Proposed Budget:
Fiscal Year 2007–2008

17 May 2007

TABLE OF CONTENTS

Introduction

This proposed fiscal year 2007-08 budget contains a description of the ICANN budgeting process for this upcoming year, the annual operating plan describing the outcomes that the organisation has set out to achieve, and an explanation of the revenue model and spending plan for the year. After public comment and follow-up discussions with constituency groups and the ICANN Board of Directors' Finance Committee, the budget will be amended and submitted to the ICANN Board for adoption in San Juan on 29 June 2007.

Planning Process

In accordance with ICANN's planning cycle, ICANN developed its Strategic Plan during the first half of the 2006-2007 fiscal year (July – December). After community consultation, the current Strategic Plan (see: http://www.icann.org/strategic-plan/consultation-process-2006-07) was adopted in Sao Paolo in December 2006. During the second half of the fiscal year, ICANN points its planning activities toward the annual Operating Plan and Budgeting, i.e., the one-year plan that works to accomplish the objectives set out in the three-year Strategic Plan.

Operating Plan

A main element of the Operating Plan for 2006-2007 was a focus on projects. A key benefit of that approach was to better identify tasks, resources and deliverables of plan elements, as well as providing a proven management methodology for implementing them. In developing an Operating Plan this fiscal year, it was found that the sum of ICANN work could be better described by:

- Including "business as usual" activities. Most of ICANN work is included in these activities that are not project-related. Projects cannot exist outside of the demands of this other work.

- Projects are undertaken to improve an existing activity or establish a new activity. Therefore each project is associated with an ICANN activity so that the benefits of the project can be quantified by improvements in performance.

- Identifying fewer undertakings as "projects." The formal project management methodology will then be applied only to the most resource intensive projects where those methods will improve efficiency. Other continuous improvement efforts are identified in the plan as an aspect of ongoing work.

The 2007-2008 Operating Plan continues the project management approach, while explicitly identifying ongoing business activities of interest to the community. This plan identifies:

Activities: Specific deliverables or service elements provided by a functional area. (Example: IANA processing root zone change requests).

Standard/Metric: What the measure of success should be for that activity. (Example: Days to completion of a change request.) Due to the nature of the work, this standard or metric is often a qualitative statement of what ICANN intends to measure. ICANN will continue to identify quantitative measures for many of these activities over time.

Existing Work: Identifying specific initiatives under way that improve or add to an activity. (Example: significant formalisation of the contractual compliance processes.)

New Work: Identifying initiatives in the new fiscal year that will improve or add to an activity. (Example: IANA work to coordinate delegation request reporting.)

Projects: Work and tasks that rise to the level of a project to address a particular activity area. (Example: Implementation of the anticipated consensus policy for designation of new top-level domains.)

The complete plan is presented twice, organized from two different perspectives:

1. The first plan presentation is organized by ICANN functional area. This presentation aids understanding of how various activities are interrelated. Further, the interests of a particular constituency might fall within the domain of a specific ICANN function.

2. The second plan presentation is organized by strategic objective, mapped directly from ICANN's strategic plan. This presentation shows how ICANN activities support ICANN's strategic imperatives.

This plan was updated and revised based on community feedback received during and after the ICANN meeting in Lisbon. The plan was then costed to develop the annual expense budget that will be submitted for approval at the ICANN meeting in San Juan. Obviously, there will be some iteration between the Operating Plan set of activities and projects and the ICANN Budget – projects and activities will be amended/dropped/tailored to ensure that the work provides an adequate return on investment and is adequately funded.

This Operating Plan intends to clearly: describe the totality of ICANN work in terms of business as usual and new projects, start to identify specific metrics, and enable better resource planning and budgeting. In preparing the 2008-2009 Operating Plan, it will be useful to review this approach in order to provide for continual improvement of the planning process.

Operating Plan Highlights

The Operating Plan includes a description of all of the ICANN work and is posted at http://www.icann.org/planning/. Comments to the plan or this budget can be posted to op-plan-0708@icann.org and viewed at http://forum.icann.org/lists/op-plan-0708/.

The ICANN Operating Plan describes the measurable work objectives set out for the fiscal year. Several of these goals (or groupings) are of prime importance to ICANN's mission and many constituency groups.

In past consultations, participating constituency groups have requested that ICANN prioritize its objectives or identify those of high importance. Therefore, based upon public feedback received during the past fiscal year and the request for prioritization, it is meaningful to describe some of the important aspects of the plan here.

Many familiar and high priority programs move into a key execution phase in FY 08, as seen in the descriptions below.

Contractual Compliance

The budget provides resources for ICANN to significantly augment contractual compliance actions, including the system for auditing registry and registrar performance for compliance by all parties to such agreements. ICANN published its compliance program at http://www.icann.org/compliance/.

The compliance program builds upon existing, constructive relationships with the registrar and registry communities. The elements of the program consist of:

- Technical and non-technical audit functions to review, on a regular basis, registry/registrar operations to ensure compliance with contracts and appropriate standards.

- Improved statistical tracking and analysis of registrant and user complaints/comments regarding specific registries/registrars.

- Rapid follow-up on specific instances of non-compliant behaviour. Working constructively with registries and registrars to implement and complete corrective action plans.

- Continued implementation of a planned escalation of actions and associated cure periods, including legal and specific performance remedies, in order to correct ongoing harm and to ensure legitimacy for the compliance function.

- With the registrar constituency, re-writing the Registrar Accreditation Agreement to better define acceptable forms of operation.

An effective compliance program protects peer and client members of the Internet community by ensuring consistency of conduct across the registrar and registry communities.

Accountability and Transparency

Accountability and transparency is as area where ICANN aspires to be a global leader. A set of Management Operating Principles for accountability and transparency is under development. A report by One World Trust indicates that ICANN is transparent and accountable but can improve. The discussions of the Board are more transparent due to more timely and comprehensive minutes of Board meetings.

In the year ahead ICANN plans to complete the development of our operating principles after consultation with the community.

ICANN continues to develop and implement a communications plan that clearly explains our mission and communicates the activities and achievements as they relate to the company goals.

- Fully staffed ICANN's Communication functions including a Manager, Public Participation as described in ICANN planning documents.

- We have made major improvements to the ICANN web sites and continue to implement broadcast and information dissemination tools such as RSS, web logs and newsletters. Improved (reliability and visibility) posting of and response to correspondence in the form of letters and comments, as well as public meeting presentations, is a specific focus.

Translation

Translation of important documents and meeting proceedings are an important aspect of ICANN communications and transparency initiatives. Translation efforts support many or most of the project and operating plan initiatives described in the strategic and operating plans.

The FY 08 budget calls for translation expenses of $269,000. While this spending is significant, actual ICANN translation initiatives will exceed this dollar value. Translation is also accomplished economically (and with technical expertise) by engaging members of the ICANN community, Board and staff to assist with specific tasks. In that way, ICANN plans to meet community expectations regarding this important facet of ICANN operations and communications.

Prior to budget approval, ICANN will develop a translation policy and disseminate it for public review. The translation budget will be reviewed to ensure it can support the translation policy prior to budget finalization.

Automate IANA Execution

IANA is in the process of automating many of its administrative functions, including submission and processing of requests for root zone changes, protocol and parameter requests, and reporting of performance metrics. This is an ongoing process with several key milestones already completed.

Automation of IANA processes increases IANA's productivity and enables IANA to better fulfill service level commitments for its stakeholders. Benefits include more efficient processing, standardized and routine request management, and, through analysis of performance, identification of areas where processes can be streamlined and improved. Additionally, by automating much of the administrative elements of IANA's processes, staff resources can be devoted to more complex projects and processes.

