

CEO and President's Report to the ISOC Board of Trustees

August 5th – 6th, 2005 *Paris, France*

Confidential to the ISOC Board of Trustees

This document begins with a brief discussion on the key items for ISOC and seeks to open a discussion with the Board on "a defining* project" for ISOC. It includes a year end Forecast for 2005 and a high level "Financial Preview" for 2006 – 2007. The CEO's Goals and Objectives for 2005 are then reviewed with a brief forecast of performance against those goals.

* Defining = giving a distinctive character to something, or encapsulating its character...

Note: Information on ISOC's activities within Pillars, Membership and Chapters is covered separately by the staff reports and so are not covered here.

KEY ISSUES FOR ISOC:

LONG-TERM FINANCIAL SOUNDNESS:

ISOC has made tremendous strides in the last few years. We are now financially sound, although this should not cause complacency as there is much more we can do. One of my very first, and continual goals, is to increase ISOC's income stream while maximizing diversity in that stream. To that end we will be developing additional income generating activities through high-level fundraising programs that will kick-off early in 2006. More detail will be forthcoming at the appropriate time.

STANDARDS/IETF:

The focus ISOC has on open standards development, and on an open accessible global Internet, largely but not only, through our support of the IETF, is still our most distinguishing and unique value. It is ISOC's core asset, and our reputation for non-partisan probity is an extraordinarily valuable, and very possibly unique, asset. It should be protected, nurtured and grown, not only through our support of the IETF but also through our Public Policy and Education efforts.

ISOC has taken some fairly significant steps with respect to our support of the IETF and their restructuring efforts, and implementation is now well underway. The IETF has some new challenges ahead of them and they are working actively to address them. ISOC stands ready to help, but most of this activity will be driven by and done within the IETF Community, and the IASA structure is expected to be the primary vehicle with respect to most of the required support.

INCREASED ACCESS TO THE BENEFITS OF THE INTERNET:

Another distinguishing activity of ISOC applies to our focus on developing countries, and our long-standing efforts to increase access to the Internet and all its benefits for the lesser-developed regions of the world. This is achieved through our Education and Policy efforts as well as the efforts of many of our members and chapters. Much of the passion for and support of ISOC and our activities stems from these efforts. Outside of the technical community, this IS what we are most known for. This is also an incredible asset to ISOC, and it too is something to be nurtured and grown.

INTERNET GOVERNANCE:

The World Summit on the Information Society (WSIS) <http://www.itu.int/wsis> and Working Group on Internet Governance (WGIG) <http://www.wgig.org> have both been significant “new” Public Policy activities for ISOC. These activities began nearly three years ago with WSIS I. We are acknowledged as a knowledgeable, credible organization and are recognized by many governments, UN organizations, intergovernmental organizations, private sector bodies and civil society as “the Internet experts”. In addition, facilitated by our activities in WSIS and WGIG we have solidified our role in the Internet Community and are recognized as *the hub of a global network of individuals and organisations, and as an effective advocate for the core values of an open and accessible Internet.*

POLICY, EDUCATION and COMMUNICATION – MEMBERS, CHAPTERS and PARTNERS:

The areas mentioned above are supported by, really advanced by, our Policy, Education and Communications efforts. They are developed and enhanced through the support of all our Members (Individual, Organizational and Chapters) as well as our close relationships with many other Internet Organizations and Partners. Our activities in these areas have grown quite considerably over the last two to three years, and these are all areas where we expect to increase our focus and activities quite considerably over the next few years.

PIR

Public Interest Registry (PIR) is in its third year of operations, and the operational activities of providing the actual registry services have gone very smoothly. PIR itself though has had difficulty coming to terms with the “tripartite model”. The most notable difficulty (but not only) is in the relationship with Afilias, PIR’s operational partner. Serious problems have existed for the last two years and this is now being rectified under the strong leadership of the current PIR Board Chair – Eva Froelich. There is still some way to go to move to the model where we are fully, in an integrated manner, utilising all the skills and access the partners can bring to this model. I believe we will see, and should expect to see, continued movement (i.e. consolidation) towards the original PIR model as proposed in ISOC’s bid. This has already begun with Marketing and was largely forced through the resignation of one PIR staff member as well as through continued focus by the PIR Board on improving the operations of PIR. Additionally, the PIR Board accepted the report of the Joint ISOC-PIR Commitment Committee which stated that the commitments in the bid were being met while noting a few areas where some improvements were appropriate.

