

President & CEO Report

Presented by: Lynn St. Amour

The Internet Society's 2007 - 2009 Operational Plan declared "2007 – 2009 will be key years in the growth and refinement of ISOC's place in the world". It has certainly been that and we have clearly made good progress on all related commitments.

In 2007, dramatic growth in Revenues (45 percent over 2006) allowed significant growth and transformation in virtually all areas of strategy, operations, programs, and infrastructure. Higher levels of activity naturally brought higher Expenses, yet the thoughtful way we approached the Major Strategic Initiative (MSI) allowed us to deliver a strong increase in Net Assets.

2007 is the second year of ISOC's "restructuring". In addition to staff recruitment and program developments in our "traditional" departments – Membership (Chapters and Regional Bureaus), Education, and Public Policy – ISOC engaged a Chief Financial Officer (CFO) to advance our finance, administration, and HR activities. 2007 also saw ISOC launch a new department – Communications, with three new hires enabling us to extend our activities and begin increasing our global visibility.

In other, more recent developments, ISOC engaged a new Director of Public Policy, created the Standards & Technology Department as a core contributor to ISOC's mission, and appointed a senior individual to lead our Strategic Global Engagement activities.

Of additional note:

- Chapters and Individual Members are vital contributors to ISOC's programs. We are making good progress on expanding these programs to the local level and on gaining insight into regional and local community needs.
- As the IETF continues to define and develop the technical standards for the Internet, we are engaging the IETF community more deeply to strengthen our activities in the support of standards development and deployment.
- Our outreach efforts have become far more global, with the addition of the two Regional Bureaus, a Communications department, and personnel in 12 different countries.
- ISOC's organizational members have always been key to our success and they will be even more critical as we extend our activities in support of the Internet's evolution.

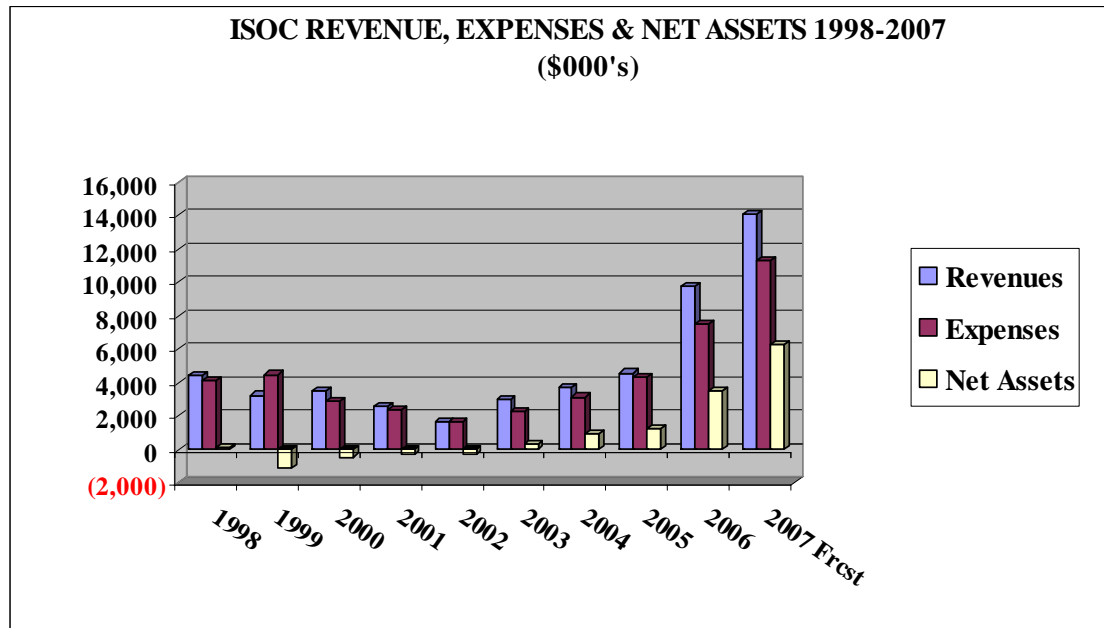
The 2007 personnel additions will result in a total ISOC staff of 26 full time equivalent employees (FTEs) at the end of the year (meeting budget). The 2007 Organization Chart is in **Appendix I**.