IANA will re-evaluate staffing needs and adjust staff resources accordingly as key administrative and processing activities are partially or fully automated.

New gTLD Process

The development of a process and policy for the introduction of new gTLDs (generic top-level domains which are central to fostering choice and competition in the provision of domain registration services, and as such, are critical to the promotion of ICANN's core values) is moving to a new phase of execution. The questions to be addressed in the implementation of a new gTLD strategy are complex and draw on technical, economic, operational, legal, public policy and other elements. Many stakeholders in the global Internet community will be interested in participating in the implementation of the strategy, and ICANN is committed to facilitating their participation and involvement.

The process for the introduction of new gTLDs must be robust in form, timely and predictable to administer, and scalable to accommodate the numbers and variety of potential applications. The global nature and complexity of the project have direct bearing on the program's start-up and recurring costs. ICANN anticipates a significant investment in the project, in year one, to create the gTLD program office.

The new gTLD process costs are intended to be fully self-funded and off-set by the application fees. It is anticipated that first-round costs will be significant due to one-time start-up expenses and that subsequent rounds will be less expensive to administer. Start-up costs include, but are not limited to: recruitment of new employees to staff the gTLD program office, professional services fees associated with production of the applicant request for proposal (RFP), development of the objections filed/dispute resolution model, retention of resources to conduct technical and business/financial reviews, and recruitment costs associated with the creation of an independent panel or series of panels to provide adjudication services around dispute resolution and string contention.

A significant component to start-up costs is the creation and implementation of a communications strategy, across many different languages, to announce and promote the first round to the global Internet community. ICANN will incur media costs when it publishes applications following conclusion of the application window. If ICANN is to foster a geographically diverse representation of service providers on the Internet, it first must communicate and educate them about the gTLD process.

The aforementioned information refers to the implementation component of the new gTLD project. Regarding policy development, a draft final report will be posted later this month that will further facilitate discussion of the gTLD policy development process, including discussions with other ICANN SOs and ACs. The report, along with an implementation report prepared by staff, will be available for public comment and discussion at ICANN's San Juan meeting in June. The final steps in this policy development process include consideration and approval of the final report by the GNSO Council, and subsequent consideration and approval of a Board Report by ICANN's Board.

Deployment of Internationalised Domain Names

Internationalized domain names (IDNs) are domain names represented by local language characters. Such domain names could contain characters with non critical marks as required by many European languages, or characters from non-Latin scripts (for example, Arabic or Chinese). While IDNs are available at the second level under established top-level domains (such as .info, .net, .se and .de) ICANN's IDN Program contains a set of projects that focuses on enabling the introduction of IDNs at the top level. This will make the entire domain name string available in local characters.

It is important that the Internet evolve to be more accessible to those who do not use the ASCII character set. However, these internationalization efforts must be accomplished through standards that are open, non-proprietary, and fully compatible with the internet's existing end-to-end model, as well as preserve globally unique naming in a universally resolvable public name space.

In order to accomplish this goal, the IDN Program plan is comprised of several projects that are moving into a new phase of execution.

Technical tests - after successful completion of a laboratory test that was developed to determine the viability of internationalized top-level names in the DNS showed that no negative effect was measurable on the replication of the DNS in the laboratory environment, ICANN will move ahead with their plan to work with other entities to insert the A-labels version of internationalized TLDs into the root zone. The laboratory test will be replicated in the live facility. Furthermore, end users will be asked to evaluate the

response of commonly used software applications to domain names with the entire domain name string in local characters.

Policy - coordinate and support policy development with all interested constituency groups and advisory committees, including the ccNSO, GAC, and GNSO. Coordination among these groups have been determined necessary to make sure that IDN TLD policy development is accomplished in a coherent fashion.

Guidelines - revision of the IDN Guidelines that have been used by TLD registries for introduction of IDNs at the second level under the respective TLDs, to include guidance for top level usage. The guidelines will continue to evolve, and eventually will result in Best Current Practice guidance for all TLD registries.

SSAC - initiated a study of security and stability concerns regarding the deployment of internationalized TLDs. In supporting this effort ICANN is providing staff support for the urgent need to have this study finalized and its results available for any necessary work needed before internationalized TLDs are ready for deployment.

IDNA Protocol – the protocol that was initially developed in 2003 is currently under revision. In supporting the initiatives and proposals made forward within the IETF ICANN will provide staff support to assist in the continued work necessary to finalize the revision of the protocol.

IDNs are only one piece of the internationalization of the domain name system. Other areas that ICANN supports but are not within ICANN's mandate or mission include: local content, development of internationalized applications, support, outreach, coordination, and establishment of global partnerships particularly in areas where ICANN does not hold the expertise nor has the mandate to require compliance with the IDN implementation structures.

To accomplish these goals, it will be necessary to add two full time staff members as well as some expert consultancy.

Organization Reviews

As part of ICANN's ongoing commitment to its evolution and improvement, the Board approved a comprehensive schedule for independent review of ICANN's structures, as well as of the Board.

The schedule that was agreed to at the Sao Paulo ICANN meeting is as follows:

- Nominating Committee – estimated launch December 2006

- At-Large Advisory Committee – estimated launch February 2007

- DNS Root Server System Advisory Committee – estimated launch July 2007

- Board – estimated launch October 2007

- Security and Stability Advisory Committee – estimated launch January 2008

- ccNSO Supporting Organisation – estimated launch July 2008

- Address Supporting Organisation (ASO) – estimated launch December 2008

The reviews are intended to ensure an independent examination of the role and operation of key elements of ICANN.   As with the first two independent reviews, which were

completed for the GNSO Council and the GNSO , these reviews will be conducted in an objective manner by independent evaluators, under guidance from the Board on each review's terms of reference, and with the opportunity for public comment on the results of the reviews.

As specified in Article IV, Section 4 of ICANN's Bylaws, the "goal of the review, to be undertaken pursuant to such criteria and standards as the Board shall direct, shall be to determine (i) whether that organization has a continuing purpose in the ICANN structure, and (ii) if so, whether any change in structure or operations is desirable to improve its effectiveness." The results of these reviews shall be posted for public review and comment, and shall be considered by the Board not later than its second scheduled meeting after being posted for 30 days. Consideration by the Board includes the ability to revise the structure or operation of the Nominating Committee by a two-thirds vote of all members.

ccTLD Accountability Framework Execution

Since February 2007, ICANN has been formalising its relationship with ccTLD managers through either an accountability framework document or an exchange of letters, thereby replacing the sponsorship agreements. In the first 12 months of the program, ICANN formalised its relationship with 20 ccTLD managers. Those ccTLDs with whom ICANN has a relationship represent well over 50% of the world's ccTLD registrants. As part of the continuation of this exercise, ICANN will:

- maintain a part time project manager and legal expertise to assist with the execution of the project

- use the Regional Liaison network to promote accountability frameworks with ccTLD managers in their respective regions

- employ the Regional Liaison network to build upon the successes to date and engage ccTLD managers in discussions establishing accountability frameworks with ccTLDs with the goal that a sizeable percentage of ccTLD registrants in every region are represented

Budgeting for the Operating Plan

The ICANN budget is directly tied to the totality of the amended Operating plan, and it is anticipated that all of the listed activities, new work and projects can be accomplished with this proposed budget.

