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VeriSign, Inc. (NASDAQ: VRSN)

Update: LONG TERM BUY

February 12, 2001

KEY CONSIDERATIONS

- The recent economic drop in Internet stocks and dot com companies
- The Bill passed on July 3, 2000 known as the Electronic Signatures in Global and National Commerce Act or Esign
- VeriSign's acquisitions and deals with various companies, including the most recent acquisition of Network Solution, Inc. how will it affect VeriSign's future performance?
- Will VeriSign's offered services be enough for it to maintain its status as a competitor in its industry

Recent Price:	68.81
52-Wk Low:	258.50
52 Wk High:	58.19
P/E:	256.3
P/Break:	.69
P/Sales:	31.22
Market Capitalization:	13,585.27
Shares O/S:	182.2M
Float:	3.741
Daily Volume:	6.64M
EPS	
95	(.11)
96	(.19)
97	(.28)
98	(.24)
99	.17
00	.38

ONE YEAR PRICE AND VOLUME GRAPH



COMPANY PROFILE

VeriSign (www.verisign.com) is the leading provider of Internet-based trust services, including authentication, validation and payment, needed by websites, enterprises, e-commerce service providers, and individuals to conduct trusted and secure electronic commerce and communications over wired and wireless Internet protocol networks. The company has established strategic relationships with industry leaders to enable widespread utilization of its digital certificate services and to assure their interoperability with a wide variety of applications and network equipment.

This report was prepared by Ruchi Shah and David Rivas, Ph.D.

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THE COMPANY

VeriSign's core authentication service offerings were established as the cornerstone of the business in 1995 with the introduction of website digital certificates. Through secure online infrastructure VeriSign sells website digital certificates to online businesses, large enterprises, government agencies and other organizations.

The Company has established strategic relationships with industry leaders, including AOL/Netscape, British Telecommunications plc, Cisco, Microsoft, RSA Security and VISA, to enable widespread utilization of its digital certificate services and to assure interoperability with a wide variety of applications and network equipment. VeriSign also offers VeriSign Onsite, a managed service that allows an organization to leverage trusted data processing infrastructure to develop and deploy customized digital certificate services for use by employees, customers and business partners. VeriSign markets authentication services worldwide through multiple distribution channels, including the Internet, direct sales, telesales, value added resellers, systems integrators and our international affiliates.

On February 1, 2000 VeriSign completed its acquisition of THAWTE consulting (Pty) Ltd. A privately held South African company which provides digital certificates to website owners and software developers. In addition to acquiring THAWTE Ltd. in February VeriSign also completed its acquisition of Signio Inc. a privately held company that provides payment services that connect online merchants, business-to-business exchanges, payment processors and financial institutions on the Internet. On June 8, 2000 VeriSign completed its acquisition of Network Solutions, Inc. a publicly traded company that provides Internet domain name Registration and Global Registry Services.

SERVICES

VeriSign's services revolve around 3 primary areas: Website Digital Certificate services, Enterprise Digital services and VeriSign Affiliate Certificate services.

Website Digital Services. Website Digital Certificate Services allows organizations to implement and operate secure websites that utilize SSL and WTLS protocols to establish their identity to customers and other websites during electronic commerce transactions. VeriSign currently offers two primary versions of its Website Digital Certificate services: Secure Site and Secure Site plus. Secure site is the standard offering that enables websites to implement basic SSL security features between their sites and individual end-user browsers. Secure Site Plus is an upgraded version of Secure Site, which includes security monitoring, security assessment, site performance monitoring and additional warranty protection.

Global site is an advanced version of Secure Site that incorporates all of the features and functionality of its Secure Site services that allows the US and international enterprises to offer stronger 128-bit encrypted SSL sessions between their websites and specially configured end-user browsers from Netscape and Microsoft. Global site is mainly targeted to global financial institutions and online merchants that require enhanced security. There is also an upgraded version of Global Site called Global Site Plus, which includes the same additional qualities as Secure Site Plus.

