



PIR Update

ISOC Board of Trustees Meeting

***Friday, August 5, 2005
Paris, France***

PIR Confidential – Board Distribution Only

Introduction

PIR continues to experience exceptional growth for the third consecutive year. Through July of 2005 .ORG domains passed 3.7 million registrations as compared to 2.6 million registrations in December of 2002 when .ORG was transitioned from VeriSign. The expectation is that .ORG will exceed 4 million domain registrations by year end 2005. On a year-to-year basis, .ORG domain growth is approximately 21% and is experiencing the third largest growth within the major gTLDs slightly behind .NET at 23% and .COM at 27% by about 6%.

It is important to note however; that we believe the “pay per click” business is having some impact on domain growth. Domain Names are being bought and analyzed for “click” traffic. If a name generates enough revenue to justify the registration fee, it is kept. There is no downside to the purchaser in that if the fee is not covered, the domain is returned within the five day grace period. PIR is in the process of doing an analysis to get an estimate of impact on growth. This phenomenon is anticipated to be higher in .COM than other gTLDs, which may be contributing in part to the 6% growth delta between .COM and .ORG.

In a market share comparison of gTLDs within the top three countries, .ORG has 7.1% of the US Market, 8.8% of the German Market and 7.2% of the United Kingdom. Graphs depicting all previous growth statistics are available on request. In addition, program activities to expand & brand .ORG internationally will also be discussed.

PIR runs the Registry with a lean and productive staff of seven (7) current full time employees managing a business expected to exceed US \$25 Million in revenue with just under a US \$ 4 Million surplus contribution to ISOC by year end 2005.

Roles and Responsibilities

There has been considerable discussion over the past three years regarding “the model”. Specifically this refers to the roles and responsibilities of PIR, ISOC & Afiliias. It may be therefore beneficial to reiterate the model as it is currently understood. Roles and responsibilities are as follows:

- **PIR**
 - Provide Overall Registry Management
 - Set Registry Policy
 - Manage Contract(s)
 - Maintain Registrar Relations and Compliance
 - Determine Marketing Strategy and Programs
 - Conduct & Manage Registry Communications
 - Approve & Direct Products & Services

- Oversee Advisory Council & Related Outreach Activities
- Fund ISOC Programs
- **ISOC**
 - Develop, Implement & Manage Programs
 - Determine the Use of PIR Surplus
 - Select PIR Board
- **Afilias**
 - Manage DNS, SRS & Customer Call Center/Support Service
 - Propose & Develop Registry Products & Services as Requested
 - Assist in Funding, Implementing & Tracking Marketing Programs

The tripartite relationship continues to gain strength and clarity.

Financial Performance

On a cash basis, total year to date revenue through the month of June exceeded **US \$14.1 Million** against a budget objective of US \$ **12.4 Million** for a **14% positive variance** over budget and just under a **20% increase in revenue over year to date June 2004**. This reflects a strong market in both new registrations and renewals. Revenue components include: Redemption Grace Period administrative fees, Grant & Interest Income and Primary Registry Revenue. The latter represents 94% of total revenue.

In addition, expenses have been closely managed and are below budget; however the seasonality of expenses during the 2nd half of the year will reduce a portion of the positive variance. Notwithstanding, PIR will attain all budget objectives for 2005. In addition the increase in registry expenses is directly proportional to the increase in registry income. The cash based budget performance is summarized below:

Description	Jan - June	Budget	\$ Over Budget	% of Budget
Revenue	\$14,158,625	\$12,385,662	\$1,772,963	114.3%
Expenses				
Registry Admin.	9,084,161	7,925,758	1,158,403	114.6%
ISOC Programs	2,450,000	2,450,000	0	100.0%
G & A	993,815	1,091,097	-97,282	91.1%
ICANN Fees	66,000	66,000	0	100.0%
Marketing	170,461	293,000	-122,539	58.2%
Total Expenses	\$12,764,437	\$11,825,855	\$938,582	107.9%

It is important to note that the above tables are on a cash basis however PIR financial statements are maintained on an accrual basis in accordance with generally accepted accounting principles (GAAP). Fundamentally this means revenue cannot be claimed on financial statements until it is earned. For example, if PIR received US \$12.00 in revenue for a two year registration, GAAP would only permit claiming US \$0.50 (or 1/24th) per month as earned for financial reporting purposes, even though the entire US \$12.00 was received in one lump sum. As a result, current financial statements reflect net assets of a negative (\$504,447) through June YTD 2005, but by year end accrual based financials will be well with in the black and will allow for additional surplus contribution to ISOC. Below is the Income Statement through June 2005.

