

*Financial Statements*  
*Years Ended*  
*December 31, 2005 and 2004*

*American Registry for Internet  
Numbers, Ltd.*

*Goodman*  
\_\_\_\_\_  
& COMPANY

Certified Public Accountants  
Specialized Services  
Business Solutions

*American Registry for Internet Numbers, Ltd.*

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Certified Public Accountants  
Specialized Services  
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## *Report of Independent Auditors*

Board of Directors  
*American Registry for Internet Numbers, Ltd.*

We have audited the accompanying statements of financial position of *American Registry for Internet Numbers, Ltd.* as of December 31, 2005 and 2004, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the management of *American Registry for Internet Numbers, Ltd.* Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *American Registry for Internet Numbers, Ltd.* as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Goodman & Company, LLP*

McLean, Virginia  
March 10, 2006, except for Note 10, as to which date is June 7, 2006

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*American Registry for Internet Numbers, Ltd.*

*Statements of Financial Position*

<b>December 31,</b>	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 606,872	\$ 813,427
Investments	19,194,476	15,371,039
Nontrade receivables	17,668	147,387
Prepaid expenses	217,029	202,969
<b>Total current assets</b>	<b>20,036,045</b>	<b>16,534,822</b>
<b>Property and equipment - net</b>	<b>911,626</b>	<b>1,131,902</b>
<b>Escrow - deposit</b>	<b>571,948</b>	<b>351,338</b>
	<b>\$ 21,519,619</b>	<b>\$ 18,018,062</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 527,409	\$ 602,672
Due to ICANN	617,064	455,447
Deferred rent	93,780	82,043
Deferred revenue	3,252,995	2,790,330
<b>Total current liabilities</b>	<b>4,491,248</b>	<b>3,930,492</b>
<b>Unrestricted net assets</b>	<b>17,028,371</b>	<b>14,087,570</b>
	<b>\$ 21,519,619</b>	<b>\$ 18,018,062</b>

*The accompanying notes are an integral part of these financial statements.*

*American Registry for Internet Numbers, Ltd.*

*Statements of Activities*

<b>Years Ended December 31,</b>	<b>2005</b>	<b>2004</b>
<b>Revenue and support</b>		
Registrations	\$ 8,561,979	\$ 7,258,541
IP end-user registrations	288,500	442,750
Maintenance fees	756,584	475,508
Contributions	7,500	33,747
Other revenue	7,846	14,146
Membership dues	36,542	10,000
<b>Total revenue and support</b>	<b>9,658,951</b>	<b>8,234,692</b>
<b>Operating expenses (see schedules)</b>		
Program services:		
Engineering	2,777,298	2,434,796
Registration services group	1,707,905	1,630,978
Member services	1,649,719	1,289,080
<b>Total program services</b>	<b>6,134,922</b>	<b>5,354,854</b>
Support services -		
General and administrative	1,455,958	1,528,404
<b>Total operating expenses</b>	<b>7,590,880</b>	<b>6,883,258</b>
<b>Change in net assets before investment activities</b>	<b>2,068,071</b>	<b>1,351,434</b>
<b>Interest and dividends</b>	<b>366,597</b>	<b>229,301</b>
<b>Realized and unrealized gains on investments</b>	<b>506,133</b>	<b>747,692</b>
<b>Change in net assets</b>	<b>2,940,801</b>	<b>2,328,427</b>
<b>Unrestricted net assets - beginning of year</b>	<b>14,087,570</b>	<b>11,759,143</b>
<b>Unrestricted net assets - end of year</b>	<b>\$ 17,028,371</b>	<b>\$ 14,087,570</b>

*The accompanying notes are an integral part of these financial statements.*

*American Registry for Internet Numbers, Ltd.*

*Schedules of Operating Expenses*

<b>Years Ended December 31,</b>	<b>2005</b>	<b>2004</b>
Salaries and employee benefits	\$ 3,790,456	\$ 3,489,890
Hiring costs	7,436	9,269
<b>Personnel</b>	<b>3,797,892</b>	<b>3,499,159</b>
Depreciation and amortization	422,492	588,290
Communications	344,997	314,724
Equipment support and licenses	145,715	149,761
<b>Operations</b>	<b>913,204</b>	<b>1,052,775</b>
Travel	898,104	489,376
Rent and occupancy	373,373	368,033
General office	227,203	210,321
Legal expense	255,396	256,836
Members meeting	321,122	194,544
Contingency expense	76,183	108,926
Consulting expense	153,382	106,985
Legal defense fund	53,178	35,162
<b>General office and administrative</b>	<b>2,357,941</b>	<b>1,770,183</b>
ICANN support	161,617	196,580
Emerging registry support	14,231	176,604
Internet research and support	195,942	156,000
NRO	23,004	16,620
ASO	127,049	15,337
<b>Internet Support</b>	<b>521,843</b>	<b>561,141</b>
	<b>\$ 7,590,880</b>	<b>\$ 6,883,258</b>

