

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Internap Network Services Corp. (INAP)



ERIC COONEY is President and Chief Executive Officer of Internap Network Services Corp. He also serves as a member of Internap's board of directors. In April 1997 Mr. Cooney joined the digital video business of NDS, Inc., a News Corp. company, which was acquired by Tandberg Television in October 1999. There he held a number of positions of increasing responsibility, including VP/GM Americas and Chief Operating Officer, before assuming the role of President and CEO of Tandberg Television in June 2003. Under his leadership, Tandberg Television increased in market value from approximately \$100 million to more than \$1.4 billion and was acquired by the Ericsson Group in 2007. Mr. Cooney continued to oversee the global operations of Tandberg Television, which was expanded to create the television business unit within the Ericsson Group, until he left to

become the Internap President and CEO in March 2009. Prior to his career in the digital video industry, Mr. Cooney spent several years working in systems engineering and sales in the computer process control industry, and also spent five years as a U.S. Navy officer. He received post-graduate education in nuclear engineering from the U.S. Navy and an MBA from the University of Southern California. He holds a B.S. from the University of Rochester.

SECTOR — COMPUTERS

TWST: Please begin with a brief history and overview of Internap.

Mr. Cooney: Internap was formed a bit over a decade ago, back in 1996, and originally was formed as an IP service provider company. Fast-forward to 2010, we just released our full-year 2009 financial results. The company generated \$256 million in revenue and about \$28 million in adjusted EBITDA. We have just under 3,000 customers today around the world, but Internap's business is predominantly as a North American supplier. Over 90% of our business comes from North American customers. Internap divides our business into two business units or segments that we report externally. One of those I already mentioned — really the origins of the company as an IP services provider. The other business unit is our data center services segment, which was acquired back in 2000, when the company expanded into the colocation business.

TWST: What is your business strategy today and going forward?

Mr. Cooney: Backing up for a second, I've been with Internap for almost a year now. In fact, March 16 will be my one-year anniversary with the company. So you have my perspective,

having been here now almost a year. The strategy that we've chosen to pursue, which we put in place shortly after I arrived, really hinges on what I would call two core assets, or assets that we can leverage to differentiate our offerings. And those two assets are technology leadership and a reputation for best-in-class customer support. To my mind, that technology leadership and that customer support represent the core assets, the secret sauce of the company. The strategy is to invest in our technology leadership and our best-in-class customer support to deliver differentiated service offerings across both data center and IP services, and ultimately to drive long-term profitable growth by leveraging those core assets into those business segments.

TWST: How do the company's revenues break down between those two business segments? Do you see that changing in the future?

Mr. Cooney: In rough terms, our business today is about 50-50, about half data center and about half IP services. Our data center services business is growing. In fact, it had historically been the smaller business, but during 2009, the curves crossed and data centers surpassed our IP services as the largest portion of our business. And frankly, the IP services business segment has been in steady decline for five consecutive quarters. We have

undertaken a range of initiatives during 2009 to address this top-line growth challenge in our IP segment, but there is clearly more to be done to get this business performing.

TWST: Tell us more about the data center services segment. How many data centers does Internap currently have in operation and where are they located?

Mr. Cooney: On the data center services side of the business, we have 49 data centers today. We actually have two different types of data centers: On the one hand, we have what we call “company-controlled data centers” — you can think of those as Internap’s data centers — where we design, build and operate the facilities 24/7. We in most cases designed the facilities and have built them out to what we would consider a premium-standard data center, referring to things like N+1 redundancy, Tier II, SAS 70 audit completion, etc. On the other side of the fence,

facilities, and we’re really looking at, in many cases, proactively moving out of those relationships. Quite specifically, Internap is a middleman between a customer and the operator of that data center. Based on the financials of each particular customer deal, we have evaluated those contracts that are interesting for Internap — interesting, meaning financially viable for us — and those that aren’t. For the latter, we are proactively exiting those partner facilities.

TWST: Describe your customer base. Is there a typical Internap customer or a range that you work with?

Mr. Cooney: I think there are a lot of different definitions for a small/medium enterprise, but if I define that as a customer with between \$5 million and \$500 million in annual revenue, that’s probably the sweet-spot customer for Internap. That profile would characterize the vast majority of our

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we have what we call “partner facilities,” where Internap doesn’t operate the facility, and where we’ve chosen to partner with other data center providers, such as Equinix, Switch & Data, Terremark, etc. In those cases, Internap is really providing the go-to-market channel; we’re acting as a reseller of that data center, targeting a similar customer profile in terms of small/medium enterprises, but nonetheless the facility itself is operated by another data center partner. So in quantity terms, there are about 40 partner facilities and nine company-controlled facilities. Those nine company-controlled data centers span five markets in North America: Atlanta, Houston, Seattle, New York and Boston. And as part of our fourth-quarter results announcement, we just announced a sixth market, Silicon Valley, a facility in Santa Clara, Calif., and that would bring the total to 10 company-controlled facilities when that comes online in the third quarter of this year.

