

244 Fifth Ave., 2nd Fl., Ste. 2801 • New York, NY 10001 • Tel: (212) 726 1408 • Fax: (413) 215 0880**NETWORK SOLUTIONS INC. (NASDAQ: NSOL)**

Initiating Coverage: BUY

July 7, 1999

KEY CONSIDERATIONS

- Network Solutions, Inc. (NSI) is a profitable Internet company with strong revenues growth.
- NSI should benefit from the growth of international registrations, the highly possible introduction of other dot extensions such as .buy for shopping or .fun for recreation and leisure, various new services that NSI is currently introducing, and valuable partnerships and agreements.
- The entrance of competitor into NSI's main market has added more uncertainty to its future performance. On the one hand, new competition threatens NSI's market share, pricing, but not leadership. On the other hand, offsetting competitive effects is the significant growth of the registrations market.
- NSI's stock fell sharply from the \$150 to the \$50 level as a result of potential competition effects on revenue growth rates and the uncertainty of NSI's future performance. We believe that the stock is undervalued since NSI is likely to maintain its leading position as a domain name registrar and continue to successfully promote its brand name.

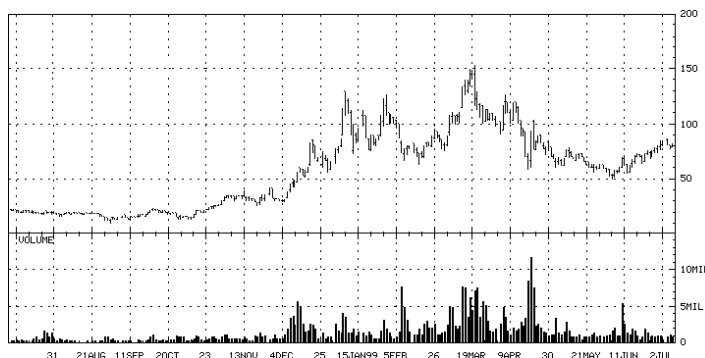
Recent Price	\$60.25
52WK Low	\$10.50
52WK High	\$153.75
P/E	146.95
P/Book	18.72
P/Sales	17.77
Market Capitalization	2.00
Shares Outstanding	33.4 million
Float	15.5 million
Daily Volume (3-month Average)	2.6 million

EPS

1996	(0.07)
1997	0.16
1998	0.34
1999E	0.66
2000E	1.00

FINANCIALS

Current Ratio	1.34
Total Debt to Equity	0.00
LT Debt	0.00
Total Cash	\$148.5 million

COMPANY PROFILE

Network Solutions (NSI) was the exclusive registrar of Internet domain names ending in .com, .org, .net and .edu. up until last month. The government's exclusivity contract is currently in transition. NSI is the dominant provider of registry and registrar services. In addition to its core registration services, which account for 90% of NSI's revenues, the company provides intranet consulting services focusing on network engineering, network, and systems security and network management solutions.

This report was prepared by David R. Rivas, Ph.D., and Umur Vardar.

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THE COMPANY

Network Solutions Inc. (www.networksolutions.com) provides worldwide Internet domain name registration services within the .com, .org, .net, and .edu top-level domains. Since 1993 NSI has enjoyed sole authority for registering the most popular domain names, which account for up to 50 percent of the world's Internet addresses. The company also provides Intranet consulting and network design and implementation services to large companies.

NSI was incorporated in Washington, D.C. in 1979, and subsequently was acquired by Science Applications International Corporation, SAIC (www.saic.com). In December 1992, NSI entered into a so-called "Cooperative Agreement" with the National Science Foundation under which NSI was to provide domain name registration services. The agreement was effective for five years, namely until 1998. In September 1998, the Department of Commerce took over the Cooperative Agreement from the National Science Foundation and extended it two more years until September 2000. Meanwhile, there have been widespread discussions in the Internet community about the absence of competition for domain-name registration services. In June 1998, the Department of Commerce published "White Paper" proposing the introduction of competition and calling for the formation of a non-for-profit corporation called Internet Corporation for Assigned Name and Numbers, ICANN (www.icann.org), to assume the responsibilities relating to the domain registration system, but not to perform actual registration of domain names. Ongoing efforts by ICANN to end NSI's monopoly over the domain registration business have resulted in the appointment of five initial test-bed companies (Registrars) for a two-month test period (April 26 - June 25, 1999) and thereafter more Registrars (29 of which have already been selected) would be accredited. In order to permit multiple Registrars to access equally to the Registry (the database, which has been maintained by NSI so far and is going to be maintained until 2000 when the Cooperative Agreement expires) and provide registration services, NSI has begun implementing the "Shared Registry System" for which NSI has spent more than \$20 million so far.