- net revenue of $46.6MM (37% above 06/07 budget)

- expenses of $41.6MM (32% above 06/07 budget)

- capital budget allocation of $1.6MM

- contribution to reserve of $3.4MM

Since the Operating Plan captures the objectives set out in ICANN's Strategic Plan described above, all spending can be categorised within the major headings of the Strategic Plan. In the following chart, "Other Expenses" represents Board and staff administration, Information Technology, Legal, Facilities and other.

Spending by Strategic Plan Category
(in Thousands)

Post-MOU Model
$2,226
5%

Multi-stakeholder
Environment
$6,411
15%

Other *
$11,590
28%

International Participation
$3,292
8%

Excellence in Policy
Development
$2,896
7%

Excellence in Operations
$15,223
37%

Total : $41,638

* Board & Staff Admin, IT,
Legal, Facilities & Other
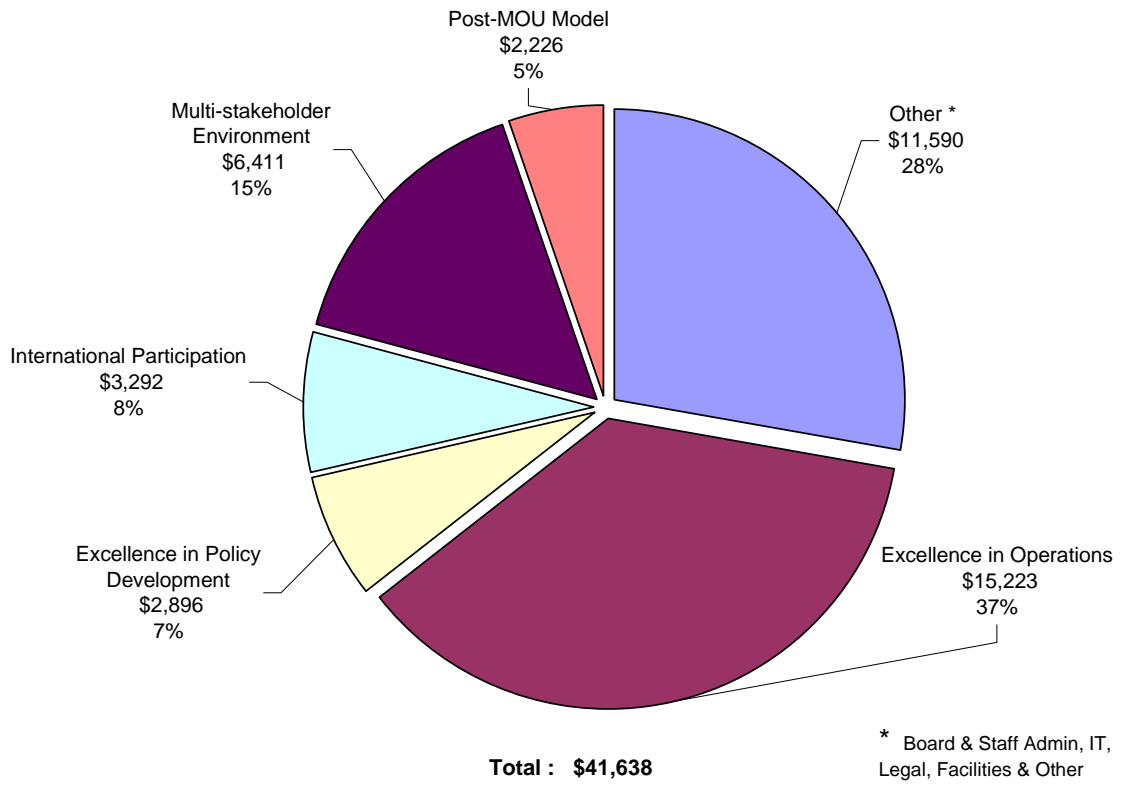
Alternatively, all spending is allocable by the objectives set out in ICANN's mission statement:

Spending by Principle
(in Thousands)

Global Community
Participation
$8,375
20%

Other *
$11,590
28%

Bottom-Up, Transparent
Policy Development Support
$8,248
20%

DNS Stability & Security
$7,344
18%

Promotion of Competition
and Choice
$6,081
14%

* Board & Staff Admin, IT,
Legal, Facilities & Other

Total : $41,638
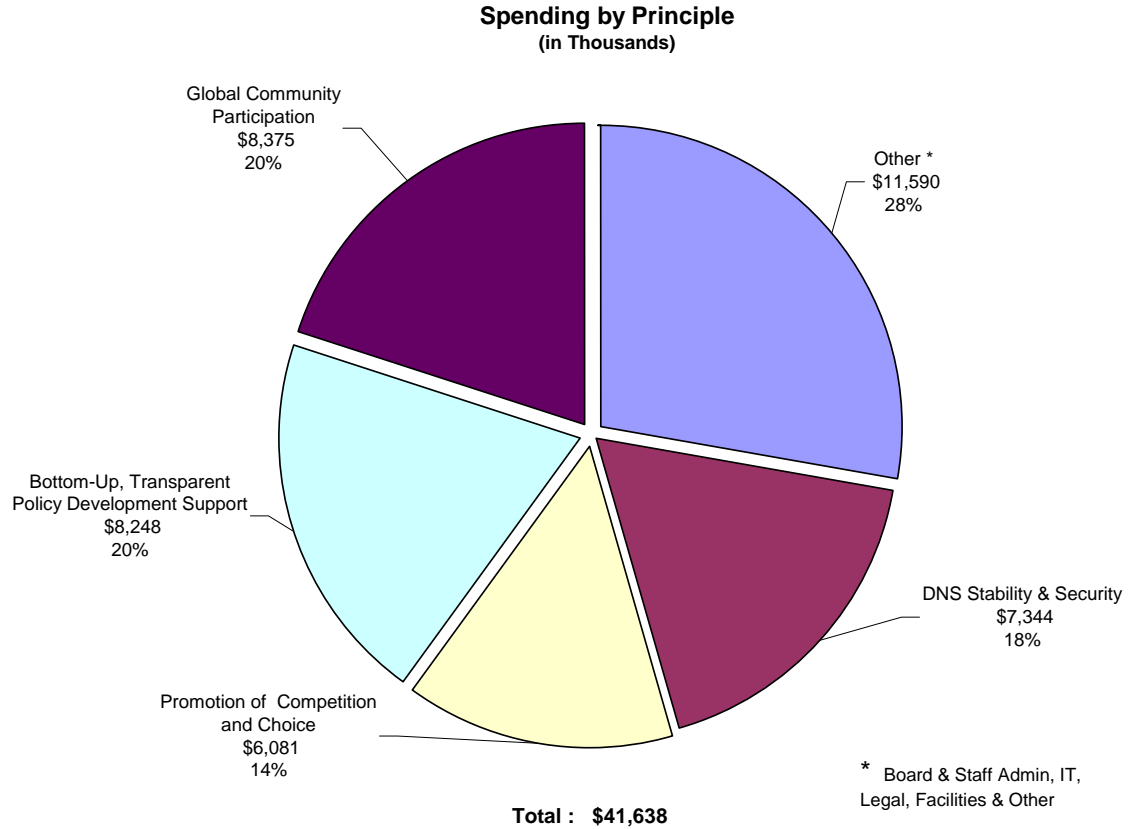
As described in the published operating plan, the budget was created giving specific consideration to each of the areas of key focus included in the plan. Resources in the form of staff and funding for outside service, travel, meeting, administrative costs (including equipment, logistics and other purchases), and capital equipment were identified and earmarked.

