

TOP		THE .ORG TLD IS A PUBLIC TRUST		»
		« A Joint Effort of the INTERNET MULTICASTING SERVICE and INTERNET SOFTWARE CONSORTIUM »		
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Consolidated Pro Forma Financials

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1. Currency and Number Formats

This document has all budget items and registry sizes in the format of thousands of units. For example, 1,100,000 is listed as 1,100 in the tables.

This document uses ¥(Japanese Yen) as the unit of currency. This document is also available in the following currency formats:

- [€ \(European Euro\)](#)
- [US\\$ \(US Dollars\)](#)

2. Analysis of Revenue Model and Registry Growth

2.1 Methodology

We present here a highly conservative pro forma analysis of registry growth, revenue, expense, debt, and reserves. Our

conservative assumptions are reflected in low renewal rates, a declining price forced by market conditions, and a decreasing rate of new registrants. The underlying revenue model contains data obtained from VeriSign via ICANN under NDA, so we are not publishing the full model, only aggregate information that can be derived from public sources. However, the full model is available to ICANN staff [upon request](#).

Our financial analysis is based on two financing scenarios, one in which debt financing is used to cover initial startup costs, and a second scenario in which the debt financing is supplemented by a portion of the VeriSign endowment:

- If we qualify for the VeriSign Endowment, our analysis is based on an initial price of ¥682.55 for add, transfer, and renew operations. In this scenario, initial expenses are covered through our ¥310.25 million line of credit, of which we anticipate using ¥186.15 million at peak. The outstanding debt is paid in early 2003, reducing interest costs and freeing capital for financing of core operations and Internet Public Works Programs as described in the proposal.
- If we do not qualify for the VeriSign Endowment, our initial price is set at ¥744.60 to cover the increased costs of debt financing.

In either case, we believe that we will only use 60% of our available credit, leaving a substantial cushion in case revenue or expenses differ from projections.

2.2 Revenue Model Assumptions

Parameter	Assumption
=====	=====
Assumption for Percentage Renewals	24.00%
New Registrations As % of Installed Base	1.92%
Average Renewal Period in Years	1.5

2.3 Projected Registry Size

	2003	2004	2005	2006	2007
	=====	=====	=====	=====	=====
New Registrants	443	427	470	690	793
Renewals	307	290	135	139	150
Total Registrations	750	717	606	829	944
Size at EOY	1,787	2,004	2,473	3,132	3,911
% Change in Registry	-20.85%	12.14%	23.41%	26.63%	24.88%
Size of Registry at Beginning of Period			2,258		
Size of Registry at End of Period			3,911		
Change in Registry in 5-year Period			+1,653,289		

2.4 Projected Revenue Stream

Beginning Registry Price			¥682.55		
Annual Decline in Price			-10.00%		
Cumulative Revenue			¥3,130,919		
	2003	2004	2005	2006	2007
	=====	=====	=====	=====	=====
Price at EOY	¥649.04	¥585.75	¥528.67	¥476.54	¥430.63
Gross Revenue	¥753,535	¥647,554	¥539,090	¥565,772	¥624,844

Based on an initial price point of ¥745 per name, gross revenue changes as follows:

Beginning Registry Price			¥744.60		
Annual Decline in Price			-10.00%		
Cumulative Revenue			¥3,415,604		
	2003	2004	2005	2006	2007
	=====	=====	=====	=====	=====
Price at EOY	¥707.37	¥637.87	¥575.82	¥519.98	¥469.10
Gross Revenue	¥822,038	¥706,377	¥588,110	¥617,273	¥681,557

3. Consolidated 5-Year Pro Forma Analysis of Cash Flow and Debt

3.1 Methodology

Our assessment of expenses is based on the deliverables detailed in the .org Proposal, analysis of past sending, and firm price quotes on key items such as capital expenditures.

Our funding priorities are to first cover the operation of the core registry function. The pro forma net income after cost of operations presented in the next section is based on a staff of 19.75 FTE. Pro forma net income after cost of operations is modeled under two scenarios, one with the VeriSign endowment, the other without use of the endowment. Note that costs are identical in both scenarios.