TWST: Do you have plans to grow the number of company-controlled versus partner facilities?

Mr. Cooney: In terms of the strategy for our data center business, the simple message is that we absolutely believe in and are committed to aggressive growth and expansion of our data center business. And when I say our data center business, I mean the company-controlled data center facilities that I mentioned. That model is certainly one where we feel we’ve demonstrated our ability to drive profitable growth, and we are planning to continue investing and expanding our data center footprint, both within markets in which we currently operate as well as into new markets. On the partner side, frankly we think that in some cases our partner strategy was historically a bit flawed. In the middle of last year, we changed direction as it relates to our partner

approximately 3,000 customers today. And the customers for whom Internap’s value proposition resonates the best are customers, be they on the data center side or on the IP services side, who are prepared to pay a premium to get a level of performance, availability and support that’s important for their business. And if I take an example on the IP side, a typical IP customer for Internap would be one for whom IP connectivity is a very business-critical or business-impactful element of their business. Take an e-commerce company — if you’re an e-commerce provider, having your site up and available is your lifeblood; that’s how you’re generating revenue. And as little as a few minutes of downtime can be very impactful for you. So if you’re the decision-maker in terms of who your IP service provider is, you’re unlikely to make that buying decision based solely on price. You’re going to look for a level of performance and a level of availability that allows you to run your business in the way in which your customers require you to. That concept of a premium service provider, again be it on the data center services side or the IP services side, definitely resonates across our entire go-to-market strategy.

TWST: Is the company experiencing particular growth and demand from certain types of customers, industry verticals, etc.?

Mr. Cooney: I think there are some interesting macro technology trends that are beginning to impact our business. And as we look out over the longer term, I think we will definitely be compelling drivers for Internap’s business. Cloud computing is one such trend. In this context, cloud computing essentially boils down to the movement of a company’s IT infrastructure, processors and storage out from the closet in the office and into

the network, or out into the cloud. In making this decision, the customer essentially hands over not only the cap ex to acquire those computing assets, but also the ongoing maintenance, support and operation of those assets to a service provider. In order for this movement to the cloud to be undertaken, there are at least two fundamental elements required: the data center as the physical location for the computing assets, and IP connectivity between the customer's office and the assets now in the data center. Both of those fundamental elements bring us back to Internap's two core offerings — premium data center services and premium IP services. These would seem to be fairly compelling assets to have in this environment if you believe at all in the macro technology trend towards cloud computing.

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TWST: You mentioned your customers are predominantly in North America. Do you have any interest or plans to expand overseas?

Mr. Cooney: The short answer is yes. You can tell from the way I describe our value proposition — performance, availability, support — that targeting companies, whether they are e-commerce, financial services, multimedia, gaming or software-as-a-service companies, there is certainly nothing about the North American boundary that suggests we couldn't or shouldn't be providing those services on a global basis. And in fact, we do today, but on a relatively small scale. Our focus, undoubtedly because of the origins of the company, has been North America. As far as I am concerned, yes we absolutely can and will seek to expand internationally.

TWST: I believe on March 2 you announced your most recent quarterly results. What were the highlights or the key takeaways?

Mr. Cooney: A few things. Actually, let me rewind a little bit and give you my one-year perspective here. I joined the company at a time when the company was certainly having a level of problems — steadily declining profitability, share price pretty significantly down. Rewind the clock two to three years ago, and the share price was over \$20 a share; when I joined March 16 of last year, we closed a little over \$2 a share. With that sort of perspective, I don't think it's unfair to characterize Internap as a bit of a turnaround story or a turnaround opportunity.

So with that as a context, now back to your question. What were some of the highlights of our Q4 results presentation? We implemented a range of initiatives after I joined the company, including putting a new strategy in place, essentially rebuilding/replacing virtually the entire senior management team. We put in place the strategy I described in terms of divesting certain partner data center relationships, and conversely investing quite aggressively and expanding our own Internap data centers.

Further, we re-invested in our two core assets, technology and customer service, by hiring new development staff, hiring new customer support staff, consolidating network operation centers and investing in IT infrastructure to support the 24/7 network operations center. And then the last element has been the rebuilding of Internap's sales organization, the goal being to rebuild an entire professional sales organization that's equipped to take our value propositions of performance, availability and support to market for both data center services and IP services.

So with all of that as context, then come back to Q4 and what we've accomplished. Q4 was the third consecutive quarter of profitable growth based on executing some of those initiatives that I just mentioned, be it strategy, new management team, etc.