Expense growth of $6.9MM in the budget has been driven by the highest priority initiatives which are listed below. While none of these initiatives are new to ICANN, in FY 08, they are scheduled to begin a new phase of execution.

Initiative	Spending*
gTLD Start-up	$1,647K
Outreach - Fellowship & ALAC	$1,068K
IDN	$988K
IANA Automation	$735K
Compliance	$831K
Legal - major initiative support	$708K
Registrar Data Escrow	$536K
Economist/Market Analysis	$400K
Total	$6,913K

* Includes capital, as appropriate

Taking into account that these numbers include no overhead allocation, this $6.9MM increase essentially explains the increase in budget for this coming year. Additionally, further resources have been directed towards areas that have direct benefit to ICANN constituencies by improving efficiencies and decreasing costs in internal functions. In particular, there are absolute spending decreases in several support functions:

- Technical Operations

- Human Resources

- Finance

- Program Management.

Budgeting for Ongoing Operations and Increasing Activity Levels

In addition to this focus on key implementation efforts, ICANN must also sustain ongoing operations. Those ongoing efforts sustain regular operations such as providing IANA services, and the registrar and registry liaison functions. Ongoing operations also provide administrative support for project work and infrastructure. These efforts include rent, utilities, technical support, and connectivity.

These efforts, and the resources required to sustain them, continue to grow. For example, the numbers of gTLD registrars and registries continue to increase, as do the ICANN activities providing services to them. The present policy development process to introduce new TLDs will ensure that ICANN requirements to support this DNS segment will continue to grow.

In addition, ICANN supports an increasing number of policy development efforts of significant complexity. Examples of Policy work that is currently supported and continues to grow are: the New gTLD PDP, the Registry Contractual Conditions PDP, IDN GNSO working group, the joint ccNSO-GAC IDN policy development work, the working group

on reserved names, the working group on protection of intellectual property rights, the Whois PDP, the implementation of the Whois policy on conflict of National Laws, and anticipated conclusion of policy development advice concerning the WIPO recommendations. The policy development support group is also supporting the ICANN organisational review processes described above.

The regional liaison group continues increased outreach activities in an economical manner where several regional representatives are working globally without the expense of establishing regional offices.

ICANN will continue to monitor and publish metrics that affect its workload. This is particularly important as ICANN grows in resource expenditures to ensure that expenditures are made in an effective, economical manner.

Capital Budget

In FY 08, ICANN is adopting a formal capital budget (as approved by the Board Finance Committee). This is a standard accounting practice, and allows the financial statements to better reflect actual business expenses over time, particularly when there are periodic large capital expenses.

As indicated in the table below, most of these capital items are related to improving ICANN's infrastructure. Among these are significant investments in a storage area network and backup software, to improve efficiency and as an important step towards disaster planning. Additionally, there is funding to replace an out-grown phone system. Further L-Root expansion and an amount for furniture and fixtures related to ICANN's likely facility move.

Significant additional capital items were deferred until FY 09. Among these are replacement of end-of-life financial system and a document management system.

Major Capital Items

DNSSEC hardware (IANA)	$54K
Data Center Relocation	$160K
Storage Area Network (SAN)/Backup	$303K
Avaya Phone System (timed with move)	$120K
Web-based project management software	$17K
Inquiry processing system	$80K
Due Diligence Software	$25K
L Root	$650K
Furniture/Fixtures (new office)	$182K
Total	$1,591K

Proposed Revenues

ICANN's fee structure will remain consistent with that of the last fiscal year. Increases in total revenues will derive primarily from growth in the domain name space and fees accruing from the negotiation of the .NET agreement.

gTLD Registrar Fees

Registrar-Level Transaction Fees

In previous fiscal years, the fee per transaction has been $0.25. ICANN proposes the same fee for fiscal year 2007-08 but recognises that the registrars and ICANN agreed to a $0.03 discount in fiscal year 2006-07. The budget detail below describes expected revenue for both levels of transaction fee. While both revenue levels exceed anticipated expense levels, the $0.25 fee more closely accommodates ICANN cash reserve targets. These projections are based upon recent transaction levels and growth rates. In three of the past four quarters, transaction volumes fell or remained essentially flat. As part of the anticipated registrar component of the budget approval process, ICANN anticipates again offering a $0.03 cent discount. Each "transaction" will be defined as one-year domain registration increment caused by a successful add renewal or transfer command. Consistent with previous years, domains deleted within the "add or auto-renew" grace periods will not be charged a transaction fee (however, see the restrictions on per-registrar fee forgiveness described below).

The per-transaction fee will continue to be charged for each one-year increment of every transaction (e.g. the fee for a three-year renewal will be US$0.75), and registrars will continue to have the option to "defer" payment of the fees for the years beyond one for each transaction.

Per-Registrar Fees

Per-registrar fees will also continue at current levels in the aggregate. Each ICANN-accredited registrar will continue to pay a fixed fee of US$4,000, plus a per-registrar variable fee totalling US$3.8 million divided among all registrars. The per-registrar fee is based upon the validated concept that ICANN expends the same quantum of effort in providing services to a registrar regardless of the size of that registrar.

Depending on registrar size and activity, some registrars will continue to be eligible for "forgiveness" of two-thirds of the standard per-registrar variable fee. The criteria for eligibility for partial forgiveness will be as follows: the registrar must have fewer than 350,000 gTLD names under its management, the registrar must not have more than 200 attempted adds per successful net add in any registry, and it must not have more than five percent (5%) of added names deleted during the add-grace period from any registry that offers an add-grace period.

Thus far, in fiscal year 2006-07, 136 registrars (representing 15% of all registrars) were granted forgiveness out of 433 registrars that applied for forgiveness. The applications of the remaining 297 were rejected.

gTLD Registry Fees

Fees from gTLD registries are described in detail in the accompanying budget schedule and notes. These fees continue to grow in proportion to the total of ICANN funding even as ICANN continues to explore additional sources of funding.

In fulfilment of its obligation to develop alternate sources of revenue, ICANN has proposed the implementation of registry-level transaction fees. Transaction fees will serve to increase ICANN revenues then enable revenues to grow in proportion to growth in the DNS.

ICANN has signed agreements with .NET, .BIZ, .INFO, .NAME, .ORG. .PRO, .ASIA, .CAT. .JOBS, .MOBI, .TEL, .TRAVEL, and .TEL registries. These agreements call for per-transaction fees. Importantly, ICANN agreement for the operation of the .COM registry contributes significantly to the ICANN budget through a fixed fee arrangement.

ccTLD Contributions

Many ccTLDs have expressed support of the ICANN model and the understanding of the value that model provides. There have also been expressions that a consistent structure by which the ccTLD provide fees to ICANN must be developed. Mechanisms for funding are determined by the ccTLDs, through the ccNSO. Members of the ccNSO have developed fee targets for ccTLDs based upon the number of registrations.

ICANN has completed agreements in the form of accountability frameworks with 23 ccTLDs. In addition, ICANN has agreements with 13 other ccTLDs. Most of these agreements specify fees to be paid to ICANN. In consideration of the fee model and agreements executed, ICANN has increased the expectation of fee receipts for this period by 20% over the current fiscal year. It is expected that the fee structure will be fully implemented in the upcoming months and, as a result, fee receipts from ccTLDs will grow in the upcoming fiscal years.

Regional Internet Registries

With the execution of the MoU between the NRO and ICANN, it was expected that the RIRs would release fees that have been held in escrow. The RIRs renewed that commitment at the ICANN meeting in Lisbon.