3.2 Pro Forma Net Income After Operations Costs at ¥745 Name

	2002	2003	2004	2005	2006	2007
	=====	=====	=====	=====	=====	=====
Gross Revenue		¥822,038	¥706,377	¥588,110	¥617,273	¥681,557
COGS[1]		-¥8,191	-¥6,950	-¥5,833	-¥6,081	-¥6,701
Net Revenue		¥813,724	¥699,304	¥582,153	¥611,068	¥674,732

Bid Prep.[2]	¥10,424					
Payroll[3]	¥114,544	¥241,871	¥253,909	¥275,254	¥289,029	¥317,820
Contract[4]	¥13,899	¥24,572	¥24,572	¥33,507	¥36,113	¥37,602
Prof Svcs[5]	¥5,212	¥12,658	¥12,906	¥13,155	¥13,403	¥13,775
Operations[6]	¥15,513	¥61,181	¥70,613	¥73,840	¥77,438	¥81,286
Total	¥159,717	¥340,282	¥362,124	¥395,879	¥416,107	¥450,607

Net Income After Operations						
	-¥159,717	¥473,442	¥337,180	¥186,274	¥194,961	¥224,125
Average Net Income as a Percent of Gross Revenue: 37%						

Notes

[1] Cost of Goods Sold (COGS) is a 1% average cost for merchant processing fees, bank charges, and other costs directly related to revenue.

[2] Bid Preparation includes the ICANN examination fee, travel, and outside legal fees. This category also includes negotiation of the registry agreement.

[3] Payroll is based on 19.75 Full Time Equivalentents (FTE).

[4] Contractors includes fees for security, database throughput, routing, and other outside leading experts to provide quarterly reviews.

[5] Professional Services includes legal, insurance, accounting, and other professional services and includes provisions for yearly audits of financial statements and operations.

[6] Cost of Operations includes co-location fees, transit costs, hardware and software support fees, travel, and rent, and other costs needed to provide the core registry function, the software deliverables listed in the proposal, the advanced development function, and front- and back-office functions.

3.3 Debt, Capital Expense, and Public Works at ¥745 and Debt Financing

	2002	2003	2004	2005	2006	2007
	=====	=====	=====	=====	=====	=====
Net Income After Operations						
	-¥159,717	¥473,442	¥337,180	¥186,274	¥194,961	¥224,125

Capital Expense[7]						
	¥85,877	¥39,712	¥20,477	¥6,205	¥24,820	¥0
Interest	¥5,957	¥15,264	¥0	¥0	¥0	¥0
Debt Repayment	¥0	¥186,150	¥0	¥0	¥0	¥0
Total Debt and Capital Expense	¥91,958	¥241,126	¥20,477	¥6,205	¥24,820	¥0

Net Cash Flow After Capital and Debt						
	-¥251,675	¥232,191	¥316,703	¥180,069	¥170,141	¥224,125

Notes

[7] Capital Expense includes 3 large towers during pre-launch and launch periods. Additional line items are provided for development machines, and supplemental towers in additional exchange points in years 2-5 of the contract.

3.4 Debt, Capital Expense, and Public Works at ¥682.55

	2002	2003	2004	2005	2006	2007
	=====	=====	=====	=====	=====	=====
Net Income After Operations	-¥159,717	¥405,559	¥278,853	¥137,751	¥143,956	¥167,907

Capital Expense[7]	¥85,877	¥39,712	¥20,477	¥6,205	¥24,820	¥0
Interest	¥5,957	¥5,585	¥0	¥0	¥0	¥0
Debt Repayment	¥0	¥186,150	¥0	¥0	¥0	¥0
Total Debt and Capital Expense	¥91,958	¥231,447	¥20,477	¥6,205	¥24,820	¥0

Net Cash Flow After Capital and Debt	-¥251,675	¥174,112	¥258,376	¥131,546	¥119,136	¥167,907

3.5 Analysis of Working Capital and Additional Expenses

Once capital costs, debt, and the core operation of the registry are covered, we staff recommendations to the board of directors are considered for programs that meet our mission of running the .org TLD as a public trust and meets our core goals:

1. Providing service and differentiation to the .org registrants.
2. Providing public infrastructure that will promote the stable functioning of .org registry and other registries and will promote better service and more competition.

