

CEO Report and Mid-Year Financial Forecast

As previously noted, the 2013 Business Plan set forth very ambitious goals for the organization, including challenging stretch goals for ISOC-generated revenue. The Internet Society continues to perform strongly in year-on-year growth – including in terms of revenue, Membership and Chapter engagement, and programmatic achievements. In light of revised projections in some revenue categories, including from PIR 1 and 2 character revenues (management has adjusted planned expenditures to meet overall 2013 Budget plans.

This report updates the preliminary mid-year forecast provided to the Board at the August meeting in Berlin, including an updated key performance indicator dashboard, which appears in the appendix.

The variances to the preliminary mid-year forecast include:

- We have revised slightly downward our overall ISOC-driven revenue projection from \$8.5m to \$8.3M. This, however, still represents a projected 93% achievement of our very aggressive \$8.95M revenue goal and, at the same time, we continue to strive to achieve the full goal in this category.
- Revenue from organizational and individual members is forecast to be \$1.9M, slightly lower than our \$2.0M projection in our preliminary report. Achievement of \$1.9M in revenue from this category will represent 94% attainment against another aggressive goal of \$2.08M.
- On the upside, our expected revenue from grants is now forecast at nearly \$2.3M, up from \$2.2M projected in our preliminary report, which would exceed our 2013 target of \$1.9M in this revenue category.
- As reported previously, our budgeted net operating surplus of \$978,000 is under pressure due mainly to the shortfall in 1 – 2 character revenues from PIR . However, we expect operating expenses to be 4% under budget as part of management's efforts to meet the surplus target.
- We have conservatively revised our individual membership forecast goal to attain 10,000 new individual members, as new individual membership growth was slower than expected through the first half of the year. However, new membership campaigns are in development and we are striving for full attainment by year's end.

In summary, we are committed to meeting the budgeted surplus and management is taking the necessary actions to ensure we meet our Net Surplus goal (before interest income and CEO search and transition expenses).

Our programmatic goals are largely on track with what was reported in August, the main exceptions were in the financial projections and these are outlined elsewhere in the report,

Mid-Year Financial Forecast

A mid-year financial forecast is provided below. These forecast figures reflect our expected results for the full year 2013, based on actual results through Q2 and a full review by Management of costs for the remainder of the year. This forecast reflects actions being taken by Management to meet the budgeted surplus for 2013 (before CEO search expenses).

Note that more detail regarding the Mid-Year Forecast is provided in the Q2 Financial Reports under review with the Finance Committee at this time.

We expect to realize substantial impact from our 2013 programmes and activities. ISOC continues to build momentum and support for our Mission, within the Internet community and also in the world more generally.

The Business Plan for 2013 includes goals that are aggressive in both programme deliverables and funding objectives. The four primary contributors to the revenue growth:

1. PIR's unrestricted contribution will increase from \$26.5 million to \$28.0 million (less than a 6% increase)
 - The Mid-Year forecast shows no change to this category.
 - Another \$1 million was included in the revenue plan from PIR's sale of 1-2 character domain names. PIR has indicated that this target, previously considered conservative, will not be met.
2. Org Membership revenues, including Platinum Contributors, new memberships, and individual dues and donations, are budgeted to increase from \$1.5 million to more than \$2.0 million (a 32% increase)
 - We forecast that Org Member revenues will grow about 20% year-over-year, but falling short of the 2013 revenue plan by \$200K.
3. Sponsorships (excluding IETF and Hall of Fame/Global INET) are budgeted to increase from \$508K in 2012 to \$1.48 million (nearly tripling)
 - Sponsorships, including funding for the Hall of Fame, are expected to fall well short of the revenue plan, as grant funding has exceeded sponsorship funding.
4. Grants are budgeted to increase from \$628K in 2012 to \$1.9 million in 2013 (again, nearly tripling).
 - Grant revenue will exceed the revenue budget, as two unbudgeted grants have been secured (IXP Toolkit and a large equipment donation).

