



2005 Preliminary Year-end Results

2006 Budget and Program Recap

ISOC Board of Trustees

Utrecht, Netherlands
February 10 – 11, 2006

2005 Year end - Preliminary Review

Financial Position - A Continued Positive Trend

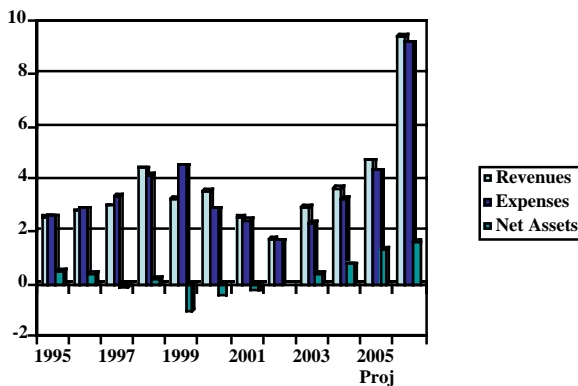
K\$	2005 Budget	2005 Yr-end Forecast
Surplus	265	325-350
Cash at year end	650	1,400
Net Worth	1,024	1,349 – 1,374

Our 2005 year-end net worth is expected to increase by roughly \$350K to approx. \$1.3M. The 2006 budget would add another \$284K bringing the total Net Asset position at the end of 2006 to approx. \$1.6M. The 2005 numbers are preliminary and a full report will be sent to the Board once the books are closed

The chart below summarizes trends in ISOC's financial position.

We achieved a positive net worth in 2003 for the first time in many years and since that time it has grown consistently and substantially. We fully expect this to continue.

NET ASSET TRENDS - \$ M USD



For a non-profit organization the size of ISOC to operate to sound accounting principles, we should have a minimum of 6 months of operating expenses in unencumbered cash reserves as part of our net asset balance (and management's goal is to have 12 months). For 2006 the amount required in our operating reserve, excluding discretionary projects, will be approx. \$3.0M given a 6 month goal. This is a fairly significant increase over 2005's year-end position and it will likely take a few years to attain the required level. Meeting this level is critical not only for sound operating performance but it is also part of the commitment ISOC made to the IETF. We are confident we will meet this goal as we continue to improve our overall financial position.

2006 Operations Plan and Budget Recap

ISOC's Strategic Operating Plan

The Strategic Operating Plan of the Internet Society is divided into two sections:

Part I – Strategy

This section was approved by the ISOC Board in mid 2005, after consultation with individuals both inside and outside the organization. This document will be fairly static as it focuses on the mission and purposes of the Internet Society and takes a high level strategic view. It can be found at: <http://www.isoc.org/isoc/SOP.pdf>.

Part II – Programs and Budget – 2006

This section serves as the annual operating plan and budget for the Internet Society and will be updated on an annual basis. It was also developed in consultation with individuals from across our community to ensure our budget and activities meet the goals and purpose of ISOC while reflecting needs seen by our members.

Part I – Strategy includes « Our Vision » and it is important to repeat it here as this is the basis for the society's activities :

ISOC's Vision

The Internet Society believes that *the Internet is for everyone*.

From its inception the purpose of the Internet Society has been to promote the open development, evolution, and use of the Internet for the benefit of all people throughout the world.

We envision a future in which people in all parts of the world can use the Internet to improve their quality of life because standards, technologies, business practices, and government policies sustain an open and universally accessible platform for innovation, creativity, and economic opportunity.

Complementing this vision of the future is our vision of the Internet Society's role in creating it: *As the hub of a global network of individuals and organizations, the Internet Society is an effective advocate for the core values of an open and accessible Internet.*

2006 – A Pivotal Year for ISOC (and building on past successes)

2006 promises to be a pivotal and very exciting year for ISOC as we move forward to build on our achievements of the past 12 months. In the area of Internet standards, ISOC along with the Internet Engineering Task Force and the (IETF) Administrative Oversight Committee (IAOC) completed the final elements of the IETF's administrative restructuring at the end of 2005. This strengthened the relationship between ISOC and the IETF, and will allow both organizations to leverage our respective competencies to even greater benefit for the Internet. In the area of Public Policy, ISOC continued to play a valuable and increasingly visible role in the World Summit on Information Society (WSIS) as well as in the Working Group on Internet Governance (WGIG)

activities. Our strong showing there has brought increased recognition and support for our mission and has given us excellent access to policy decision makers and many other critical organizations across the world.