Financial Position

Our financial position is healthy, stable, and ahead of our commitment to the Board with respect to our Operating Reserves. Under ISOC's Operating Reserve Policy, we strive to maintain a cash reserve sufficient to fund six (6) months of operations, plus meeting guarantees for two IETF meetings. ISOC forecasts that the year-end 2007 cash balance will be approximately US\$5,200,000, excluding PIR's fourth quarter 2007 contribution. This represents a cash reserve of approximately 10 months. ISOC has accrued for PIR's

fourth quarter contribution, and will receive these funds in January 2008. Over the extended forecast period from 2009 to 2010, we are planning to maintain cash reserves slightly in excess of the six-month target.

The chart below shows the historic trends for Revenues, Expenses, and Net Assets. This graphic demonstrates the tremendous growth in our activities for 2006 and 2007. At the same time ISOC has solidified its financial stability through growth in Net Assets.



The forecasted Net Surplus for 2007 is US\$2,600,000, or approximately UD\$2,000,000 better than the Budget. This forecasted Surplus is a combination of under spending in the Major Strategic Initiative/Smaller Substantial Initiatives area (US\$1,100,000), under spending in the Public Policy area (US\$600,000), and lower than budgeted personnel expenses. The personnel budget for 2007 was highly aggressive, particularly given notice periods required for the level of professionals ISOC sought to hire. However, the fourth quarter personnel costs are on budget. **Appendix II** summarizes our 2007 year end financial forecasts in comparison to the budget. For more detail see the Q3 2007 Financial Statements sent in early November.

Strategic Operating Plan

ISOC's Strategic Operating Plan is divided into two sections:

Part I – Strategy. This was approved by the ISOC Board in mid-2005, after consultation with many individuals, both inside and outside the organization. This document takes a high level strategic view, focusing on our vision and mission; hence, it is expected to maintain a level of constancy. Regular reviews of this document show that it is still relevant and guides many of our decisions on a day-to-day basis. It is available at:

<http://www.isoc.org/isoc/SOP.pdf>

Part II – Annual Budget. This is the annual operating plan and budget for the Internet Society. It is updated annually and developed in consultation with individuals from across our community. The annual budget process ensures our budget and activities meet the goals and purpose of ISOC. The 2007 plans (linked from the items "2007 - 2009 Budget and Financial Presentation" and "2007 Budget") are available at:

<http://www.isoc.org/isoc/general/trustees/agenda-nov-06.shtml>

As noted above, **Appendix II** summarizes the year end financial forecast and budget comparison.

Accomplishments

From the very beginning, the mission 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.

In 2007, in addition to specific program commitments to fulfill this mission, we pledged to:

- Continuously strengthen our relationship with the IETF
- Increase member and chapter participation in those areas most essential to the Internet's development, as well as to ISOC and our activities
- Introduce a strategic multi-year Chapter Development program (with the goal to help Chapters reach their full potential within ISOC and become key components of ISOC's activities on global and local levels)
- Develop a multi-year Organization Member Development program
- Identify a major long-term, multi-partner strategic initiative
- Continue to restructure the organization to ensure:
 - maximum opportunity to exceed our potential (individual and organizational)
 - increasingly sharp execution
 - a culture where everyone (employees and members) feels valued and needed
- Create more value for all our members and chapters
- Deepen our relationship with PIR
- Deepen our relationship with our partners in the Internet Community
- Build on our very successful Education and Policy activities

We have successfully and demonstrably delivered against these objectives. In addition, a high level summary of major accomplishments by department follows:

PIR

In mid-2007, PIR engaged a new CEO and, since that time, has engaged additional staff resources in the areas of marketing and sales support. The 2007 .Org contribution is on budget, and ISOC has determined that PIR's fourth quarter contribution is not necessary to meet our 2007 year-end cash reserve requirement. Therefore, ISOC will accrue for the fourth quarter contribution and defer receipt until January 2008.

