

244 Fifth Ave., 2<sup>nd</sup> Fl., Ste. 2801 • New York, NY 10001 • Tel: (212) 726 1408 • Fax: (413) 215**Network Solutions, Inc. (NASDAQ: NSOL)****Update: VeriSign and Network Solutions merger - ACCUMULATE**

May 29,2000

**KEY CONSIDERATIONS**

- Network Solutions' net revenue increased 157% from \$38.1 million for the three months ended March 31, 1999 to \$98.2 million for the three months ended March 31, 2000.
- Net new registrations for Network Solutions' Registrar services, or NSI registrar, increased 113% from 922,000 for the three months ended March 31, 1999 to 1,962,000 for the three months ended March 31, 2000. This also represents a 21% increase over the 1,617,000 net new registrations for the three months ended December 31, 1999
- Network Solutions will become a wholly owned subsidiary of VeriSign, the leading provider of Internet-based trust services, including authentication, validation and payment, needed by websites, enterprises, electronic commerce service providers, and individuals to conduct trusted and secure electronic commerce and communications over wired and wireless Internet protocol (IP) networks

Recent Price	\$130.63
52WK Low	\$24.5
52WK High	\$255.63
P/E	256.13
P/Book	13.20
P/Sales	33.15
Market Capitalization	9,469.66 M
Shares Outstanding	72.5 M
Float	34.1M
Daily Volume	1.84M
(3-month Average)	
<b>EPS</b>	
1999	\$0.78
2000E	\$0.866
2001E	\$1.112
Current Ratio	2.65
Total Debt to Equity	0.00
LT Debt	0.00
Total Cash	\$12.41M
(Most Recent Quarter)	

**ONE-YEAR PRICE AND VOLUME GRAPH****COMPANY PROFILE**

Network Solutions, Inc. is the leading registrar of Internet domain names within the .com, .org, .net and .edu top level domains pursuant to agreements with ICANN and the Department of Commerce. Network Solutions registers new domain names and is responsible for the maintenance of the master file of domain names through daily updates to the Internet. Network Solutions also provides Internet Technology Services, focusing on architecture, implementation and support services to help large enterprises and Internet service providers improve their operational effectiveness.

This report was prepared by Wen-Ling Hsieh, and David R. Rivas, Ph.D.

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## THE COMPANY

Network Solutions ([www.networksolutions.com](http://www.networksolutions.com)) provides worldwide Internet domain Name registration services within the .com, .net and .org top level domains pursuant to agreements with ICANN and the Department of Commerce. Network Solutions maintains the master directory of all second level domain names in the .com, .net and .org top level domains. Network Solutions owns and maintains the shared registration system that allows all registrars, including Network Solutions, 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. As a registrar, Network Solutions markets second level domain name registration services that enable Network Solutions' customers to establish their identities on the web. In addition, Network Solutions markets a portfolio of value-added products and services to help customers maximize the value of those identities throughout their life cycles. Network Solutions also provides Internet technology services that focus on network engineering, network and systems security and network management solutions.

On November 10, 1999, Network Solutions, the Department of Commerce and ICANN entered into a series of wide-ranging agreements relating to the domain name system. Network Solutions will be an accredited registrar through November 9, 2004 with a right to renew indefinitely in accordance with the agreement. As the registry, Network Solutions charged registrars \$9 per registration per year until January 15, 2000. Since then, the fee is \$6 per registration per year unless increased to cover increases in registry costs under the circumstances described in the registry agreement.

Network Solutions has recently implemented a system under which it will not accept the registration of a domain name as a registrar unless it has received a reasonable assurance of payment of the registration fee. Network Solutions is entitled to establish its own prices for registrar services.

Network Solutions has implemented modifications to the shared registration system that enable a registrar to (a) accept registrations and re-registrations in one-year increments and (b) add one year to a registrant's registration period upon transfer of a registration from one registrar to another.

The unexpired term of any registration may not exceed ten years. Network Solutions is contractually obligated to provide equivalent access to the shared registration system to all ICANN-accredited registrars. Network Solutions has agreed to and has implemented an organizational conflict of interest compliance plan that includes organizational, physical and procedural safeguards in connection with these obligations.

## INDUSTRY OUTLOOK AND COMPETITION

The introduction of additional competition into the domain name registration business could harm Network Solution's business. This includes, in particular, competition among registrars within a single top level domain, such as .com, .net or .org, and competition among registrars and registries of existing and potential new top level domains.