In addition, the Public Interest Registry (PIR), the home of the .ORG Top Level Domain continues to contribute significantly to ISOC and this has allowed us to significantly increase many of our activities, particularly in the area of education and capacity building. ISOC's ccTLD workshops, for example, represent just one of the initiatives made possible.

We are excited about building on our accomplishments and working with our members, chapters and partners to further leverage our vision and fulfill our purpose. ISOC now has the strongest base in its history, and this is an excellent platform from which to significantly increase our support of open standards - largely through the IETF, as well as our education, capacity building and policy activities as we prepare to even more actively support the society's vision.

We look forward to 2006, and to working together with our members, chapters and partners as we all work to set ISOC on a significantly expanded and vibrant path.

Part II - Programs and Budget

The purpose of our Strategic Operating Plan Part II – Programs and Budget - is to further define and document our tangible commitment to realizing ISOC's vision. As such, individual plans have been developed for IETF, Membership, Policy, Education, Fundraising, etc., and the Budget also follows those sections. The [2006 Budget Book](#) is published on our website, however, I'd like to remind the Board of a few new and significant growth areas in the coming year:

- IETF - ISOC and IETF are now even more closely linked with the formalization of the new IETF Administrative Support Activities structure (IASA) within ISOC. See RFC 4071, at <ftp://ftp.rfc-editor.org/in-notes/rfc4071.txt> for more details on this structure as well as the IETF section in the 2006 Budget Book. 2006 will be the first year ISOC and the IETF will operate under this new structure and we will be breaking new ground. The work is not done, but it is different. It will require defining roles, boundaries, goals and objectives and reaching agreement with the relevant communities within the ISOC and IETF spheres. Many processes will be tested and will need development/adjusting. These activities will require even more of us this year than last.
- MEMBERSHIP - we are expanding our efforts in all areas of membership. We will bring additional expert resources into organization, individual and chapter membership, as well as rolling out new initiatives in Policy and Education in support of strengthening our member activities and member involvement – locally and globally. We will build a sustainable long-term member campaign dedicated to increasing:
 - The numbers of individual and organizational members
 - The financial resources available to ISOC in support of our mission and our expanded responsibilities to the IETF

We will also be launching a major fundraising campaign (similar to a capital campaign) in the second half of the year.

- POLICY – we are building on our very successful World Summit on Information Society (WSIS) and Internet Governance efforts. For information see: <http://www.isoc.org/isoc/conferences/wsis/index.shtml>. Supporting efforts will include Regional Policy Advisory Groups and a new pilot for a Regional Bureau to aid in regionalizing and globalizing our Education, Policy and Chapter/Member activities. We have plans to re-invigorate our conference activities through round tables and regional conference events. In addition, we are participating actively in the follow-on activities from the WSIS and the developmental efforts with respect to the IGF and the “enhanced cooperation” activities identified in the WSIS Tunis declarations.
- COMMUNICATIONS – we are building a new department to center all our Communications activities (publications, press, promotions, editing/technical writing, etc.) as well as new communication applications, better use of the website and web applications, etc. These efforts will, of course, be integrated and leveraged as much as possible across all our activities (see Communications section).
- EDUCATION – we are continuing the expansion of our Educational activities, in both the technical and policy arenas. Working in partnership with our members, chapters, organization members, and various educational organizations, we expect to develop materials to help in our Capacity Building and Technical Awareness efforts at all levels, including developing a much broader and more effective reach through local efforts as well as improved electronic collaboration tools.
- INFRASTRUCTURE - and finally, but not least, we will be making significant investments in upgrading our current web site and member and web applications to better support all our activities.

Budget Submission - Income Statement

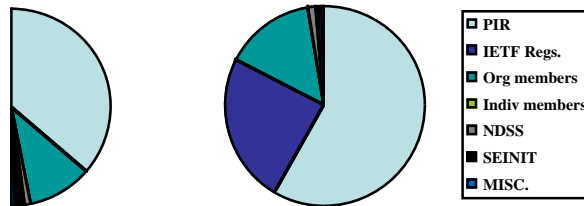
Total Revenues :

ISOC has a small number of concentrated sources of Revenue. Our largest single source of revenue is from the .org TLD registry, managed by Public Interest Registry (PIR). The second most important source has historically been organizational member dues – which is the traditional funding source of ISOC. With the new IETF model coming into place the P&L now shows another major revenue stream – IETF meeting registration fees. These fees will be used to support much of the IETF expenses and the additional requirements for funding for the IETF will be met from other sources within ISOC. Individual memberships while clearly important for other reasons, contribute a small percentage of ISOC funding (less than 1%).