IETF/IASA

There have been a number of new developments in IASA and we continue to strengthen the model. The most significant development is the pending award of the IETF Secretariat contract to a new company following an extensive RFP process. For the full year, IASA expects to be slightly over budget, despite a shortfall in meeting attendance

and registration fees. This revenue shortfall was somewhat mitigated by an increase in fees for the Fall 2007 IETF meeting, generous contributions from meeting sponsors, and under spending in the RFC Editor area due to a decrease in submissions.

Membership

We have made significant efforts to increase the value members and chapters receive from their association with ISOC; we have conducted studies to develop and reach agreement on policy and business rules for chapters and members; and we have worked hard to increase outreach and bandwidth to these key partners. The fruits of these efforts are increasingly clear to see.

Over the course of the year, the Membership Department has worked to develop a multi-year Organization Member Development Plan. This included a process to evaluate Organization members' expectations of ISOC in order to extend the value Organization Members realize from their association with ISOC. Work has progressed on our Value Proposition and a discussion on this topic is slated for this Board meeting. Despite the efforts begun this year, the forecast for 2007 is that Membership Revenues will fall short of the Budget by approximately US\$200,000.

Furthering its role to seek funding for all of ISOC related activities, including IETF meetings, the Membership Department devoted significant effort to attract sponsorship and hosting revenues. Such revenues support both the IETF's meeting costs and meeting communications facilities through a new Network Outsourcing sponsorship model. While these hosting revenues will exceed budget, corresponding network expenses will increase by the same level and, therefore, offset most of the excess revenues. Taken together, the Membership department is expected to come very close to meeting its full year revenue targets.

Communications

The Communications Department was launched in January of this year and progress has been made in some key areas – web site improvements, events management, and internal communications tools. External Communications project expenses are forecast to be slightly under Budget, due to various projects being slow to commence as responsibility has transitioned from other departments.

Public Policy

Our most significant Public Policy activities were those related to Internet Governance, where ISOC again had a central role, not only in the Internet Governance Forum (IGF), but also in many of the supporting activities. Furthermore, we made progress in our relations with International organizations such as the OECD and UNESCO. Another key program area was the User Centric Internet. While the principles behind this program were documented and used extensively in programs across the organization, we were less active than expected at the programmatic level.

Education

Education met all its program commitments, with one minor exception due to an external program (the Pan Asia Grants Program) being put on hold by its primary sponsors. Significantly, the IETF Fellowship program really came into its own this year. This program brings benefits to technologically emerging countries, as it helps them build much-needed technical capacity. It also provides benefit to the IETF through increasing awareness of their activities.

