

To: Board of Trustees of the Internet Society
Date: 19 September, 2012
Subject: CEO Report: 2012 Mid-Year Financial Performance & Outlook

This report updates the CEO's report at ISOC's AGM (August 4-5) and in the Q2 Financial Report to the Board (released August 14). In both the CEO Report and the Q2 Financial Report, we provided similar information regarding our 2012 performance and outlook for the year, and report no significant changes from the expectations in the former reports.

Overview

Similar to the increases from 2011 to 2012, there are three primary contributors to the 2012 revenue growth: (a) PIR's contribution will increase from \$24.25 million to \$26.50 million; (b) Org Membership revenues are budgeted to increase 30% to \$1.7 million; and (c) the Budget for Sponsorships and Grants (non-IETF) increased from \$572K in 2011 to \$2 million (250% growth) in 2012 (including sponsorships for ISOC's 20th Anniversary events). In addition, ISOC budgeted to receive \$310,000 in registration fees for the 20th Anniversary events.

Concurrently, four areas represent the primary 2012 budgeted uses of increased funds: (a) Mission integral program expansion, particularly in the areas of Deployment and Operationalization Hub (now called DO, focusing on delivery through the Deploy 360 programs), Internet Leadership (doubling the participants in NGL, expanding IETF fellowships, and fulfilling key parts of a grant for Latin America), (b) expanded Grant, Sponsorship & Membership activities, (c) emerging country development activities (primarily the Latin America grant work and the AU-AXIS grant), and (d) the addition of key personnel to support core areas of activity (Regional Bureaus, Public Policy, and Membership).

In brief, ISOC's first half results show that we are on target for total revenue through June, with the exception of Global INET sponsorships and registration revenues previously discussed, and under Budget on most expenditure categories for the first half. For the full year, our forecast reflects that we will exceed our target for 2012 operating surplus (vs. the Budget for annual Net Operating Surplus of \$350K, before interest income).

Mid-Year Revenue Review and 2012 Forecast

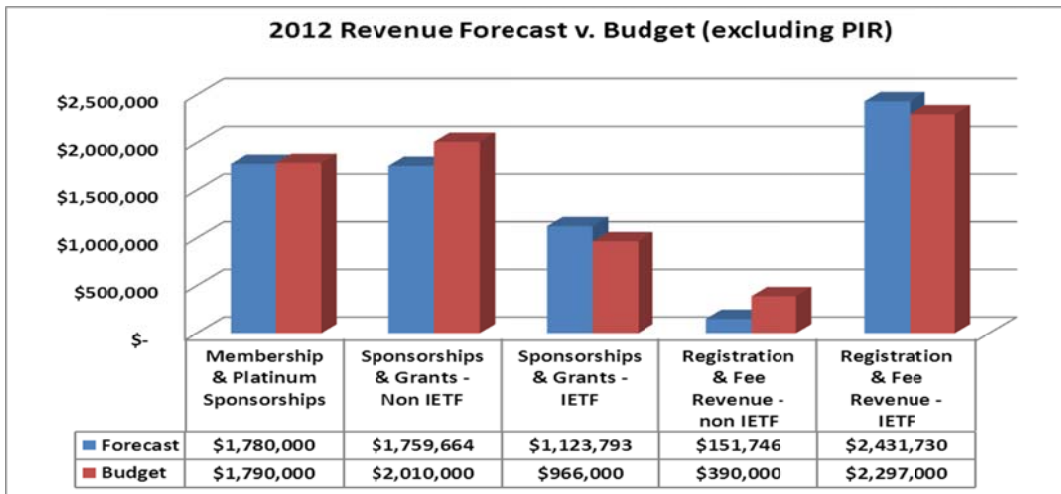
ISOC reflects revenue in three (3) main categories (described as "ISOC-Generated Revenues", in addition to PIR contributions):

- Org Memberships, Platinum Sponsorships, and Donations
- Sponsorships and Grants
- Registration and Fee Revenue

Org Membership Revenues exceeded the Budget through Q2, reflecting strong Platinum Sponsorship growth. Even so, we recognize that we have to stretch to achieve the \$1.7 million target for the year and continue to work with major contributors who recognize the value of ISOC's activities in areas such as Public Policy, DO and IL.

Efforts to bolster Individual Members and Donor Revenue will depend on a Q3 donor campaign and a program to enlist members of a global youth organization. As earlier reported, our forecast expects the number of donors to accelerate and be slightly short of the \$90K Budget. Once again, we realize the stretch in our forecast (\$80K) and dependence on the success of second half individual membership and donor programs.