INDUSTRY OUTLOOK AND COMPETITION

Since 1993, NSI has been the leader in the market since it had a monopolistic situation under the Cooperative Agreement. NSI maintains 50 to 75% market share, however, with the foundation of ICANN and the expiration of the Cooperative Agreement in 2000, a new era has just begun. Now, it is the time for competition!

As of April 26, ICANN selected 5 firms – America Online (www.aol.com), CORE – Internet Council of Registrars (www.corenic.org), France Telecom (www.francetelecom.com), Melbourne IT (www.melbourneit.com.au), and register.com (www.register.com)- to be the first test-bed registrars for a two-month trial period between April 26 and June 24. During the test-bed, five competitive registrars would be allowed direct access to register domain names in the registry operated by NSI, and thereafter more companies (29 of them already selected) would join the original five in competing once the test-bed phase is complete. For this NSI has spent more than \$20 million and developed the Shared Registry System. The test-bed is intended to solve any technical difficulties before additional registrars are included, so that vigorous competition can be introduced without endangering the stability of the domain name system. These test-bed applicants have paid a \$2,500 application fee to ICANN. Once accredited, all registrars will pay a \$5,000 annual accreditation fee to ICANN and a one-time \$10,000 fee to license software from NSI. During the test-bed period NSI will charge registrars a fee of \$9 per registration-year for new or renewed domain name they insert into NSI's registry, but NSI continues to charge others \$35 when NSI also acts as a registrar. Each new registrar is required to build its own registration system and will be responsible for its own pricing, customer service and liability for domain name registration.

The 29 registrars that can start competing on June 26 are as follows:

- United States: 9NetAvenue, Alldomains.com, All West Communications, American Domain Name Registration, AT&T, DomainRegistry.com, eNom.Inc, InfoAvenue, InfoNetworks (UK/USA), InfoRamp, Interactive Telecom Network, MS Intergate, NameSecure.com, Name.Space Inc, RCN, Verio and WebTrends.
- United Kingdom: NetBenefit, NetNames, Virtual Internet.
- Canada: A Technology, Domain Direct, Internet Domain Registrars.
- Denmark: Telepartner AS
- Sweden: Port Information System AB
- Norway: Active ISP
- Catalonia: Nominalia
- Japan: interQ Incorporated

The contract between NSI and the five Registrars has many terms and some of the test-bed registrars are having difficulty meeting some of the terms. One of the important requirements is that the companies obtain \$100,000 in insurance that is payable to NSI for the maintenance of the security and stability of the domain name registration system.

The price NSI may charge new entrants for access to its registry, database, has been an especially hot topic. Most of the registrars claim that the fair price would be between \$1.50 and \$2. This is based on Amendment 11 which indicates that NSI's prices for registry services through the Shared Registration System in the second level domain names for which NSI now acts as a registry, will be no more than a dollar amount per registration/year to be specified in a further amendment reflecting NSI's costs and a reasonable return on its investment. One of the determining factors in the registry will be the expected size of the market. Additional factors include the initial cost NSI has spent for the Shared Registry System so far and ongoing costs to support the system. We believe, however, that even a \$5 per year fee might be possible considering the current \$9 charge.

NSI is still in a unique position to underbid other registrars. The new registrars are still working on new interfaces that will allow them to connect to the registry at a low cost. However, despite the fact that NSI will continue to maintain the root database of registered domain names, it is unclear whether the company will control it after its contract with the government expires in September 2000.

The market potential for unregistered domain names is estimated to be around 140 million Internet addresses. That means that even if NSI, which has registered more than 5 million Internet addresses so far, has to lower its commissions, increased volume will more than make up the difference.

An interesting fact is that even though AOL has a marketing agreement with NSI through its deal with Netscape, it has been selected as one of the test-bed registrars. We think that this announcement means that AOL will change from being a marketing partner to a competitor.