Over the first half of 2005, the revenues for PIR are significantly higher than forecasted in PIR’s budget (in fact, they are now much more in line with what some of us from the ISOC Board believed to be the real running rate based on growth seen in the zone file last year). In concert with this, over the last month, the PIR Board has reviewed their financial metrics and put in place a target where PIR maintains 6 months of annual PIR operating expenses as a Net Asset position (including restricted and non-restricted). The combination of these two items means that an additional payment of approx. \$570K will be made to ISOC late in Q4’ 2005 and the drop we saw in last year’s forecast for 2006 has also been addressed. PIR is now forecasting \$4.5M (up from \$2.0M) in 2006

and \$5.9M (up from \$4.2M) in 2007. PIR's expected unrestricted cash on hand is approx. \$7M in 2005 (approx. 3.5 times annual operating requirements).

Finally, the PIR Board has decided to move forward with the renewal of the .ORG contract in line with an invitation from ICANN to all gTLDs to move to the new contract model (based on the .NET contract) as soon as possible. The PIR Board has asked the ISOC CEO and President to lead these negotiations working with the CEOs of PIR and Afilias. Contacts have been made with ICANN staff and discussions are underway. We are still in the early stages and as the .INFO bid is next in the queue we will take our clues from that set of interactions as well as the .NET contract. If all goes well (barring some last minute surprises on the .NET discussions), I would expect to have the renewal of .ORG completed late fall 2005. The .ORG contract renewal would be expected to run through 2014. **NOTE: THIS IS CONFIDENTIAL AND SHOULD NOT BE DISCUSSED OUTSIDE OF THE TRUSTEES PER THE PIR BOARD.**

TIME FOR NEW OPPORTUNITIES:

To summarize, for 2006 and beyond, I expect the IETF and PIR to require less in the way of a sustained high level of strategic attention from ISOC (especially the CEO), but also the Board, when compared to the last three years. This, coupled with the planned addition of three new hires this summer (IAD - done, Public Policy - 90% done, Technology/Education – 75% done) will enable us to expand our attention and activities to other areas, notably Policy, Education, Members (all), Chapters and Communications.

FINANCIAL FORECASTS:

Over the last several months we have gained a better understanding of our financial situation with respect to .ORG surpluses (see PIR above), and the IETF's requirements, and while these are not as detailed or firm as we would like, we know enough to put an "envelope" around all of this and use it to frame a high level strategic look at ISOC's financial picture, opportunities and resource requirements. This is the largest, most positive and most certain view of the financial horizon that ISOC has ever had the fortune to work with, and we need to take careful, thoughtful advantage of it. More on possible opportunities following the financial review below.

The financial schedule below compares the 2005 budget with a full-year 2005 forecast. It also includes a high level "Financial Preview" for 2006 – 2007 with key explanatory notes below. The PIR contributions are explained above and in the submission from PIR (basically the increases are due to revenues being significantly higher than budgeted). The IETF figures for 2005 take into account the actual expenses through June 2005, and assume that all necessary contracts are signed in the next few months, allowing the IASA to collect meeting registration fees (and assume corresponding liabilities) for the fall 2005 IETF to be held in Vancouver. The 2006 and 2007 "previews" use the same assumptions used in 2004 for the 2005 budget as we are awaiting the completion of the sale of Foretec to NeuStar as well as the Services Level Contract from NeuStar to the IASA and an extension to the current RFC Contract, etc. The IAOC did not want to give anything away to these groups and so we decided to keep the figures consistent with 2005 (I did add another line for Standards program costs to give us a little headroom). NeuStar expect to have the Statement of Work (SOW) and a schedule of fees by the end of August but past history would suggest it is more likely to be end of September before we have any numbers we could have confidence in. And, in these dealings, continued delays are also a very real possibility. The Ad-hoc ISOC IASA Committee will provide the Board with a more detailed status update in our closed Board session on Saturday afternoon.

