5
Technology in place	29,400	3 – 4
In-process research and development	4,300	—
Total assets acquired	<u>293,658</u>	
Liabilities assumed	<u>(14,475)</u>	
Net assets acquired	<u>\$279,183</u>	

Jamba!

In June 2004, VeriSign completed its acquisition of Jamba!, a privately held provider of content services. VeriSign's purchase price of \$266.2 million for all the outstanding shares of capital stock of Jamba! consisted of approximately \$178.0 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 of a business 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.

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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
	<u>328,881</u>	
Current liabilities	(29,233)	
Deferred income tax liabilities	(33,493)	
	<u>(62,726)</u>	
Total liabilities assumed	<u>(62,726)</u>	
Net assets acquired	<u>\$266,155</u>	

Guardent

In February 2004, VeriSign completed its acquisition of Guardent, a privately held provider of managed security services. VeriSign paid approximately \$135.0 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 of a business 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.

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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
	<u>147,239</u>	
Total assets acquired		
Total liabilities assumed	<u>(6,017)</u>	
Net assets acquired	<u>\$141,222</u>	

Note 3. Sale of Payment Gateway Business and Discontinued Operations

On November 18, 2005, the Company completed the sale of certain assets related to its payment gateway business pursuant to an Asset Purchase Agreement, dated October 10, 2005 (the “Agreement”), among PayPal, Inc., PayPal International Limited (collectively, “PayPal”), a wholly owned subsidiary of eBay Inc. Under the Agreement, PayPal acquired certain assets related to VeriSign’s payment gateway business and assumed certain liabilities related thereto for \$370 million in cash. The payment gateway business was part of the Internet Services Group segment.

The Company has determined that the disposed payment gateway business should be accounted for as discontinued operation in accordance with SFAS 144, “*Accounting for the Disposal of or Impairment of Long-Lived Assets*”. Consequently, the results of operations of the payment gateway business have been excluded from the Company’s results from continuing operations for all periods presented and have instead been presented as discontinued operations.

In connection with the sale of the payment gateway business, the Company entered into a Transitional Service Agreement (“TSA”) with PayPal, Inc. to provide certain transitional network and customer support services. This agreement may continue through the fourth quarter of 2006. The related fees are recorded as a direct reduction to the respective costs and expenses included in discontinued operations. The expected cash flows under the TSA do not represent a significant continuation of the direct cash flows of the disposed payment gateway business.

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The following table represents revenues from the disposed payment gateway business and the components of earnings from discontinued operations for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
Revenues	\$ 51,673	\$48,149	\$37,435
Income from disposed payment gateway business	23,971	19,839	13,182
Income tax expense	7,869	7,215	5,154
Operating income from disposed payment gateway business, net of taxes	16,102	12,624	8,028
Gain on sale of payment gateway business, net of taxes of \$123,041	251,781	—	—
Net income from discontinued operations	<u>\$267,883</u>	<u>\$12,624</u>	<u>\$ 8,028</u>

The following table presents the calculation of the gain on the sale of the payment gateway business:

	Year ended December 31, 2005
	(In thousands)
Proceeds from sale	\$370,000
Transaction costs	2,778
Net proceeds	367,222
Net liabilities assumed by PayPal	7,600
Gain on sale before income taxes	374,822
Income tax expense	123,041
Gain on sale of discontinued operations, net of tax	<u>\$251,781</u>

The following table presents the carrying amounts of major classes of assets and liabilities relating to the payment gateway business at December 31, 2005 and 2004:

	December 31, 2005	December 31, 2004
	(In thousands)	
Assets:		
Cash and cash equivalents	\$1,834	\$ 1,799
Accounts receivable, net	1,931	5,679
Prepaid expenses and other current assets	1,530	25
Total current assets of discontinued operations	<u>5,295</u>	<u>7,503</u>
Property and equipment, net	—	4,258
Total long-term assets of discontinued operations	<u>\$5,295</u>	<u>\$11,761</u>
Liabilities:		
Accounts payable and accrued liabilities	\$6,822	\$ 1,400
Deferred revenue	—	8,726
Total current liabilities of discontinued operations	<u>6,822</u>	<u>10,126</u>
Long-term deferred revenue	—	725
Total long-term liabilities of discontinued operations	<u>\$6,822</u>	<u>\$10,851</u>

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Note 4. Sale of Network Solutions

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. During 2005, VeriSign received a payment from Network Solutions in the amount of \$20.0 million, which included \$14.0 million to reduce the principal balance of the note receivable, \$3.8 million of interest income related to the note receivable and a dividend payment of \$2.2 million recorded in other income. The present value of the note at December 31, 2005 was approximately \$26.4 million using a 10% market interest rate.

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.

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

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

The gain on the sale of the Network Solutions business of \$2.9 million was included in general and administrative expenses on the consolidated statement of operations.

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Note 5. Restructuring and Other Charges

Below is a comparison of the restructuring and other charges for the years ended December 31, 2005, 2004, and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands)		
2003 Restructuring Plan (reversals) charges	\$(1,941)	\$ 4,973	\$54,152
2002 Restructuring Plan charges (reversals)	1,363	(265)	20,481
Other charges	<u>21,631</u>	<u>20,072</u>	<u>—</u>
Total restructuring and other charges	<u>\$21,053</u>	<u>\$24,780</u>	<u>\$74,633</u>

2003 Restructuring Plan

In November 2003, VeriSign announced a restructuring initiative related to the sale of its Network Solutions business and the realignment of other business units. The restructuring plan resulted in reductions in workforce, abandonment of excess facilities, disposals of property and equipment and other charges. To date VeriSign has recorded \$57.2 million in restructuring charges under its 2003 plan.