We believe that the introduction of competition is not a bad thing for NSI and should further reduce the costs, improve service to customers worldwide and increase the choice of policies. For instance, users might prefer to go to another registrar based on its rules. NSI, for example, does not register domain names containing certain words.

In fact, it is not even clear whether competition will lead to substantial price decreases. Register.com, one of the five test-bed registrars, has been the first company that started registering domain names through Shared Registry System on Monday, June 7. It should be pointed out that Register.com did not present any price competition to NSI by offering an identical \$70 charge for an initial two-year registration. It is expected that this price will be reassessed for a short period of time and then it will be decided whether a price-cut is necessary.

SERVICES

NSI operates mainly in three areas:

1. Domain name registration services

As of May 29, NSI reached the five million mark in registering domain names in .com, .org, or .net. According to the records, it took four years to register the first million domain names and 15 months after that to reach the two million names. Six months later it reached three million names and four months later it reached the four million mark, in less than three months after that it hit five million which means approximately 23 registries per minute. The introduction of RegistrationPlus,™, a five-easy-step registration and reservation process has played an important role in NSI's significant success.

NSI also provides registration services in the 243 two-letter country-code top-level domains through its idNames services; and RealName registrations to identify and retrieve individual Web pages.

An interesting point to be considered is that international registrations continue to climb rapidly along with U.S. registrations, accounting for about 27 percent of NSI's total registrations in .com as of May25.

For the two-month test period NSI is currently charging \$9 per year for new registrations, an amount that is quite lower compared with \$ 35 NSI used to charge so far.

2. Internet-based products and services

All of these services are to provide small businesses with additional resources to build and brand their online identity, communicate with their customers and set up and promote their Web business.

- DOT COM MAIL: A portable, personalized e-mail service hosted by NSI's vendor Critical Path and is available only to customers who reserve a domain name which NSI hosts. The main idea behind this service is to enable small business to use their own company name as the domain name for their e-mail address. It charges \$59.4 a year per mailbox.
- DOT COM TOOLKIT: A resource center that provides access to tools and services for setting up a web site and conducting business on the Internet. A referral fee is received if customers make purchases from links in this center. Some of the members include SmartAge, infoUSA and e.spireDATA.
- DOT COM PROMOTIONS: Through a joint marketing agreement with LinkExchange Inc., a domain name registrant can link to and subscribe to various LinkExchange services.
- DOT COM BIZ CARD: A virtual business card for NSI's customers.
- DOT COM FORWARDING: It helps businesses manage their multiple Web addresses to target various customers.

3. Internet technology services

- NETWORK ENGINEERING
- NETWORK AND SYSTEM SECURITY
- NETWORK MANAGEMENT

Due to the rapid introduction of new Internet technologies, large organizations are struggling to develop and maintain a coherent strategy to meet end-user requirements. NSI's Internet Technology Services is focusing on these essential Internet services demanded in the marketplace. These services center on delivering the architecture, implementation and support services to help large enterprises and ISP's improve their operational effectiveness.

Services include, among others, providing next generation Internet technology architecture, assisting organizations with the integration of point Internet technology solutions that fit within their legacy systems, providing IP engineering and managing services for companies such as their remote access, firewall administration and DNS services.

Its main customer is BankAmerica, formerly NationsBank, counting for 40% of NSI's Internet Technology Service Business net revenue and 3% of NSI's total revenue. On the other hand, its main competitors are Andersen Consulting and IBM International Network Services.

Recently, NSI has entered into an agreement with Lucent Technologies under which NSI will provide software technical support services –including installation, upgrade and troubleshooting- for customers of Lucent QIP product suite, the industry's leading IP address management software. In return, Lucent will train qualified NSI's Product Support Consultants to become Q-Agents.

GROWTH STRATEGY

NSI's growth strategy is centered around securing what they believe to be an enormous Web address market opportunity and then building complementary products and services around Web addresses. They are focusing on making a name for themselves through a national multimedia advertising campaign that included global marketing agreements with Yahoo! and Netscape; forging relationships with key channel companies domestically and internationally, offering a menu of dot com services to serve the small business market just coming online; and growing their Internet Services business.