Our goal for management of financial resources is to insure that a minimum of ¥62,050 in working capital is available in addition to our ¥310.25 million line of credit. This insures that we are able to meet any unforeseen contingencies and still maintain the stable operation of the .org registry.

Once these requirements are met, we attempt to use the remainder of the funds to meet those core goals. Three initial program proposals have been prepared by staff and the board has agreed that these are examples of the kinds of programs it would like to see developed and pursued. Final decisions on funding will occur once funds are available. The three initial programs are:

1. Provision of 8% of gross revenues to fund the IETF and IAB.
2. Funding of the development of BIND 9 with special emphasis on secure DNS with an aim of providing a secure DNS function for the .org TLD.
3. Funding of the development of the ANANA protocols for automated namespace management and the development of identity management techniques for .org registrants.

3.6 Working Capital and Reserves at ¥745 and Debt Financing

	2002	2003	2004	2005	2006	2007
	=====	=====	=====	=====	=====	=====
Net Cash Flow After Capital and Debt w/out Endowment	-¥251,675	¥232,191	¥316,703	¥180,069	¥170,141	¥224,125

Internet Public Works Programs	¥0	¥109,580	¥110,945	¥46,538	¥48,771	¥53,984

Net Cash Flow After Public Works	-¥251,675	¥122,487	¥205,634	¥133,532	¥121,246	¥170,141

Debt at End of Year	¥186,150	¥0	¥0	¥0	¥0	¥0

Working Capital at End of Year	¥4,468	¥127,078	¥109,332	¥81,658	¥78,804	¥44,180
Unallocated Reserves	¥0	¥62,050	¥279,225	¥384,710	¥508,810	¥713,575

Cumulative Funding for IETF/IAB: ¥270,414
 Cumulative Funding for BIND 9: ¥87,863
 Cumulative Funding for ANANA: ¥11,790

3.7 Working Capital and Reserves at ¥682.55

This analysis assumes that startup debt of ¥186,150,000 is back in February, 2003 and that the wholesale price is reduced to ¥682.55 per name."

	2002	2003	2004	2005	2006	2007
	=====	=====	=====	=====	=====	=====
Net Cash Flow After Capital and Debt	-¥251,675	¥174,112	¥258,376	¥131,546	¥119,136	¥167,907

Internet Public Works Programs	¥0	¥104,120	¥106,354	¥42,690	¥44,800	¥49,392

Net Cash Flow After Public Works	-¥251,675	¥69,868	¥152,023	¥88,856	¥74,336	¥118,391

Debt at End of Year	¥186,150	¥0	¥0	¥0	¥0	¥0

Working Capital at End of Year	¥4,468	¥99,280	¥120,998	¥73,467	¥73,467	¥49,144
Unallocated Reserves	¥0	¥322,660	¥477,785	¥552,245	¥626,705	¥769,420

Cumulative Funding for IETF/IAB:			¥247,952			
Cumulative Funding for BIND 9:			¥87,863			
Cumulative Funding for ANANA:			¥11,790			

4. Certification and Purpose

These pro forma financials contain forward-looking projections of market conditions, expenses, and revenues. They are provided as a planning tool. Actual budgets will be developed by the program staff and approved by the IMS board of directors based on actual market conditions, expenses, and revenues.

/Carl Malamud/
 Signed

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 June 16, 2002

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Appendix A. Document Formats

This document is available in the following formats:

- [\[html\]](#) This document.
- [\[xml\]](#) XML
- [\[txt\]](#) ASCII
- [\[nroff\]](#) NROFF
- [\[word\]](#) Word
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