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**VeriSign, Inc.**

VRSN \$22.85  
Rating Positive

52-Week Range:	\$36 - \$15
Shrs Out (m):	266
Market Cap (\$m):	5,654
Enterprise Value (\$m)	4,911
Avg Daily Vol (000):	206
Net Cash/Shr:	\$2.81
Debt/Capital	0.0%
3 Yr Sec Growth:	15.2%
Dividend Yield	0.0%

**Fiscal Year December**

EPS(\$)	2004A	2005E	Prior	2006E	Prior	2007E	Prior
1Q	0.14	0.25A		0.28		0.31	
2Q	0.15	0.27A		0.29		0.32	
3Q	0.19	0.27A		0.29		0.33	
4Q	0.21	0.27		0.31		0.35	
FY EPS	0.69	1.05		1.16		1.30	
CY EPS	0.69	1.05		1.16		1.30	
CY P/E	30.9	20.2		18.3		16.3	
CY Revs (\$m)	1,166	1,661		1,804		1,943	
CY EV/Rev	4.2	3.0		2.7		2.5	

**VRSN Share Price (LTM)**



Source: SFG Research and company reports

**VeriSign, Inc.**

VRSN: \$22.85

**Rating: Positive**

**Reaches Favorable Accord with ICANN**

Last night, VRSN and the Internet Corporation for Assigned Names and Numbers (ICANN) were able to reach an agreement to their lawsuit. The terms of the agreement are more favorable than we had expected, and include potential price increases we believe are highly likely to occur.

**HIGHLIGHTS**

- **Resolution achieved.** VRSN and ICANN announced that they were able to reach an agreement to their longstanding lawsuit. The dispute initially emanated from a VRSN service called SiteFinder that redirected Internet users from mistyped or unregistered web addresses. We believe the agreement still needs to be officially approved by both parties and the U.S. Department of Commerce, but do not anticipate any major hurdles. **Positive Factor**
- **Potential price increase beginning 2007.** As per the agreement, beginning in 2007 VRSN will be allowed to increase the price for a .com domain by up to 7% per year (upon six months notice) to allow for continued investment in the DNS. Moreover, ICANN will be adding its own fees (similar to the revised .net agreement) on top of the registration price. The fees will be instituted starting in January 2006 at \$0.37 per name and will increase to \$0.45 in July 2006 and again in July 2007 to \$0.50. Given the very strong .com domain name growth witnessed over the past several quarters (consistently growing 5-8% Q/Q), aided by burgeoning pay-per-click and blog sites, we believe demand is very price inelastic and expect negligible end-user fallout from higher prices. **Positive Factor**
- **Potential effect.** While we are not changing our 2007 estimates at this time, we believe it is highly likely that VRSN will raise pricing for .com (which had 40.5 mln names as of Sept. 30, versus 6.2 mln for .net). Preliminarily, we estimate VRSN could receive roughly \$40 mln in revenue in 2007 from a 7% .com price increase coupled with the recently agreed upon allowance of a maximum 10% .net price increase. Altogether, this could add \$0.07-\$0.08 to our 2007 EPS estimate of \$1.30. **Positive Factor**
- **New services.** Going forward, ICANN will serve as the technical coordinator of the DNS and there will be an up to a 90-day review period for any new services proposed by VRSN. While we do not believe the SiteFinder service will see the light of day, we think VRSN's Wait List Service (WLS) has some potential. Still, we would not expect VRSN to re-introduce that or any other service until the agreement is made official, which could take a few months. Regardless, we are pleased to see a specific methodology in place for evaluating value-added services. This agreement should lead to greater innovation and monetization for VRSN and the registry. **Positive Factor**
- **Term extension.** VRSN's right to operate the .com registry has also been extended until Nov. 30, 2012, and VRSN will continue to have a presumptive right of renewal. In short, our belief is that as long as VRSN is not in material breach of contract as deemed by ICANN and an independent mediator, the company will continue to run .com for the foreseeable future. **Positive Factor**
- **Valuation.** Using our revised 2006 estimates, VRSN trades at 20x, a 10% discount to the peer group average of 22x. VRSN also trades at an earnings multiple of only 17-18x our current 2007 estimates.

**CONTRA CASE**

VRSN's Jamba! mobile content business could continue to have increased churn for the foreseeable future. Also, VRSN could potentially see greater regulatory scrutiny and/or enhanced carrier standards that serve to constrain growth.