STRATEGIC PROGRAMS WITH INTERNET SERVICE PROVIDERS

1. **PREMIER PROGRAM:** It provides ISPs with personalized account management, customized billing and financial reports, private e-mail boxes and other customer support for multiple time zones in a number of languages. This program now includes more than 100 international members from 22 countries and more than 190 across the globe. Its popularity has been due to the high level of service NSI provides and also due to its unique feature of being the only Web address registration service that processes the majority of new registrations and modification updates within one business day, global updates within two business days.

In particular, a significant increase in the registration of international domain names has been observed. This can be attributed to the ease, relatively low cost and worldwide recognition of dot com around the world. Furthermore, throughout Europe and Asia/Pacific, declining online costs and other conditions are leading to higher numbers of Internet users which is further expected to have a positive impact on NSI's potential registration business.

2. **ALLIANCE PROGRAM:** This program is available to members of the Premier Program who have participated in the program for a minimum of one year and who have registered a significant number of

second-level domain names with NSI. Through this program, NSI closely works with EarthLink, MindSpring Enterprises and ValueWeb.

3. **AFFILIATE PROGRAM:** This program provides small ISPs, other companies and individuals with a link to NSI's RegistrationPlus domain name registration services. This program also surpassed 11,000 members in early May, more than doubling program membership in just over a month. In order to provide Affiliate companies with more flexibility in marketing, NSI now offers a selection of 10 banners in various sizes based on service offering. The top 10 NSI Affiliate members average about 500,000 impressions per month on their Web-sites, and about 20% of the members are international.

DOT COM PEOPLE

In 1998, NSI launched an advertising campaign branding NSI as the dot com people. The campaign included television advertising to raise awareness of NSI and a product line of Internet services for small businesses. For the latter, NSI has created value-added small business solutions through agreements with leading companies such as American Express and SmartAge. In addition, NSI signed agreements with Yahoo! and Netscape aimed at expanding its brand awareness and promoting Web address registrations to the global Internet community.

STRATEGIC AGREEMENTS

- *D&B:* NSI makes possible for businesses and individuals to register for domain names in D&B's site and also to apply for D&B D-U-N-S Number from NSI's site.
- *Inc. Online:* NSI is sponsoring Inc.'s " Guide to the Internet" web site, which helps small-to-midsize companies navigate through the information to make the decisions needed to choose systems, and integrate them and apply them. Domain names can be registered from Inc.'s site.
- *InfoUSA:* NSI and infoUSA are providing reciprocal links and referral to each other's products and services. They jointly develop Internet applications that use infoUSA's leading industry database of 11 million businesses as a foundation.
- *Lucent:* NSI will provide technical support and Lucent will train NSI staff, and this in turn will enhance a growing relationship between them.
- *SmartAge:* NSI helps SmartAge expand its services and to further reach small businesses on the Internet, and SmartAge customers are able to register for domain names through its Web site and also use the dot com toolkit of NSI.
- *E.spireDATA:* NSI has entered into an agreement with e.spire to offer domain name registration services to e.spire customers through ValueWeb, the company's Web-hosting service, which is now the ninth largest in the world with more than 21,000 company sites now residing on its servers.

DOT COM DIRECTORY

NSI has entered into agreements to provide content, build and distribute NSI's dot com directory, an Internet "search engine" for businesses, with the following companies:

- GTE Directories Corp. (www.superpages.com): the Internet's leading online Yellow Pages service,
- InfoUSA.com (www.infousa.com), a leading database of 11 million small businesses,
- Looksmart (www.looksmart.com): the Internet's largest directory of quality Web sites,
- Verisign (www.verisign.com): a leading provider of Internet security services, and

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- Vicinity Corporation (www.vicinity.com): a leading provider of e-commerce solutions to more than 200 Fortune 1000 national companies.

The millions of online businesses that have already registered a .com, .org, and .net Web address will receive a free listing in the dot com directory. Initially, the dot com directory will be created by compiling NSI's 5 million web address registrations ending in .com, .org, and .net with the assistance of infoUSA.com's leading database of 11 million small businesses. Users will be able to search for companies with Web addresses in a variety of ways –by business category, type of service, sales volume, geography, name, commerce-enabled status, keywords and several other categories. The dot com directory will be one of the most comprehensive search engines available and will be a great tool for businesses and consumers looking for business Web sites across the Internet.