As of May 8, 2000, 40 accredited registrars (in addition to Network Solutions) in the .com, .net and .org top level domains used Network Solutions shared registration system to register domain names. ICANN has accredited 76 additional registrars as of that date. We expect these and additional accredited registrars to offer competing registration services in these top level domains in the near future. The accredited registrars include, among others, AT&T, Alabanza, America Online, CORE or Internet Council of Registrars, Deutsche Telekom, France Telecom Oleana, iDirections, interQ, Internet Domain Registrars, Melbourne IT, NameSecure.com, NetBenefit, PSINet, Register.com, Talk.com and Verio.

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Future competition in the domain name registration business as a registry or registrar could come from many different companies, including:

- domain name registration resellers,
- country code registries,
- Internet access providers and
- major telecommunications firms.

Many of these entities have core capabilities to deliver registry and/or registrar services, such as help desks, billing services and network management, along with strong name recognition and Internet industry experience. The recent agreements among ICANN, the Department of Commerce, Network Solutions and other registrars permit flexibility in pricing for and term of registrations. Network Solutions revenue, therefore, could be reduced due to pricing pressures, bundled service offerings and variable terms resulting from increased competition. Some registrars and resellers in the .com, .net and .org top level domains are already charging lower prices for domain name registration services in those domains. In addition, other entities are bundling, and may in the future bundle, domain name registrations with other.

## Recent Developments

For the quarter ended March 31, 2000, Networks Solution registered 1,962,000 net new second level domain names and competing accredited registrars registered 3,075,000 second level domain names. By the end of May, 2000, the worldwide registration is around 15.8 million. Networks Solution services around 10 million domain name registrations.

### Growth strategies

#### 1. Internet services

Network solutions tried to maintain the current position as a leading provider of domain name registration services and develop additional value-added services:

- Offered **multi-year registrations** which is up to 10 years, and domain names up to 67 characters in lengths
- Launched a **new Web** site to help customers and Internet community to understand the Uniform Domain Name Dispute Resolution (UDRP)
- **Provided new services**, MyNameFinder(TM), <http://www.1800webaddress.com>, Domain name parking and Ask the dot com people (TM) to make registrations simpler and faster than ever before. New service also give customer one-year registration option
- Launched **the first fully integrated Ad campaign** on television, radio and print media combined.
- **Associated with Andersen Worldwide SC** to offer corporate client a single resource for securing and protecting their online identity globally.
- **Offered Law Firms** through Associate Program to expedite Internet Identity services to protect their client's trademarks on the Internet.

#### 2. Alliances

Networks Solutions relies on Internet service providers. If a significant number of Internet service providers decided not to route Internet communications to or from domain names registered by them or if a significant number of Internet service providers decided to provide routing to a set of domain name servers which did not point to their top level domain zone servers, Network Solutions' registration business

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could be harmed. Therefore, Network Solutions built and expanded alliance agreements with ISPs aggressively:

- Signed with **MindSpring** to offer international Web Addresses Services
- Had Marketing agreement with **AltaVista** and **American Online**
- Extended Advertising Alliance with **Microsoft**
- Teamed up with Yahoo! For **Yahoo!** Domains Network Solutions
- Offered co-branded services with **Dell** for small and medium-sized business
- Signed alliance program agreement with **ValueWeb**

Premier program includes nearly 240 ISP and Web hosting companies in more than 30 countries. The top 12 countries ranked by volume of .com,.net and .org registration are the United States, Canada, the United Kingdom, France, Germany ,Korea, Italy, Spain, the Netherlands, Australia, Japan and Sweden.

Recently, Network Solutions

- **Teamed with Telecom Egypt** to promote domain name registrations in the Middle East and Africa

### **Acquisitions and investments**

Networks Solution made two major investments in year 2000 so far.

- **Invested in MyComputer.com**, the leading ASP (Application Service Provider) dedicated to the development and management of Webmaster tools. The two companies will develop the dot com dashboard(TM), a co-branded, integrated solution to enable Network Solutions' customers to manage their Internet domain names. Furthermore, both companies will market and promote each other's services to existing and potential customers.
- **made an equity investment in Nominum**, the leading developer of open source Domain Name Service (DNS) solutions that use Berkeley Internet Name Domain (BIND), the underlying software that makes the Internet work. This investment is to help fund Nominum's continued development of standards based open source DNS.

**Merger with VeriSign.** In this merger, Network Solutions will become a wholly owned subsidiary of VeriSign, the leading provider of Internet-based trust services, including authentication, validation and payment, needed by websites, enterprises, electronic commerce service providers, and individuals to conduct trusted and secure electronic commerce and communications over wired and wireless Internet protocol (IP) networks. VeriSign has established strategic relationships with industry leaders, including British Telecommunications, Cisco, Microsoft, Netscape, RSA Security and VISA, to enable widespread utilization of Network Solutions' digital certificate services and to assure their interoperability with a wide variety of applications and network equipment. The combination of Network Solutions and VeriSign offer non-duplication service to be introduced.