WAP Server Certificates provide authentication and encryption between wireless web services and mobile devices utilizing wireless transport layer security protocol. Its WAP certificate service is compatible with WAP servers from Motorola, Nokia, phone.com and others.

Enterprise Digital Certificate Services. VeriSign's Enterprise Digital Certificate services are sold under the VeriSign Onsite and VeriSign GO Secure! brands and are tailored to meet the specific needs of corporations, electronic commerce service providers, financial institutions, healthcare organizations, government agencies and other enterprises. OnSite can be used by customers to provide digital certificates for a variety of applications. Some of them include controlling access to sensitive data and account information, enabling digitally signed e-mail and much more.

GO Secure! provides managed applications services that enable enterprises to quickly build digital certificate based security into their transaction and communication applications faster and more easily. Go secure! services are similar to OnSite services and are designed to incorporate digital certificates into existing e-mail, browsing applications, directory and virtual private network devices.

VeriSign Affiliate certificate Services. VeriSign Affiliate Certificate Services are targeted at a wide variety of organizations that provide large-scale electronic commerce and communications services over wired and wireless IP networks. VeriSign Affiliate certificate Services are delivered through either the VeriSign Service Center or VeriSign Processing Center offerings. The VeriSign Service Center provides a VeriSign Affiliate with all of the capabilities needed to perform subscriber enrollment and authentication, digital certificate issuance, directory hosting, customer support, billing integration and report generation from within their facilities while leveraging VeriSign's secure data centers for back-end processing. The VeriSign Processing Center provides a VeriSign Affiliate with all of the capabilities of the Service Center plus the WorldTrust modules required to perform all certificate processing functions from within their own secure data center. VeriSign offers various services to its customers. From security to Internet domain name registration, the newly added network solutions broadens the services VeriSign offers to consumers overall.. Network solutions offers provides registration services through its idNames services and RealName registrations to identify and retrieve individual Web pagers.

In addition, Networks Solutions offers Internet based products and services like its DOT COM MAIL, which is available only to customers who reserve a domain, name which NSI hosts. It also offers the Dot Com tool kit, which is a resource center that provides access to tools and services for setting up a website and conducting business on the Internet and many other Internet based services. Network Solutions itself also offers Internet Technology Services including Network Engineering, Network and System Security and Network Management, all this in addition to VeriSign's offerings are sure to add to the value of VeriSign overall.

STRATEGIES FOR GROWTH

Strategic Alliances

As stated earlier, VeriSign has entered strategic relationships with industry leaders. Some of these companies that VeriSign has relationships with include AOL/Netscape, Cisco, Microsoft and others as well. VeriSign has signed with various companies to allow for the use of their digital certificate services among a variety of applications and network equipment.

On January 9, 2001, VeriSign and Rackspace Managed Hosting, a provider of managed Internet hosting services announced an agreement to offer the full line of VeriSign's e-commerce solutions to Rackspace's worldwide customer base.

VeriSign and Identix Incorporated. VeriSign and Identix announced a strategic agreement to integrate the Company's digital certificate services into Identix'sitrust wired and wireless trusted transaction management security offering. In addition VeriSign has invested \$2million through the purchase of Identix common stock in support of the design, development, marketing and rollout ofitrust services to provide a trusted transaction management offering.

VeriSign, Inc and VerticalNet, Inc. announced that they have signed an agreement to integrate various VeriSign Internet trust services-including authentication of buyers and suppliers, digital credentials for real-time verification of identities, digital signatures and online payment processing into VerticalNet's online marketplaces which are greater than 57.

November 28,2000: VeriSign and dot TV announce an agreement where VeriSign Global Registry (VeriSign GRS) will provide infrastructure support to the .tv top-level domain. VeriSign GRS will provide registry services for all addresses registered in the .tv top-level domain through the VeriSign GRS Shared Registry System.