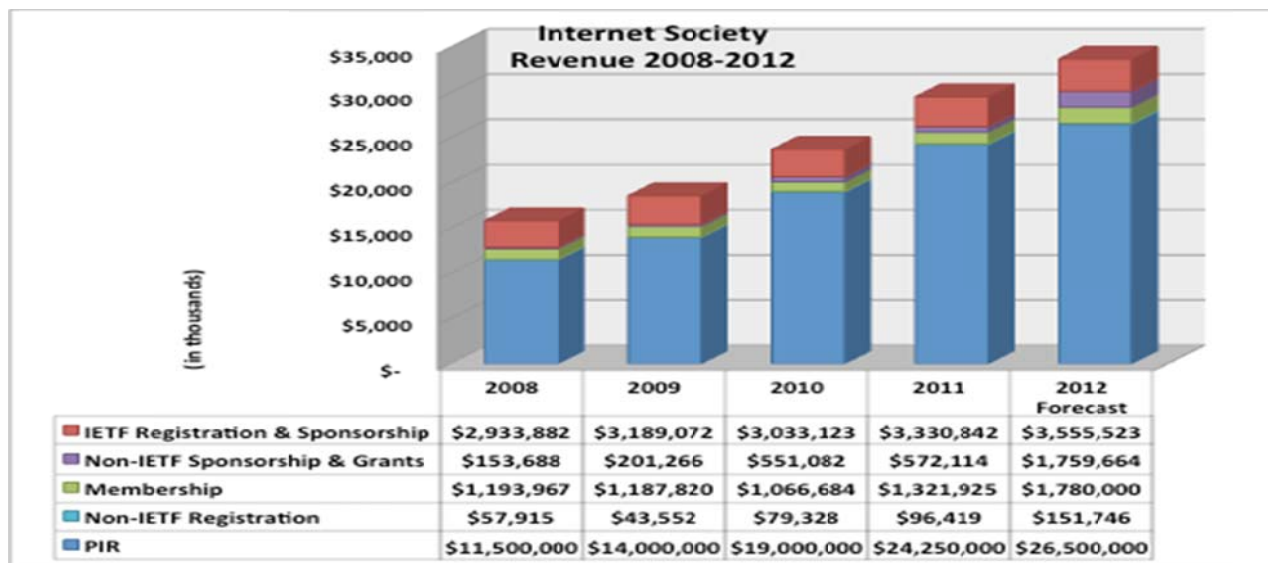
The following chart was used in the CEO report at the AGM, and remains consistent with our expectations.



For the full 2012, we expect some targeted Sponsorship and Grant Revenues to exceed revenue targets and some planned sources that will fall short of targets. On the positive side, we forecast ITE sponsorships, IETF Sponsorships, and other sponsorships to exceed their 2012 revenue targets. The result of our Grants effort are particularly encouraging, with the recent award of the African Union's AXIS grant for \$677K over two years, and last year's Latin American grant for \$450K over three years (grant revenue is recognized only as earned over the life of the grant). However, we fell \$150K short of the \$500K target for Global INET Sponsorships, and expect 2012 IL related sponsorships to fall similarly short of its target.

As reported earlier, Global INET Registration Revenue fell short by \$286K. Although attendance numbers at the INET were on target, we substantially lowered registration fees and waived most INET and Gala event fees to ensure equal opportunities for ISOC's diverse membership. This fee shortfall will be partially offset by NDSS registration revenues that exceeded their 2012 revenue goals.

The graphic below demonstrates the strides made in 2011 and 2012 (forecast) toward increased revenues from these areas of focus.



Mid-Year Expense Review and 2012 Forecast – Non-IETF Expenses

Expenses are reported according to their functional departments. The Q2 financial report reflected that expenses for nearly every functional department are under the mid-year Budget.