In fiscal year 2004-05, based upon discussions with an RIR representative, ICANN budgeted RIR contributions equal to 10% of the previous year's budget. The predicted contributions of $823K represented a 54% increase over the previous year's budget. In fiscal year 2005-06, 2006-07 and now in 2007-08, ICANN has asked for the same amount.

Finally, it is important to note the RIRs provide funding to ASO meetings, staff support for the ASO, and travel and attendance at the ICANN meetings.

Alternate Sources of Revenue

Sound business planning dictates that ICANN continue to develop alternate sources of funding in order to provide a more robust revenue base. Specifically, these sources should include the ccTLDs, the RIRs, new gTLDs, and other interested parties.

- ICANN has continued to accelerate the execution of frameworks of accountability with ccTLDs. One aspect of these discussions is how to secure a more consistent base of funding from these stakeholders.

- ICANN is presently completing the policy development process for designating new TLDs. Implementation of the policy is a significant deliverable of this budget. Depending upon the business model of each, ICANN will realize some reasonable revenue stream from each TLD commencing in fiscal year 2008-09.

- ICANN continues dialogue with several stakeholders who view a strong, vibrant ICANN as necessary for the stability of the Internet and therefore necessary for the stability of substantial business segments these stakeholders manage. These stakeholders have indicated that there is a substantial opportunity for commercial organisations that benefit directly from successful operation of ICANN's functions to contribute to a global security fund. With that in mind, ICANN is engaging not only these stakeholders but also other commercial entities that profit from the stability and operation of the Internet as well as the underwriters who profit from Internet interoperability.

ICANN expects some impact from these sources during the upcoming fiscal years. As revenues increase from new sources, fees accruing from existing substantial contributors, such as the registrars will be reduced.

Investment Income

ICANN expects to receive investment income from the investment of the operating reserve fund it recently established.

Sources and Uses of Revenue

As described above, sources of ICANN revenue continue to evolve and increased diversification is sought. This budget's revenue sources are described by:

Revenue Sources for FY-08
(in thousands)

RIR's
$823
2%

ccTLD
$1,800
4%

gTLD Registry
$17,903
38%

gTLD Registrar
$25,446
55%

Investment Income
$690
1%

Total : $46,662
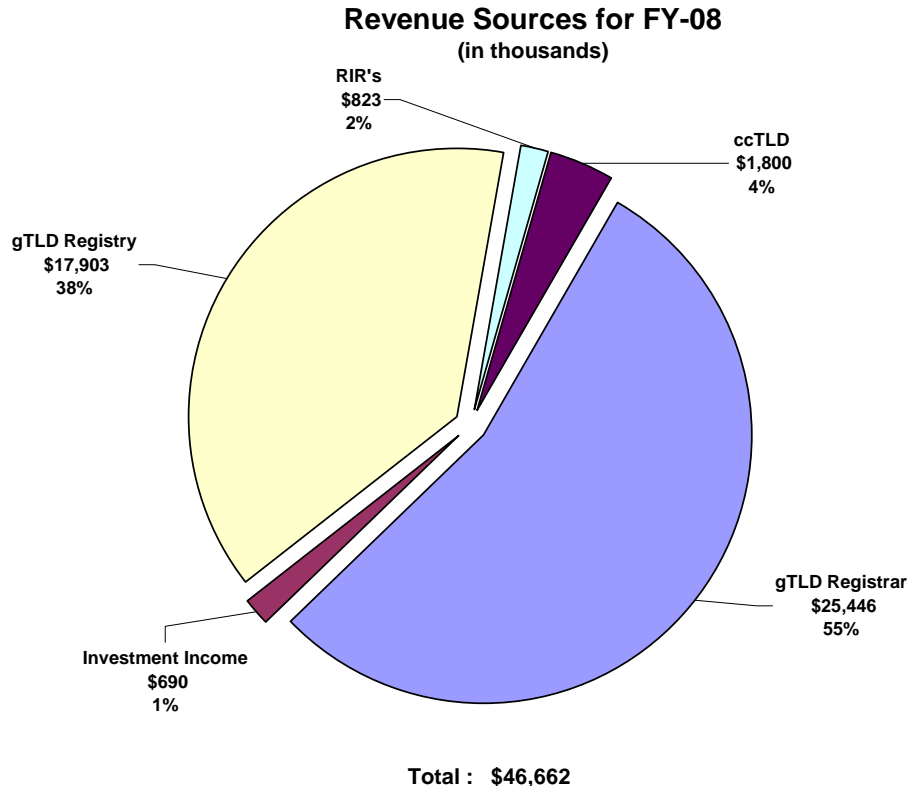
Uses of those revenues include:
- Expense: $39.5MM
- Capital Expenditures: $1.6MM
- Contingency: $2.0MM
- Contribution to Strategic Reserves: $3.4MM

Additional details regarding uses of revenue, with respect to expenses, are described by:

ICANN Uses of Revenue for FY-2008
(in thousands)

CAPITAL
$1,591
3%

RESERVE
$3,433
8%

ADMINISTRATION &
CONTINGENCY
$6,402
14%

PERSONNEL
$18,028
38%

PROFESSIONAL
SERVICES
$9,226
20%

TRAVEL, OTHER
MEETINGS
$3,613
8%

ICANN MEETINGS
$4,369
9%

Total : $46,662
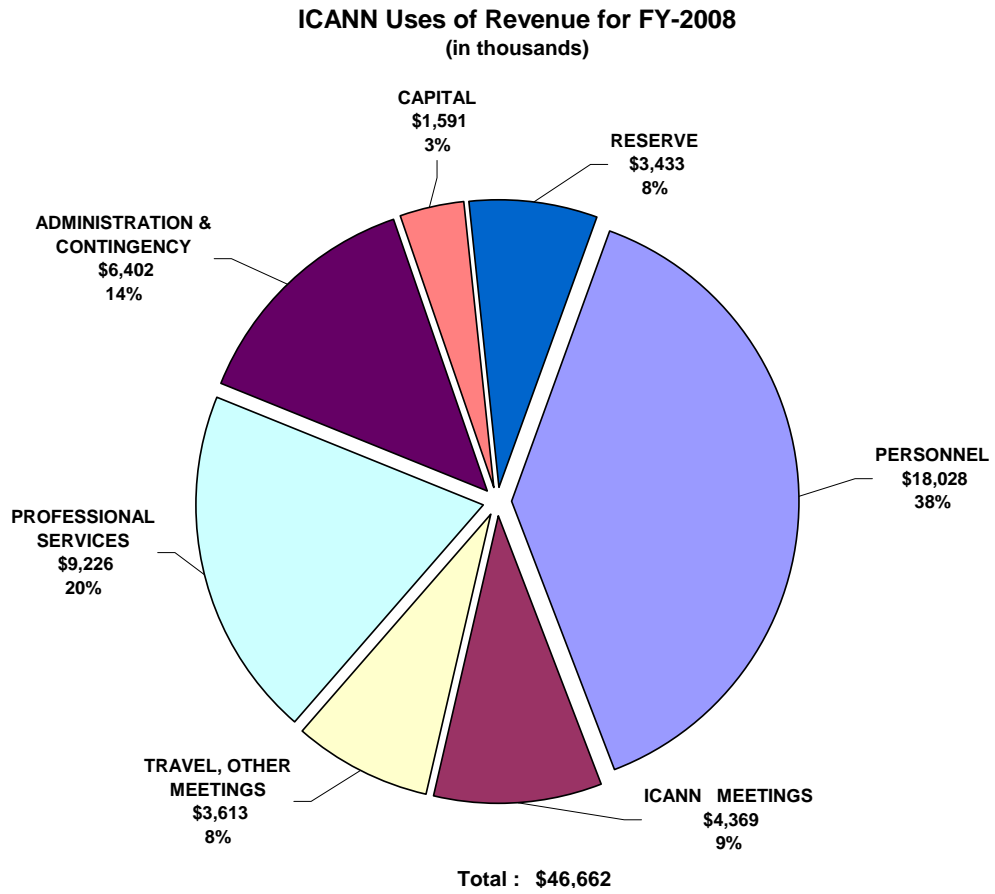
FY 2007-2008 Revenue Projection