INTERNATIONAL AGREEMENTS

NSI is enhancing its presence in both China and Japan:

- NSI has recently signed a strategic Bilateral Agreement with China's Internet registry, Computer Network Information Center, to jointly promote Web address registrations in the .com, .org, .net, and .cn domains.
- NSI has recently announced its initial entry into the Japanese market through a strategic agreement with ASCII Corporation. It should be noted that WorldNIC-Jp is a Japanese version of NSI's simplified registration service for global Web addresses ending in .com, .org, and .net.

ACQUISITIONS AND INVESTMENTS

NSI made one acquisition and two investments in 1998. Early in the year, it acquired idNames, which helps large companies protect their brand names in all the open country code top-level domains.

In late 1998, NSI made an investment in Critical Path, which provides the back office structure for dot com mail, NSI's business e-mail solutions. Another and perhaps more important investment was in Centraal Corporation to support the development of RealNames technology which complements NSI's Internet identity business. Centraal's RealName tool eliminates the need for customers to remember the Web addresses NSI sells. For instance, using RealNames, a surfer can type "Pepsi One" into their browser instead of scouring "Pepsi.com" for the page about the company's latest soft drink. We believe that NSI has played its cards right by taking a 10 percent stake in Centraal and it has the option to raise its investment in Centraal to up to 19 percent. Centraal is making money and its revenue model is promising. In addition, Altavista and Microsoft are also considering becoming a RealName reseller. For this reason, from a strategic point of view, NSI's investment in Centraal will further enhance NSI's leading position in domain name registration services and also increase its revenues.

KEY RISK FACTORS

- In the long run, competition may put a downward pressure on prices, which could result in lower growth rates of profits and a lower market share for NSI.
- The uncertainty associated with the Cooperative Agreement coming to an end tends to reduce NSI's dominance over registry. The agreement will expire in September 2000 and whether or not NSI will maintain the registry thereafter is unknown. It all seems to be depending on NSI's relationship with ICANN between now and September 2000.
- Possible system failure or interruption, security breaches or failure to meet the increasing demand on the system may lead to inefficiencies in terms of time and money loss.

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- High level of uncollectible receivables, mainly due to the so-called 'cybersquatters' –speculators who register for potential popular domain names for resell purposes- may cause liquidity problems but the impacts are not expected to be significant.
 - Being a party in several legal proceedings may cost the company valuable time. Some businesses and individuals claim that NSI should register all the domain names requested. However, under the Cooperative Agreement, NSI has the legal right not to register some dirty words, it is not liable for the way its customers use domain names and/or it is also entitled to antitrust immunity for its actions taken pursuant to the Cooperative Agreement.

OPPORTUNITIES FOR THE FUTURE

- NSI has been the leading domain name registrar for a long period of time and it has well-known brand awareness –dot com people-, which will make it harder for people to switch to other registrars. Moreover, NSI pioneered the underlying technologies and business strategies that enable its businesses to develop a unique Internet identity. We believe that NSI will maintain its dominant position in the domain name registration sector in at least the near future due to its well established channels. NSI has a very wide distribution channel consisting of 80+ domestic partners, 100+ international partners, 190+ partnerships with the world's best ISP's and 11000+ Affiliate partners. We think that new registrars will capture a particular portion of the market, but that they will face various difficulties in trying to reach a considerable market share due to their current weak distribution and branding positioning. The competition should not put a big dent in NSI's business since the company has a long time to enjoy its leading position. It took a couple of years for NSI to break even, so it will not be easy for its competitors to catch up with NSI in the near future.
- The new CEO, James RUTT, is a "visionary" that has finally been appointed to start looking for NSI beyond its immediate business challenges.
- The Dot Com Directory is currently being launched with a considerable amount of online businesses. It is likely to leverage on the domain name registration business and hedge some of its risks.
- NSI plays a crucial role on the Internet, it actually runs two of the root servers. There are 13 root zone servers and NSI operates two of them, A and J. They control all access to the Internet. Furthermore, NSI's competitor's have to send their registrations to NSI's DNS database. Now, it is unlikely that any of the competitors will decide to start to do the expensive and difficult task of running a server. The odds for developing another competing server naming technology are small, but not impossible. Even if a company decides to do it, it would then have to convince system administrators to install and run their software rather than DNS's software.
- The market potential for unregistered domain names is huge. This is going to lead to increased revenues at a greatly reduced cost for NSI because its clients/competitors will end up doing a lot of the expensive front end work thus leaving NSI with its real job, running the server.
- SAIC owns 45% of NSI and has a very good relationship with the government. We believe that NSI will not be pushed out of the picture significantly, however, competition is inevitable but not insurmountable for NSI.

