



to our stockholders

our time is now

Last year, our commitment to you was to make Internap thrive – to transform our organization and our business into one that was healthy, growing and successful. I am pleased to report on behalf of the entire Internap team that we have kept this promise *and* significantly strengthened Internap's potential to not simply thrive, but to WIN in the marketplace as never before.

We began 2006 with a strong foundation – a world-class portfolio of technology solutions, strategic relevancy to a large and loyal customer base and a team of outstanding Internet experts renowned for their exceptional level of knowledge and service. Our challenge was to leverage these assets to improve Internap's bottom line and to deliver long overdue value to our stockholders. It was time for change, so we developed a plan and successfully executed it to make this change a reality.

Our top line revenue grew at an unprecedented rate of 18 percent to \$181.4 million. Expense-to-revenue levels decreased from 40 percent

in 2005 to 33 percent in 2006 by achieving operating efficiencies and increasing productivity.

In the first quarter of 2006, we recorded the first profitable quarter in our 10-year history, and we continued to be profitable in each successive quarter throughout the year. As a result, for the fiscal year 2006, we generated GAAP net income of \$3.7 million, or \$0.11 per basic share – a significant improvement over 2005. Our adjusted EBITDA for 2006 was \$25.0 million, an increase of \$14.3 million over 2005, another record for Internap.

We ended the year with a cash and short-term investment balance of \$58.9 million, up \$18.4 million over 2005. Cash from operations continues to be an area of strength, and our operational discipline continues to provide positive financial leverage, generating cash and allowing us to fund future growth.

Throughout the year, we experienced minimal revenue churn and gained 186 net new customers. At year-end, we counted approximately

2,300 customers, representing many of the largest and most respected names in the financial services, technology, retail, media and entertainment fields. The fact that no single customer represents more than two percent of revenue demonstrates the diversity of our business.



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James P. DeBlasio
President and Chief Executive Officer



In order to provide a new level of scale and service to our customers, we invested in the business by building out our high-performance IP network to 10-Gigabit capacity in 11 of our largest markets. We also deployed new colocation assets in key cities and, in early 2007, announced the build-out of our eighth owned data center, as well as a third facility in the Seattle market, to meet customer demand.

to acquire VitalStream Holdings, Inc., thereby extending our presence into the growing CDN and streaming video market. This transaction closed in February 2007 and, as you read earlier, has resulted in one of the most comprehensive suites of Internet solutions in the marketplace today.

You will note the extensive use of the word **we** in our recounting of 2006 accomplishments. The challenges

Pandora trust Internap with their critical Internet business.

This potential begins with the integration of VitalStream, which provides us with tremendous synergistic benefits, including an infusion of talent and leadership, complementary products and technology platforms, economies of scale and increased market reach. In-Stat estimated, in a 2006 market analysis, that by 2010 more than \$315 billion in strategic transactions per year will occur via the Internet. Most of these transactions will involve far more complex applications than just a few years ago. We believe business such as e-commerce, online financial transactions, software downloads, VoIP, IPTV and gaming can be conducted more efficiently through a global network.

The integration of VitalStream solutions uniquely positions Internap to provide our customers with a comprehensive set of products that exceeds their business needs. Trends such as global broadband penetration, the rise in user-generated content and the increased desire among businesses to engage online customers in more targeted and interactive ways support the demand for these solutions.

One of our enterprise customers, Planetvu, which is a global IPTV provider, is an excellent example of how the new Internap can win in the marketplace by benefiting our customers in a meaningful way. Planetvu is a multi-language entertainment and TV service focused on delivering television to various



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Throughout 2006, management met regularly with current and potential investors to apprise them on how we are building a new Internap, steeped in a commitment to discipline and to achieving our full potential. A 1-for-10 reverse stock split in July removed much of the volatility in our stock, better aligning us with our technology peers. We also returned to the NASDAQ Stock Market in September, this time to the global stage. In turn, the Market recognized our achievements.

And, in what is potentially a game-changing transaction for Internap, we announced in October our intention

met, the changes made, the progress realized and the value created are all a reflection of a team that could not have worked any harder or smarter on your behalf. For their relentless commitment and dedication, I extend my deep personal appreciation. The Internap that is before us today is truly a reflection of their efforts to help build a company that allows our customers to focus on innovation, while we manage, deliver, distribute and monetize their Internet applications. As a result of our ability to deliver this value proposition, enterprise customers such as ABC Radio, FastSearch, FXCM Group and

national audiences throughout North America. Live television programming is now available from 6,000 miles away in Asia. Our unique bundled offering enables Planetvu to serve their entire customer base. The Internap solutions we provide Planetvu include route optimization technologies that deliver media content from India to the United States; data center services that manage and store these applications; and CDN services to distribute live video streams to Planetvu's customers residing in North America. Planetvu's success story is just one of many customer examples that illustrate the relevance of our end-to-end suite of Internet solutions.

We have several projects under way in 2007 to further raise the quality, scale and geographic reach of our service offerings. We will interconnect all of our CDN points of presence (PoPs) into our global P-NAP infrastructure, as announced in a press release in April of 2007.

The initiative will occur in scheduled phases throughout the year and adhere to our disciplined approach to managing capital expenditures, while strengthening service reliability. With this CDN expansion, Internap will be in a position to offer new global and regional contracts across Asia, Europe and North America for both streaming and content delivery services.

Our network optimization plan also includes consolidation of our CDN PoPs into our data centers. This consolidation will enable and facilitate the migration of our 800-plus newly



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acquired streaming and content delivery customers onto one of the industry's highest performing and most reliable networks.

These initiatives, combined with Internap's enhanced portfolio of solutions, bring new opportunities for our 130-plus direct sales and service professionals to sell a differentiated solution in this fast-growing market. The opportunity to sell additional services to our combined Internap and VitalStream base of over 3,000 customers is substantial. Because our solutions are broader and more easily tailored to meet the demands of the world's fastest-growing and most dynamic companies, our sales force has the opportunity to pursue previously untapped customer markets.

Internap's strong balance sheet and cash flow position enable us to respond quickly to opportunities in the market and allow flexibility in making strategic investments. This financial position also allows us to grow the business organically. We continue to look strategically at solutions and new technologies that can expand and leverage our existing business.

While Internap is thriving today, more work remains. We will continue moving forward with the sense of discipline

and determination that proved successful in 2006. By pursuing our strategic vision – to ignite confidence and innovation in our customers – we plan to keep Internap firmly focused on the day-to-day operating activities and customer service critical to maximizing profitability.

Our commitment is to be the leader in this space by enabling new business models and empowering our customers to keep pace with the rapidly growing potential of the Internet, its technology and applications.

We look forward to updating you on our progress and extend our appreciation to the customers, stockholders and employees who have and continue to support our efforts.

Sincerely,

A handwritten signature in black ink, appearing to read 'J.P. DeBlasio', written over a large, stylized, light-colored scribble or graphic element.

James P. DeBlasio
President and Chief Executive Officer