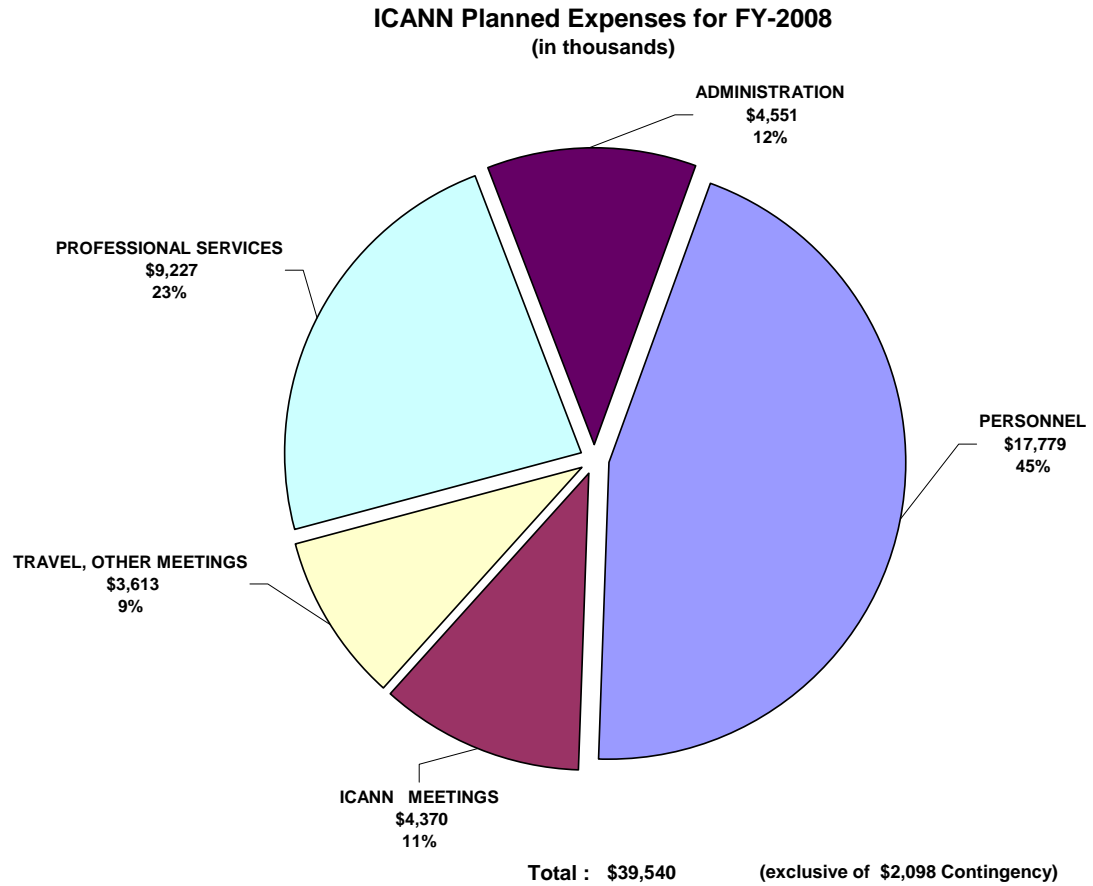|	Jul-Sep '07	Oct-Dec '07	Jan-Mar '08	Apr-Jun '08	Total FY08	Notes
gTLD Registrar Revenues						
Transaction Based Registrar Fee ($,25)	$ 5,132,671	$ 5,132,671	$ 5,132,671	$ 5,132,671	$20,530,684	(1)
Transaction Fee Discount ($.03)	($615,921)	($615,921)	($615,921)	($615,921)	($2,463,684)	(1)
Transaction Based Registrar Fee (net)	$ 4,516,750	$4,516,750	$4,516,750	$4,516,750	$18,067,000	(1)
Variable Registrar Support Fee	$950,000	$950,000	$950,000	$950,000	$3,800,000	(2)
Registrar Application Fees	$18,750	$18,750	$18,750	$18,750	$75,000	(3)
Annual Registrar Accreditation Fees	$919,322	$279,322	$610,169	$591,187	$2,400,000	(4)
Deferred Transaction Fees 2004-05	$0	$22,500	$51,800	$42,000	$116,300	(5)
Deferred Transaction Fees 2005-06	$83,000	$95,000	$117,000	$82,000	$377,000	(6)
Deferred Transaction Fees 2006-07	$150,000	$160,000	$150,000	$150,000	$610,000	(7)
Subtotal: Registrar Revenues	$6,637,822	$6,042,322	$6,414,469	$6,350,687	$25,445,300	
Registry Revenues						
gTLD Registries	$4,728,081	$4,7280,81	$4,738581	$4,728,081	$18,922,824	(8)
IP Address Registries	$205,750	$205,750	$205,750	$205,750	$823,000	(9)
Subtotal: Registry Revenues	$4,933,831	$4,933,831	$4,944,331	$4,933,831	$19,745,824	
ccTLD Registry Revenues						
ccTLD Registry Fees	$55,000	$57,000	$350,000	$116,000	$578,000	
ccTLD Voluntary Contributions	$0	$0	$611,000	$611,000	$1,222,000	
Subtotal: ccTLD Fees & Contributions	$55,000	$57,000	$961,000	$727,000	$1,800,000	(10)
Investment Income	$250,000	$250,000	$250,000	$250,000	$1,000,000	
Less Bad Debt or Bad Debt Allowance	($328,933)	($312,543)	($348,983)	($339,645)	($1,329,354)	(11)
Total Revenues	$11,547,670	$10,970,610	$12,221,617	$11,921,873	$46,661,770	

Notes:

(1) $0.25 less assumed $.03 discount per transaction; fee remains consistent with 2006-07 and assumes conservative growth in number of registrations

(2) Pending gTLD registrar approval: assumes same fee as previous year

(3) Based upon 30 accreditation applications

(4) Based upon reduction to approximately 600 registrars

(5) Deferred transaction revenue for 2004-05

(6) Deferred transaction revenue for 2005-06

(7) Deferred transaction revenue for 2006-07

(8) Projected fees from each gTLD registry

gTLD Registry	Amount	Comment
.com	$8,000,000	per agreement with VeriSign
.net	8,225,148	transaction based fees per agreement
.org	1,014,176	transaction based fees; pending conclusion of on-going negotiations
.biz	302,510	transaction based fees per agreement
.info	550,398	transaction based fees per agreement;
.museum	500	per existing agreement (new agreement will not materially affect revenue)
.coop	5,000	per existing agreement (new agreement will not materially affect revenue)
.aero	5,000	per existing agreement (new agreement will not materially affect revenue)
.name	55,000	per existing agreement (new agreement will not materially affect revenue)
.pro	121,900	per existing agreement (new agreement will not materially affect revenue)
.travel	79,816	sTLD agreement approved; fixed and transaction based fees
.jobs	38,544	sTLD agreement approved; fixed and transaction based fees
.mobi	450,000	sTLD agreement approved; transaction based fees
.cat	24,832	sTLD agreement approved; fixed and transaction based fees
.tel	50,000	sTLD agreement approved; transaction based fees
Total gTLDs	$18,922,824	