Concurrently, four areas represent the primary budgeted uses of these funds: (a) expansion of our Regional activities, (b) direct fulfillment expenses for Grant activities, (c) expansion of the Leadership program, and (d) addition of 6 staff members in key areas according to our personnel budget.

Overall 2013 Financial Outlook

To summarize our financial outlook, we expect 2013 to present challenges in attaining our full budgeted revenue goals. We forecast that we will reach double-digit growth in each of the three growth categories of ISOC-Generated Revenue (Memberships, Grants, and Sponsorships), significantly surpassing previous years growth. We are redoubling our efforts to meet the aggressive budget goals however a conservative forecast would show us falling short of ISOC Generated Revenue budget by 7% (\$638K shortfall).

Equally as important and as previously reported, PIR forecasts the sale of 1-2 character domains will fall well short of the target for proceeds that were to be made available to ISOC. Consequently, we forecast a 60% shortfall in this revenue (\$600K shortfall).

To offset these funding variances, ISOC Management has taken action to reduce expenses to meet our Net Surplus goal (before interest income and CEO search and transition expenses). A high-level summary follows, while a more detailed accounting is included in the Q2 Financial Report to the Board.

Based on the forecast for the full-year 2013, Management continues to target a Net Surplus that will meet our budget target (the “**\$978,000 Surplus Target**”). This \$978K Target is:

- Before the impact of Interest Income (Loss) and currency impacts, which to-date has been negative
- Excludes the CEO Search and Transition Costs, but does cover a slight overage in Board governance and planning activities
- At this time, excludes any additional funding for the IGF at Bali. As notified to the Board, we are working to contain the impact of such an extraordinary funding, but may need relief against the budgeted surplus for this strategic move.

Internet Society
ISOC Statement of Activities Summary
Forecast 2013



	Aug Forecast	Annual Budget	Forecast Var	% Var
Unrestricted Revenues				
ISOC Generated (incl IETF)	\$ 8,310,986	\$ 8,949,400	\$ (638,414)	-7%
PIR Contribution to ISOC	28,000,000	28,000,000	-	0%
Project 94 form PIR sale of 1-2 character domains	400,000	1,000,000	(600,000)	-60%
PIR Restricted Funds(2010) Applied for Direct Use	1,000,000	1,000,000	-	0%
Total Unrestricted Revenues	37,710,986	38,949,400	(1,238,414)	-3%
Expenses				
Subtotal Operations Group	16,409,790	17,117,642	707,852	4%
Subtotal Strategic Group	13,717,542	14,198,459	480,917	3%
Other Program Expenses*	1,476,815	1,380,000	(96,815)	-7%
IETF	5,124,062	5,274,858	150,796	3%
Total Expenses	36,728,209	37,970,959	1,242,750	3%
Net Surplus (Deficit) before Interest & CEO Costs	982,777	978,441	4,336	0%
Other Revenue (Expense)	250,000	500,000	250,000	-50%
CEO Search & Transition Costs	(450,000)	-	(450,000)	
Net Unrestricted Surplus/(Deficit)	\$ 782,777	\$ 1,478,441	\$ (195,664)	-13%