INTERNET SOCIETY 2005 BUDGET PROJECTION and 2006 – 2007 FINANCIAL PREVIEW

Revenue:	2005 Budget	2005 Projection	2006 "Envelope"	2007 "Envelope"
Platinum	\$ 600,000	\$ 500,000	\$ 600,000	\$ 750,000
Organization Member	800,000	650,000	950,000	1,150,000
Individual member @ \$75	52,500	21,500	35,000	50,000
IETF Registration revenues	-	675,840 (1)	2,048,000 (1)	2,048,000 (1)
IETF Meeting Sponsorships	-	-	-	-
NDSS	100,000	80,000	90,000	90,000
.org Surplus Contribution	3,400,000	3,972,000 (2)	4,516,000 (2)	5,900,000 (2)
Security Expert Initiative	220,000	175,000 (3)	39,000 (3)	-
Contributions & Miscellaneous	5,000	5,000	10,000	10,000
Postel Award		20,000	-	-
Total Revenue	\$ 5,177,500	\$ 6,099,340	\$ 8,288,000	\$ 9,998,000
Expenses:				
ISOC Salaries & related costs	1,607,322	1,500,000	2,100,000 (4)	2,500,000
IETF staff Travel & Misc.	25,000	20,000	40,000	40,000
IETF Secretariat & Meeting	-	675,840 (1)	2,048,000 (1)	2,048,000 (1)
IASA Support	469,000	469,000 (5)	469,000	469,000
Program Costs - Standards	-	-	100,000	100,000
RFC Editor	802,000	802,000	802,000	802,000
IETF Support	50,000	50,000	50,000	50,000
IAB Support	34,000	34,000	35,000	35,000
Insurance-Directors & Officers	16,000	15,500	18,000	20,000
Prof. Svc, Trav, Phone, Mktg, Misc.	95,000	148,000 (6)	300,000 (6)	350,000 (6)
NDSS (excluding salaries)	65,000	57,143	40,000	65,000
Program Costs - ISOC	720,000	738,000	1,000,000 (7)	2,000,000 (7)
"External" Program - SEINIT	200,000	160,000 (3)	35,000 (3)	-
Funding of Postel Award	20,000	20,000	20,000	20,000
Total Direct Expenses	4,103,322	4,689,483	7,057,000	8,499,000
G&A/Governance	814,097	800,000	853,277	831,067
Total Expenses	4,917,419	5,489,483	7,910,277	9,330,067
Surplus (Loss)	\$ 260,081	\$ 609,857	\$ 377,723	\$ 667,933

Notes:

- (1) NEW: IETF Registration Revenues and expenses. Expenses equal revenues as specifics not known and any deficits will be covered under IASA support. Once transition is complete we will separate expenses. See IASA support & Stds. Progs.
- (2) PIR revenue greater than projected. Additional donation of \$572K in '05 and significant increases in '06 & '07.

- (3) Contract extended thru Mar 2006. 2005 budgeted revenue now spread over 2005 & 2006.
- (4) Increase in resource spend in line with ISOC's continued restructuring. Note: Finance expenses in G&A.
- (5) YTD Expenses lower than budget due to delayed "ramp-up", but kept in place as contingency per IAOC.
- (6) Includes significant enhancements to ISOC's web site and communications infrastructure.
- (7) Includes Policy Pillar and New Technology Education Programs

BALANCE SHEET:

ISOC's cash on hand at end of 2005 is expected to be approx. \$1M, and the Positive Net Asset balance is expected to increase significantly in line with our projected surplus.

2006 – 2008 PLANNING & BUDGETING PROCESS:

I'd like to kick-start a discussion here and we will continue this over the next month or two as we ramp up our planning and budgeting process in earnest. These discussions (physical and virtual) will serve to provide some initial direction in support of our 2006 – 2008 Planning & Budgeting Process. One key area we need to invest further in is our level of resources, organization structure and infrastructure requirements.

