American Registry For Internet Numbers, Ltd.

Financial Report
December 31, 2011

Contents

McGladrey

Independent Auditor's Report

To the Board of Trustees
American Registry for Internet Numbers, Ltd.
Chantilly, Virginia

We have audited the accompanying statements of financial position of American Registry for Internet Numbers, Ltd. (ARIN) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of ARIN's management. 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 ARIN as of December 31, 2011 and 2010, 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.

McGladrey LLP

Vienna, Virginia
May 23, 2012

American Registry For Internet Numbers, Ltd.

Statements Of Financial Position
December 31, 2011 And 2010

Assets	**2011**	2010
Cash And Cash Equivalents	**$ 1,422,905**	$ 994,132
Investments		
Legal Defense Reserve Fund	**2,084,554**	2,326,991
Operating Reserve Fund	**2,832,655**	340,366
Long-Term Reserve Fund	**19,384,291**	23,567,656
	24,301,500	26,235,013
Accounts Receivable, net	**278,725**	246,993
Prepaid Expenses	**426,206**	455,197
Note Receivable	**90,000**	30,000
Property And Equipment, net	**4,553,831**	3,472,685
Software Costs	**540,120**	717,309
Deposits	**236,189**	110,440
	$ 31,849,476	$ 32,261,769

Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 1,402,981**	$ 1,338,676
Due to ICANN	**89,553**	101,722
Deferred rent	**24,242**	36,256
Deferred revenue	**5,676,792**	5,078,573
Total liabilities	**7,193,568**	6,555,227
Commitments (Note 7)		
Net Assets		
Unrestricted	**24,655,908**	25,706,542
	$ 31,849,476	$ 32,261,769

See Notes To Financial Statements.

American Registry For Internet Numbers, Ltd.

Statements Of Activities
Years Ended December 31, 2011 And 2010

	2011	2010
Revenue and support:		
Registration	**$ 11,496,281**	$ 10,913,717
IP end-user registrations	**1,415,250**	888,750
Maintenance fees	**1,160,500**	1,109,300
Contributions	**209,850**	167,460
Network transfers	**57,250**	73,250
Membership dues	**22,000**	16,500
Other revenue	**5,524**	6,120
Total revenue and support	**14,366,655**	13,175,097
Operating expenses:		
Program services:		
Engineering	**6,664,935**	5,910,883
Member services	**2,978,688**	2,393,280
Registration services group	**2,490,933**	2,049,496
Outreach services	**343,150**	892,249
Total program services	**12,477,706**	11,245,908
Support services:		
General and administrative	**2,584,372**	2,287,541
Total operating expenses	**15,062,078**	13,533,449
Change in net assets before investment activities	**(695,423)**	(358,352)
Interest and dividends	**661,740**	549,528
Realized and unrealized (losses) gains on investments	**(1,016,951)**	2,367,798
Change in net assets	**(1,050,634)**	2,558,974
Unrestricted net assets, beginning of year	**25,706,542**	23,147,568
Unrestricted net assets, end of year	**$ 24,655,908**	$ 25,706,542

See Notes To Financial Statements.

American Registry For Internet Numbers, Ltd.

Statements Of Cash Flows
Years Ended December 31, 2011 And 2010

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	**$ (1,050,634)**	$ 2,558,974
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**1,619,577**	1,327,933
Realized and unrealized losses (gains) in investments	**1,016,951**	(2,367,798)
Loss on disposal of property and equipment	**2,080**	-
Bad debt expense	**38,889**	124,230
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	**(70,621)**	(132,024)
Prepaid expenses	**28,991**	(145,438)
Note receivable	**(60,000)**	(30,000)
Software costs	**177,189**	(585,860)
Deposits	**(125,749)**	46,903
Increase (decrease) in:		
Accounts payable and accrued expenses	**64,305**	553,424
Due to ICANN	**(12,169)**	(12,263)
Deferred rent	**(12,014)**	(27,672)
Deferred revenue	**598,219**	249,157
Net cash provided by operating activities	**2,215,014**	1,559,566
Cash Flows From Investing Activities		
Property and equipment acquisitions	**(2,702,803)**	(2,808,133)
Proceeds from the sale of investments	**5,448,144**	2,635,552
Purchase of investments	**(4,531,582)**	(1,857,190)
Net cash used in investing activities	**(1,786,241)**	(2,029,771)
Net increase (decrease) in cash and cash equivalents	**428,773**	(470,205)
Cash And Cash Equivalents		
Beginning	**994,132**	1,464,337
Ending	**$ 1,422,905**	$ 994,132

See Notes To Financial Statements.

Note 1. Nature Of Activities And Significant Accounting Policies

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.

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting.

Basis of presentation: The accompanying financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). 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 no temporarily or permanently restricted net assets at December 31, 2011 and 2010.