VeriSign and Powerb@se. VeriSign Global Registry Services, a division of network Solutions, Inc., signs an agreement with Powerb@se, a data center service business of Pacific Century Cyberworks (PCCW). Powerb@se will host one of the global domain name system (DNS) computing clusters owned by VeriSign Global Registry Services that support the .com, .net and .org top-level domains.

VeriSign and NaviSite, Inc. VeriSign, Inc. and NaviSite, Inc. announce the integration of the Company's digital certificates with NaviSite's managed hosting solutions, creating a one-stop shop for online businesses.

VeriSign and Presideo. VeriSign, Inc. and Presideo, Inc. announce an agreement to jointly deliver services enabling trusted transactions and communications for healthcare organizations. The alliance combines VeriSign's 24X7 managed trust services infrastructure and practices with Presideo's advanced identity management services.

VeriSign and Equifax. VeriSign, Inc. and Equifax, Inc. announce a partnership to combine VeriSign's new Authentication Service Bureau with Equifax's patent-pending consumer authentication services, enabling enterprises to issue digital credentials to their customers for use in high-value e-commerce transaction.

Acquisitions. October 25, 2000: VeriSign, Inc. announces the acquisition of GreatDomains.com, a provider of services in the secondary domain name market. GreatDomains' third party domain name inventory will be integrated into the purchase process for domain names found at www.networksolutions.com, which allows customers to search for domain names in both the primary and secondary markets at the same time.

June9, 2000: VeriSign, Inc announces that it has completed its acquisition of Network Solutions, Inc. VeriSign plan to issue 78 million shares of VeriSign common stock for all the issued and outstanding shares of Network Solutions.

Growth Strategy. VeriSign continues to service its market with new and evolving infrastructure services. The only way for the company to maintain its position among the top of the providers is to continue to develop its services at a faster rate, but also provide the needed services with quality. VeriSign plans to attract, integrate, train and retrain its employees to ensure quality work and service to the customers. Also VeriSign intends to continue entering in collaborative relationships with compatible companies to reach a large customer base, its current relationships are with companies such as AOL/Netscape, Cisco, Microsoft, and RSA security. VeriSign want to continue its growth and reach a large customer base and plans to do so by establishing direct sales channels and develop multiple distribution channels.

KEY RISK FACTORS

In the past year VeriSign has acquired several companies, which VeriSign hope will succeed, but with such acquisitions and new technological advances, risk is involved. In VeriSign's case the following are risk factors VeriSign is facing:

- The extent to which digital certificates and domain names are used for these communications and/or e-commerce
- The demand for Internet infrastructure services and web presence services
- The competition for any of our services
- The perceived security of electronic commerce and communications over IP networks
- The perceived security of our services, technology, infrastructure and practices; and
- Our continued ability to maintain our current, and enter into additional, strategic relationships
- The success of not only VeriSign but its subsidiaries after VeriSign has acquired them
- Successfully introduce new Internet infrastructure services and web presence services; and successfully introduce enhancements to our existing Internet infrastructure services and web presence services to address new technologies and standards and changing market conditions. Government regulations affecting electronic commerce and communications over IP networks
- On July 3, 2000, President Bill Clinton signed a bill, as passed by Congress, known as the Electronic Signatures in Global and National Commerce Act, or "E-Sign." E-Sign is intended to render digital signatures legally equivalent to those signed on paper. The execution of E-Sign could materially and adversely affect our digital certificates services business
- VeriSign's revenue, could be reduced due to pricing pressures, bundled service offerings and variable terms resulting from increased competition.

These are just some of the risks that VeriSign must face and conquer in order to do as well as it has in the past.