Net restructuring and other charges recorded during the year ended December 31, 2005 and 2004 relating to the 2003 restructuring plan are as follows:

	Year Ended December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands)		
Workforce reduction	\$ (787)	\$1,053	\$ 5,724
Excess facilities	(1,895)	2,749	28,303
Exit costs	(75)	956	1,039
Subtotal	<u>(2,757)</u>	<u>4,758</u>	<u>35,066</u>
Other charges	<u>816</u>	<u>215</u>	<u>19,086</u>
Total restructuring and other (reversals) charges	<u>\$(1,941)</u>	<u>\$4,973</u>	<u>\$54,152</u>

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. VeriSign recorded workforce reduction charges of \$1.1 million in connection with workforce reduction of approximately 35 employees during 2004. During 2005, VeriSign adjusted the workforce reduction charges relating primarily to severance and fringe benefits, resulting in net reversals of approximately \$0.8 million.

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

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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 VeriSign to periodically review each lease and change its estimates on a prospective basis. During 2005, VeriSign recorded reversals to its excess facilities primarily in connection with a decision to utilize and build a facility that VeriSign had treated as abandoned under its 2003 restructuring plan and for which it had previously recorded a restructuring charge.

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

Other charges. During 2005, 2004 and 2003, VeriSign recorded other charges under the 2003 restructuring plan related to obsolete telecommunications computer software and other equipment that was written off.

As of December 31, 2005, the accrued liability associated with the 2003 restructuring plan was \$12.2 million and consisted of the following:

	Accrued Restructuring Costs at December 31, 2004	Gross Restructuring and Other Charges	Reversals and Adjustments to Restructuring Charges	Net Restructuring and Other Charges	Non-Cash Reductions to the Accrual	Cash Payments	Accrued Restructuring Costs at December 31, 2005
(In thousands)							
Workforce reduction	\$ 1,339	\$ —	\$ (787)	\$ (787)	\$(133)	\$ (312)	\$ 107
Excess facilities	20,686	212	(2,107)	(1,895)	61	(6,753)	12,099
Exit costs	108	—	(75)	(75)	—	(33)	—
Subtotal	\$22,133	\$ 212	\$(2,969)	\$(2,757)	\$ (72)	\$(7,098)	\$12,206
Other charges	303	853	(37)	816	(916)	(182)	21
Total restructuring and other charges	<u>\$22,436</u>	<u>\$1,065</u>	<u>\$(3,006)</u>	<u>\$(1,941)</u>	<u>\$(988)</u>	<u>\$(7,280)</u>	<u>\$12,227</u>
Included in current portion of accrued restructuring costs	<u>\$ 8,711</u>						<u>\$ 4,579</u>
Included in long term restructuring costs	<u>\$13,725</u>						<u>\$ 7,648</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. To date, VeriSign has recorded \$110.2 million in restructuring charges under its 2002 restructuring plan.

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Net restructuring and other charges, net of adjustments, recorded during the years ended December 31, 2005, 2004 and 2003 associated with the 2002 restructuring plan are as follows:

	Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
Workforce reduction	\$ —	\$ (7)	\$ 1,545
Excess facilities	1,363	212	8,694
Exit costs and other charges	—	(470)	1,014
Subtotal	1,363	(265)	11,253
Other charges	—	—	9,228
Total restructuring and other charges	\$1,363	\$(265)	\$20,481

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.

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 VeriSign to periodically review each lease and change its estimates on a prospective basis. VeriSign recorded charges relating to excess facilities that were either abandoned or downsized due 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. 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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As of December 31, 2005, the accrued liability associated with the 2002 restructuring plans was \$6.1 million and consisted of the following:

	Accrued Restructuring Costs at December 31, 2004	Reversals and Adjustments to Restructuring Charges	Non-Cash Reductions to the Accrual	Cash Payments	Accrued Restructuring Costs at December 31, 2005
	(In thousands)				
Excess facilities	\$8,386	\$1,363	\$(22)	\$(3,772)	\$5,955
Exit costs	150	—	(16)	—	134
Total restructuring charges	<u>\$8,536</u>	<u>\$1,363</u>	<u>\$(38)</u>	<u>\$(3,772)</u>	<u>\$6,089</u>
Included in current portion of accrued restructuring costs	<u>\$2,985</u>				<u>\$2,861</u>
Included in long term restructuring costs	<u>\$5,551</u>				<u>\$3,228</u>

Cash payments totaling approximately \$39.6 million related to the abandonment of excess facilities under both restructuring plans will be paid over the respective lease terms, the longest of which extends through June 2014. The present value of future cash payments related to lease terminations due to the abandonment of excess facilities is expected to be as follows:

	Contractual Lease Payments	Anticipated Sublease Income	Net
	(In thousands)		
2006	\$ 8,137	\$ (960)	\$ 7,177
2007	6,222	(2,023)	4,199
2008	3,899	(2,154)	1,745
2009	2,999	(2,076)	923
2010	3,006	(2,092)	914
Thereafter	<u>10,549</u>	<u>(7,453)</u>	<u>3,096</u>
	<u>\$34,812</u>	<u>\$(16,758)</u>	<u>\$18,054</u>

Other charges

During 2005, VeriSign recorded other charges of approximately \$21.6 million, relating to the abandonment of the development efforts related to an internally developed software project. During 2004, VeriSign recorded other charges of approximately \$20.1 million relating to certain asset write-offs.