RESOURCES/INFRASTRUCTURE REQUIREMENTS:

Our financial means have obviously increased and doing more will absolutely require that we build up ISOC's resources (something we need to do in any case as we are still under-resourced vs. our current ambitions). This perpetual situation of being under-resourced has been the result of too little future visibility into ISOC's financial situation. It was compounded (happily but still with some pain) by the fact that we have gone through two separate (and largely unexpected) large increases in financial means, meaning we have continuously had a resource lag vs. our activities as the result of these increases in finances. The previous sentence is a mouthful, so maybe another way to state this is that given our need to ensure adequate financial means (recall ISOC's history), and the fact that the registry business was a new business to ISOC – we chose a safe and in retrospect conservative path. In any case, this has left us continuously under-resourced for each new wave of additional funds and accompanying increased ambitions/activities. This is an inefficient and quite painful way to manage an organization. However, we now have the visibility and the means to get ahead and do it "right", so, the budget I will propose to the Board will have an increase in headcount; and the organizational structure I propose will depend on the outcome of the planning process and the "defining opportunity" that I hope we can identify and agree over the next several weeks and months.

A DEFINING OPPORTUNITY:

As stated previously, I propose that in our planning process, we identify one, or maximum two, big, hairy, audacious goals (bhags) where we want ISOC to make a really significant and **defining** contribution. The Strategic Operating Plan (SOP) was the first step in supporting this type of activity as the intent was to establish our fundamental goals and objectives by pillar/major activity). The planning process (2006 – 2008) is the next step.

Some ideas to get us started:

A - ISOC works actively to become the "Internet Forum" (or better yet obviate the need for one) as envisioned in the WGIG report at: (<http://www.wgig.org>). This would require significant new efforts in areas such as:

- Broad Public Policy issues (Spam, Cybercrime, ICAIS, VoIP, etc.
- Policy web portal

- Forums – online and physical,
- Tools to foster maximum participation globally
- Toolkits and other educational materials/activities
- Internet Meetings (IETF, ISOC, etc.) sponsorship program for lesser developed countries
- Significant “Outreach/PR” activities
- Etc.

Focussing on a “defining contribution” will give direction to and unite the efforts above, something we haven’t managed to define adequately enough to-date. We have historically listed various projects or imperatives but they are often talked about in a singular operational context vs. meeting integrated goals. Again, the SOP will help here.

B – ISOC becomes THE organization for Internet related Public Policy positions/advice. This would require many of the same efforts above but differs in that it would be a significantly more passive role. We also need to incorporate this with a full outreach plan or it simply becomes a “website we hope Public Policy people will visit”.

C – ISOC becomes the Global Capacity Building entity (or some sort of clearing house) for Information and Communication Technologies and Development activities.

D – Others for consideration?

Once we have agreed a “defining contribution” we need to resource and organize to achieve this. This means we define and align supporting activities with members, chapters and partners in support of this goal. Equally, I would counsel against spreading a little bit here and a little bit there, as while this may be a comfortable financial position compared to ISOC’s historical position, it is still a relatively small amount and this approach would not only fragment our resources but would also dilute our attention. Thinking big will require we be very focused (or we are likely not thinking big enough).

I look forward to working with the Board on these matters over the coming months as part of our planning process and welcome all comments/reactions.

Finally, I have included below a status of performance and expectations vs. my Goals and Objectives.

Thank you in advance for your time and attention.

Best regards,

Lynn

CEO's 2005 Goals and Objectives:

The nine major operating targets agreed by the Chair and CEO for fiscal and calendar year 2005 are:

- (1) For the year ending December 31, 2005, ISOC's cash and cash equivalents should be at least six months operating expenditures less past due accounts payable.

PROJECTION: Will be fully met.

- (2) ISOC's actual 2005 revenues should meet or exceed the "Total Revenue" specified in the final version of the budget accepted by the Board of Trustees of ISOC, and the surplus should exceed the "Total Surplus" specified in the final version of the budget accepted by the Board of Trustees of ISOC.