FINANCIALS

Revenue. Revenues from authentication services consist of fees for the issuance of digital certificates, fees for digital certificate service provisioning, fees for technology and business process licensing to affiliates and fees for consulting, implementation, training, support and maintenance services. Each of these sources of revenue has different revenue recognition methods. VeriSign defers revenues from the sale or renewal of digital certificates and recognize these revenues ratably over the life of the digital certificate, generally 12 months. VeriSign defers revenues from the sale of OnSite managed services and recognize these revenues ratably over the term of the license, generally 12 months. VeriSign recognizes revenues from the sale of digital certificate technology and business process licensing to affiliates upon delivery of the technology and signing of an agreement, provided the fee is fixed and determinable, collectibility is probable and the arrangement does not require significant production, modification or customization of the software. VeriSign recognizes revenues from consulting and training services using the percentage-of-completion method for fixed-fee development arrangements or as the

services are provided for time- and-materials arrangements. VeriSign recognizes revenues ratably over the term of the agreement for support and maintenance services.

Domain name registration revenues consist primarily of registration fees charged to customers and registrars for domain name registration services. We defer revenues from the sale or renewal of domain name registration services and recognize these revenues ratably over the registration term.

A small portion of VeriSign's revenue mix is from payment transaction services provided by Signio. By the end of the first nine months of 2000, the customer base for these services grew to in excess of 10,600 online merchants using Signio, now VeriSign Payment Services, to payment-enable their online stores and business-to-business commerce activities.

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

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. Accordingly, the company intends to continue to recruit experienced research and development personnel and to make other investments in research and development. As a result expect research and development expenses to continue to increase in absolute dollars. To date, VeriSign have expensed all research and development expenditures as incurred.

Cash. On September 30, 2000, the principal source of liquidity was approximately \$1.1 billion of cash, cash equivalents and short-term investments, consisting principally of commercial paper, medium term notes, corporate bonds and notes, market auction securities, United States government agency securities and money markets. Net cash provided by financing activities was \$61.1 million in the first nine months of 2000 resulting primarily from the issuance of common stock for stock option exercises.

VeriSign's existing cash, cash equivalents and short-term investments and operating cash flows will be sufficient to meet all of its working capital and capital expenditure requirements for at least the next 12 months. However, at some time, VeriSign may need to raise additional funds through public or private financing, strategic relationships or other arrangements. Failure to raise capital when needed could materially harm VeriSign. If the company raises additional funds through the issuance of equity securities, the percentage of stock owned by then-current stockholders will be reduced.

INDUSTRY OUTLOOK AND COMPETITION

VeriSign is a leader of Internet trust services and in the industry of Software and programming. There are various competitors in this field three of the top ones being: Microsoft, ISSX, and MUSE. There are various qualities that each possesses that makes them in the top of its industry. For example VeriSign not only offers Internet trust services ,in fact after its acquisition of Network Solutions Inc., the company now offers internet domain registration. The following table offers comparisons of the top companies in the industry.

Company	VeriSign	Microsoft	MicroMuse (MUSE)	Internet Security Systems, Inc. (ISSX)
Growth	VeriSign acquired Networks Solutions Online to expand its services offered, in this case Internet Domain Name registration	New products unveiled recently: Microsoft SOAP toolkit	Markets and supports a family of scalable and software solutions that are effective in monitoring and managing of multiple elements underlying information technology and mapping them	Is now offering training in four locations in Canada, and expanding their security offerings in the Canadian market. Recently opened new security operations center in Europe.
Services Offered	Internet Domain Name registration, infrastructure trust services, VeriSign Onsite	Intelligent devices, consulting services, R&D for software products	Growths for MUSE introduced new and enhanced NetCool/OMNI bus	Primarily offers managed security services with SAFEsuite
Position among consumer base (Popular among which types of businesses)	Popular among e-commerce and business to Business	Popular among the business atmosphere as well as home	Small company set in Delaware, recognized mainly by B to B customers	Popular amongst the e-commerce companies

VALUATION

Internet Sector. In the past year, VeriSign has been on a roller coaster ride when being compared with the Internet Index. Between last February and March it was significantly outperforming the Internet Index. Once March hit though the company was the one being outperformed, from March to June the company was substantially lower than the Internet Index. From June to August VeriSign moved with the Internet index, if not the exact points. From August to September the company was being outperformed by the index once again. And then from September to mid-November VeriSign was doing much better and surpassed the Internet index. Since then VeriSign has been doing worse and has been outperformed by the Internet index. VeriSign's stock price has been fluctuating since the company has gone public. From a slow start to a high of \$258, last February. Since then the company's stock price has been declining, its most recent price being 86.87.