The Board of Trustees has designated net assets for the following purposes:

Legal Defense Reserve Fund: To fund legal challenges as they arise. At December 31, 2011 and 2010, the Legal Defense Reserve Fund totaled $2,084,554 and $2,326,991, respectively.

Operating reserve fund: To provide short-term financial stability for ARIN. The Operating Reserve Fund totaled $2,832,655 and $340,366 at December 31, 2011 and 2010, respectively.

Long-Term Reserve Fund: To provide long-term financial stability for ARIN. At December 31, 2011 and 2010, the Long-Term Reserve Fund totaled $19,384,291 and $23,567,656, respectively.

Cash and cash equivalents: For the purposes of the statements 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 Trustees' approval and are not considered as cash and cash equivalents.

Financial risk: ARIN maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. ARIN has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash.

ARIN invests in a portfolio that contains certificates of deposit, exchange traded funds, closed end fund and mutual funds. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least, reasonably possible that changes in risks, in the near term could materially affect investment balances and the amounts reported in the financial statements.

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.

Accounts receivable: Accounts receivable are recorded at original invoice less an estimate made for doubtful receivables and consist principally of registration fees. ARIN uses the allowance method to determine uncollectible accounts receivable. Management establishes an allowance for all outstanding receivables aged over 90 days. At December 31, 2011 and 2010, management established an allowance in the amount of $53,500 and $90,000, respectively.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

<u>Property and equipment</u>: ARIN capitalizes all property and equipment purchased of $1,000 or more 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 operations.

Leasehold improvements are amortized over the ten-year term of the lease. Depreciation of property and equipment is provided for using the straight-line method over the estimated useful life of the assets which range from three to five years.

<u>Software costs</u>: ARIN expenses preliminary project stage costs as incurred. Capitalized applications stage costs are amortized over five years using the straight-line method. Post-implementation and operation stage costs are expensed as incurred.

<u>Impairment of long-lived assets</u>: ARIN accounts for the valuation of long-lived assets under ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*. ASC 360 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. As of December 31, 2011 and 2010, management has determined that there has been no impairment in the carrying value of long-lived assets reflected in the accompanying financial statements.

<u>Deferred revenue</u>: 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.

<u>Income taxes</u>: ARIN is a qualifying not-for-profit organization as defined in Section 501(c)(6) of the Internal Revenue Code and is exempt from federal income taxes. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The accounting standard for uncertainty in income taxes, which addresses the determination of whether, tax benefits claimed or expected to be claimed on a tax return, should be recorded in the financial statements. Under this guidance, ARIN recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated ARIN’s tax positions and concluded that ARIN had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, ARIN is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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.

Both initial and renewal registration revenue are recognized in the corresponding period in which the services are rendered.

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

Use of estimates: The preparation of financial statements 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 revenue 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 statements 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.

Subsequent events: In preparing these financial statements, ARIN has evaluated subsequent events through May 23, 2012, which is the date the financial statements were available to be issued.

Note 2. Investments And Fair Value Measurements

In accordance with the FASB Codification statement, *Fair Value Measurements*, ARIN has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the statements of financial position are categorized based on the inputs to valuation techniques, as follows:

> Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and mutual funds.
>
> Level 2 – Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds, government obligations and over-the-counter derivatives.
>
> Level 3 – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

Note 2. Investments And Fair Value Measurements (Continued)

Exchange traded and mutual funds: Valued at quoted market prices in active markets for identical assets.

Certificates of deposit: Valued at market prices based upon observable inputs such as interest rates.

The following table sets forth by level, within the fair value hierarchy, ARIN's investments at fair value at December 31, 2011 and 2010.

	Year Ended December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity exchange traded funds	**$ 2,345,617**	**$ -**	**$ -**	**$ 2,345,617**
Taxable bond exchange traded fund	**1,547,727**	**-**	**-**	**1,547,727**
Mutual funds, balanced funds				
Foreign blended funds	**1,059,188**	**-**	**-**	**1,059,188**
Growth funds	**4,265,258**	**-**	**-**	**4,265,258**
Blended funds	**4,189,759**	**-**	**-**	**4,189,759**
Bond fund	**5,147,703**	**-**	**-**	**5,147,703**
Commodities broad basket funds	**806,508**	**-**	**-**	**806,508**
	15,468,416	**-**	**-**	**15,468,416**
Certificates of deposit	**-**	**2,248,383**	**-**	**2,248,383**
	$ 19,361,760	**$ 2,248,383**	**$ -**	**$ 21,610,143**

	Year Ended December 31, 2010			
	Level 1	Level 2	Level 3	Total
Equity exchange traded funds	$ 1,774,404	$ -	$ -	$ 1,774,404
Taxable bond exchange traded fund	1,451,833	-	-	1,451,833
Mutual funds, balanced funds				
Foreign blended funds	3,541,878	-	-	3,541,878
Growth funds	4,027,318	-	-	4,027,318
Blended funds	8,083,201	-	-	8,083,201
Bond fund	3,359,461	-	-	3,359,461
Commodities broad basket funds	1,310,676	-	-	1,310,676
	20,322,534	-	-	20,322,534
Certificates of deposit	-	2,387,416	-	2,387,416
	$ 23,548,771	$ 2,387,416	$ -	$ 25,936,187

Money market funds of $2,691,357 and $298,826 as of December 31, 2011 and 2010, respectively, are not included in the total investments as they are carried at cost.