(9) RIR fees same as budgeted last year

(10) Projects (approximately) 20% growth in fees received from ccTLDs pending completion of ccNSO developed fee plan

(11) Allowance for non-collection of payments in certain areas

That portion of Uses of Revenue that are Expenses can be described by:

ICANN Planned Expenses for FY-2008
(in thousands)

ADMINISTRATION
$4,551
12%

PROFESSIONAL SERVICES
$9,227
23%

PERSONNEL
$17,779
45%

TRAVEL, OTHER MEETINGS
$3,613
9%

ICANN MEETINGS
$4,370
11%

Total : $39,540   **(exclusive of $2,098 Contingency)**

Additional detail regarding expense spending is provided by:

FY-08 Key Project Areas
(in Thousands)

Other
$12,983
31%

Outreach

Ombudsman
$449
1%

Compliance
$831
2%

Media, Transparency
$1,040
2%

Region based ICANN staff
$4,314
10%

Fellowship
$308
1%

Outreach
$10,716
26%

Legal
$4,505
11%

Board & SOAC Travel
$1,464
4%

Translation
$269
1%

IANA & L-Root
$4,031
10%

Non-Board Direct Meetings
Expenses
$2,207
5%

Web Development
$665
2%

New gTLD
Implementation
$1,647
4%

Registry & Registrar
Support
$2,692
6%

Policy & IDN
$4,233
10%

Total : $41,638

Proposed Budget Schedules and Notes

	2006-2007 Approved Budget*	Year-End Total Projection	Difference Projection to Budget	Proposed 2007-2008 Budget	Difference Budget to Budget	Difference Budget to Projection	See Notes in Text
EXPENDITURES							
Staff Full-Time at Year-End	89	86	(3)	107	18	21	(1)
Base Expenditures							
Personnel	$13,264	$13,264	0	$17,797	$4,533	$4,533	(2)
Professional and Technical Services	7,404	6,733	(671)	9,203	1,799	2,470	(3)
Board Meetings & Other Travel	6,200	5,639	(561)	7,637	1,437	1,998	(4)
Administrative & Systems	3,256	2,961	(295)	6,333	3,077	3,372	(5)
Capital Expenditures	510	510	0	1,591	1,081	1,081	(6)
Subtotal: Base Expenditures	**$30,634**	**$29,107**	**($1,527)**	**$42,561**	**$11,927**	**$13,454**	
Other Expenditures							
NomCom	192	192	0	219	27	27	(7)
Ombudsman	339	339	0	449	110	110	(8)
Subtotal: Other Expenditures	**$531**	**$531**	**0**	**$668**	**$137**	**$137**	
Total Expenditures	**$31,165**	**$29,638**	**($1,527)**	**$43,229**	**$12,064**	**$13,591**	

Base Revenues							
gTLD Registrar Revenues							
Transaction Based Registrar Fee (net)	$14,617	$17,980	$3,363	$18,067	$ 3,450	$87	(9)
Variable Registrar Support Fee	3,800	3,800	0	3,800	0	(0)	(10)
Registrar Application Fees	90	285	195	75	(15)	(210)	(11)
Annual Registrar Accreditation Fees	640	3,156	2,516	2,400	1,760	(756)	(12)
Deferred Revenue				1,103	1,103	1,103	
Subtotal: Registrar Revenues	**$19,147**	**$25,221**	**$6,074**	**$25,445**	**$6,298**	**$224**	
Registry Revenues							
gTLD Registries	14,032	15,308	1,276	18,923	4,891	3,615	(13)
IP Address Registries	823	823	0	823	0	0	(14)
Subtotal: Registry Revenues	**$14,855**	**$16,131**	**$1,276**	**$19,746**	**$4,891**	**$3,615**	
ccTLD Registry Revenues							
ccTLD Registry Fees	300	619	319	578	278	(41)	
ccTLD Voluntary Contributions	1,200	881	(319)	1,222	22	341	
Subtotal: ccTLD Contributions	**$1,500**	**$1,500**	**0**	**$1,800**	**$300**	**$300**	(15)
Miscellaneous/Investment Income	40	264	224	1,000	960	736	
Less: Bad Debt Allowance	1,560	1,912	352	1,329	(231)	(533)	(16)
Total Revenues	**$33,982**	**$41,204**	**$7,222**	**$46,662**	**$12,680**	**$5,458**	
Contribution to Reserve	**$2,817**	**$11,566**	**$8,749**	**$3,433**	**$616**	**($)**	

* In April 2007, the Board approved a revised budget for FY 2006-07 which was $188,000 higher than the amount originally approved in June 2006. Allocations among line items were also made to reflect changes in priorities.

Notes to Fiscal Year 2007- 08 Expense and Revenue Projections

(1) The fiscal year 2007-08 budget calls for a final staff size of 107 by the end of the fiscal year. This represents an increase of twenty-one positions beyond that budgeted in the previous fiscal year. Incremental staffing will address key initiatives and "business as usual" operational requirements as described below.   Additionally, new staff will fulfil the requirements described in the succession plan – a key section of contingency planning.

Under the revised organisational structure, key new positions in each functional area include:

- Policy Development

    o General Policy Manager, Policy Information Manager and Senior Policy Officer positions are to be added.

- Global Partnerships

    o Regional Liaisons: Two additional regional liaisons that will serve the Asia/Pacific region.

    o Security Fund Facilitator: will be hired to liaise with corporations to solicit funds to support the development of global internet security solutions.

- Stakeholder Messaging

    o Knowledge Management Officer: This is not an incremental position to the prior year budget, but has been re-titled with a focus directly on corporate communications and public participation. This function will also support the Board.

    o Knowledge Management Officer: A part-time dedicated officer to work solely with the Board.

    o Web Developer: (a conversion from temporary to full time staff) to improve the ICANN website in accordance with the Operating Plan objectives and then to provide timely and meaningful content and also to provide access to the constituency groups in the ICANN community.

- Operations & Client Services

    o Registry Liaison: A key initiative this year is for the development of the gTLD program. The budget, therefore, includes recruitment of key personnel essential to program success, including: new gTLD Program Manager, gTLD Process Manager and gTLD Dispute Resolution Process Manager.

    o Compliance staff: In order to review and augment the organisation's compliance program, including its system for auditing material contracts for compliance by all parties to such agreements, ICANN will add two professional staff (a compliance staff of four) to ensure compliance in the following subject areas:

        ▪ Whois service and accuracy obligations

        ▪ Inter-registrar Transfers

- Agreements with registrars and registries

  o IDN project staff: Two full-time staff will be augmented by assignments from other departments to provide necessary expertise on a part-time basis as needed. The two full time staff are: IDN Technical Manager, and IDN Liaison Manager.

  o Registrar Liaison: In order to address potential failure issues relating to registrars and work to provide clear criteria for the addition of new registrars, a Registrar Failure Prevention & Recovery Specialist and Registrar Services Specialist will be hired.

  o IANA: A Software Engineer dedicated to supporting IANA's needs is included in the 2007-08 budget.

  o Counsel: A new attorney position has been added to support the legal efforts associated with the key initiative areas and increased litigation.