Summary

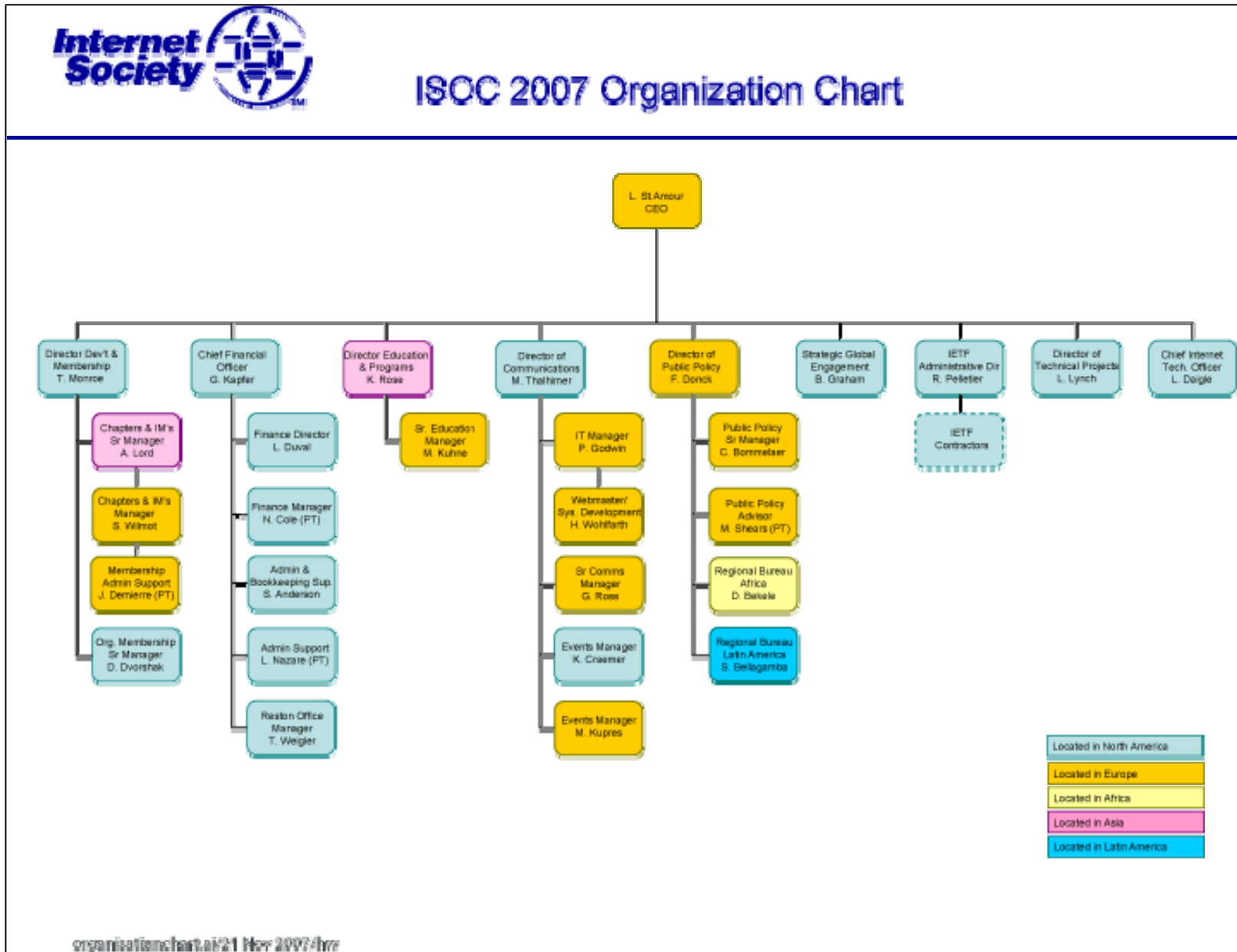
2007 has been a year of tremendous growth for ISOC. The size and importance of our restructuring efforts cannot be underestimated. We are moving from a very small, highly concentrated organization to a geographically dispersed, matrixed management model. Coupled with increasingly ambitious programs, the pressure of our own expansion can occasionally be seen in the organization. Meeting expectations (internally and externally), while aggressively growing the organization and its activities, is a delicate balance, and obviously of critical importance.

ISOC has traditionally presented its activities within a three "pillar format" (Standards, Public Policy, and Education). As the Organization grows to take on new challenges and ambitions, we are necessarily expanding our focus and activities, depending ever more heavily on cross-organizational teams. This focus has led us to develop a small set of longer term, more strategic activities we refer to as the "Initiatives". These Initiatives will supplant much of the traditional pillar model for organizing our activities and largely serve as the basis for the 2008 budget structure. These concepts and plans are detailed in the 2008 – 2010 Budget.

2007 was indeed a key year for ISOC. We built significantly on the achievements of the past few years and are extremely well placed to accomplish even more in the years to come. This has been possible because of the dedication of our staff, members, chapters, and Board, and the support of our partners across the Internet community. Thank you to all.