FINANCIALS

Revenue. The revenue from domain name registrations has made up for 90 % of NSI's total revenue so far. However, NSI's monopolistic situation coming to an end and NSI's increasing concentration on other businesses should lead to a significant change in the composition of its revenues. In particular, we expect

that Dot Com Directory will leverage on the domain name registration business and have a significant contribution. Furthermore, since it is the first time that new registrars are registering domain names, we expect them to face technical and most importantly brand difficulties, which should prevent them from becoming real competitors for at least this year. For these reasons, we believe that NSI will continue to grow and make money at unaffected rates for at least this year.

Nevertheless, from next year on, competitors should start affecting NSI's revenues. Price should start being the determining key factor for consumers and for competition among the competitors. Competitors will likely go for a price reduction which should have two effects: NSI will have to cut its prices in order to stay competitive which in turn should also lead to a decrease in revenue growth rate and NSI will likely lose market share but not its leading position. Moreover, we believe that the other businesses on which NSI is placing great emphasis will lead to significant revenues growth rates even though they won't be as high as they used to be. For fiscal year 1999 we expect revenue growth will be around 111 percent, slightly higher than last year, however, for the next year, 2000, revenues growth rate should fall to 84 percent due to competition.

Gross Profit. The Domain name registration business has a higher gross margin than those of the other businesses that NSI operates. Therefore, a decline in registration rate will possibly have a negative effect on gross profit, but we don't expect it to be significant anytime this year or early next year since the current registration rate has not been this high ever. The high registration rates should offset the effect of competition on trends of financial statements parameter like the gross margin.

Research and Development. The R&D margin for the domain name registration and maintenance of registry business are lower than those of the other NSI services (businesses). Since we expect an increase in the latter, the R&D margin should increase in the future.

Sales, Marketing, General and Administrative. In addition to agreements with Yahoo!, Netscape and a few others, NSI will likely need to extend its marketing and promotion agreements to be able to stay competitive and maintain its brand awareness. This in turn should increase its marketing costs. Therefore, the margin should increase slightly.

Interest Income. Interest income is mainly earned due to the investment of the positive cash flow resulting primarily from domain name registrations. The interest income should continue to increase at the same rate since registration rates have been accelerating recently.

Income Taxes. The provision for income taxes was 45% of pretax earnings for fiscal year 1997 and 42% for 1998. The difference stems from the impact that non-deductible goodwill had on pretax operating income. This goodwill is a result of the acquisition of NSI by SAIC in 1995 and NSI amortizing it over five years. We expect the tax rate to fall down to 35% in the following years.

Net Income. NSI' net income should continue to increase at a decreasing rate but with about the same margin.

Number of shares outstanding. The current 100% stock dividend distributed is likely to help the company meet its capital needs for at least a few quarters. However, further issuing of shares and stock dividend distributions are expected to be needed in the near future.

VALUATION

Internet Sector. After having moved together with the AMEX Internet Index for a long time, NSI has substantially outperformed this index between December 98 and early April 99. However, since early April, as time was closing for the accreditation of the first test-bed registrars as NSI's first competitors, NSI's stock price has been declining significantly (From \$150 to \$50s).



We believe that the stock is consolidating near \$50 and will be trading in this range in the short-term. With the release of second quarter results, we expect an upward movement towards its resistance levels.

Revenue Growth. Revenues have been growing rapidly since 1995. They are expected to continue to grow but at a decreasing rate; revenues of NSI's competitors should start capturing considerable market share which should cause NSI to lose its monopolistic advantage over price.

		Value Comparison 6/9/99			
	\$ Price	Market Cap. In millions	Trailing 12 Month Sales in millions	P/S	Gross Margin %(TTM)
Network Solutions, Inc.	60.25	2.000	115.3	17.77	59.00
America Online, Inc.	111.000	120,100	4,190.0	31.97	35.45
France Telecom	77.875	77,900	25,000.0	3.06	44.51
Verio, Inc.	61.375	2,290	154.6	11.94	(1.35)
WebTrends Corp.	30.063	338.2	9.4	30.40	90.34

Price to Sales. In the table above, AOL and France Telecom are 2 of the first 5 competitors of NSI and Verio and Web Trends are 2 of its next 29 competitors. NSI's P/S ratio seems to be modest relative to the ratios of its potential competitors. This mainly resulted from the stock's downward trend since early April because in that period the stock lost nearly 2/3rd of its value. Meanwhile, NSI's sales have also increased which lead the P/S to decrease. We believe that the stock is undervalued and we expect it to increase since the competition should not put a big dent in NSI's domain name registration business, and NSI's other businesses are promising in nature.