The pie charts below show 2005 (projected revenue) and the 2006 budget. Both pie charts are calibrated in terms of the 2006 Projected Revenue. The “missing” segment in the 2005 chart is the amount by which the 2006 budget is larger than 2005, i.e. 2006 Budgeted revenue is nearly twice 2005’s. More information on all the revenue streams are to be found in the appropriate sections below.

2005 Projected Revenues

2006 Budgeted Revenues



Total = \$ 4.7 M

\$ 9.4 M

Public Interest Registry (Global Registry for .ORG TLD)

In 2001-2002, ISOC prepared a successful bid to ICANN to operate the .org registry. Following the model proposed in the bid, ISOC created the Public Interest Registry (PIR) organization with ISOC as its sole member (non-profit terminology for wholly owned). The actual registry operations are overseen by PIR, in partnership with Afilias. The PIR staff, with support from Afilias, markets the .org top-level domain and manages relationships and policies with the registrars and with ICANN. PIR also has a policy responsibility in which it is to take leadership positions on registry issues and registrant rights issues.

	2006 F/C
.ORG Contributions to ISOC's programs	\$ 5.5 M

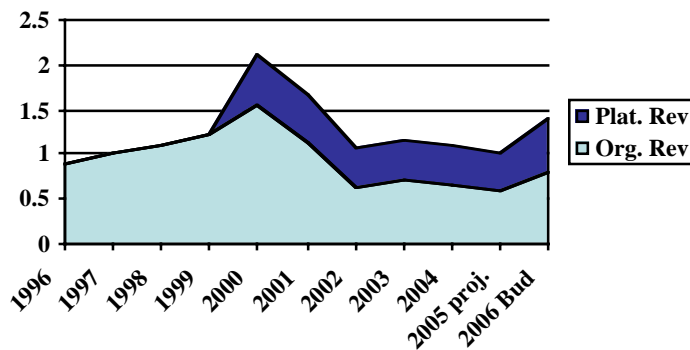
Buiding plans to increase diversity in revenue streams

As has been said elsewhere in this document, ISOC intends to develop additional revenue streams. We are now extremely well positioned to do so, coming on the heels of consolidating our responsibility to the IETF as well as building on our successes in the Public Policy arena.

Organizational Member Revenues

Organizational member contributions to ISOC have mirrored the .com boom of the late 1990s and the .com bust of 2001 and beyond. In the chart just below, the light blue at the bottom reflects the organizational member cash revenues in millions while the dark area at the top reflects the effect of the platinum program revenues.

For almost a decade, total organizational member revenues have hovered at approx. \$1.0 million except for the post INET'99 rescue plan put in place in 2000.



The companies participating in the organizational member dues programs have largely been those associated with active participants and leaders in the IETF. There are many large and well-known companies that are benefiting from ISOC and IETF programs and are not yet contributing to ISOC. Reaching out to them and convincing them of a value proposition for joining ISOC will remain a key priority.

The Platinum Sponsorship Program

Following the INET conference in 1999, ISOC began an extraordinary fundraising campaign among organizational members in 2000 called the Platinum Sponsorship program in order to fund payments to the RFC Editor and address ISOC's difficult financial situation¹. In this program, much like a capital campaign, organizational members were asked to make a special above-and-beyond donation to ISOC. Doing so at the \$100K level and above gave them special platinum status and privileges, including the ability to designate or direct their contributions to certain ISOC programs. Because funds are designated, ISOC is able to recognize these funds as they are spent for particular projects/pillars. The majority of the platinum designations have been for IETF support. The platinum sponsorship program has been continued due to continuing interest on the part of these organizations to dedicate funds to specific significant activities within ISOC and this program has augmented ISOC's traditional membership revenue stream. From the graph above, one can see that support for this program has remained quite steady, it is the more traditional organizational member support that has declined and that is where we will redouble our efforts to rebuild and expand support for our activities.