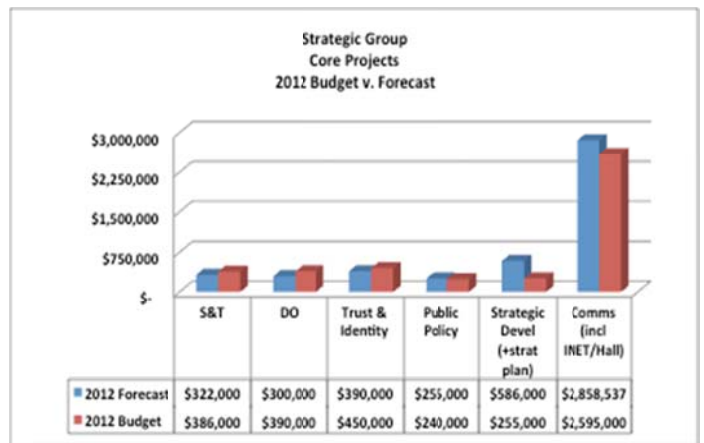
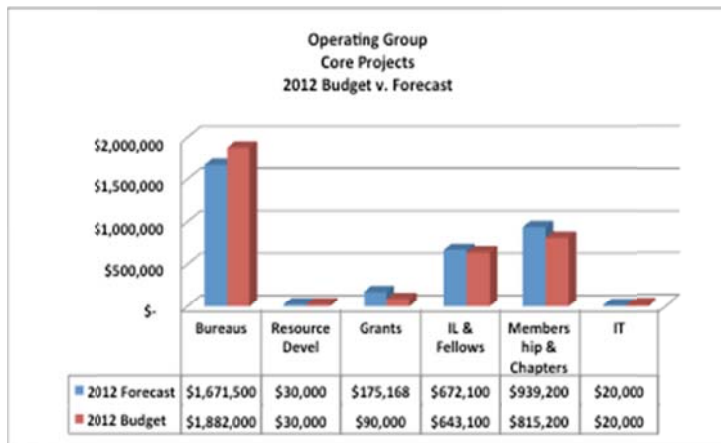
Many of these underspends are due to the organizational focus placed on the Global INET, as well as open headcount positions, and favorable currency exchange rates.

For the whole of 2012, functional area expenses are forecast to be below the budget, but only slightly so. The largest contributor will be savings in personnel-related expenses, forecast to be \$700K below Budget.

Specific comments regarding departmental expenses include:

- Resource Development, Regional Bureaus, and Trust/Identity are expected to be under the 2012 budget due to the timing of staff hiring;
- IT and Public Policy are expected to be under budget due to the favorable impact of currency exchange rates (each has substantial Geneva staff presence);
- Grant Development costs will exceed the budget due to costs in launching the Open Internet Endowment (OIE);
- Strategic Development is expected to be over budget due the exploratory “Phase 0” of the Long-Term Strategic Plan work with Bridgespan; and
- Communications is forecast to be over budget due to an expanded scope for the Global INET and Hall of Fame.

The graphics below (previously presented at the AGM) reflect the 2012 Budgets and 2012 forecast in the various functional areas.



Personnel Summary

Personnel-related costs make up more than 50% of ISOC’s operating expenses, as our programs are largely dependent upon expert personnel. We expect to be at full strength by the end of the year. Of the positions reported unfilled at the AGM, we have filled several key positions, and continue to seek qualified candidates for the other positions.

Q3 Key Hires

Sr. Director, Global Services

Sr. Director, Business Development & Resource Mobilization

Sr. Manager, Events (focus on Hall of Fame & Global INETs)

Sofie Maddens

Lynn McNair

Nicole Armstrong

If we are successful in filling all open positions, this will bring our year-end head-count (including employees and grant related contractors) to 84, 4 positions ahead of budget but within the budgeted salary expense, and as approved at the previous Board meeting.

IETF/IASA Review for 2012


The 2012 Budget continued a higher level of support for the IETF, as the IAOC continues to direct the development of stronger tools and restructures the RFC editor function. In brief, ISOC’s contribution to IETF is forecast to be within the Budget for 2012.

Cash and Reserves

We continue to hold funds sufficient to exceed our target goal for six-month reserves, invested conservatively in short to intermediate term bond instruments. Returns on these investments have been on target year-to-date, aided by strong financial performance in the

first quarter of the year. We remain cautiously optimistic about the outlook for investment performance for the full year, although we currently limit our investments in the Euro zone.

The following chart was previously presented to the Board at the AGM. Although this forecast was based on year-to-date performance through May, we continue to expect to track to these projections.