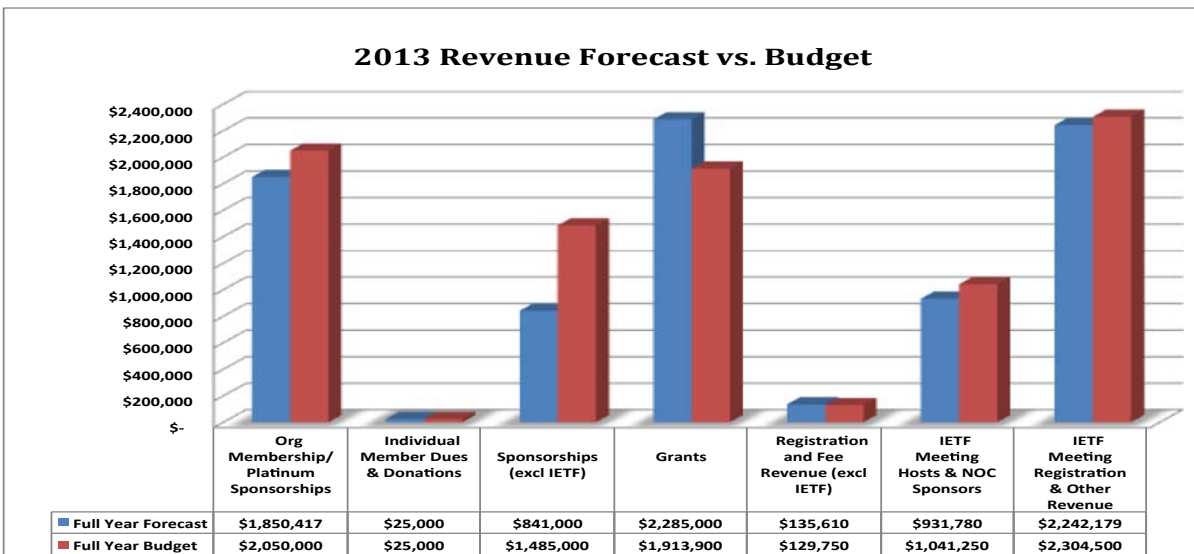
*Includes NDSS, Global INET, Hall of Fame, Internet Advertising Award, Strategic Planning & Board Governance Expenses

What are the Forecast changes since the Report to the Board on August 3?

Since the August 3 Board meeting, our forecast for overall ISOC-Generated revenues has been further reduced by 3% (\$300K) due to:

- Membership Revenue has been reduced (\$147K), particularly to account for a Platinum contributor (\$100K) that will not be recognized until 2014 due to revenue recognition rules.
- The delay and move of the Hall of Fame event dampened the sponsorship revenues (\$150K).
- The IAOC forecasts IETF host and registration fee revenues to be lower due to the uncertainty of funding for Vancouver, thereby lowering the forecast \$100K. Based on recent host discussions, ISOC believes host revenue forecast can be exceeded and be very close to budget for the year.

2013 Revenue Forecast vs. Budget



After a thorough review of all departmental expenses for the remainder of the year, Management has taken action to offset the forecast funding shortfalls, thereby meeting the

goal for Net Surplus. To keep our focus on a concrete target, we recognize the 2013 budget target of \$978,000 in Net Surplus for the year. Additional expense reduction steps include hiring delays where feasible, reduced travel, and delays in some programmes that are not time sensitive.

For the whole of 2013, expenses are currently forecast to be \$1.2 million under the budget, even with the higher grant fulfillment costs that is associated with the higher revenue expectations there.

As reflected above, we forecast that we will meet the \$978,000 Surplus Target for the year, subject to factors noted below.

Risks, Inclusions, Exclusions

As always, there are risks and extraordinary factors in any forecast. These are the primary areas we are watching for the remainder of 2013:

- Revenue recognition for grants depends on the timing of delivery against the goals of the grant. As our grant efforts bring more funding for ISOC's mission, we depend heavily on our Regional staff to meet aggressive timelines for the delivery of programmes such as the AXIS workshops in Africa and the IXP Toolkit in Latin America.
- The delivery of the reduced forecast revenue for 1-2 character domains is still a risk, perhaps as much as another \$200K for a total negative impact of \$800K.
- This forecast does not yet include the potential for further ISOC contribution toward the IGF Bali, which may require relief against the Surplus target.
- We expect a \$30K-\$50K overspend in Board Governance/Development. This variance has not been segregated from the figures in this forecast.
- At this time, we believe we have mitigated the expense side of the Istanbul Hall of Fame cancellation. However, we are still seeking return of our hotel deposit funds.