**COMPANY DESCRIPTION**

VeriSign Inc.'s (VRSN) critical infrastructure services deliver security and reliability to internet and telecommunications. VeriSign provides security, domain name, wireline and wireless telecommunications, mobile content, and online payment services to a large base of customers around the world.

## VeriSign Inc.

Fiscal Year End: December

Earnings Model (in \$ millions, except EPS)	FY 2004	Mar-05 Q1'05	Jun-05 Q2'05	Sep-05 Q3'05	Dec-05 Q4'05E	FY 2005E	Mar-06 Q1'06E	Jun-06 Q2'06E	Sep-06 Q3'06E	Dec-06 Q4'06E	FY 2006E	Mar-07 Q1'07E	Jun-07 Q2'07E	Sep-07 Q3'07E	Dec-07 Q4'07E	FY 2007E
<b>Revenue</b>																
Internet Services	564.148	159.082	168.167	176.909	184.110	688.268	193.694	202.131	207.284	217.769	820.878	207.969	214.241	220.662	231.491	874.362
Telecom Services	602.307	241.909	276.663	237.857	215.890	972.319	239.306	243.869	242.716	257.231	983.122	262.031	265.759	264.338	276.509	1,068.638
Network Solutions	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>Total Revenue</b>	<b>1,166.455</b>	<b>400.991</b>	<b>444.830</b>	<b>414.766</b>	<b>400.000</b>	<b>1,660.587</b>	<b>433.000</b>	<b>446.000</b>	<b>450.000</b>	<b>475.000</b>	<b>1,804.000</b>	<b>470.000</b>	<b>480.000</b>	<b>485.000</b>	<b>508.000</b>	<b>1,943.000</b>
Cost of Internet Services	124.859	34.821	34.437	34.440	33.614	137.312	37.103	38.663	39.460	42.127	157.354	43.564	44.971	45.924	48.610	183.068
Cost of Telecom Services	291.613	81.388	93.170	85.279	97.065	356.902	104.789	107.043	108.453	113.054	433.339	109.984	110.404	111.069	113.288	444.743
Other COGS	28.236	8.633	8.947	9.562	9.622	36.764	10.415	10.728	10.824	11.426	43.393	11.305	11.546	11.666	12.219	46.737
<b>Total Cost of Revenue</b>	<b>444.709</b>	<b>124.842</b>	<b>136.554</b>	<b>129.281</b>	<b>130.678</b>	<b>521.355</b>	<b>141.892</b>	<b>145.707</b>	<b>147.913</b>	<b>155.181</b>	<b>590.693</b>	<b>153.547</b>	<b>155.374</b>	<b>156.993</b>	<b>161.898</b>	<b>627.812</b>
<b>Gross Profit</b>	<b>721.746</b>	<b>276.149</b>	<b>308.276</b>	<b>285.485</b>	<b>269.322</b>	<b>1,139.232</b>	<b>291.108</b>	<b>300.293</b>	<b>302.087</b>	<b>319.819</b>	<b>1,213.307</b>	<b>316.453</b>	<b>324.626</b>	<b>328.007</b>	<b>346.102</b>	<b>1,315.188</b>
Gross Margin	61.9%	68.9%	69.3%	68.8%	67.3%	68.6%	67.2%	67.3%	67.1%	67.3%	67.3%	67.3%	67.6%	67.6%	68.1%	67.7%
<b>Operating Expenses</b>																
Sales and Marketing	252.653	129.377	140.417	115.998	105.868	491.660	118.067	121.165	121.802	127.619	488.652	127.685	130.402	130.305	134.453	522.846
Research and development	66.667	22.017	26.974	27.460	26.482	102.933	30.832	32.204	32.943	34.298	130.277	33.937	34.179	34.535	35.665	138.315
G&A	164.820	42.378	49.944	45.333	42.119	179.774	44.511	45.402	45.359	47.404	182.676	45.965	46.463	46.462	48.157	187.047
<b>Total Operating Expenses</b>	<b>484.140</b>	<b>193.772</b>	<b>217.335</b>	<b>188.791</b>	<b>174.470</b>	<b>774.368</b>	<b>193.410</b>	<b>198.771</b>	<b>200.104</b>	<b>209.320</b>	<b>801.605</b>	<b>207.587</b>	<b>211.044</b>	<b>211.302</b>	<b>218.275</b>	<b>848.208</b>
<b>Pro Forma Operating Income</b>	<b>237.606</b>	<b>82.377</b>	<b>90.941</b>	<b>96.694</b>	<b>94.852</b>	<b>364.864</b>	<b>97.697</b>	<b>101.523</b>	<b>101.983</b>	<b>110.499</b>	<b>411.702</b>	<b>108.866</b>	<b>113.582</b>	<b>116.705</b>	<b>127.828</b>	<b>466.980</b>
Pro Forma Operating Margin	20.4%	20.5%	20.4%	23.3%	23.7%	22.0%	22.6%	22.8%	22.7%	23.3%	22.8%	23.2%	23.7%	24.1%	25.2%	24.0%
Interest and other income	16.789	13.002	14.083	6.250	5.000	38.335	5.650	6.000	6.300	6.675	24.625	7.325	7.675	7.975	8.350	31.325