Internet Society Statement of Activities and Change in Net Assets 2012 Forecast				
	2012 Forecast	2012 Budget	Variance	2011 Actual
Unrestricted Revenues (including IETF)				
<i>Memberships and Contributors</i>				
Organization Membership/Platinum Contributors	\$ 1,700,000	\$ 1,700,000	\$ -	\$ 1,311,185
Individual Member Dues & Donations	80,000	90,000	(10,000)	10,740
Memberships and Contributors	<u>1,780,000</u>	<u>1,790,000</u>	<u>(10,000)</u>	<u>1,321,925</u>
<i>Sponsorships and Grants</i>				
IETF Sponsorships (incl new sponsorship opportunities)	1,123,793	966,000	157,793	1,052,695
Other Sponsorships and Grants	1,759,664	2,010,000	(250,336)	572,114
Sponsorships and Grants	<u>2,883,457</u>	<u>2,976,000</u>	<u>(92,543)</u>	<u>1,624,809</u>
<i>Registration and Fee Revenue</i>				
20th Anniversary Gala & Global INET Registrations	23,325	310,000	(286,675)	-
IETF Meeting Registration & Other Revenues	2,431,730	2,297,000	134,730	2,278,147
Other Registration and Fee Revenue	128,421	80,000	48,421	96,419
Registration and Fee Revenue	<u>2,583,476</u>	<u>2,687,000</u>	<u>(103,524)</u>	<u>2,374,566</u>
<i>PIR Contribution to ISOC</i>	26,500,000	26,500,000	-	24,250,000
PIR Restricted Funds Applied for Directed Use	1,000,000	1,000,000	-	-
Total Revenues (UNRESTRICTED)	34,746,933	34,953,000	(206,067)	29,571,300
ISOC Department and Program Expenses (excl IETF)				
<i>Departmental Expenses (Including Core Projects)</i>				
<i>Operations Group</i>				
COO & Support Functions	848,428	949,990	101,561	1,069,725
Regional Bureaus	4,564,922	4,923,402	358,480	3,279,303
Resource Development	927,398	1,168,943	241,544	781,730
Grants and Foundation Development	903,363	834,072	(69,291)	676,645
Internet Leadership	2,269,196	2,156,997	(112,199)	1,445,549
Membership and Chapters	3,208,342	3,112,059	(96,283)	2,138,021
IT	2,003,877	2,142,088	138,210	1,739,750
<i>Subtotal Operations Group</i>	<u>14,725,526</u>	<u>15,287,550</u>	<u>562,024</u>	<u>11,130,723</u>
<i>Strategic Group</i>				
Standards and Technology	1,828,190	1,790,632	(37,558)	1,815,068
DoHub	1,377,406	1,483,140	105,734	489,967
Trust & Identity Department	1,261,351	1,409,688	148,337	1,118,651
Public Policy	2,785,830	3,013,452	227,622	2,394,494
Strategic Development	1,199,778	865,968	(333,810)	760,410
Comms (incl Global INET, Hall Fame)	5,674,421	5,264,128	(410,293)	3,358,074
<i>Subtotal Strategic Group</i>	<u>14,126,975</u>	<u>13,827,008</u>	<u>(299,967)</u>	<u>9,936,664</u>
Total Departmental Expenses	<u>28,852,501</u>	<u>29,114,558</u>	<u>262,056</u>	<u>21,067,387</u>
<i>Other Program Expenses</i>				
<i>IETF Outreach</i>				55,371
<i>NDSS/Postel Service Award</i>	80,000	80,000	-	86,307
Total Department and Program Expenses (excl IETF)	<u>28,932,501</u>	<u>29,194,558</u>	<u>262,056</u>	<u>21,209,065</u>
<i>Standards Development Organization Contributions</i>				
IASA/IETF Expenses (excluding Capital)	5,247,000	5,408,000	(161,000)	4,874,452
Other Contributions - Standards Development Orgs	-	-	-	1,000,000
Total Unrestricted Expenses	34,179,501	34,602,558	101,056	27,083,517
Net Operating Surplus (Deficit)	567,432	350,442	(105,011)	2,487,783
Other Revenue (Expense)				
Interest/Other Misc. Revenue	400,000	400,000	-	198,511
Currency Fluctuations Income (Expense)	-	-	-	(138,137)
Interest/Other Income (Expense)	400,000	400,000	-	60,374
ISOC Unrestricted Surplus (Loss) or Change in Net Assets	\$ 967,432	\$ 750,442	\$ (105,011)	\$ 2,548,157
Balance in Unrestricted Net Assets, Beginning of Period	\$ 12,341,682	\$ 13,309,114		
Balance in Unrestricted Net Assets, End of Period	\$ 13,309,114	\$ 14,059,556		

Summary:

ISOC continues to make significant strides. We are forecasting our biggest year ever in terms of ISOC driven revenue. Our impact in policy debates is clearly seen and felt in many areas across the globe, as is our impact on technical matters (IPv6 and Trust & Identity as two examples). Our Communications and outreach efforts have contributed significantly to the success of our key programs and our ability to involve new players and invest in new topical and critical areas. Finally, our Bureaus and our local presence through chapters and members are showing just how critical and how impactful a resource they can be.

All this is enabling ISOC to more fully meet its Mission and take significant steps to impact critical developments for the well-being of the global Internet.