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Note 6. Cash, Cash Equivalents, Investments and Restricted Cash

VeriSign's cash equivalents, short-term investments and restricted investments have been classified as available-for-sale. The following tables summarize VeriSign's cash, cash equivalents, short and long-term investments and restricted cash and investments as of December 31, 2005 and 2004:

	December 31, 2005			Estimated Fair Value
	Carrying Value	Unrealized Gains	Unrealized Losses	
	(In thousands)			
Classified as current assets:				
Cash	\$451,830	\$—	\$ —	\$451,830
Commercial paper	14,843	7	—	14,850
Corporate bonds and notes	127,952	—	(1,625)	126,327
Money market funds	157	—	—	157
U.S. government and agency securities	119,002	4	(1,055)	117,951
Municipal bonds	6,277	—	(100)	6,177
Asset-backed securities	139,515	—	(1,975)	137,540
	<u>859,576</u>	<u>11</u>	<u>(4,755)</u>	<u>854,832</u>
Included in cash and cash equivalents				<u>\$476,826</u>
Included in short-term investments				<u>\$378,006</u>
Classified as long-term assets:				
Debt and equity securities of non-public companies	6,722	—	—	6,722
Corporate bonds and notes	13,738	—	(216)	13,522
Money market funds	64	—	—	64
U.S. government and agency securities	9,071	2	(95)	8,978
Asset-backed securities	22,745	—	(309)	22,436
Certificates of deposit	5,972	—	—	5,972
	<u>58,312</u>	<u>2</u>	<u>(620)</u>	<u>57,694</u>
Included in restricted cash and investments				<u>\$ 50,972</u>
Included in other assets, net				<u>\$ 6,722</u>

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	December 31, 2004			Estimated Fair Value
	Carrying Value	Unrealized Gains	Unrealized Losses	
	(In thousands)			
Classified as current assets:				
Cash	\$278,654	\$—	\$ —	\$278,654
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>737,834</u>	<u>20</u>	<u>(2,228)</u>	<u>735,626</u>
Included in cash and cash equivalents				<u>\$328,842</u>
Included in short-term investments				<u>\$406,784</u>
Classified as long-term assets:				
Debt and equity securities of non-public companies	6,809	—	—	6,809
Corporate bonds and notes	12,634	—	(83)	12,551
U.S. government and agency securities	15,680	1	(33)	15,648
Asset backed securities	16,890	—	(89)	16,801
Certificates of deposit	6,518	—	—	6,518
	<u>58,531</u>	<u>1</u>	<u>(205)</u>	<u>58,327</u>
Included in restricted cash and investments				<u>\$ 51,518</u>
Included in other assets, net				<u>\$ 6,809</u>

Gross realized losses on investments totaled \$0.8 million in 2005 consisting of the impairment and sale of certain public and non-public equity investments. Gross realized gains on investments were \$12.1 million in 2005.

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.

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.

Unrealized gains and losses on available-for-sale investments are included in accumulated other comprehensive loss in the balance sheets. The unrealized losses on the Company's investments were caused primarily by interest rate increases. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2005. All investments with unrealized losses at December 31, 2004 have been in a loss position for less than 12 months. Gross unrealized gains and losses on our available-for-sale investments at December 31, 2005 and 2004 were as follows:

	2005	2004
	(In thousands)	
Gross unrealized gains	\$ 13	\$ 21
Gross unrealized losses	(5,375)	(2,433)
Net unrealized losses	<u>\$(5,362)</u>	<u>\$(2,412)</u>

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The following table summarizes the fair value and gross unrealized losses related to 224 available-for-sale investments, aggregated by type of investment and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005:

	<u>In a loss position for less than 12 months</u>		<u>In a loss position for 12 months or more</u>		<u>Total in a loss position</u>	
	<u>Carrying Value</u>	<u>Gross Unrealized Losses</u>	<u>Carrying Value</u>	<u>Gross Unrealized Losses</u>	<u>Carrying Value</u>	<u>Gross Unrealized Losses</u>
	(In thousands)					
Corporate bonds and notes	\$ 4,926	\$ (86)	\$134,923	\$(1,755)	\$139,849	\$(1,841)
U.S. government and agency securities	14,138	(194)	99,641	(956)	113,779	(1,150)
Municipal bonds	—	—	6,177	(100)	6,177	(100)
Asset-backed securities	47,108	(510)	112,868	(1,774)	159,976	(2,284)
	<u>\$66,172</u>	<u>\$(790)</u>	<u>\$353,609</u>	<u>\$(4,585)</u>	<u>\$419,781</u>	<u>\$(5,375)</u>

The following table summarizes the available-for-sale investments as of December 31, 2005, classified by the maturity date of the investment:

	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
	(In thousands)	
Due within one year	\$220,554	\$219,112
Due within two years	188,988	185,765
Due within three years	43,822	43,125
Total available-for-sale investments	<u>\$453,364</u>	<u>\$448,002</u>

Restricted Cash and Investments

As of December 31, 2005, restricted cash and investments includes \$45.0 million 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, 2005 and December 31, 2004, VeriSign has pledged approximately \$6.0 million and \$6.5 million, respectively, 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.

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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, 2005 and 2004:

	<u>Internet Services Group</u>	<u>Communications Services Group</u>	<u>Total</u>
	(In thousands)		
December 31, 2003	\$ 56,852	\$344,519	\$ 401,371
Guardent acquisition	114,069	—	114,069
Jamba! acquisition	—	187,777	187,777
Other acquisitions and adjustments	18,506	3,704	22,210
December 31, 2004	189,427	536,000	725,427
LightSurf acquisition	—	222,356	222,356
iDefense acquisition	34,696	—	34,696
siteRock acquisition	35,175	—	35,175
Moreover acquisition	13,943	—	13,943
RSI acquisition	17,144	—	17,144
Other acquisitions and adjustments	12,857	10,312	23,169
December 31, 2005	<u>\$303,242</u>	<u>\$768,668</u>	<u>\$1,071,910</u>

Purchased goodwill is not amortized but is 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 is 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 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 exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

VeriSign performed its annual impairment tests as of June 30, 2005, 2004 and 2003. 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. 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 tests conducted in June 2005 and 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

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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	—	71,534	—	71,534
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 following tables present details of VeriSign's other intangible assets:

	<u>As of December 31, 2005</u>			
	<u>Gross Carrying Value</u>	<u>Accumulated Amortization and Impairment</u>	<u>Net Carrying Value</u>	<u>Weighted-Average Remaining Life</u>
	(Dollars in thousands)			
Other intangible assets:				
Customer relationships	\$421,707	\$(293,312)	\$128,395	2.7 years
Technology in place	166,355	(114,650)	51,705	2.8 years
Carrier relationships	27,700	(7,271)	20,429	4.4 years
Non-compete agreement	20,828	(12,679)	8,149	1.2 years
Trade name	19,870	(4,856)	15,014	4.6 years
Other	1,950	(340)	1,610	3.4 years
Total other intangible assets	<u>\$658,410</u>	<u>\$(433,108)</u>	<u>\$225,302</u>	3.0 years