### **Opportunities for the future**

- According to the registry agreement with ICANN, if Network Solutions doesn't separate ownership of the registry and registrar by May 2001, the term of the registry agreement should expire in November 2003 and Network Solutions may not be chosen as the successor registry. The merger with VeriSign may make it possible to meet the requirements to continue as the registry. In addition, Network Solutions and VeriSign have both benefited from this merger. VeriSign has gained the global platform for its PKI and

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payment system. Network Solutions is the first to build a "secure" DNS system through VeriSign certificate system.

- The competition is forcing Network Solutions to increase/maintain its market share through direct and indirect efforts and by improving its service. The Internet community is positive on Network Solutions' service and relationships. The potential market of domain name registration is still huge. We believe that Network Solutions' strategy is effective.

### **Key Risk Factors**

- As we have mentioned above, we believe that the key risk is that increasing competition put pressure on Network Solutions. Especially, the domain name registration services business generates over 90% of the revenue and is expected to continue to account for a very significant portion of the revenue in at least the near term.

Th factors that may affect Network Solutions revenue include:

- the continued increase in domain name registrations,
- re-registration rates of their original customers,
- the ability to maintain their current position as a leading registrar of domain names,
- the successful development, introduction and market acceptance of new services that address the demands of Internet users,
- the ability to provide robust domain name registration systems and the ability to provide a superior customer service infrastructure as a registry and registrar.

To keep the market share, the operation expense should increase as increasing the sales and marketing activities and continue to up date the systems and infrastructure.

- Issues arising from implementation of Network Solutions' agreements with ICANN and the Department of Commerce could Network Solutions registration business .The Department of Commerce has adopted a plan for a phased transition of the Department of Commerce's responsibilities for the domain name system to ICANN by September 30, 2000. Network Solutions face risks from this transition

### **Financials**

**Net Revenue.** Net revenue increased 157% from \$38.1 million for the three months ended March 31, 1999 to \$98.2 million for the three months ended March 31, 2000. Although Network Solutions faces the increasing new registrars to compete, its revenue still increases impressively. We believe that the reason primarily attributable to the increase in the number of domain name registrations, principally in the .com top-level domain. It becomes a global trend to own a .com domain name for every business.

An increase of 241% over the 230,000 international net new registrations for the three months ended March 31, 1999. As a percentage of total registrations, international registrations rose from 25% for the three months ended March 31, 1999 to 40% for the three months ended March 31, 2000. We believe that Network Solutions signed Alliance agreement with international partners aggressively could be a major growth strategy.

Furthermore, regardless of where the domain is registered, Network Solutions receives \$6 name per year. Therefore, we believe that revenue growth rate in fiscal year 2000 could still have an upward trend. We expect revenue growth could be around 100 percent, higher than last year, and for the next year ,2001, revenue growth rate should be around same level.

**Gross profit.** We don't expect the registration rate will decline. Moreover, cost of revenue could reflect certain economies of scale that Network Solutions has realized due to the growth of its domain name

registration business. That means that as the percentage of total revenue, the rate of cost of revenue should not increase much. We expect the gross profit should increase around 102 percent.

**Research and Development and Sales, Marketing, General and Administration.** we expects that the both level of R&D and selling, general and administrative expenses will continue to increase significantly in the near future in terms of absolute dollars and as a percent of revenues as operations continue to expand. In particular, sales, marketing and business development expenses should increase as Network Solutions continues to promote the value of .com and .net web addresses and new value-added services including web site design and enhanced value added service offerings. Network Solutions also plans to continue to develop and enhance its extensive partner and distribution channels, both domestically and internationally, in light of the new competitive environment.

**Interest Income.** The increase in interest income is due primarily to the investment of the proceeds of the secondary offering as well as the investment of cash generated from operations. The interest income should continue to increase since registration rates have been accelerating recently.

**Income Taxes.** The provision for income taxes was 41.5% of pretax earnings for the three months ended March 31, 1999, and 40.7% for the three months ended March 31, 2000. The difference between the effective rate for both periods presented and the statutory rate is principally attributable to the impact that non-deductible goodwill had on pretax operating income.

**Net Income.** We expect net income should increase

**Number of shares outstanding** Last Split: 2 for 1 on 13-Mar-2000

## Valuation



## Internet Sector

Network Solutions has outperformed the AMEX Internet Index from Dec 1999 to present. In March 2000, the stock split two for one. Right now the stock price is consolidating in the range between \$100 and \$150. There is a strong support area and a long term buying point at around \$100. We believe that the price could test upwards once the price goes higher than \$150 which is a strong resistance level.

