American Registry For Internet Numbers, Ltd.

Financial Report
December 31, 2010

Contents

McGladrey

Independent Auditor's Report

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

We have audited the accompanying statement of financial position of American Registry for Internet Numbers, Ltd. (ARIN) as of December 31, 2010, and the related statements of activities, operating expenses, and cash flows for the year 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 audit. The financial statements of ARIN for the year ended December 31, 2009, were audited by other auditors whose report, dated June 3, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of ARIN as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Vienna, Virginia
April 1, 2011

American Registry For Internet Numbers, Ltd.

Statements Of Financial Position
December 31, 2010 And 2009

Assets	**2010**	2009
Cash And Cash Equivalents	**$ 994,132**	$ 1,464,337
Investments		
Legal Defense Reserve Fund	**2,326,991**	2,300,750
Operating Reserve Fund	**340,366**	1,322,677
Long-Term Reserve Fund	**23,567,656**	21,022,150
	26,235,013	24,645,577
Accounts Receivable, net	**246,993**	239,199
Prepaid Expenses	**455,197**	309,759
Note Receivable	**30,000**	-
Property And Equipment, net	**3,472,685**	1,992,485
Software Costs	**717,309**	131,449
Deposits	**110,440**	157,343
	$ 32,261,769	$ 28,940,149

Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 1,338,081**	$ 780,652
Due to ICANN	**101,722**	113,985
Deferred rent	**36,256**	63,928
Deferred revenue	**5,078,573**	4,829,416
Other liabilities	**595**	4,600
Total liabilities	**6,555,227**	5,792,581
Commitments (Note 7)		
Net Assets		
Unrestricted	**25,706,542**	23,147,568
	$ 32,261,769	$ 28,940,149

See Notes To Financial Statements.

American Registry For Internet Numbers, Ltd.

Statements Of Activities
Years Ended December 31, 2010 And 2009

	2010	2009
Revenue and support:		
Registration	**$ 10,913,717**	$ 10,380,784
Maintenance fees	**1,109,300**	1,384,484
IP end-user registrations	**888,750**	511,250
Contributions	**167,460**	34,250
Network transfers	**73,250**	96,750
Membership dues	**16,500**	25,000
Other revenue	**6,120**	5,589
Total revenue and support	**13,175,097**	12,438,107
Operating expenses:		
Program services:		
Engineering	**5,910,883**	4,917,678
Registration services group	**2,049,496**	2,044,209
Member services	**2,393,280**	2,377,983
Outreach services	**892,249**	668,557
Total program services	**11,245,908**	10,008,427
Support services:		
General and administrative	**2,287,541**	2,132,826
Total operating expenses	**13,533,449**	12,141,253
Change in net assets before investment activities	**(358,352)**	296,854
Interest and dividends	**549,528**	587,566
Realized and unrealized gains on investments	**2,367,798**	4,877,333
Change in net assets	**2,558,974**	5,761,753
Unrestricted net assets, beginning of year	**23,147,568**	17,385,815
Unrestricted net assets, end of year	**$ 25,706,542**	$ 23,147,568

See Notes To Financial Statements.

American Registry For Internet Numbers, Ltd.

Statements Of Operating Expenses
Years Ended December 31, 2010 And 2009

	2010	2009
Salaries and employee benefits	$ 6,811,920	$ 6,477,509
Hiring costs	7,003	5,250
Personnel	6,818,923	6,482,759
Depreciation and amortization	1,327,933	925,541
Communications	675,968	532,812
Equipment support and licenses	414,514	308,212
Operations	2,418,415	1,766,565
Travel	1,115,200	867,630
Rent and occupancy	430,462	397,304
General office	689,895	536,392
Legal expense	434,491	414,511
Members meeting	367,695	385,473
Contingency expense	-	99,135
Consulting expense	357,338	299,437
Outreach expense	251,652	202,697
General office and administrative	3,646,733	3,202,579
ICANN support	191,180	195,585
Internet research and support	163,716	231,177
NRO	46,345	64,534
ASO support and AC support	248,137	198,054
Internet support	649,378	689,350
	$ 13,533,449	$ 12,141,253

See Notes To Financial Statements.

American Registry For Internet Numbers, Ltd.

Statements Of Cash Flows
Years Ended December 31, 2010 And 2009

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	**$ 2,558,974**	$ 5,761,753
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**1,327,933**	925,541
Realized and unrealized gains in investments	**(2,367,798)**	(4,877,333)
Loss on disposal of property and equipment	**-**	2,115
Bad debt expense	**124,230**	130,305
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	**(132,024)**	(171,085)
Prepaid expenses	**(145,438)**	305,861
Note receivable	**(30,000)**	-
Software costs	**(585,860)**	(184,402)
Deposits	**46,903**	(1,923)
Increase (decrease) in:		
Accounts payable and accrued expenses	**557,429**	(328,877)
Due to ICANN	**(12,263)**	(32,435)
Deferred rent	**(27,672)**	(19,380)
Deferred revenue	**249,157**	315,740
Other liabilities	**(4,005)**	2,975
Net cash provided by operating activities	**1,559,566**	1,828,855
Cash Flows From Investing Activities		
Property and equipment acquisitions	**(2,808,133)**	(1,031,364)
Proceeds from the sale of investments	**2,635,552**	568,198
Purchase of investments	**(1,857,190)**	(583,478)
Net cash used in investing activities	**(2,029,771)**	(1,046,644)
Net (decrease) increase in cash and cash equivalents	**(470,205)**	782,211
Cash And Cash Equivalents:		
Beginning	**1,464,337**	682,126
Ending	**$ 994,132**	$ 1,464,337

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, 2010 and 2009.