Other Financial Factors

IETF/IASA Review for 2013








The 2013 Budget continued a consistent level of support for the IETF. In brief, ISOC's contribution to IETF is forecast to be close to target for 2013, although Berlin (IETF 87) fell short of goal in host sponsorships, high attendance largely offset the negative impact of paying VAT on registration fees. NOC Sponsors for IETF 88 (Vancouver) are being finalized, and we are confident commitments will be secured.

Other Revenue (Expenses) for 2013




This category of the Statement of Activities includes income from investment activities as well as exchange rate gains or losses. ISOC has a conservative investment policy that allows for investment solely in short and intermediate term investment grade bonds. Although we have maintained the fixed income holdings in largely shorter-term holdings, bond returns for 2013 to-date have been negative. In addition, ISOC has yet to call upon the \$10 million funding from PIR. Consequently, we forecast that the 2013 full-year earnings from investments will be half of the planned \$500,000 for the year.

USD/CHF exchange rates have been positive thus far in 2013. This impact has been a mildly positive contributor to our overall global expenses. However, since we hold very little in cash in global currencies, we have realized little exchange rate income.

Tracking our Performance: Mid-Year Key Resource and Effectiveness Goals (and Year- end Projections)

<i>Financial</i>	Year-end Projection
<p>Increase ISOC-Driven revenue to US \$8.95 million</p> <ul style="list-style-type: none"> For the first half of the year, ISOC-Generated revenues fell short of the targets for Memberships Revenue and Grant funding. Funding from Sponsorships was below target due to the delay in the Hall of Fame. Registration Fees, largely IETF registration, were close to YTD revenue budgets. Revenue targets will be increasingly aggressive (or “stretch”) as the year progresses. However, Grants will bolster overall Revenue. At this time, we are forecasting a shortfall of 7% from the full-year 2013 Budget, resulting in forecast ISOC-Driven revenue of \$8.3 million. 	
<p>Increase grant contributions to \$1.9M</p> <ul style="list-style-type: none"> First half Grant Revenue is expected to be below budget, but exceed budget by year-end. Two applications for grants were not awarded due to a change in focus of the funder, and one grant has been delayed and is expected to move into 2014 (a follow-up grant in Latin America). We expect nearly half of the multi-year \$1.33 million IXP grant will be recognized in 2013, and have received a commitment to place ITE equipment that will be recognized as a grant contribution in 2013. As a result, we forecast 2013 Grant Revenue of nearly \$2.3 million. 	
<p>Increase sponsorship contributions to \$1.5M (excluding IETF meeting sponsorships)</p> <ul style="list-style-type: none"> First half Sponsorship Revenue was on target except for delay in the Internet Hall of Fame Event. A major contributor was the very successful Regional INET in Bangkok. While associated revenue will be booked in Q3, AfPIF sponsorship commitments have already attained over 100% of the target. Consistent with our earlier reports, we currently forecast Sponsorship Revenue to be \$840K for the year. At the same time, we continue to work to narrow this gap. 	
<p>Secure US \$1.04M in IETF meeting host and other sponsorships</p> <ul style="list-style-type: none"> We continue to finalize IETF 88 (Vancouver) NOC sponsors, and expect IETF sponsorship revenue to be very close to the annual target. Bits n Bites Sponsors and Hotel Commissions will add to these revenues and are on currently on pace to exceed annual goals. 	
<p>Manage ISOC expenses within budget, resulting in a Net Operating Surplus of \$978,000</p> <ul style="list-style-type: none"> Expenses for the first half of the year were 12% (\$1.8 million) under budget including positive variances in nearly all functional areas. Some of this positive variance is related to timing in delivery on grant-funded projects (related to timing of awards). The delayed Hall of Fame Event has also contributed to expenditure lower than budget. For the year we expect operating expenses to be 4% under Budget (\$1.2 million). These lower expenditures are part of management’s effort to meet the Surplus target, particularly in light of the expected shortfall in the PIR 1-2 Character Revenues (currently forecast to be \$600K). Savings in areas of personnel costs and some programme costs are expected to be offset funding shortfalls, despite absorption of programme fulfillment expenses associated with the higher Grant revenue. CEO search and transition expenses, as well as possible supplemental funding for the IGF Bali, are expected to negatively impact ISOC’s Surplus for the year, as these costs were not included in the 2013 Budget. 	
<p>Attain \$15.5M in Continuity Reserve funds</p> <ul style="list-style-type: none"> The contribution to Continuity Funds is dependent upon an Operating Surplus and positive returns on investments. Due to the impact of the CEO search costs, we expect to fall short of this 2013 target on the way to the overall goal of \$20 million by 2015. However, as noted above, we are seeking to contain costs to offset any projected revenue shortfalls, including the PIR 1-2 Character revenues. 	
<p>Advance the Internet Endowment/Campaign for an Open Internet by securing endowment Co-Chairs, establishing an endowment committee of the Board of Trustees, and pursuing a minimum investment of \$2M</p> <ul style="list-style-type: none"> Vint Cerf, Google and Lynn St. Amour, the Internet Society hosted an event in Washing DC on 20 August for individuals interested in and committed to the work of the IETF and raising an endowment for its sustainability. The event included participation from representatives from U.S. government agencies, academia, start-up Internet companies and other businesses. Follow-up associated with the event is on-going. Plans are being formalized for similar events in London and California as we peruse the endowment target. 	