*The accompanying notes are an integral part of these financial statements.*

*American Registry for Internet Numbers, Ltd.*

*Statements of Cash Flows*

<b>Years Ended December 31,</b>	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 2,940,801	\$ 2,328,427
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	422,492	588,290
Realized and unrealized gains on investment	(506,133)	(747,692)
Loss on disposal of property and equipment	31,270	-
Change in:		
Nontrade receivables	129,719	(131,649)
Prepaid expenses	(14,060)	(190,037)
Escrow - deposit	(220,610)	200,389
Accounts payable and accrued expense	(75,263)	315,813
Due to ICANN	161,617	(91,395)
Deferred rent	11,737	6,331
Deferred revenue	462,665	(199,192)
<b>Net cash from operating activities</b>	<u>3,344,235</u>	<u>2,079,285</u>
<b>Cash flows from investing activities</b>		
Property and equipment acquisitions	(233,486)	(548,158)
Purchase of investments	(17,281,824)	(7,044,116)
Sales and redemption of investments	13,964,520	4,024,720
<b>Net cash from investing activities</b>	<u>(3,550,790)</u>	<u>(3,567,554)</u>
<b>Net change in cash and cash equivalents</b>	(206,555)	(1,488,269)
<b>Cash and cash equivalents - beginning of year</b>	<u>813,427</u>	<u>2,301,696</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ 606,872</u>	<u>\$ 813,427</u>

*The accompanying notes are an integral part of these financial statements.*

# *American Registry for Internet Numbers, Ltd.*

## *Notes to Financial Statements*

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December 31, 2005 and 2004

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### **1. Organization and Nature of Activities**

*American Registry for Internet Numbers, Ltd.* (ARIN) was established on August 28, 1997, and began operations on December 22, 1997. ARIN provides services related to the technical coordination and management of Internet number resources in its service region which is Canada, the United States and several islands in the Caribbean Sea and North Atlantic Ocean. ARIN facilitates the development of consensus-based policies made by its members and stakeholders, and provides information and educational outreach.

### **2. Summary of Significant Accounting Policies**

#### **Financial Statement Presentation**

ARIN reports information regarding its financial position and activities according to the existence or absence of externally (donor) imposed restrictions into three classes of net assets. The net asset classes are unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. ARIN had only unrestricted net assets at December 31, 2005 and 2004.

#### **Cash and Cash Equivalents**

For the purposes of the statement of cash flows, ARIN considers all highly liquid instruments purchased with an original maturity of three months or less and available for general operating purposes to be cash equivalents. Cash accounts maintained in brokerage accounts are subject to Board of Directors' approval and are not considered as cash and cash equivalents.

#### **Investments**

ARIN includes in investments all accounts, including money market funds, which are managed by investment advisors. Investments are recorded at fair market value and realized and unrealized gains and losses are reported in the accompanying statements of activities.

#### **Property and Equipment**

Property and equipment acquisitions are recorded at cost. Expenditures for additions, renewals, and improvements are capitalized; expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of property, the cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included in income.

Building improvements are amortized over the term of the respective lease. Depreciation of property and equipment is provided for using the straight-line method over the estimated useful life. Useful lives range from three to five years for furniture and office equipment and ten years for leasehold improvements.



## **Deferred Revenue**

Revenue received in advance of the period in which it is earned is deferred to subsequent periods. Deferred revenue is comprised principally of registration fees received in advance.

## **Income Taxes**

ARIN is a qualifying not-for-profit organization as defined in Section 501(c)(6) of the Internal Revenue Code and is subject to tax only on its unrelated business income. ARIN had no taxable unrelated business income during 2005 and 2004.

## **Revenue Recognition**

Registration revenue of ASN registrations and IP initial registrations are recognized in the applicable period. Resources are not issued until payment is received.

ARIN recognizes renewal revenue when it is received, following the registration anniversary.

Both initial and renewal registration revenue are recognized in the corresponding period in which the services are rendered. In cases where overdue payments are received, the appropriate amount, which may equal the entire payment, is recognized immediately to correspond to the appropriate service period.

Membership dues are recorded as revenue in the applicable period to which the membership applies.

## **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

## **Functional Allocation of Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Expenses are charged to each program based on direct expenditures incurred. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Certain management and staff expenses have been allocated to programs on a percentage basis.

