

Financial Statements
Years Ended
December 31, 2006 and 2005

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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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, 2006 and 2005, 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, 2006 and 2005, 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

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July 3, 2007

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American Registry for Internet Numbers, Ltd.

Statements of Financial Position

December 31,	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 1,181,488	\$ 606,872
Investments	22,637,241	19,194,476
Nontrade receivables	16,280	17,668
Prepaid expenses	244,532	217,029
Total current assets	24,079,541	20,036,045
Property and equipment - net	749,315	911,626
Escrow - deposit	861,648	571,948
Security deposit	56,826	-
	\$ 25,747,330	\$ 21,519,619
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 551,655	\$ 527,409
Due to ICANN	849,095	617,064
Deferred rent	98,463	93,780
Deferred revenue	3,834,794	3,252,995
Total current liabilities	5,334,007	4,491,248
Unrestricted net assets	20,413,323	17,028,371
	\$ 25,747,330	\$ 21,519,619

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

American Registry for Internet Numbers, Ltd.

Statements of Activities

Years Ended December 31,	2006	2005
Revenue and support		
Registrations	\$ 8,944,520	\$ 8,561,979
IP end-user registrations	481,750	288,500
Maintenance fees	810,092	756,584
Contributions	51,104	7,500
Other revenue	5,576	7,846
Membership dues	50,000	36,542
Total revenue and support	10,343,042	9,658,951
Operating expenses (see schedules)		
Program services:		
Engineering	3,268,705	2,777,298
Registration services group	1,785,632	1,707,905
Member services	1,969,736	1,649,719
Total program services	7,024,073	6,134,922
Support services		
General and administrative	1,629,684	1,455,958
Total operating expenses	8,653,757	7,590,880
Change in net assets before investment activities	1,689,285	2,068,071
Interest and dividends	686,207	366,597
Realized and unrealized gains on investments	1,009,460	506,133
Change in net assets	3,384,952	2,940,801
Unrestricted net assets - beginning of year	17,028,371	14,087,570
Unrestricted net assets - end of year	\$ 20,413,323	\$ 17,028,371

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

American Registry for Internet Numbers, Ltd.

Schedules of Operating Expenses

Years Ended December 31,	2006	2005
Salaries and employee benefits	\$ 4,252,352	\$ 3,790,456
Hiring costs	4,954	7,436
Personnel	4,257,306	3,797,892
Depreciation and amortization	406,717	422,492
Communications	390,179	344,997
Equipment support and licenses	141,501	145,715
Operations	938,397	913,204
Travel	816,049	898,104
Rent and occupancy	367,396	373,373
General office	227,941	227,203
Legal expense	282,872	255,396
Members meeting	255,572	321,122
Contingency expense	89,956	76,183
Consulting expense	349,116	153,382
Legal defense fund	351,598	53,178
General office and administrative	2,740,500	2,357,941
ICANN support	232,031	161,617
Emerging registry support	-	14,231
Internet research and support	196,451	195,942
NRO	21,350	23,004
ASO & AC	267,722	127,049
Internet Support	717,554	521,843
	\$ 8,653,757	\$ 7,590,880

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

American Registry for Internet Numbers, Ltd.

Statements of Cash Flows

Years Ended December 31,	2006	2005
Cash flows from operating activities		
Change in net assets	\$ 3,384,952	\$ 2,940,801
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	406,717	422,492
Realized and unrealized gains on investments	(1,009,460)	(506,133)
Loss on disposal of property and equipment	1,805	31,270
Change in:		
Nontrade receivables	1,388	129,719
Prepaid expenses	(27,503)	(14,060)
Escrow - deposit	(289,700)	(220,610)
Security deposit	(56,826)	-
Accounts payable and accrued expense	24,246	(75,263)
Due to ICANN	232,031	161,617
Deferred rent	4,683	11,737
Deferred revenue	581,799	462,665
Net cash from operating activities	3,254,132	3,344,235
Cash flows from investing activities		
Property and equipment acquisitions	(246,211)	(233,486)
Interest and dividends retained in investments	(633,305)	(317,304)
Purchase of investments	(1,800,000)	(3,000,000)
Net cash from investing activities	(2,679,516)	(3,550,790)
Net change in cash and cash equivalents	574,616	(206,555)
Cash and cash equivalents - beginning of year	606,872	813,427
Cash and cash equivalents - end of year	\$ 1,181,488	\$ 606,872

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

American Registry for Internet Numbers, Ltd.