Tracking our Performance: Mid-Year Key Resource and Effectiveness Goals (and Year- end Projections)

<i>Membership</i>	Year-end Projection
<p>Demonstrate ISOC’s value to its membership community by achieving combined membership revenue of US \$2.08M from organizational and individual members</p> <ul style="list-style-type: none"> For the first half, Individual and Organizational membership revenue were below targets, however, Org Membership revenue is projected to accelerate as platinum sponsors typically make their annual contributions in Q3-4. In addition, the pipeline for membership upgrades will very likely meet or exceed the target of \$250K. Full-Year Org Membership revenue is forecast to be \$1.9 million or 6% below a very aggressive budget. Membership and Services is initiating campaigns revolving around Internet Society stories. We continue to forecast Individual donor revenue on target. 	
<p>Broaden ISOC’s base of individual members by attaining 10,000 new individual members</p> <ul style="list-style-type: none"> New membership growth has been sluggish and new outreach and marketing programs are in development. Social media supporters continue to grow and will be tested in September for the ability of this group to provide financial resources through Crowdfunding, beginning with the Anti-Spam project funding in early September. Combined social media supporters and members now number over 210,000 as accounted for in social media numbers and membership database. 	
<i>Chapters</i>	
<p>Strengthen the ability of Chapters to contribute to ISOC’s mission (globally and locally), including by extending Chapter support services and tools, demonstrating increased global and regional input from Chapters, and increasing mutual engagement on project/issues of interest</p> <ul style="list-style-type: none"> With the passage of the updated by-laws, we are encouraged that Chapters now see themselves as full and equal partners in ISOC. Minimum Chapter performance standards and the process for their management have been drafted and socialization to Chapters begins in September. The Chapter Administrative Support working group is expected to hold its first meeting on September 6 or 7. The Africa Chapter Workshop held in Durban, simultaneously in English and French, was very successful. Due diligence has been conducted on a community engagement platform for Chapters and members (and virtually any community associated with the Internet Society). We have identified a leading vendor that presented the most comprehensive and cost effective solution and are advancing discussions on . 	
<p>Chapter Development and Support</p> <ul style="list-style-type: none"> The goal of Chapter Development and Support is to assure that chapters are highly engaged quality contributors to all aspects of the Internet Society’s mission and goals. New chapter applications have been received from Gauteng (South Africa). New chapters include the Yemen Chapter and rejuvenated Norway chapter. 	