¹ See <http://www.isoc.org/members/platinum.shtml> for more information

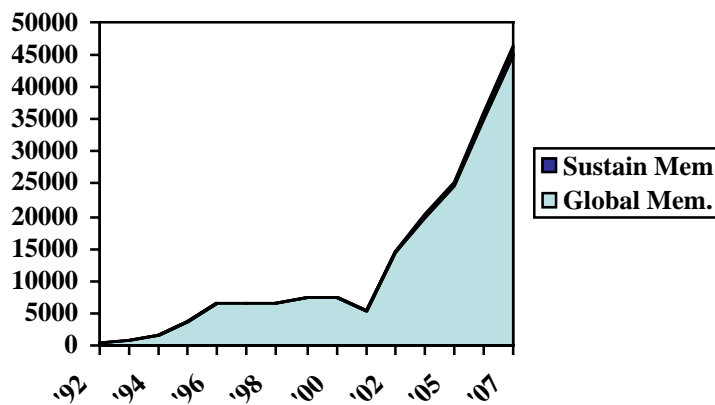
Individual Members

Individual Members and Chapters are very important to ISOC and many activities are planned to increase our support to them as well as their participation in ISOC activities and vice versa. These plans are reflected in many sections of the budget, particularly in the Individual Member, Public Policy and Communications/Member Outreach sections. This is in addition to our efforts to upgrade our website, our member and web applications, as well as all our communications and web-based infra-structure

We recently launched a new Membership System that will enable better support to members, chapter heads and will significantly improve operations of the ISOC membership staff. The first phase of this system has had some difficulties and we are launching a review with chapters and staff and we fully intend to address the shortcomings in an expeditious manner.

The Individual Membership program is predicted to have approx. 20K Global members at year end (approx. 100 Sustaining members, plus several hundred from Org. Member companies) and we budgeted 500 Sustaining members in 2006 (again, plus several hundred from Org. Member companies). This would provide approx. \$50K to the budget (including donations) which is not a financially significant amount, but the importance to ISOC goes well beyond the financial contribution. We intend to put a special effort into recruiting individual members so that we can re-instate individual member voting for the Board of Trustees.

Individual Membership was stagnant for years - with the introduction of the Global member program we saw significant increases and we intend to build on this.

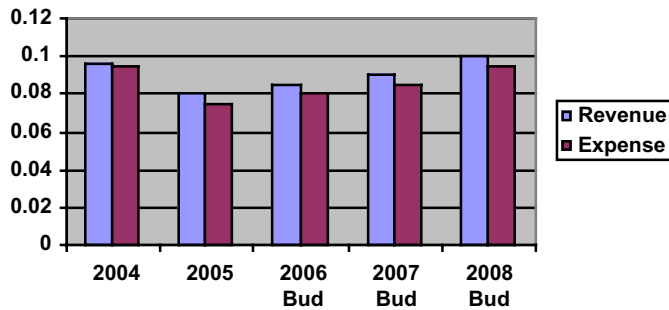


Other Sources of Revenue :

This category is essentially self-funding and includes our Annual Networking and Distributed Systems Security Symposium (NDSS) and the SEINIT Project.

Networking and Distributed Systems Security Symposium (NDSS)

ISOC sponsors the Networking and Distributed Systems Security Symposium annually in San Diego. This is a very specialized conference and historically revenues roughly equal expenses, including overhead. The actuals for 2004 and the budget for 2005 are shown below in millions.



Security Expert Initiative - SEINIT

The security expert initiative, funded by the EU and the Swiss government, was budgeted at \$220,000 in the 2005 budget. The project has had very good reviews from the EU review team and given the magnitude of the deliverables, it was extended by 4 months until March 2006. As the project funds were not increased this moved some of the funding from 2005 to 2006.

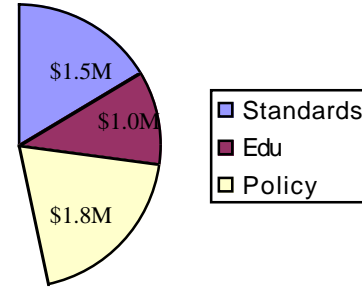
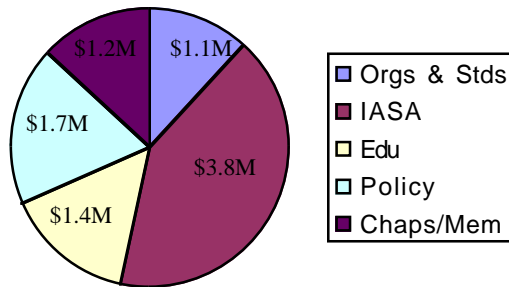
Expenses:

ISOC traditionally groups expenses by pillars representing different aspects of the ISOC mission: standards, education, and policy; and the 2005 budget followed this convention. The 2006 budget while also following this convention, shows additional items such as IASA expenses and we have split out the Member and Chapter expenses as well. Again, for comparison purposes, the slices are shown normalized to the size of the 2006 budget. The 2006 expense budget is nearly twice the size of 2005's and this is mainly due to :