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

> Legal defense fund: To fund legal challenges as they arise. At December 31, 2010 and 2009, the Legal Defense Fund totaled $2,326,991 and $2,300,750, respectively.
>
> Operating reserve fund: To provide short-term financial stability for ARIN. The Operating Reserve Fund totaled $340,366 and $1,322,677 at December 31, 2010 and 2009, respectively.
>
> Long-term reserve fund: To provide long-term financial stability for ARIN. At December 31, 2010 and 2009, the Long-Term Reserve Fund totaled $23,567,656 and $21,022,150, 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, 2010 and 2009, management established an allowance in the amount of $90,000 and $50,000, respectively.

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

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 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.

Software costs: 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.

Impairment of long-lived assets: 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, 2010 and 2009, management has determined that there has been no impairment in the carrying value of long-lived assets reflected in the accompanying financial statements.

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 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 percent 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 the 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 2007.

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.

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

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.

Reclassifications: Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation with no effect on the previously reported change in net assets.

New pronouncements: In January 2010, the Financial Accounting Standards Board (FASB) released Accounting Standards Update No. 2010-06 (ASU 2010-06), which provided accounting guidance that requires new fair value measurement classification disclosures and clarifies existing disclosures. The guidance requires: (i) separate disclosures of significant transfers between Levels 1 and 2 and reasons for transfers; (ii) disclosure, on a gross basis, of purchases, sales, issuances and net settlements within Level 3 measurements; (iii) disclosures by class of assets and liabilities; and (iv) a description of the evaluation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disaggregation of the Level 3 activity, which is effective for interim and annual periods beginning after December 15, 2010. ARIN adopted ASU 2010-06 during the year ended December 31, 2010.

Subsequent events: In preparing these financial statements, ARIN has evaluated subsequent events through April 1, 2011, 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.

Note 2. Investments and Fair Value Measurements (Continued)

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.

Exchange traded and closed-end funds: Valued at quoted market prices for similar assets and other observable inputs such as interest rates offered on similar investments.

Mutual funds: Valued at the net asset value (NAV) of shares held by ARIN at year-end.

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, 2010 and 2009.

	Year Ended December 31, 2010			
	Level 1	Level 2	Level 3	Total
Equity exchange traded and closed-end 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

	Year Ended December 31, 2009			
	Level 1	Level 2	Level 3	Total
Exchange traded and closed-end funds	$ 2,975,750	$ -	$ -	$ 2,975,750
Mutual funds, balanced funds	18,018,308	-	-	18,018,308
Certificates of deposit	-	2,491,280	-	2,491,280
	$ 20,994,058	$ 2,491,280	$ -	$ 23,485,338

Money market funds of $298,826 and $1,160,239 as of December 31, 2010 and 2009, respectively, are included in the total investments. They are priced based on their stated interest rates and quality ratings. The interest and quality ratings are observable at commonly quoted intervals for the full term of the instruments, and are therefore, not included in the table above.

Note 3. Note Receivable

In October 2010, the Association 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 two percent. Repayments of the loan will commence on October 1, 2012, in equal quarterly principal and interest payments pursuant to a 25-year amortization schedule. Full payment of the outstanding balance is due by January 1, 2014. The balance on the note receivable at December 31, 2010, is $30,000.

Note 4. Property And Equipment

Property and equipment and accumulated depreciation at December 31, 2010 and 2009, are as follows:

	2010	2009
Computer equipment	**$ 3,226,682**	$ 2,376,402
Database	**2,521,040**	680,327
Computer software	**903,417**	830,969
Furniture and fixtures	**320,001**	282,697
Office equipment	**98,771**	91,961
Leasehold improvements	**751,017**	751,017
	7,820,928	5,013,373
Less accumulated depreciation and amortization	**(4,348,243)**	(3,020,888)
	$ 3,472,685	$ 1,992,485

Note 5. Retirement Plan

ARIN has a 40l(k) retirement plan which is available to all employees 90 days after hire. ARIN makes a discretionary matching contribution equal to 200 percent of the first three percent of salary deferred and 100 percent of the next three percent deferred. Total retirement plan expense for 2010 and 2009, was $416,627 and $522,167, 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 2010 and 2009, were $46,345 and $64,534, 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 2010 and 2009, ARIN paid ICANN $191,180 and $195,585, respectively.

Note 7. Commitments

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 $22,497. 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 leasehold improvement allowance and escalating lease payments.

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

Years Ending December 31,		
2011	$	294,290
2012		24,584
	$	318,874

Rent expense totaled $258,049 and $258,056 during 2010 and 2009, 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.