	<u>As of December 31, 2004</u>			
	<u>Gross Carrying Value</u>	<u>Accumulated Amortization and Impairment</u>	<u>Net Carrying Value</u>	<u>Weighted-Average Remaining Life</u>
	(Dollars in thousands)			
Other intangible assets:				
Customer relationships	\$393,973	\$(230,860)	\$163,113	2.9 years
Technology in place	121,196	(99,435)	21,761	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
Other	23,208	(16,975)	6,233	0.9 years
Total other intangible assets	<u>\$600,125</u>	<u>\$(356,287)</u>	<u>\$243,838</u>	3.2 years

Fully amortized other intangible assets are not included in the above tables. Amortization of other intangible assets was \$101.6 million, \$79.4 million, and \$181.7 million for the years ended December 31, 2005, 2004, and 2003, respectively.

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During 2005, VeriSign wrote off \$7.7 million of in-process research and development acquired in the purchase of LightSurf, iDefense, Moreover and RSI.

Estimated future amortization expense related to other intangible assets at December 31, 2005 is as follows:

	(In thousands)
2006	\$ 93,148
2007	77,143
2008	22,760
2009	16,960
2010	7,897
Thereafter	7,394
	\$225,302

Note 8. Other Balance Sheet Items

Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	December 31, 2005	December 31, 2004
	(In thousands)	
Prepaid expenses	\$57,907	\$19,833
Other current assets	22,172	31,466
Prepaid expenses and other current assets	\$80,079	\$51,299

Property and Equipment

The following table presents detail of property and equipment:

	December 31,	
	2005	2004
	(In thousands)	
Land	\$ 222,516	\$ 222,516
Buildings	74,467	74,515
Computer equipment and purchased software	568,303	461,304
Office equipment, furniture and fixtures	26,828	24,893
Leasehold improvements	84,468	62,518
	976,582	845,746
Less accumulated depreciation and amortization	(423,546)	(337,383)
Property and equipment, net	\$ 553,036	\$ 508,363

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Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	December 31,	
	2005	2004
	(In thousands)	
Accounts payable	\$ 68,293	\$ 57,233
Employee compensation	89,743	71,827
Customer deposits	27,822	28,078
Taxes payable	223,343	92,660
Other accrued liabilities	146,257	130,827
	\$555,458	\$380,625

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 \$6.2 million. The current portion of \$2.2 million is due in 2006 and the long-term portion of \$4.0 million matures as follows:

	Future Royalty Payment Obligations
	(In thousands)
2007	\$2,000
2008	2,000
	\$4,000

Additionally, VeriSign has approximately \$1.0 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.

Note 9. Stockholders' Equity

Preferred Stock

VeriSign is authorized to issue up to 5,000,000 shares of preferred stock. As of December 31, 2005, 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.

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Stock Repurchase Programs

To facilitate the stock repurchase program, designed to return value to the stockholders and minimize dilution from stock issuances, VeriSign repurchases shares in the open market and from time to time enters into structured stock repurchase agreements with third parties.

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 2005, VeriSign repurchased approximately 6.3 million shares for an aggregate cost of approximately \$167.0 million. VeriSign completed its 2001 stock repurchase program during the third quarter of 2005. During 2004, VeriSign repurchased approximately 4.4 million shares at an aggregate cost of approximately \$113.3 million. During 2002 and 2003, no stock was repurchased. During 2001, VeriSign repurchased approximately 1.7 million shares at a cost of approximately \$69.5 million.

On August 2, 2005, the Board of Directors of VeriSign authorized a \$500 million stock repurchase program to purchase shares of VeriSign's common stock on the open market, or in negotiated or block trades. During 2005, VeriSign repurchased approximately 16.5 million shares under this repurchase program at a cost of approximately \$380.3 million. At December 31, 2005, approximately \$119.7 million remained available for future repurchases under the 2005 stock repurchase program.

On November 21, 2005, VeriSign executed an accelerated share repurchase ("ASR") agreement with a large investment bank for the acquisition of 10.8 million shares for an initial purchase price of \$23.14 per share. VeriSign acquired these shares as part of its \$500 million stock repurchase program authorized on August 2, 2005.

Under the ASR agreement, the investment bank purchased an equivalent number of shares of common stock in the open market from time to time until it had acquired that number.

For further information, see Note 17 to Consolidated Financial Statements.

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. In February 2006, VeriSign's Board of Directors reviewed the stockholder rights plan and determined that it continues to be in the best interest of VeriSign and its stockholders.

No cash dividends have been declared or paid on VeriSign's common stock since inception.

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Note 10. 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 common equivalent shares, including unvested stock options, employee stock purchases, unvested restricted stock and restricted stock units, and warrants using the treasury stock method.

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

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands, except per share data)		
Net income (loss):			
Net income (loss) from continuing operations	\$138,578	\$173,601	\$(267,907)
Net income from discontinued operations	16,102	12,624	8,028
Gain on sale of discontinued operations, net of tax	251,781	—	—
Net income (loss)	<u>\$406,461</u>	<u>\$186,225</u>	<u>\$(259,879)</u>
Weighted-average shares:			
Weighted-average common shares outstanding	257,369	250,564	239,780
Diluted weighted-average common shares outstanding:			
Stock options	6,776	7,254	—
Employee stock purchases	193	162	—
Unvested restricted stock and restricted stock units	175	155	—
Warrant	—	19	—
Shares used to compute diluted net income (loss) per share	<u>264,513</u>	<u>258,154</u>	<u>239,780</u>
Net income (loss) per share:			
Basic:			
Net income (loss) from continuing operations	\$ 0.54	\$ 0.69	\$ (1.12)
Net income from discontinued operations	\$ 0.06	\$ 0.05	\$ 0.04
Gain on sale of discontinued operations	\$ 0.98	\$ —	\$ —
	<u>\$ 1.58</u>	<u>\$ 0.74</u>	<u>\$ (1.08)</u>
Diluted:			
Net income (loss) from continuing operations	\$ 0.53	\$ 0.67	\$ (1.12)
Net income from discontinued operations	\$ 0.06	\$ 0.05	\$ 0.04
Gain on sale of discontinued operations	\$ 0.95	\$ —	\$ —
	<u>\$ 1.54</u>	<u>\$ 0.72</u>	<u>\$ (1.08)</u>