(2) This line item represents the costs associated with the personnel changes detailed in Note (1). Not all positions will be filled for the full 12 months. They will be filled in accordance with a planned growth model to ensure all efficiencies can be employed. Note that positions are considered full-time (except where noted) staff positions even though they may, in the interest of economy, be filled by contract personnel.

(3) This line item increased due to the outsourcing of services described in the Operating Plan. It also includes litigation expense. ICANN is presently involved in several suits. The amount budgeted for this line item has increased in relation to last year's budget and actual expenses. Additionally, ICANN is engaging the services of independent review panel services, limited public relations services, and other consultants who will be engaged if the effort is required and if their engagement represents real cost savings as compared to the expense of utilizing staff.

(4) This line item includes budget for ICANN meetings, Board travel and staff travel. ICANN meetings are expected to be more costly due to an anticipated increase in the fraction of funding from ICANN to decrease reliance on regional sources. Also included are ICANN attended or sponsored meetings as indicated in the operating plan. ICANN has included a provision to provide some assistance to selected volunteer members of the ICANN community who could not otherwise attend task force or other ICANN meetings. Travel assistance will be provided on a case-by-case basis only after the trip request is evaluated and deemed to have a value-added component for ICANN and the community.

(5) These costs, a major component of ICANN expenses, are forecasted to include moving expenses related to relocation of ICANN's offices, as well as significant resources for translation. A reason for the significant increase this year is that this item now includes L-root, other Tech Ops support costs, and a company wide contingency of approximately 5%.

(6) Capital purchases include acquisitions of equipment over $10,000 per item. This includes upgrades to IANA DNSSEC .ARPA implementation, furniture, fixtures and telephone equipment for the new ICANN offices, re-location of non-root server functions to off-site facilities in compliance with ICANN contingency improvements, root server

upgrades, storage area network backup, a complaint management system and project management software .

(7) The Nominating Committee again is charged this year with filling certain seats on the ICANN Board of Directors and advisory committees. The present committee will meet face-to-face twice during the fiscal year. (I.e., the successor committee will also meet during the same fiscal year.) In addition to these travel costs, the amount budgeted will cover administrative costs, e.g., teleconferences, documentation distribution, advertising for candidates and administrative support.

(8) The ICANN Ombudsman was established in accordance with the bylaws. The Ombudsman makes monthly reports to the ICANN Board regarding work to date. This money funds the direct costs associated with this office. Indirect costs are funded separately by ICANN.

(9) This year's budget holds constant with last fiscal year's $0.25 transaction fee and an anticipated discount of $.03 per transaction. Transaction based fees are fees paid through the registrar for new registrations, renewals or transfers. The budget assumes conservative growth in the number of registrations.

(10) This year's budget holds constant from last fiscal year the $3.8MM fee to be divided on a per registrar basis. While certain ICANN expenses related to supporting registrars are based upon the number of transactions (i.e. the size of the registrar), many costs are essentially equal for all registrars regardless of size (i.e. aspects of a contractual compliance program). Therefore, ICANN will allocate $3.8 MM to registrars on a per registrar basis. Given the present number of registrars, that fee is estimated to be $4,300 per registrar annually. If the number of registrars drops, as forecasted in some areas, the fee will increase. If there are, say, 600 gTLD registrars at the time of invoicing, the fee would be $1,583 for that quarter ($6,333 annually). As described earlier in this document, a portion of the fee can be forgiven if certain conditions are met.

(11) ICANN continues to experience a significant number in registrar applications and related fees. However, it is anticipated that the number of accreditation applications will be reduced in FY 2007-08. Accreditation applications for this budget year are estimated at 30 accreditation applications.

(12) Fixed accreditation fees will remain constant ($4,000) and for accreditation to all registries. It is anticipated that the number of accredited registrars will be reduced in FY 2007-08.

(13) gTLD revenue is described in detail in notes to the Revenue table above. Looking forward, ICANN is undertaking several initiatives to increase revenues in this area in the long term: designation of new TLDs, deployment of IDNs, completion of the sTLD round, and negotiation of gTLD renewals.

(14) Projected IP Address registry revenue is held constant with that planned in the current fiscal year.

(15) ICANN believes significantly more revenue should be generated from the ccTLDs than has been realized in the past. This goal reflects a 20% increase in revenue beyond the previous year. Additional revenue will be based on successfully communicating the real value provided by ICANN services. ICANN has staff whose central purpose is to

communicate and execute agreements with ccTLDs in order to stabilize relationships and revenue across this global community.

(16) "Bad debt" has been decreased reflecting the anticipated impact of enhanced collection procedures in FY 2007-08.

Three Year Rolling Budget Summary

This summary compares fiscal year 2005-06 actual revenue and expenses with those projected in 2006-07 and budgeted in 2007-08.

Three Year Trend Comparison

	Actual FY 05-06 $$$	Actual FY 05-06 %	Projected FY 06-07 $$$	Projected FY 06-07 %	Budget FY 07-08 $$$	Budget FY 07-08 %
Registrar						
Application Fee	$780	2.6%	$285	0.7%	$75	0.2%
Accreditation Fee	$1,965	6.6%	$3,156	7.7%	$2,400	5.1%
Variable Fee	$3,789	12.7%	$3,800	9.2%	$3,800	8.1%
Transaction Fee	$16,509	55.4%	$17,980	43.6%	$18,067	38.7%
Deferred Trans Fee 04-05					$116	0.3%
Deferred Trans Fee 05-06					$377	0.8%
Deferred Trans Fee 06-07					$610	1.3%
Subtotal	$23,043	77.3%	$25,221	61.2%	$25,445	54.5%
Registry						
Fixed Fee Tiers 1 & 2	$30	0.1%	$41	0.1%	$91	0.2%
Fixed Fee Tier 3	$820	2.8%	$10,050	24.4%	$8,122	17.4%
Transaction Fee	$6,480	21.7%	$5,217	12.7%	$10,690	23.0%
Subtotal	$7,330	24.6%	$15,308	37.2%	$18,902	40.6%
Regional Internet Registries						
Fixed Fee	$823		$823		$823	
Subtotal	$823	2.8%	$823	2.0%	$823	1.8%
ccTLD						
Contributions	$278	0.9%	$881	2.1%	$1,222	2.6%
Agreements	$255	0.9%	$619	1.5%	$578	1.2%
Subtotal	$533	1.8%	$1,500	3.6%	$1,800	3.9%
Investment	$105	0.4%	$264	0.6%	$1,000	2.1%
Total Revenue	$31,834		$43,116		$47,993	
Bad Debt Allowance	-$2,026	-6.8%	-$1,912	-4.6%	-$1,331	-2.9%
Net Total Revenue	$29,808	100.0%	$41,204	100.0%	$46,662	100.0%
EXPENDITURES						
EXPENSES						
Personnel	$7,533	40.9%	$13,439	43.2%	$18,028	41.7%
ICANN Meetings	$2,163	11.8%	$3,957	12.7%	$4,369	10.1%
Travel, Other Meetings	$1,864	10.1%	$2,466	7.9%	$3,613	8.3%
Professional Services	$4,695	25.5%	$7,526	24.1%	$9,226	21.3%
Administration	$2,105	11.4%	$3,267	10.5%	$6,402	14.8%
Total Expenses	$18,360	99.7%	$30,655	98.4%	$41,638	96.2%
CAPITAL	$53	0.3%	$510	1.6%	$1,591	3.8%
Total Expenditures	$18,413	100.0%	$31,165	100.0%	$43,229	100.0%
Personnel Count	52		86		107	