Public Interest Registry
Statement of Activity & Statement of Change in Net Assets
(Income Statement & Change in Net Assets)
GAAP Accrual Basis
For the Period January 1 to June 30, 2005

Changes in unrestricted net assets:

Revenues:

Grant Contribution	\$833,333
Interest Income	111,554
Registration Fees	9,714,876
Total Unrestricted Revenues	<u>\$10,659,763</u>

Expenses:

Registry Administration	\$6,751,589
ISOC Education and Program Outreach	2,450,000
General and Administrative	993,815
ICANN Registry Fees	66,000
Marketing and Communications	170,461
Total Unrestricted Expenses	<u>\$10,431,865</u>

Increase (Decrease) in Unrestricted Net Assets	<u>\$227,898</u>
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Net Assets at beginning of year	<u>(732,345)</u>
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Net Assets at end of period	<u><u>(\$504,447)</u></u>
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As previously stated, while current net assets reflect a negative (\$504,447) through June, based on current trends and analysis, we are forecasting a net asset reserve equal to six months operating expenses in accordance with the PIR Board mandate. This will result in net assets of US \$1.6 Million after an incremental surplus contribution to ISOC.

Based on the previously discussed positive trends in financial performance, the **total** 2005 revised forecast of surplus contribution to ISOC is being raised from **US \$3,400,000** to **US \$ 3,971,941** or an increase of **US \$571,943**.

In addition, the 3 year forecast is also being revised as follows;

	2003	2004	2005	2006	2007
Original ISOC Surplus Payments & Forecast	\$750,000	\$2,400,000	\$3,400,000	\$3,600,000	\$3,900,000
Excess Total Net Assets	0	0	571,943	916,257	1,996,197
New ISOC Surplus Forecast	\$750,000	\$2,400,000	\$3,971,943	\$4,516,257	\$5,896,197

Advisory Council

The PIR .ORG Advisory Council is well into its third successful year. It continues to be a differentiator for PIR as a Registry. The role of the Advisory Council is to focus on issues unique to the .ORG community ranging from policy to new services. The Council currently consists of 20 members representing a broad and geographically diverse spectrum of the non-commercial community. The Council is current segmented into three committees including: Outreach, IDN and Policy.

Members are as follows:

Policy	IDN	Outreach
Pavan Duggal Cyberlaws.net India	Calvin Browne UniForum South Africa	Dave Kissoondoyal Bowman Group Mauritius
Michael Geist University of Ottawa Law School Canada	Pierre Dandjinou UNDP Senegal	S.S. Kshatriy Author India
Harold Feld Media Access Project United States	Ben Laurie A.L Digital, LTD. United Kingdom	Nadia McLaren Union of International Associations Belgium

Erick Iriarte Ahon Alfa-Redi Peru	Adam Peake Glocom Japan	Mark Moore Kennedy School United States
Barbara Simons Association for Computing Machinery United States	Oscar Robles .MX Mexico	Lori Schulman March of Dimes United States
Ruay-Shiung Chang National Dong Hwa University Taiwan	Eric Tomson Member of Internet Society, Wallonie Belgium	Klaus Stoll Fundacion Chasquinet Ecuador
	Bill Woodcock Packet Clearing House United States	John Zoltner Community Technology Centers' Network United States

The Council meets for quarterly teleconferences and recently completed the annual face to face summit, this year held in Brussels in conjunction with the ICANN meeting in Luxembourg. The Committees presented their recommendations to the Council, PIR Staff and Board. The recommendations are being consolidated for PIR Board evaluation.

PIR Web Site Face Lift

PIR will be announcing the redesigned web site on August 11th. The audiences for the new site include; registrants, registrars, the non-commercial community (potential registrants) and name space stakeholders. The site has a professional and engaging appearance that reinforces .ORG's key messages of being trustworthy, informative and the home of the non-commercial community. The site also offers useful content and is being constructed for easy navigation. In addition, it meets ADA and W3C guidelines.

The new web site will meet all of the commitments made in the .ORG bid including; Web based resources, newsletter, polling, surveys and discussion forums. Translation will be into six languages which include Spanish, French, Korean, German, Japanese and Chinese to be completed by 1st qtr 2006.

Policy Initiatives

WHOIS – PIR is in the process of negotiating a change in the WHOIS requirements in the .ORG Registry Agreement with ICANN so as to provide more protection of personal data. (This may be a part of a broader effort to renegotiate and extend the term of the Registry Agreement and achieve conformity with the more flexible terms in the new .NET agreement with ICANN.)

UDRP – the Advisory Council has concurred with a plan to negotiate a change in the Registry agreement relating to the UDRP. The change would give a greater measure of protection to domain names used for purposes of critical comment.

WIPO 2 – PIR is opposing a proposed extension of the UDRP to create a new form of international trademark law protecting country names.

New .ORG services -The Registry Agreement (and the application by ISOC to manage the .ORG registry) contains a number of commitments for new services to be offered, either free or on a fee basis, to registrants. A number of these services are being offered, others will not be offered because they are readily available from other sources, and some will not be offered because experience in registry operations has made it clear that they would not be of value. It will be necessary to inform ICANN of the status of these commitments and to amend the Registry Agreement to reflect this status.