PROJECTION: Will be fully met.

- (3) The CEO, working with the senior staff, will develop and get Board approval for a Strategic Operating Plan that will serve as the foundation for the organization's strategic actions and will serve as the basis for the organization's planning and budgeting process. Equally important, the SOP will be developed through extensive review processes with ISOC's Organization and Individual Members and Chapters as well as other "related" bodies such as the IETF and IAB. It will also be socialized with other organizations within the Internet Community (often called I*).

PROJECTION: Will be fully met.

- (4) The CEO will work actively with IETF leadership, and as part of the IETF Administrative Oversight Committee (IAOC) will work to ensure the IETF's restructuring efforts are a success. The CEO will work with the IAOC to hire an IETF Administrative Director (IAD) and will actively support that individual's introduction to the new role. In addition, CEO will ensure that ISOC staff provides appropriate administrative support to the IASA restructuring efforts.

PROJECTION: Will be fully met.

- (5) The CEO, with the VP of Public Policy, will continue to build on current policy initiatives and will support as a priority, the ongoing WSIS/WGIG efforts regarding "Internet Governance". ISOC will undertake this role with a focus not only on ISOC's goals, but also those of, and with the support of, the Internet Community. ISOC's positions will be developed based on our core values and our principles. ISOC's Organization and Individual Members and Chapters will be consulted and involved wherever possible and where appropriate. CEO will hire a Director of Public Policy who will in turn develop and broaden ISOC's Public Policy program.

PROJECTION: Will be fully met. ISOC's participation in WSIS and WGIG has been highly commended by the WGIG Chair (Mr. Nitin Desai), WGIG Secretariat Chair (Ambassador Kummer) and by the WSIS PrepCom President (Ambassador Karklins). In addition, we have the full support of, and excellent support from and participation of the other Internet organizations (IETF, IAB, RIR's, Root Server community, ICANN, as well as International Chamber of Commerce, etc.. ISOC runs regular All Member surveys on various WSIS/WGIG matters and the last one will be used to provide input to the WSIS PrepCom taking place in September 2005.

- (6) The CEO, through the Education staff members, will further develop ISOC's education programs. We will continue to develop activities that will result in more of the programs being self-sustaining. In addition, we will continue to broaden our efforts beyond Network Education and into even more areas of Policy. We will actively seek the support and participation of ISOC's Organization and Individual Members and Chapters wherever possible. We will continue to develop our strategy re conferences, and ISOC will participate in at least six regional conferences (technical or policy) in 2005.

PROJECTION: Will be fully met, many activities are underway and they will be covered in the Education presentation.

- (7) The CEO, with the Director of Membership, will significantly update the Organization Membership program. This will include launching a significant new Fundraising Campaign as well as showing a marked increase in the involvement of Trustees in our fundraising efforts. It will also include the introduction of new member services such as more AC "conferences". The CEO, with the Org. Member AC Chair and the Director of Membership will review and update the AC Charter and establish a process for re-instituting AC elections.

PROJECTION: Goals will be met.

- (8) The CEO, through the VP of Chapters and Individual Members, and the Director of Membership, will implement the new Individual Membership Program and will ensure that Individual Members and Chapters are appropriately involved in the affairs of the society. They will evaluate and introduce as appropriate new mechanisms to improve communications between Members and Chapters and the society as a whole. They will also work to ensure reciprocal support and enthusiasm for the activities of the members/chapters, and of ISOC. The Individual Member targets established in the 2005 budget will be met.

PROJECTION: Expect goal to be met although the Individual Member Target is a stretch.

- (9) The CEO, working with the ISOC Ad-hoc PIR Committee, will continue to support the current review mechanisms for PIR (such as the Joint Commitment Committee Review) to ensure that PIR's operations are consistent with ISOC's .Org bid, and most importantly is in line with the exemplary registry envisioned in our bid. The CEO will prepare a recommendation to the ISOC Ad-hoc PIR Committee for a strategy to support the .ORG renewal process, and at the same time will recommend to that Committee any required changes to the PIR business arrangement.

PROJECTION: Will be fully met.

<end>