## **Concentrations of Credit Risk**

Financial instruments, which potentially subject ARIN to concentrations of credit risk, consist principally of cash invested at a financial institution in excess of Financial Deposit Insurance Corporation (FDIC) coverage, temporary cash investments and investments. ARIN places its temporary cash investments with high credit quality financial institutions. At December 31, 2005 and 2004, the ARIN's uninsured cash balance was \$483,070 and \$709,083, respectively. Investments are not FDIC insured and are subject to market fluctuations. ARIN monitors the investment portfolio to minimize risk associated with these investments and diversifies accordingly.

## Reclassifications

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

### 3. Escrow – Deposit

ARIN is provided internet numbers for distribution by the Internet Corporation for Assigned Names and Numbers (ICANN). ARIN pays ICANN a portion of fees collected. ARIN deposits money to be paid to ICANN in an escrow account. The escrow account contains the fee owed to ICANN and interest earned on the escrow account. The account totaled \$571,948 and \$351,338 at December 31, 2005 and 2004, respectively. Fees owed to ICANN at December 31, 2005 and 2004 were \$617,064 and \$455,447, respectively.

### 4. Investments

Investments consisted of the following at December 31:

	<u>2005</u>	<u>2004</u>
Mutual funds	\$ 14,763,561	\$ 11,086,674
Certificates of deposits	2,696,736	3,115,017
U.S. government securities	1,181,180	-
Money market funds	549,815	1,169,275
Cash	3,184	73
	<u>\$ 19,194,476</u>	<u>\$ 15,371,039</u>

### 5. Property and Equipment

Property and equipment and accumulated depreciation at December 31 are as follows:

	<u>2005</u>	<u>2004</u>
Furniture and fixtures	\$ 223,951	\$ 229,139
Office equipment	78,769	86,427
Computer equipment and software	2,088,766	2,314,655
Leasehold improvements	638,060	612,785
Construction in progress	47,376	-
	<u>3,076,922</u>	<u>3,243,006</u>
Accumulated depreciation and amortization	<u>(2,165,296)</u>	<u>(2,111,104)</u>
	<u>\$ 911,626</u>	<u>\$ 1,131,902</u>

## 6. Retirement Plan

ARIN has a 401(k) retirement plan which is available to all employees ninety days after hire. The employer has a discretionary matching option of up to the first 6% that the employee contributes through salary reduction election. Total retirement expense for 2005 and 2004 was \$145,672 and \$165,922, respectively.

## 7. Related Party Transactions

On October 24, 2003, the four Regional Internet Registries (RIRs) – ARIN along with Asia Pacific Registry (APNIC), Latin American Registry (LACNIC) and European Registry (RIPE NCC) – entered into a memorandum of understanding to form the Number Resource Organization (NRO). In April 2005, ICANN recognized the African Registry (AfrinIC) as the fifth RIR in the world. Until 2004, Number Resources were managed in Africa by the RIPE NCC, ARIN, and APNIC.

The purpose of the NRO is to undertake joint activities of the Regional Internet Registries (RIRs), including joint technical projects, liaison activities and policy coordination. The NRO Executive Council consists of one person selected by each RIR. NRO expenses shall be borne by the RIR signatories on an equal basis of each RIR, unless specifically superseded by a specific or general per capita agreement by the NRO Executive Council. RIRs may donate funds, personnel, services and equipment to the NRO at their individual discretion in addition to the provisions for cost sharing. ARIN's contribution to finance the operations of NRO for 2005 and 2004 was \$23,004 and \$16,620, respectively.

## 8. Lease Commitments

ARIN occupies office space in Chantilly, Virginia under an operating lease expiring in January 2012, with a current base monthly rental payment of \$19,978. The base rent is subject to an annual escalation percentage of 3% and increases in its proportionate share of operating expense.

Future minimum lease payments at December 31 are as follows:

2006	\$ 254,408
2007	262,113
2008	269,966
2009	278,115
2010	286,413
Thereafter	<u>295,006</u>
	<u>\$ 1,646,021</u>

Rent expense totaled \$258,131 and \$245,290 during 2005 and 2004, respectively.

## 9. Operating Expenses

The increase in travel costs is due to increased budgeted AC and board travel than in previous years.

The change in the ASO expense line is due to increased ASO AC travel for ARIN as approved by the Board of directors on June 10, 2004.

## 10. Subsequent Event

On April 12, 2006, a Mr. Gary Kremen filed suit in United States District Court, Northern District of California against ARIN claiming violation of antitrust laws, conversion, unfair business practices and breach of fiduciary duty. Mr. Kremen's suit requests various relief if a judgment is found in his favor including requiring ARIN to void or change certain business practices and agreements, transfer specific IP addresses to Mr. Kremen, and for ARIN to pay Mr. Kremen compensatory damages of \$15 million and punitive and exemplary damages of at least \$45 million.

It is management's expectation that it will have to expend resources to defend itself against this claim. Additionally, ARIN is in discussions with its insurance carrier regarding possible insurance coverage in this matter.

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