Registry Constituency - PIR is an active participant in the Registry Constituency of the Generic Names Support Organization (GNSO) of ICANN. Current proceedings include proposed revisions of the WHOIS function (PIR has a representative on the combined WHOIS Taskforce), the ICANN budget, the proposals for new procedures to handle requests to provide new services, ICANN's compliance program, ICANN's strategic plan and reports required by ICANN.

Operational policy issues

- PIR is exploring a possible cooperative program with the US National Council of Better Business Bureaus to certify non-profit and fund raising organizations.
- A limitation on frequency of access to Port 43 for WHOIS queries is being implemented
- Arrangements for more equitable SRS connections are being made.
- PIR is participating in planning for fair treatment of deleted domain names.
- PIR is participating in the new ICANN transfer program and in the discussions of further changes.

WSIS – name space issues

PIR is participating in some WSIS activities that specifically relate to the name space, including the Internet Collaboration group and a Working Group established within ICANN.

IDNs

The .ORG domain now supports scripts that are used for 9 languages – Danish, German, Hungarian, Icelandic, Korean, Latvian, Lithuanian, Polish and Swedish. We're working on developing the infrastructure required to support Spanish and Portuguese, which represent a growing part of the world's Internet population.

PIR is coordinating with UNESCO, language authorities and other authoritative sources to lead international efforts in the development of language tables that conform with the IETF standards and IANA guidelines. Our technical partner, Afilias who are deeply involved in IDN activities, are coordinating with PIR on revisions to the ICANN IDN guidelines, as well as connecting with the Unicode groups to ensure harmonized IDN adoption.

IDNs have taken a bashing recently due to fears of homograph attacks using IDNs. As a result, applications such as Mozilla have adopted a whitelist of TLDs that they will support for IDNs. PIR is in the midst of getting .ORG added to this whitelist.

PIR's rollout of IDNs is being done in a safe manner, and our policies already preclude practices such as mixing scripts that can lead to phishing and spoofing of domain names. We will continue to be diligent in our approach towards the adoption and rollout of IDNs across more and more scripts worldwide.

Top 25 Registrar Program

PIR currently has over 322 ICANN authorized registrars in the pipeline of which 175 are active. While there is a requirement for equivalent access in that PIR cannot limit information or programs to a specific segment of registrars, the 80/20 rule more than applies. Specifically, the top 25 registrars constitute over 88% of the .ORG domain sales world wide. As a result PIR has developed a Top 25 Program which is in compliance with equivalent access requirements. Specifically, each of the Top 25 Registrars is assigned to one of four PIR staff members with the PIR President personally having the responsibility for 10 of the top 25. The objective is to ensure executive level contact with the Registrar, understand their business model, solicit input on program priorities, determine their requirements to increase .ORG domain sales and provide a single point of contact on issues. In addition, the program also provides input on level of satisfaction with PIR and backend support provided. The program is a major initiative for the remainder of 2005 and beyond. Registrar feedback is being provided to the PIR Board and Afilias. The Registrars are pleased with the program and acknowledge that registrar outreach by PIR is important to .ORG growth. Since this is currently administered within existing limited staff, a dedicated resource may be considered in 2006 commensurate with all other

major gTLD support programs. In addition, we are now leveraging Afilias resources on this and other marketing programs.

.ORG Domain Outreach Program (ODOP)

The .ORG Domain Outreach Program is intended to help non-commercial organizations in underserved countries get on the Internet as well as build the .ORG brand and presence outside of the US. The program commenced July 1, 2005 and concludes December 16, 2005. The program has been launched in Latin America, the Caribbean and India. Registrars selling to Registrants in those selected countries will receive a five dollar rebate on all .ORG domains sold. The program is expected to have a positive impact on economic development in these identified countries. Several registrars are also developing concurrent programs to offer inexpensive web hosting packages and pass the domain name savings to the registrants. This is both within the intent and spirit of the program. In addition all Registrars are provided an incentive to grow .ORG domains and do outreach in developing countries. The program will be evaluated at year end and considered for roll out to other developing countries in 2006. It is important to note that Afilias is accountable for 2/3rds of the program costs. To date feedback from the media and the registrars has been very positive.

Future Plans & Priorities

PIR will commence the strategic planning process for 2006-2008 in September.

A major focus moving forward is the renewal of the .ORG agreement and most immediately ensuring all of the commitments in the bid as well as contractual obligations have been audited and are either in place or have time tables, action plans and audit processes in place to monitor completion.

Marketing priorities are to expand the .ORG brand internationally in identified growth markets.

Highlights of the 2006-2008 PIR Strategic Plan will be reviewed with the ISOC Board of Trustees at the November 2006 Meeting.