Revenue Growth. Revenues for VeriSign have been growing since its conception in 1995. Although the company's revenues are expected to grow, they will at a declining rate. Since 1995 VeriSign has gained competitors in its field and acquired several companies that have slowed the company's revenue growth this past year. As a result, VeriSign will face changing its prices once again to remain competitive in the field of Internet services, like digital certificates.

	Price	Mkt. Capitalization (in billions)	Trailing 12 Month (in sales) (millions)	P/S	Gross Margin
VeriSign	82.78	15.683	\$652	60.5	66.0%
Microsoft	61	325.3	\$23,845	13.6	86.9%
Micromuse	77.30	5.479	\$151	36.3	83.0%
Internet Security Systems	72.31	3.059	\$195	17.8	69.4%

Investment Opinion

VeriSign is a promising company, one that is worth investing in. The company's current revenues and estimated earnings prove that the company is a strong one. The company has grown rapidly to one of the top Internet security companies in its industry. Given that VeriSign's business is tied to Internet Infrastructure (which has a high potential for future growth) VeriSign will likely be a dominant player for years to come. Currently, the stock is off 74% from its 52 week high, and clearly presents a great buying opportunity. Through its recent acquisitions, including Network Solutions, VeriSign will be able to take market share away from competitors such as Internet Security Systems, therefore strengthen its position over the entire industry. We give the company a rating of 7, one definitely worth buying.

VeriSign							
<i>Financial Projections</i>							
(\$ in Millions, except per share)							
Fiscal year Ended December 31,							
	1996	1997	1998	1999	2000E	2001E	
Total Revenue	\$1.4	\$13.4	\$38.9	\$305.6	\$652.3	\$983.0	
COGS	2.8	9.7	9.7	109.6	208.5	301.3	
Gross Profit	(1.4)	3.7	29.2	196.0	443.9	681.7	
Operating Expenses							
R&D	2.1	5.3	8.4	24.3	51.2	76.5	
S,G&A	7.6	16.9	42.9	135.4	304.8	446.8	
Total	9.7	22.2	51.3	159.7	356	523.3	
EBITDA	(11.1)	(18.5)	(22.1)	36.3	87.9	158.4	
D&A	0.0	0.0	0.0	3.9	19.2	28.9	
EBIT	(11.1)	(18.5)	(22.1)	32.4	68.7	129.5	
Other Income	0.0		2.3	16.4	64.4	76	
Interest)	0.8	1.5	1.3	0.8	133.4	0.1	
Pre-Tax □Income	(10.3)	(16.9)	(18.5)	49.6	52.6	205.6	
Taxes	0.0	0.0	0.0	18.7	8038	82	
Net Income	(\$10.3)	(\$16.9)	\$3.6	\$30.9	\$80.8	\$123.5	
Fully Diluted □Shares Outstanding	54.2	68.1	83.5	182.2	211.9	218.7	
EPS	(0.19)	(0.25)	0.04	\$0.17	\$0.38	\$0.56	
Margin Analysis							
Gross Margin	NM	27.5%	75.1%	64.1%	68.1%	69.3%	
R&D Margin	150.0%	39.7%	21.6%	8.0%	7.8%	7.8%	
S,G & A Margin	542.9%	126.2%	110.3%	44.3%	46.7%	45.5%	
Operating Margin	NM	NM	NM	10.6%	10.5%	13.2%	
Net Margin	NM	NM	9.3%	10.1%	12.4%	12.6%	
Growth							
Total Revenue	NM	854.0%	191.3%	685.6%	113.4%	50.7%	
EBITDA	NM	NM	NM	NM	142.1%	80.2%	
EBIT	NM	NM	NM	NM	112.0%	88.5%	
<i>Note: 1999,2000E,2001E,2002E all include proforma for Network Solutions.</i>							