<b>Pro Forma Pre-Tax Income</b>	<b>254.395</b>	<b>95.379</b>	<b>105.195</b>	<b>102.944</b>	<b>99.852</b>	<b>403.199</b>	<b>103.347</b>	<b>107.523</b>	<b>108.283</b>	<b>117.174</b>	<b>436.327</b>	<b>116.191</b>	<b>121.257</b>	<b>124.680</b>	<b>136.178</b>	<b>498.305</b>
Amort of deferred stock comp	(2.130)	(0.378)	(5.561)	(0.819)	(0.819)	(7.577)	(0.819)	(0.819)	(0.819)	(0.819)	(3.276)	(0.819)	(0.819)	(0.819)	(0.819)	(3.276)
Amort of goodwill/acquired intangibles	(79.440)	(22.462)	(24.721)	(26.235)	(26.235)	(99.653)	(26.235)	(26.235)	(26.235)	(26.235)	(104.940)	(26.235)	(26.235)	(26.235)	(26.235)	(104.940)
Special Charges/Investment write-downs	68.358	2.275	(0.058)	8.169	8.169	18.555	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Restructuring Expense	(24.780)	1.875	0.133	(0.537)	(0.537)	0.934	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>Total non-Pro forma Expenses</b>	<b>(37.992)</b>	<b>(18.690)</b>	<b>(30.207)</b>	<b>(25.772)</b>	<b>(25.772)</b>	<b>(100.441)</b>	<b>(33.404)</b>	<b>(33.404)</b>	<b>(33.404)</b>	<b>(33.404)</b>	<b>(133.616)</b>	<b>(33.404)</b>	<b>(33.404)</b>	<b>(33.404)</b>	<b>(33.404)</b>	<b>(133.616)</b>
<b>Pre-Tax Income (GAAP)</b>	<b>216.403</b>	<b>76.689</b>	<b>74.988</b>	<b>77.172</b>	<b>74.080</b>	<b>302.929</b>	<b>69.943</b>	<b>74.119</b>	<b>74.879</b>	<b>83.770</b>	<b>302.711</b>	<b>82.787</b>	<b>87.853</b>	<b>91.276</b>	<b>102.774</b>	<b>364.689</b>
Income Taxes	27.580	26.386	33.693	31.377	27.623	119.079	28.590	29.745	29.956	32.415	120.707	32.143	33.545	34.492	37.673	137.853
Tax Rate	11%	28%	32%	28%	28%	30%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%
<b>Net Income before Minority Interest</b>	<b>188.823</b>	<b>50.303</b>	<b>41.295</b>	<b>45.795</b>	<b>46.456</b>	<b>183.849</b>	<b>41.353</b>	<b>44.373</b>	<b>44.923</b>	<b>51.354</b>	<b>182.004</b>	<b>50.643</b>	<b>54.308</b>	<b>56.784</b>	<b>65.101</b>	<b>226.836</b>
Minority Interest	(2.617)	(1.128)	(1.048)	(1.221)	(1.221)	(4.618)	(0.850)	(0.850)	(0.850)	(0.850)	(3.400)	(0.850)	(0.850)	(0.850)	(0.850)	(3.400)
<b>Net Income (GAAP) after Minority Interest</b>	<b>186.206</b>	<b>49.175</b>	<b>40.247</b>	<b>44.574</b>	<b>45.235</b>	<b>179.231</b>	<b>40.503</b>	<b>43.523</b>	<b>44.073</b>	<b>50.504</b>	<b>178.604</b>	<b>49.793</b>	<b>53.458</b>	<b>55.934</b>	<b>64.251</b>	<b>223.436</b>
<b>Pro Forma Net Income</b>	<b>224.198</b>	<b>68.242</b>	<b>70.454</b>	<b>70.346</b>	<b>71.007</b>	<b>279.501</b>	<b>73.907</b>	<b>76.927</b>	<b>77.477</b>	<b>83.908</b>	<b>312.220</b>	<b>83.197</b>	<b>86.862</b>	<b>89.338</b>	<b>97.655</b>	<b>357.052</b>
<b>Pro Forma Net Income, Normalized*</b>	<b>176.245</b>	<b>66.240</b>	<b>72.903</b>	<b>71.206</b>	<b>69.041</b>	<b>279.390</b>	<b>71.748</b>	<b>74.671</b>	<b>75.203</b>	<b>81.427</b>	<b>303.049</b>	<b>80.738</b>	<b>84.285</b>	<b>86.681</b>	<b>94.729</b>	<b>346.434</b>
<b>Earnings Per Share</b>																
EPS - GAAP, Basic	\$0.74	\$0.19	\$0.15	\$0.17	\$0.17	\$0.69	\$0.16	\$0.17	\$0.17	\$0.19	\$0.68	\$0.19	\$0.20	\$0.21	\$0.24	\$0.84
EPS - Pro Forma, Basic	\$0.89	\$0.27	\$0.27	\$0.27	\$0.27	\$1.08	\$0.28	\$0.29	\$0.30	\$0.32	\$1.19	\$0.32	\$0.33	\$0.34	\$0.37	\$1.35
EPS - Pro Forma, Fully Diluted	\$0.69	\$0.25	\$0.27	\$0.27	\$0.27	\$1.05	\$0.28	\$0.29	\$0.29	\$0.31	\$1.16	\$0.31	\$0.32	\$0.33	\$0.35	\$1.30
<b>Shares Outstanding</b>																
Basic Shares Outstanding	250.544	253.989	263.538	260.288	258.788	259.151	259.788	260.788	261.788	262.788	261.288	263.788	264.788	265.788	266.788	265.288
Fully Diluted Shares Outstanding	256.182	262.338	272.734	266.201	259.201	265.119	260.201	261.201	262.201	263.201	261.701	264.201	265.201	266.201	267.201	265.701