It was also the highest segment margin in six quarters and the best data center segment margin in the past two years. That's a reflection of our turning off little or very low-profit partner sites, as well as of course selling our own Internap company-controlled data center space. Those are the positive messages. The not-so-positive message, as I mentioned earlier, is we did have our fifth consecutive quarter of revenue decline on the IP services side. I will be the first to admit we're definitely in the midst of a turnaround, and while I think we have taken a lot of necessary steps to get the business turned around, there is clearly more work to be done.

TWST: Do you believe you can turn it around?

Mr. Cooney: Yes, I'm certainly of the opinion that our IP services segment is fixable and that we do have a compelling value proposition. If you don't mind, I will take a minute and give you the high-level view on that value proposition. The first thing to realize is while Internap sells IP services, we do not own our own network. We're not putting fiber in the ground; we don't own our own network infrastructure. Internap purchases bandwidth from other carriers — the Verizons, AT&Ts, Global Crossings, etc., of the world — and aggregates their services together into a single Internap network offering that we then resell to our customers. What we do in between is leverage Internap's patented route-optimization technology, which makes real-time decisions to route our customers' traffic across selected carrier networks, which will deliver our customers the best performance and the best availability for their IP traffic. So we are a reseller of network bandwidth, but we are reselling a premium product, leveraging our route optimization technology to deliver the best performance and availability for our customers. And that in a nutshell is the reason why I believe Internap's problem hasn't been that we lacked a compelling IP value proposition. I think what we lacked was an effective sales and marketing organization to take that value proposition to market. We have invested very

significant time and energy during 2009 rebuilding our sales team to address this issue, and to bring to market the tools to demonstrate the enhanced value and ROI impact of our IP, particularly to those companies who conduct commerce over the Internet.

TWST: You mentioned changes made to the management team. Please give us a brief introduction to the other key members of the team.

Mr. Cooney: Our Chief Financial Officer, George Kilguss, is actually a long-timer now. He has been here a little over two years, so he was not one of the folks that was recently added to the team. Richard Dobb, our General Counsel, also a fairly long-term individual, joined during 2007. When we restructured our entire delivery and support organization, we promoted Steve Orchard to this role, reporting to me during 2009. Another new addition to the management team is Peter Evans, who joined in the fall of 2009 to oversee our marketing organization and help re-establish our brand, drive lead generation and refresh the corporate identity. Scott Hrastar, who also joined in the fall of 2009, really has two roles. First of all, Scott oversees our entire IP services business unit, and has responsibility to revitalize and drive growth for this unit. Scott also oversees the entire technology and engineering development organization. Further, we brought Bobby Minnear on board as our Key Technologist to directly manage the engineering development teams and reinvigorate our technology leadership position. Another gentleman, Mike Higgins, heads up our data center services business unit. Mike has been with the company for a few years now, having joined in 2004, and is responsible for executing the aggressive growth plan for our company-controlled data centers, while selectively exiting low-margin partner data center facilities. And finally, Randal Thompson, our Head of sales since late 2007, has been focused on the rebuilding of the sales organization in support of our new company strategy. I'm pleased with the team we have in place and confident we're taking the steps necessary to deliver long-term profitable growth for the company.

TWST: Is there anything else you'd like to add?

Mr. Cooney: I'm a big fan of simplicity. So I think the management changes we've made, getting the strategy defined and in place, the investments in data center expansions, rebuilding

essentially the entire sales management organization and then finally, the investments in technology and customer support, these are some of the initiatives we've undertaken in 2009 that are beginning to show positive results. We're pleased with the three consecutive quarters of profitable growth, but we recognize there is still more work to be done. We're really looking forward to the next steps in 2010.

TWST: Any particular goals you'd like to point out?

Mr. Cooney: I think I would divide goals or the go-forward into two steps. Step one, simply put, is completing the successful turnaround of Internap. And I think we're part of the way there but obviously not complete. So step one of our go-forward is let's complete the turnaround, and get both of our business segments supporting and driving profitable growth. Step two then is of course the far more exciting, energizing part, which is now that we've got our data center services and our IP services business driving profitable growth of the company, how do we position Internap to maximally benefit from those macro telecommunications trends I mentioned earlier, such as cloud computing, such as software as a service emerging or becoming increasingly relevant for enterprise customers around the world? How do we position Internap and these two great assets to capitalize on those macro trends? That for me is the much more exciting part about being part of Internap; it's a much different view of the world than affecting just a turnaround of a slightly damaged company. I'm excited about it and excited about Internap's prospects, and hopefully we can continue to deliver what we've shown investors over the past few quarters.

TWST: Thank you. (MN)

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