Notes to Financial Statements

December 31, 2006 and 2005

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, 2006 and 2005.

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 Trustees' 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 2006 and 2005.

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 Federal 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, 2006 and 2005, ARIN's uninsured cash balance was \$1,274,980 and \$483,070, 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 prior year amounts on the statement of cash flows have been reclassified to conform to the current year 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 voluntary contribution based on ARIN's fees collected and resources allocated. The decision to contribute is determined by ARIN on an annual basis. ARIN deposits money to be paid to ICANN in an escrow account, with interest accruing to ARIN. As of December 31, 2006, the escrow account contained \$849,095 designated for ICANN. At December 31, 2005, \$617,064 was designated for ICANN of which \$45,116 was recognized as accounts payable to the ICANN escrow but had not yet been transferred to the escrow account.

4. Investments

Investments consisted of the following at December 31:

	<u>2006</u>	<u>2005</u>
Short-term cash investments	\$ 2,113,152	\$ 552,999
Mutual funds - Balanced funds	16,127,487	14,763,561
Certificates of deposit	4,329,921	2,696,736
U.S. government securities	-	1,181,180
	<u>22,570,560</u>	<u>19,194,476</u>
Accrued interest	66,681	-
	<u>\$ 22,637,241</u>	<u>\$ 19,194,476</u>

5. Property and Equipment

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

	<u>2006</u>	<u>2005</u>
Furniture and fixtures	\$ 242,781	\$ 223,951
Office equipment	78,161	78,769
Computer equipment and software	2,264,902	2,088,766
Leasehold improvements	723,936	638,060
Construction in progress	-	47,376
	<u>3,309,780</u>	<u>3,076,922</u>
Less - accumulated depreciation and amortization	<u>(2,560,465)</u>	<u>(2,165,296)</u>
	<u>\$ 749,315</u>	<u>\$ 911,626</u>

6. Retirement Plan

ARIN has a 401(k) retirement plan which is available to all employees ninety days after hire. ARIN makes a discretionary matching contribution equal to 200% of the first 3% of salary deferred and 100% of the next 3% deferred. Prior to 2006, the company match was only 100% up to the first 6% of salary deferred. Total retirement plan expense for 2006 and 2005 was \$245,708 and \$145,672, 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 are borne by the RIR signatories on an equal basis of each RIR, unless specifically superceded 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 2006 and 2005 was \$21,350 and \$23,004, 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 \$20,583. 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:

2007	\$ 261,471
2008	269,311
2009	277,436
2010	285,721
2011	294,290
Thereafter	<u>24,584</u>
	<u>\$ 1,412,813</u>

Rent expense totaled \$258,123 and \$258,131 during 2006 and 2005, respectively.

9. Subsequent Event

In June 2006, the Kremen antitrust case filed against ARIN in 2006 was dismissed, with prejudice, by the U.S. Court of Appeals for the 9th Circuit, pursuant to a global settlement with Mr. Kremen. This effectively ends that matter and any complaint by Kremen for monetary damages against ARIN. As a result of the global settlement, Mr Kremen has broadly released all claims against ARIN, its board, staff, agents and attorneys, whether known or unknown, before May 2007.

The only remaining portion of any case or controversy between Mr. Kremen and ARIN relates to an order of the United States District Court in 2006 that was not appealed by Mr. Kremen or ARIN and that granted Mr. Kremen certain internet protocol number resources. Pursuant to the global settlement, a joint application has been filed by ARIN and Mr. Kremen to vacate that portion of the order that granted Mr. Kremen the specific internet protocol resources. This order is expected to be granted and will conclude all matters with Mr. Kremen.

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