For 2005 and 2004, VeriSign excluded 13,739,751 and 12,133,492 weighted-average stock options respectively, with an exercise price that exceeded the average fair market value of VeriSign's common stock for the respective periods with weighted-average exercise prices of \$57.53 and \$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, VeriSign excluded 2,717,195 weighted-average potential common shares, with a weighted-average exercise price of \$8.33 for the period because their effect would have been anti-dilutive.

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Note 11. Stock Compensation Plans

Stock Option Plans

As of December 31, 2005, a total of 54,966,080 shares of common stock were reserved for issuance upon the exercise of stock options and for the future grant of stock options or awards under VeriSign's equity incentive plans.

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

The 1998 Equity Incentive Plan ("1998 Plan") authorizes the award of options, restricted stock awards, restricted stock units and stock bonuses. Options may be granted at an exercise price not less than 100% of the fair market value of VeriSign's common stock on the date of grant for incentive stock options and 85% of the fair market value for non-qualified stock options. All options are granted at the discretion of the Board and have a term not greater than 7 years from the date of grant. Options issued generally vest 25% on the first anniversary date and ratably over the following 12 quarters. Restricted stock awards and restricted stock units entitle the recipient to receive, at VeriSign's discretion, shares or cash upon vesting.

The following table summarizes information about restricted stock and restricted stock unit activity:

	Year Ended December 31,		
	2005	2004	2003
Restricted stock granted	—	—	150,000(5)
Weighted-average fair value at grant	—	—	\$ 12.88
Restricted stock units granted (1)	213,683(2)(3)	125,000(4)	—
Weighted-average fair value at grant	\$ 25.22	\$ 33.38	—

- (1) Upon vesting of the restricted stock units, the Company intends to settle the units in shares.
- (2) In August 2005, VeriSign issued 127,683 restricted stock units, net of forfeitures, to certain executive officers. These restricted stock units vest over a four-year period at the rate of 10%, 20%, 30% and 40% for each year. The aggregate market value of the restricted stock units as of the date of issuance was approximately \$3.4 million and was recorded as deferred compensation and is being amortized ratably over the four year vesting period.
- (3) In November 2005, VeriSign granted 86,000 restricted stock units to Stratton Sclavos, its Chief Executive Officer. These 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 in 2005 at the date of issuance was \$2.0 million and was recorded as deferred compensation and is being amortized ratably over the four year vesting period.
- (4) In December 2004, VeriSign granted 125,000 restricted stock units under its 1998 Equity Incentive Plan to Stratton Sclavos. 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 in 2004 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.

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- (5) In August 2003, VeriSign granted 150,000 shares of restricted stock 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, 2005, 13,032,386 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, 2005, 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, 2005, 5,816,445 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.

Members of the Board who are not employees of VeriSign, or of any parent, subsidiary or affiliate of VeriSign, are eligible to participate in the 1998 Directors Plan (“Directors Plan”). The option grants under the Directors Plan are automatic and non-discretionary, and the exercise price of the options is 100% of the fair market value of the common stock on the date of the grant. Each eligible director is initially granted an option to purchase 25,000 shares on the date he or she first becomes a director (“Initial Grant”). On each anniversary of a director’s Initial Grant or most recent grant if he or she was ineligible to receive an Initial Grant, each eligible director will automatically be granted an additional option to purchase 12,500 shares of common stock if the director has served continuously as a director since the date of the Initial Grant or most recent grant. The term of the options under the Directors Plan is ten years and options vest as to 6.25% of the shares each quarter after the date of the grant, provided the optionee remains a director of VeriSign. At December 31, 2005, 479,017 shares remain available for future grant under the Directors Plan.

In connection with its acquisitions in 2005, VeriSign assumed some of the acquired companies’ stock options. Options assumed generally have terms of seven to ten years and generally vest over a four-year period.

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

	Year Ended December 31,							
	2005		2004		2003			
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price		
Outstanding at beginning of year	32,878,169	\$36.87	31,999,664	\$36.87	26,960,479	\$47.41		
Assumed in business combinations	1,645,508	3.71	687,659	4.79	—	—		
Granted	10,053,156	25.95	9,156,123	20.20	13,199,316	13.45		
Exercised	(5,343,504)	11.48	(4,391,205)	11.04	(2,321,981)	9.05		
Cancelled	(3,595,097)	52.84	(4,574,072)	45.98	(5,838,150)	43.66		
Outstanding at end of year	<u>35,638,232</u>	31.51	<u>32,878,169</u>	33.74	<u>31,999,664</u>	36.87		
Exercisable at end of year	<u>17,647,124</u>	41.36	<u>17,085,569</u>	48.19	<u>18,156,403</u>	48.05		
Weighted-average fair value of options granted during the year		10.80		10.80		9.00		
			Equals Market Price			Exceeds Market Price		
			Year Ended December 31,			Year Ended December 31,		
			2005	2004	2003	2005	2004	2003
Weighted-average exercise prices			\$25.95	\$19.52	\$13.45	\$—	\$35.05	\$—
Weighted-average fair value on grant date			10.80	10.49	9.00	—	17.51	—

The following table summarizes information about stock options outstanding as of December 31, 2005:

Range of Exercise Prices	Shares Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares Exercisable	Weighted-Average Exercise Price
\$ 0.09–\$ 10.00	1,970,847	5.43 years	\$ 5.22	1,166,798	\$ 5.41
\$ 10.08–\$ 13.65	3,665,461	4.42 years	11.82	2,266,780	11.43
\$ 13.79	2,902,610	3.69 years	13.79	2,477,960	13.79
\$ 14.06–\$ 19.90	6,516,553	5.83 years	17.16	2,109,143	17.05
\$ 20.44–\$ 29.63	12,287,118	5.89 years	25.58	2,368,165	24.82
\$ 29.95–\$ 38.92	3,596,478	3.10 years	34.95	2,559,113	35.62
\$ 40.08–\$ 49.94	332,790	2.68 years	43.28	332,790	43.28
\$ 50.11–\$ 97.80	2,415,413	3.71 years	67.08	2,415,413	67.08
\$112.38–\$149.50	473,229	1.43 years	142.58	473,229	142.58
\$150.09–\$253.00	1,477,733	1.60 years	158.22	1,477,733	158.22
	<u>35,638,232</u>	4.83 years	31.51	<u>17,647,124</u>	41.36

1998 Employee Stock Purchase Plan

VeriSign has reserved 15,125,260 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

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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 1,318,406 in 2005, 2,312,572 in 2004, and 1,997,230 in 2003. As of December 31, 2005, 7,321,301 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 \$7.71 in 2005, \$6.89 in 2004, and \$5.76 in 2003.

Note 12. Income Taxes

Income before income taxes includes net income from foreign operations of approximately \$149.5 million in 2005 and \$34.9 million in 2004. Income before income taxes includes net losses from foreign operations of approximately \$30.2 million in 2003.

The provision for income taxes consisted of the following:

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands)		
Continuing operations:			
Current:			
Federal	\$ (1,758)	\$ (40)	\$ 1,048
State	717	(1,011)	2,141
Foreign, including foreign withholding tax	59,118	29,506	13,103
	<u>58,077</u>	<u>28,455</u>	<u>16,292</u>
Deferred:			
Federal	—	—	—
State	—	—	—
Foreign	(9,890)	(8,705)	(1,008)
	<u>(9,890)</u>	<u>(8,705)</u>	<u>(1,008)</u>
Income tax expense	48,187	19,750	15,284
Charge in lieu of taxes attributable to employee stock option plans	56,468	—	370
Charge in lieu of taxes resulting from initial recognition of acquired tax benefits that are allocated to reduce goodwill related to the acquired entity	—	615	2,545
	<u>\$104,655</u>	<u>\$20,365</u>	<u>\$18,199</u>
Discontinued operations:			
Current:			
Federal	\$115,577	\$ 7,215	\$ 5,154
State	15,333	—	—
	<u>\$130,910</u>	<u>\$ 7,215</u>	<u>\$ 5,154</u>

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The increase in current tax expense for foreign operations in 2005 as compared to 2004 was the result of including the full year of operations of Jamba! GmbH. The increase between 2003 and 2004 to current tax expense for foreign operations was the result of including the operations of Jamba! 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) from continuing operations before income taxes is attributable to the following:

	Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
Income tax expense (benefit) at federal statutory rate	\$ 85,132	\$ 67,888	\$(87,398)
State taxes, net of federal benefit	4,132	(1,481)	3,317
Differences between statutory rate and foreign effective tax rate	(969)	12,434	24,978
Goodwill impairment	—	—	91,526
Change in valuation allowance	20,458	(48,504)	(17,635)
Research and experimentation credit	(4,332)	(12,198)	—
Other	234	2,226	3,411
	<u>\$104,655</u>	<u>\$ 20,365</u>	<u>\$ 18,199</u>

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

	December 31,	
	2005	2004
	(In thousands)	
Deferred tax assets:		
Net operating loss carryforwards	\$ 98,660	\$ 210,081
Deductible goodwill and intangible assets	158,115	176,618
Tax credit carryforwards	11,019	27,693
Property and equipment	8,656	8,381
Deferred revenue, accruals and reserves	120,110	86,198
Capital loss carryforwards and investments with differences in book and tax basis	55,794	82,334
Other	6,178	16,771
Total deferred tax assets	458,532	608,076
Valuation allowance	(403,017)	(541,205)
Net deferred tax assets	<u>55,515</u>	<u>66,871</u>
Deferred tax liabilities:		
Deferred revenue, accruals and reserves	—	—
Non-deductible acquired intangibles	(56,181)	(78,889)
Other	(1,708)	(244)
Total deferred tax liabilities	<u>(57,889)</u>	<u>(79,133)</u>
Total net deferred tax (liabilities) assets	<u>\$ (2,374)</u>	<u>\$ (12,262)</u>

The total valuation allowance decreased \$138.2 million in 2005, primarily due to the gain recognized on the sale of the discontinued operations. In assessing the realizability of deferred tax assets, management considers

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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. As of December 31, 2005, 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. However, depending on VeriSign's continued ability to achieve profitability, and on the potential impact of SFAS No. 123R ("SFAS 123R"), "*Share Based Payment*", it may have sufficient evidence in 2006 to conclude that realization of additional deferred tax assets is more likely than not and thus realize a tax benefit in that period from a reduction of its deferred tax asset valuation allowance.