Margins. NSI's gross margin is higher than those of its potential competitors except for a few cases. We expect the margins to stay fairly constant over 1999 and 2000 as NSI's other businesses –Internet-based products and services & Internet Technology Services- contribute to NSI's revenues and the company continues to expand both domestically and internationally.

Cash. NSI has nearly \$148.5 million in cash and marketable securities. Compared with its main competitors (AOL and France Telecom) it has a lower cash reserve that may lead to liquidity problems. NSI may need to

increase its cash reserves in order to be able to enter into agreements, invest in possible acquisitions and develop the company's infrastructure.

Customer Base. NSI has 5 million registered domain names so far. We expect customer growth to continue to increase at a high rate:

End of 1999: 7.5 million
2000:13.5 million
2001:21.5 milliOn

Investment Opinion

We believe that in the long term NSI will maintain its leading position in the domain registration business. Its market share should decrease as more competitors come into the scene, but its revenues growth rate should continue to be substantial due to the large growth potential of the market.

We believe that the stock is undervalued as its downward trend has taken it to values significantly below its moving averages. We expect the stock to make a significant upward movement despite the negative expectations, and thus we give NSI a BUY recommendation.

Network Solutions Inc. Income Statement

(in thousands, except per share data)

	FY94	FY95	FY96	FY97	FY98	FY99E	FY00E
Net Revenue	5,029	6,486	18,862	45,326	93,652	197,606	363,595
Cost of revenue	3,073	5,704	14,666	25,798	38,530	75,090	145,438
Gross Income	1,956	782	4,196	19,528	55,122	122,516	218,157
Research and Development Exp.	0	0	680	1,653	4,821	9,880	21,816
Selling, General and Adm. Expenses	1,544	2,394	6,280	12,268	37,144	82,994	149,074
Operating Expense	1,544	2,394	6,960	13,921	41,965	92,875	170,889
Operating Income	412	(1,612)	(2,764)	5,607	13,157	29,641	47,267
Interest Income	0	0	(496)	2,211	6,303	13,299	24,471
Other Expenses	109	61	0	116	116	0	0
Inc.(Loss) from Cont. Op. Bef.Inc.Tax	303	(1,673)	(2,268)	7,702	19,344	42,940	71,738
Provision (Benefit) for Income Taxes	(114)	239	643	(3,471)	(8,109)	(15,275)	(24,471)
Income (Loss) from Cont. Operations	189	(1,434)	(1,625)	4,231	11,235	27,665	47,267
Loss from Discontinuing Operations	(1,169)	(1,403)	0	0	0	0	0
Net Income (Loss)	(980)	(2,837)	(1,625)	4,231	11,235	27,665	47,267
Shares Outstanding	2,084	20,670	25,000	26,966	33,397	41,916	47,267
Fully Diluted EPS	(0.47)	(0.14)	(0.07)	0.16	0.34	0.66	1.00

Margin Analysis

Gross Margin	0.39	0.12	0.22	0.43	0.59	0.62	0.60
R&D Margin	0.00	0.00	0.04	0.04	0.05	0.05	0.06
S,G&M Margin	0.31	0.37	0.33	0.27	0.40	0.42	0.41
Operating Margin	0.08	(0.25)	(0.15)	0.12	0.14	0.15	0.13
Net Margin	(0.19)	(0.44)	(0.09)	0.09	0.12	0.14	0.13

Growth

Total Revenue	0	0.29	1.91	1.40	1.07	1.11	0.84
Gross Profit	0	(0.60)	4.37	3.65	1.82	1.22	0.78
Operating Expense	0	0.55	1.91	1.00	2.01	1.21	0.84
Operating Income	0	(4.91)	0.71	(3.03)	1.35	1.25	0.59
Net Income	0	1.89	(0.43)	(3.60)	1.66	1.46	0.71