**APPENDIX: IMPORTANT DISCLOSURES**

SFG employs the following rating system:

**Positive:** The data points compiled and the analysis conducted by the research analyst sum up or "net" out to an overall positive view. This is not a net positive for the company, but a net positive for the stock, meaning the information and analysis contained in the report are not reflected in the current stock price and could reasonably be expected to have a positive or appreciating effect (when widely available to the public) on the current stock price.

**Neutral:** The data points compiled and the analysis conducted by the research analyst sum up or "net" out to an overall neutral view. This is not a net neutral for the company, but a net neutral for the stock, meaning the information and analysis contained in the report are either NOT reflected in the current stock price and could reasonably be expected to have no effect (when widely available to the public) on the current stock price, OR the information contained in the note is already reflected in the current stock price.

**Negative:** The data points compiled and the analysis conducted by the research analyst sum up or "net" out to an overall negative view. This is not a net negative for the company, but a net negative for the stock, meaning the information and analysis contained in the report are NOT reflected in the current stock price and could reasonably be expected to have a negative or depreciating effect (when widely available to the public) on the current stock price.

Prior to May 2, 2005 SFG employed a rating system as follows:

**Net Positive** which carried the same definition as Positive above

**Net Neutral** which carried the same definition as Neutral above

**Net Negative** which carried the same definition as Negative above

SFG Research: 256 companies under coverage (as of 9-30-2005)

Covered companies in each rating category

Positive (Buy): 46% (119 securities)

Neutral (Hold): 47% (120 securities)

Negative (Sell): 7% (17 securities)

Investment banking clients in each rating category

Positive (Buy): 0% (0 securities)

Neutral (Hold): 0% (1 security)

Negative (Sell): 0% (0 securities)

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**Price/Rating Chart Legend**

For all charts below

**Net Neut** Net Neutral  
**Net Pos** Net Positive  
**Net Neg** Net Negative  
**Cov Disc** Coverage Discontinued  
**Cov Res** Coverage Resumed  
**▲** Split

All dates are in mm-dd-yyyy format.

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