If the valuation allowance relating to deferred assets were released as of December 31, 2005, approximately \$237.7 million would be credited to the statement of operations, and \$101.2 million would be credited to additional paid-in capital. Management would continue to apply a valuation allowance of \$55.8 million to the deferred tax asset relating to the write-down of investments, due to the limited carryover life and character of such tax attributes. Management does not believe it is more likely than not that \$8.3 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, 2005, VeriSign had federal net operating loss carryforwards of approximately \$231.4 million, state net operating loss carryforwards of approximately \$242.5 million, and foreign net operating loss carryforwards of approximately \$31.1 million. If VeriSign is 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 2006 through 2023. Most of our foreign net operating loss carryforwards do not expire, but could be subject to future restrictions based on changes in the business or ownership of the foreign subsidiary. VeriSign had research and experimentation tax credits for federal income tax purposes of approximately \$7.0 million available for carryforward to future years, and for state income tax purposes of approximately \$3.8 million available for carryforward to future years. The federal research and experimentation tax credits will expire, if not utilized, in 2010 through 2025. 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 experienced cumulative changes in ownership of greater than 50 percent in 2003 and 2002. These changes in ownership resulted in the imposition of an annual limitation on VeriSign's ability to utilize U.S. Federal and certain state net operating loss carryforwards of \$232.9 million and \$116.5 million, respectively. Losses not utilized due to these limitations can be carried forward, but are subject to the expiration dates described in the prior paragraph.

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, 2005 was \$98.1 million, principally from VeriSign Japan KK and Jamba! GmbH. These earnings have been permanently reinvested and VeriSign does 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.

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Note 13. 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, 2005 are as follows:

	<u>Operating Lease Payments</u>	<u>Sublease Income</u>	<u>Net Lease Payments</u>
	(In thousands)		
2006	\$ 31,145	\$ (952)	\$ 30,193
2007	28,238	(162)	28,076
2008	23,540	—	23,540
2009	21,793	—	21,793
2010	20,307	—	20,307
Thereafter	<u>32,468</u>	<u>—</u>	<u>32,468</u>
Total	<u>\$157,491</u>	<u>\$(1,114)</u>	<u>\$156,377</u>

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 \$20.7 million in 2005, \$16.3 million in 2004, and \$23.6 million in 2003. VeriSign has subleased offices to various companies under non-cancelable operating leases. VeriSign received payments of \$3.6 million in 2005, \$4.3 million in 2004, and \$1.6 million in 2003.

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.

Indemnification

VeriSign enters into indemnification agreements with many of its customers and certain other business partners in the ordinary course of business. These agreements include provisions for indemnifying the customer against claims brought by third-parties that allege a VeriSign product infringes a patent, copyright or trademark, misappropriates a trade secret, or violates other proprietary rights of that third-party. These indemnification obligations are generally subject to limits as specified in the agreement. It is not possible to estimate the maximum potential amount of future payments VeriSign could be required to make under these indemnification agreements. To date, VeriSign has not incurred significant costs to defend lawsuits or settle claims related to indemnification agreements. VeriSign has not recorded any liabilities for these indemnification agreements at December 31, 2005 or 2004.

At the Company's discretion and in the ordinary course of business, VeriSign subcontracts the performance of certain services. VeriSign enters into indemnification agreements that indemnify customers against damage caused by VeriSign's employees and subcontractors. These indemnification obligations are generally subject to limits as specified in the agreement. It is not possible to estimate the maximum potential amount of future

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payments VeriSign could be required to make under these indemnification agreements. The Company maintains insurance policies that may enable VeriSign to recover a portion of any such claim. VeriSign has not incurred significant costs to defend lawsuits or settle claims related to these indemnification agreements. VeriSign has not recorded any liabilities for these indemnification agreements at December 31, 2005 or 2004.

Note 14. Segment Information

Description of Segments

During 2005 and 2004, VeriSign operated its business in two reportable segments: the Internet Services Group and the Communications Services Group. During 2003, 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 Information 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 services. The Information 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.

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, 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.

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

	Internet Services Group	Communications Services Group	Network Solutions	Unallocated Corporate Expenses	Total
	(In thousands)				
Year ended December 31, 2005:					
Revenues	\$633,784	\$975,710	\$ —	\$ —	\$1,609,494
Cost of revenues	131,105	343,883	—	37,237	512,225
Gross margin	<u>\$502,679</u>	<u>\$631,827</u>	<u>\$ —</u>	<u>\$(37,237)</u>	<u>\$1,097,269</u>
Year ended December 31, 2004:					
Revenues	\$515,999	\$602,307	\$ —	\$ —	\$1,118,306
Cost of revenues	116,116	291,613	—	28,287	436,016
Gross margin	<u>\$399,883</u>	<u>\$310,694</u>	<u>\$ —</u>	<u>\$(28,287)</u>	<u>\$ 682,290</u>
Year ended December 31, 2003:					
Total revenues	\$446,704	\$406,745	\$211,819	\$ —	\$1,065,268
Internal revenues	(47,923)	—	—	—	(47,923)
External revenues	<u>\$398,781</u>	<u>\$406,745</u>	<u>\$211,819</u>	<u>\$ —</u>	<u>\$1,017,345</u>
Total cost of revenues	\$109,978	\$225,890	\$117,412	\$ 33,795	\$ 487,075
Internal cost of revenues	—	—	(47,923)	—	(47,923)
External cost of revenues	<u>\$109,978</u>	<u>\$225,890</u>	<u>\$ 69,489</u>	<u>\$ 33,795</u>	<u>\$ 439,152</u>
Gross margin after eliminations	<u>\$288,803</u>	<u>\$180,855</u>	<u>\$142,330</u>	<u>\$(33,795)</u>	<u>\$ 578,193</u>

Reconciliation to VeriSign, as Reported

	Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
Revenues:			
Total segments	\$1,609,494	\$1,118,306	\$1,065,268
Elimination of internal revenues	—	—	(47,923)
Revenues, as reported	<u>\$1,609,494</u>	<u>\$1,118,306</u>	<u>\$1,017,345</u>
Net income (loss) from continuing operations:			
Total segments' gross margin	\$1,097,269	\$ 682,290	\$ 578,193
Operating expenses	(900,840)	(570,401)	(819,624)
Other income (expense), net	46,804	82,077	(8,277)
Income tax expense	<u>(104,655)</u>	<u>(20,365)</u>	<u>(18,199)</u>
Net income (loss) from continuing operations, as reported	<u>\$ 138,578</u>	<u>\$ 173,601</u>	<u>\$ (267,907)</u>

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Geographic Information

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands)		
Americas:			
United States	\$1,012,486	\$ 796,123	\$ 904,478
Other (1)	25,213	19,734	13,080
Total Americas	<u>1,037,699</u>	<u>815,857</u>	<u>917,558</u>
EMEA (2)	473,188	237,310	48,217
APAC (3)	98,607	65,139	51,570
Total revenues	<u>\$1,609,494</u>	<u>\$1,118,306</u>	<u>\$1,017,345</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.