- the addition of all the IASA support costs (including the IETF meeting, secretariat, staff and project expenses)
- increased Public Policy, Education and Communication Outreach activities
- organizational restructuring

2006 Expense Bud Total = \$9.2M

2005 Expenses (Proj) Total = \$4.3M



Staff Salaries/Related Costs and Organizational Structure

ISOC headcount will be increasing quite significantly in the coming year as we continue to ramp up our activities in the Policy Area, Membership Areas (all membership areas : Organizational Members, Chapters and Individual Members), and importantly in Communications (Member Outreach, Publications, Press relations, etc). ISOC's full-time equivalent headcount (FTE) in 2005 is just under 12, excluding the support of the two VP's – Jim Galvin and Mike Nelson. In 2006, the Board approved an increase in staff headcount to 19. These increases are necessary in order to support the significant increase in scope and type of activities ISOC plans to undertake in the years to come.

This expansion in staff and re-grouping of our activities will give us the critical mass we are lacking in many areas at the moment. Given the profile of some of our positions and the benefit and importance of being multi-cultural, I expect approx. 1/3 of our resources to be located outside the US.

ISOC operates under a project cost methodology. All staff account for their time by project and all identifiable expenses are assigned to projects. Only standard General and Administration (G&A) and Governance charges (largely Board related) are charged to G&A/Governance. This G&A is then allocated across 'pillars' on the basis of direct salaries as this is a 'standard' support base, hence all expenses are based on time and money spent, not estimates or general allocations.

INTERNET SOCIETY

2006 BUDGET

Revenue: 2006

Platinum & Org. Mem Dues	\$ 1,400,000
Ind'l. member @ \$75	40,050
IETF Registration Fees	2,312,500
NDSS	85,000
Program Contributions	5,544,729 (1)
Misc. Sponsors, Contrib.,	40,000
Postel Award	20,000

Total Revenue \$ 9,442,279

Expenses:	Total	Orgs. & IETF	Chapter & Members	Education	Public Policy	IASA	
ISOC Salaries & related	2,458,943	630,963	516,393	565,286	746,300	-	(2)
IETF Trav, Misc.	60,000	20,000				40,000	
RFC Editor	882,121					882,121	
IETF, IAB Supp. & Insur.	109,500					109,500	
IETF Secretariat, & Mtngs	2,000,000					2,000,000	
IAD/IASA Supp. (tools/proj.)	485,000					485,000	
Travel, Tel, Mtngs, Misc	160,934	35,000	25,000		16,000	84,934	
Prof'l. Services (inc. legal)	91,500	1,500	10,000		30,000	50,000	
Comm/Mrkt'g, Promo, Ship	200,000	50,000	50,000	50,000	50,000		
NDSS (excluding salaries)	70,000			70,000			
Program Costs * (sheet 2)	1,464,000	75,000	333,000	380,000	676,000		(3)
Funding of Postel Award	20,000	20,000					
Total Direct Expenses	8,001,998	832,463	934,393	1,065,286	1,518,300	3,651,555	
G&A/Governance	1,156,321	251,597	231,264	242,827	323,770	106,863	(4)
Total Expenses	9,158,319						
Surplus (Loss)	\$ 283,960						

Notes

- (1) Includes .ORG contributions, SEINIT, etc.
 (2) IAD Salary included in IAD/IASA Support
 (3) Direct costs only. Salary costs are included in the ISOC salary line.
 (4) Includes G&A/Gov salaries as well as expenses related to G&A/Gov.

**INTERNET SOCIETY
2006 PROGRAM BUDGET**
(Direct contributions only, and
excludes staff expenses)

<u>Program Costs - \$ K USD</u>	<u>Organization & IETF</u>	<u>Chap/Memb</u>	<u>Education</u>	<u>Public Policy</u>
World Summit Award/YouthSupport		50,000		
Chapter/Member Project Funding		200,000		
Various workshops (NOG's, ccTLD's, etc.)			268,000	42,000
Governance/Policy Forums (in addition to Policy Councils & Bureaus)				300,000
Policy Councils/Regional Bureaus		33,000	33,000	134,000
Misc. Projects (IETF, IDN, Spam, Security, Translation)	75,000	50,000		200,000
	<hr/>			
	75,000	333,000	301,000	676,000

Conclusion:

In conclusion, while the 2006 budget is in many respects quite aggressive (ambitious programs, significantly expanded outreach activities, and an organizational restructuring), management is confident it is achievable. We look forward to 2006, and to working together with our members and partners as we all work to set ISOC on a significantly expanded and vibrant path.