Note 3. Note Receivable

In October 2010, ARIN executed a loan agreement of up to $180,000 with NewNOG, Inc. under commercial terms to provide for Executive Director services during its early formation period. The agreement provides advances to NewNog of up to $30,000 on a quarterly basis through January 1, 2012. Interest accrues on the outstanding balance at an annual rate of 2%. Repayments of the loan will commence on October 1, 2012, in equal quarterly principal and interest payments pursuant to a 25-month amortization schedule. Full payment of the outstanding balance is due by January 1, 2014. The balance on the note receivable at December 31, 2011 and 2010, respectively, is $90,000 and $30,000.

Note 4. Property And Equipment

Property and equipment and accumulated depreciation at December 31, 2011 and 2010, are as follows:

	2011	2010
Computer equipment	**$ 3,771,844**	$ 3,226,682
Database	**4,461,552**	2,521,040
Computer software	**649,630**	903,417
Furniture and fixtures	**322,018**	320,001
Office equipment	**103,361**	98,771
Leasehold improvements	**751,017**	751,017
	10,059,422	7,820,928
Less accumulated depreciation and amortization	**(5,505,591)**	(4,348,243)
	$ 4,553,831	$ 3,472,685

Note 5. Retirement Plan

ARIN has a 40I(k) retirement plan which is available to all employees within their first month of hire. ARIN makes a discretionary matching contribution equal to 200% of the first 3% of salary deferred and 100% of the next 3% deferred. Total retirement plan expense for 2011 and 2010, was $545,694 and $416,627, respectively.

Note 6. Related Party Transactions

On October 24, 2003, the four Regional Internet Registries (RIRs) and 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 are 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 2011 and 2010, were $80,068 and $46,345, respectively.

ARIN is provided internet numbers for distribution by the Internet Corporation for Assigned Names and Numbers (ICANN). ARIN pays ICANN a voluntary contribution based on ARIN's fees collected and resources allocated. During 2011 and 2010, ARIN paid ICANN $166,937 and $191,180, respectively.

Note 7. Commitments

Lease commitments: During 2011, ARIN amended their lease for office space in Chantilly, Virginia. ARIN occupies the space under an operating lease expiring in January 2019, with a current base monthly rental payment of $19,756. The base rent is subject to an annual escalation percentage of three percent and increases in its proportionate share of operating expense. Deferred rent is recorded in relation to the escalating lease payments.

Future minimum lease payments for the years ending December 31 are as follows:

Years Ending December 31,		
2012	$	243,591
2013		250,899
2014		258,426
2015		266,179
2016		274,164
2017 - 2019		597,547
	$	1,890,806

Rent expense totaled $227,422 and $258,049 during 2011 and 2010, respectively.

Severance agreement commitments: ARIN provides various severance plans to employees within various levels of the organization and for various time periods up to 12 months.

McGladrey

Independent Auditor's Report On The Supplementary Information

To the Board of Trustees
American Registry for Internet Numbers, Ltd.
Chantilly, Virginia

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information which follows is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McGladrey LLP

Vienna, Virginia
May 23, 2012

American Registry For Internet Numbers, Ltd.

Schedules Of Operating Expenses
Years Ended December 31, 2011 And 2010

	2011	2010
Salaries and employee benefits	$ 7,177,849	$ 6,811,920
Hiring costs	50,299	7,003
Personnel	7,228,148	6,818,923
Depreciation and amortization	1,619,577	1,327,933
Communications	881,280	675,968
Equipment support and licenses	464,547	414,514
Operations	2,965,404	2,418,415
Travel	1,122,513	1,115,200
Legal expense	1,029,916	434,491
General office	654,058	689,895
Members meeting	408,394	367,695
Rent and occupancy	378,358	430,462
Consulting expense	369,440	357,338
Outreach expense	232,954	251,652
Contingency expense	47,404	-
General office and administrative	4,243,037	3,646,733
ASO support and AC support	217,901	248,137
ICANN support	166,937	191,180
Internet research and support	160,583	163,716
NRO	80,068	46,345
Internet support	625,489	649,378
	$ 15,062,078	$ 13,533,449