The following table shows a comparison of property and equipment, net of accumulated depreciation by geographic region for each year:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
	(In thousands)	
Americas:		
United States	\$529,412	\$488,581
Other	670	838
Total Americas	<u>530,082</u>	<u>489,419</u>
EMEA	8,389	4,536
APAC	14,565	14,408
Total long-term assets	<u>\$533,036</u>	<u>\$508,363</u>

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 or accounts receivable in 2005, 2004 or 2003.

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Note 15. Network Solutions and International Affiliates

The following table shows a comparison of revenue recognized from customers in which VeriSign holds an equity investment, including International Affiliates:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands)		
Network Solutions	\$39,725	\$43,548	\$ 3,860
International Affiliates	<u>9,338</u>	<u>8,137</u>	<u>10,300</u>
Total revenues recognized from customers in which VeriSign holds an equity investment	<u>\$49,063</u>	<u>\$51,685</u>	<u>\$14,160</u>

VeriSign had \$1.5 million, \$0.7 million and \$0.6 million of trade receivables from Network Solutions at December 31, 2005, 2004 and 2003, respectively. VeriSign had \$10.7 million, \$9.2 million and \$13.5 million in trade receivables from International Affiliates at December 31, 2005, 2004 and 2003, respectively.

Note 16. Other Income (Expense), net

The following table presents the components of other income (expense), net for years ended December 31, 2005, 2004 and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands)		
Interest income	\$30,041	\$18,325	\$ 7,905
Net gain (impairment) on sale of investments, net of impairments (gains)	11,310	(8,200)	(16,541)
Gain on sale of VeriSign Japan stock	—	74,925	—
Other, net	<u>10,155</u>	<u>(355)</u>	<u>833</u>
Total other income, net	<u>\$51,506</u>	<u>\$84,695</u>	<u>(7,803)</u>

Interest income is derived principally from the investment of VeriSign's surplus cash balances. During 2005, VeriSign recognized a gain of \$8.2 million on the sale of an equity investment that was previously impaired. During 2004, VeriSign sold 18,000 ordinary shares of its Tokyo-based, majority owned consolidated subsidiary, VeriSign Japan K.K., representing approximately 7% of the Company's ownership interest, and recorded a gain of approximately \$74.9 million related to the sale. Other, net includes approximately \$6.0 million of other income related to a litigation settlement with a telecommunications carrier during 2005.

Note 17. Subsequent Events

On January 10, 2006, VeriSign completed its ASR program executed on November 21, 2005. The final discounted volume weighted average price was \$22.20. As a result of settling the ASR, VeriSign received an additional 482,459 shares of its common stock.

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On January 9, 2006, Network Solutions repaid in full all amounts outstanding under the Secured Senior Promissory Note dated November 25, 2003. In addition, Network solutions redeemed VeriSign's 15% equity interest in Network Solutions. Total payments received by VeriSign were approximately \$50.3 million. As a result of the redemption of the membership interests, VeriSign no longer owns equity interests in any Internet domain name registrars.

On January 24, 2006, VeriSign completed its acquisition of CallVision, a Seattle, Washington-based privately-held provider of online analysis applications for mobile communications customers. The Company paid approximately \$38.2 million in cash for the acquisition.

On February 13, 2006, VeriSign entered into a \$75.0 million ASR agreement with Morgan Stanley & Co., Incorporated ("MSCO"). Under the ASR agreement, the Company purchased approximately 3.2 million shares of its common stock at a price per share of approximately \$23.70. VeriSign acquired these shares as part of its previously announced program to repurchase up to \$500 million of our common stock in open market, negotiated or block transactions. Under the ASR agreement, MSCO will purchase an equivalent number of shares of common stock in the open market from time to time until it has acquired that number. At the end of this period, VeriSign may receive, and may be required to remit, a price adjustment based upon the volume weighted average price of its common shares during the period. The purchase price adjustment can be settled, at the election of the Company, in cash or in shares of its common stock. The program is subject to a cap that will establish the maximum price per share.

On February 25, 2006, VeriSign entered into a definitive agreement to acquire Kontiki, Inc., a Mountain View, California-based privately-held provider of secure, broadband content delivery services. VeriSign has agreed to pay approximately \$62.1 million in cash subject to certain closing adjustments. The acquisition is expected to close during the first quarter of 2006.

On February 28, 2006, VeriSign completed its acquisition of 3united Mobile Solutions ag ("3united"), a Vienna, Austria-based provider of wireless application services. The Company paid approximately \$69.0 million in cash for the acquisition.

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>
10.08	Summary of Director's Compensation Benefits, effective 10/1/05
10.28	Accelerated Share Repurchase Transaction at Discount to VWAP dated November 21, 2005 between the Registrant and Morgan Stanley & Co. Incorporated
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.

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 new revenues; risks related to potential security breaches; and the risk that 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 the company's Annual Report on Form 10-K for the year ended December 31, 2005, quarterly reports on Form 10-Q, or current reports of Form 8-K. VeriSign undertakes no obligation to update any of the forward-looking statements after the date of this report. VeriSign, the VeriSign logo, "Where It All Comes Together" and other trademarks, service marks, and designs are registered or unregistered trademarks of VeriSign and its subsidiaries in the United States and in foreign countries. Other names used in this report may be trademarks of their respective owners.



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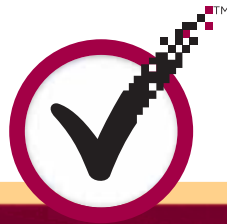
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