### Value Comparison as of 5/30/2000

		<b>Value comparison 5/30/00</b>			
	<b>\$Price</b>	<b>Market Cap. In Millions</b>	<b>Trailing 12 months sales in Millions</b>	<b>P/S</b>	<b>Gross Margin % (TTM)</b>
<b>Network Solutions Inc.</b>	<b>146</b>	<b>9469</b>	<b>280.9</b>	<b>33.15</b>	<b>63.46</b>
<b>American Online Inc.</b>	<b>53.50</b>	<b>122,900</b>	<b>6,300</b>	<b>19.95</b>	<b>47.64</b>
<b>France Telecom</b>	<b>139.563</b>	<b>143,000</b>	<b>22,900</b>	<b>5.71</b>	<b>47.68</b>
<b>Verio Inc.</b>	<b>56.625</b>	<b>4,510</b>	<b>284.4</b>	<b>15.17</b>	<b>69.78</b>
<b>WebTrends Corp.</b>	<b>25.813</b>	<b>672.1</b>	<b>27.1</b>	<b>24.5</b>	<b>91.21</b>

**Margin:** Network Solutions' gross margin is the third highest relative to those of its competitors.

**P/S:** Network Solutions P/S ratio is higher than those of its competitors. We believe, however, that the stock is fairly valued because Network Solutions has a better brand name recognition, higher gross margin and more alliances and partnership with key Internet players.

### Investment Opinion

We maintain a positive investment opinion on Networks Solutions since it still maintains a leading position in the registration business. From its quarterly report, we can see that its revenues are not decreasing despite more competition. On the contrary, Networks Solutions continues to develop more strategies and deeper relationships with partners.

Although the price range here is not at the lowest level, it is within a strong support area for long term buying. We give the company an ACCUMULATE rating as we believe that the stock should be bought in weakness to reap the returns of an expected long term appreciation along the lines of its expected revenue increase.

Network Solutions Inc.  
Income Statement  
( in thousands, except per share data)

	FY94	FY95	FY96	FY97	FY98	FY99	FY00E	FY01E
Net Revenue	5029	6486	18862	45326	93562	220811	441171	881441
Cost of revenues	3073	5704	14666	25798	38530	81606	159655	312351
Gross Income	1956	782	4196	19528	55122	139205	281516	569090
Research and development Exp.	0	0	680	1653	4821	10989	20452	38063.9
Selling, General and Adm. Exp.	1544	2394	6280	12268	37144	92517	192145	399059
Operating Exp.	1544	2394	6960	13921	41965	103506	212597	437122
Operating Income	412	(1612)	(2764)	5607	13157	35699	68919	131967
Interest income	0	0	(496)	2211	6303	9928	37404	140921
Other Exp.	109	61	0	116	116	52	0	0
Inc.(Loss) from Cont. Op. Before Income Tax	303	(1673)	(2268)	7702	19344	45575	106323	272888
Provision (Benefit) for Incomes Taxes	(114)	239	643	(3471)	(8109)	(18689)	(43592)	(111884)
Income (Loss) from Cont. Operations	189	(1434)	(1625)	4231	11235	26886	62731	161004
Loss from Discontinuing Operations	(1169)	(1403)	0	0	0	0	0	0
Net Income (Loss)	(980)	(2837)	(1625)	4231	11235	26886	62731	161004
Shares Outstanding	2084	20670	25000	26966	33397	34469	72390	144780
Fully Diluted EPS	(0.47)	(0.14)	(0.07)	0.16	0.34	0.78	0.86656	1.11206

**Margin Analysis**

Gross Margin	0.39	0.12	0.22	0.43	0.59	0.63	0.64	0.65
R&D Margin	0.00	0.00	0.04	0.04	0.05	0.05	0.05	0.04
S,General & Administrative	0.31	0.37	0.33	0.27	0.40	0.42	0.44	0.45
Operating Margin	0.08	(0.25)	(0.15)	0.12	0.14	0.16	0.16	0.15
Net Margin	(0.19)	(0.44)	(0.09)	0.09	0.12	0.12	0.14	0.18

**Growth**

Total Revenue	0.00	0.29	1.91	1.40	1.06	1.36	1.00	1.00
Gross Profit	0.00	(0.60)	4.37	3.65	1.82	1.53	1.02	1.02
Operating Expense	0.00	0.55	1.91	1.00	2.01	1.47	1.05	1.06
Operating Income	0.00	(4.91)	0.71	(3.03)	1.35	1.71	0.93	0.91
Net Income	0.00	1.89	(0.43)	(3.60)	1.66	1.39	1.33	1.57