Lynn St.Amour
President and CEO
Internet Society

APPENDIX I



APPENDIX II

Internet Society Statement of Activities and Change in Net Assets 2008 Budget (with 2009 - 2010 Extended Forecast)								
	2008		2007		2008 Change Compared to		Extended Forecast	
	Budget	Forecast	Budget	2007 Forecast	2007 Budget	2009	2010	
Revenues (excluding IETF)								
Organization Membership/Platinum Revenues	\$ 1,150,000	\$ 1,015,300	\$ 1,200,000	\$ 134,700	\$ (50,000)	\$ 1,400,000	\$ 1,700,000	
Individual Member Dues & Donations	9,500	8,000	15,000	1,500	(5,500)	11,000	13,000	
NDSS Registrations	110,000	76,400	111,225	33,600	(1,225)	110,000	110,000	
Sponsorships and Grants (including Postel; excluding IETF)	150,000	65,000	170,000	85,000	(20,000)	425,000	700,000	
PIR Contribution to ISOC	13,000,000	9,700,000	9,700,000	3,300,000	3,300,000	14,000,000	15,000,000	
Total Revenues (excluding IETF)	14,419,500	10,864,700	11,196,225	3,554,800	3,223,275	15,946,000	17,523,000	
ISOC Department and Program Expenses (excl IETF)								
<u>Departmental Expenses (Including Core Projects)</u>								
Education	1,318,726		1,246,086		72,640	1,430,817	1,566,745	
Public Policy	1,897,169		1,426,652		470,517	2,058,428	2,253,979	
Regional Bureau Program	501,771		316,581		185,189	544,421	596,141	
Standards and Technology	1,327,421		269,248		1,058,173	1,440,252	1,577,076	
Major Strategic Initiatives	472,590		246,249		226,341	512,761	561,473	
Organization Members	1,014,991		807,997		206,994	1,101,266	1,205,886	
Chapters and Individual Members	1,388,740		1,427,105		(38,365)	1,506,783	1,649,927	
Communications and IT	2,222,450		918,857		1,303,593	2,411,358	2,640,437	
Total Departmental Expenses	10,143,858	5,956,824	6,658,775	4,187,034	3,485,083	11,006,086	12,051,664	
<u>Program Expenses</u>								
Enabling Access Initiative	1,450,000	789,676	1,557,000	1,274,824	507,500	1,573,250	1,722,709	
InterNetWorks Initiative	614,500					666,733	730,072	
Major Strategic Initiatives/Trust & Identity	300,000	175,000	1,200,000	125,000	(900,000)	750,000	1,000,000	
Other Programs/Projects (NDSS, Postel, Grants Research)	260,000	96,400	100,700	163,600	159,300	282,100	308,900	
Subtotal - External Program Expenses	2,624,500	1,061,076	2,857,700	1,563,424	(233,200)	3,272,083	3,761,680	
Total ISOC Expenses (excl IETF)	12,768,358	7,017,900	9,516,475	5,750,458	3,251,883	14,278,169	15,813,345	
Surplus (Deficit) from ISOC Activities	1,651,142	3,846,800	1,679,750	(2,195,658)	(28,608)	1,667,831	1,709,655	
IASA/IETF								
Meeting Registration Fees and Other	2,402,500	2,427,750	2,477,500	(25,250)	(75,000)	2,402,500	2,402,500	
ISOC/IETF Sponsorships	605,000	495,750	325,000	109,250	280,000	626,500	657,800	
Expenses (including G&A)	(4,545,900)	(4,411,700)	(4,127,700)	134,200	418,200	(4,662,600)	(4,889,800)	
Traditional ISOC Contribution to IETF	(1,538,400)	(1,488,200)	(1,325,200)	50,200	213,200	(1,633,600)	(1,829,500)	
New IETF Support Initiatives	(25,000)	-	-	25,000	25,000	115,000	350,000	
ISOC's Contribution to IETF	(1,563,400)	(1,488,200)	(1,325,200)	75,200	238,200	(1,518,600)	(1,479,500)	
Other Revenue (Expense)								
Interest/Other Misc. Revenue	274,500	235,300	93,000	39,200	181,500	247,050	247,050	
Currency Fluctuations Income (Expense)	-	(5,000)	-	5,000	-	-	-	
Subtotal PIR/Other	274,500	230,300	93,000	44,200	181,500	247,050	247,050	
ISOC Surplus (Loss) or Change in Net Assets	\$ 362,242	\$ 2,588,900	\$ 447,550	\$ (2,076,258)	\$ 391,092	\$ 396,281	\$ 477,205	
Change in Unrestricted Cash Reserves								
Unrestricted Cash, Beginning of Period	\$ 5,215,826	\$ 3,526,926	\$ 3,526,926	\$ 1,688,900	\$ 1,688,900	\$ 5,256,658	\$ 5,452,939	
Unrestricted Cash, End of Period	\$ 5,256,658	\$ 5,215,826	\$ 3,974,476	\$ 40,832	\$ 1,282,182	\$ 5,452,939	\$ 5,730,144	
Calculated Months Operating Reserves	6.9	10.4	6.0			6.7	6.6	