COMPENSATION PRACTICES

The overarching objective of ICANN's remuneration framework is to ensure remuneration provided is competitive globally and that it provides staff with appropriate motivation for high performance towards agreed objectives. The remuneration philosophy aims to:

- Attract and retain high caliber staff
- Ensure it is competitive
- Ensure it is transparent

The framework is described in this appendix.

Role of the Board of Directors in Overseeing Compensation for ICANN Staff

The Board of Directors of ICANN provides the overarching compensation philosophy for ICANN management and staff. The Compensation Committee, a Board committee composed of independent members of the Board of Directors, provides approved direction for the compensation of senior staff, the Ombudsman, and the President and CEO in conjunction with the full Board of Directors.

The Compensation Committee meets regularly, and records their minutes to the Board secretary.

Compensation Components

ICANN is a global organization and compensation for staff is designed to be consistent with local practices where staff members are located. As such, not all components listed below apply to all staff members:

- Base salary
- At risk (bonus) eligibility based on position and achievement of goals and objectives
- Time off benefits (vacation, holiday, sick time, bereavement, jury service, and the like)
- Health and welfare benefits (medical, dental, vision, life insurance, accidental and dismemberment, and the like)
- Retirement benefits
- Housing allowance

Compensation Philosophy and Base Salary

The goal of the ICANN compensation program is to pay salaries that are competitive for comparable positions at organizations similar to ICANN in activities, scope, complexity and responsibility for the purpose of attracting and retaining the necessary talents and skills to execute ICANN's mission. Frederic W. Cook & Co., the noted compensation consultant, was asked in 2004 to conduct a review of the executive compensation program at ICANN as objective third-party experts and issue recommendations with respect to the program going forward. This was consistent with the undertaking in the U.S. Department of Commerce memorandum of understanding with ICANN dated 17 September 2003 (see http://www.icann.org/en/general/amend6-jpamouappendixes 17sep03.htm), for ICANN to conduct a review of the executive compensation program.

The report, having analyzed data for about 1,000 similarly sized f or-profit and nonprofit enterprises, found, inter alia, that:

ICANN has no direct peers in the high technology industry; however, its closest labor market counterparts are for-profit technology companies of similar size.

Based on our experience, these technology companies have different compensation structures than non-profit organizations.

Both for-profit and non-profit companies have base salaries, annual performance bonuses, and basic employee benefit programs. However, for-profit companies also have lucrative long-term incentives, most often in the form of stock options or real/phantom equity that cannot be matched in the non-profit sector...

(ICANN does not seek to match these long-term incentives in its compensation program.)

There are no real direct peers in the non-profit industry due to the unique nature of ICANN's business.

Implementation of the program was not acted upon at that time due to ICANN's financial position. But in July 2005, the ICANN Board passed a resolution establishing the ICANN Board Remuneration Committee (later renamed the Board Compensation Committee). The following year, following stabilization of ICANN's financial position, the Board of Directors, at the recommendation of the Board Compensation Committee, considered a revised report of the Frederic W. Cook & Co., the compensation consultant, and as a result of a market study undertaken by Frederic W. Cook & Co. (using data from Watson Wyatt and Radford), the Board determined the appropriate comparator for ICANN staff compensation is the for-profit marketplace of companies of a similar size and complexity.

The scope of their 2006 review included:

- Provision of comparable market data in for profit organizations
- Provision of comparable market data in not-for-profit organizations
- Provision of comparable market data used in the United States
- Provision of comparable market data used in Belgium
- Provision of comparable market data on base salaries of like roles
- Provision of comparable market data on bonus payments of like roles
- Provision of comparable market data on employee benefits of like roles
- Provision of comparable market data on other employee incentives of like roles

The survey evaluated remuneration paid by several thousand participating organizations of a similar size to ICANN. The Board approved the recommendation of the Remuneration Committee that ICANN's compensation guiding principles should be:

a. Market qualified base salaries;

b. Market qualified benefits;

c. At risk (bonus) payments based on individual performance outcomes;

d. Commitment to continued payment in the salary span of 50th to 75th percentile of for-profit market place of companies of a similar size and complexity to ICANN (the actual salary within this band determined by the individual's experience and talent and market position);

e. Extension of at risk (bonus) opportunities to all employees;

f. CEO accountability to deliver all principles within the approved ICANN budget. In deciding to remunerate at between the median and 75th percentile of the distribution of salaries paid by for-profit organizations of a similar size and complexity, the Board sought to that ensure that ICANN is competitive for labor when recruiting to its needs, while recognizing that with its role, it would be not be appropriate for ICANN to be a leader in salary payments.

ICANN does not meet the compensation levels offered by more than 25 percent of the employers with whom it directly competes for talent. The Board also recognizes that considering the potential future exigencies facing the organization, some flexibility to the principles may be necessary in unusual circumstances. In particular, the Board instructed the CEO to construct policies concerning the payment of at risk payments to protect the organization financially and legally in the event it cannot make payments despite individual performance.

Further, it is recognized that the organization may have to pay outside of these arrangements in the rare circumstances where "the specialized nature of the role, the risk to the organization, the driving market forces or other supportable logic present significant issues to [ICANN's] on-going performance."

Fortunately, ICANN has not had to have recourse to these exigency provisions. Each year, the Board reviews compensation for the President and all corporate officers. Compensation of staff is reviewed each year by executive management consistent with the directives from the Board of Directors. This annual compensation review is conducted under the framework established by the Board in 2006. ICANN uses a global compensation consulting firm to provide comprehensive market data for benchmarking (currently Watson Wyatt Worldwide). The market study is conducted each year before the salary review process. Estimates of potential compensation adjustments are made during the budgeting process based on the current market data. The budget is then ratified as part of ICANN's overall budget planning process.

Compensation is reviewed annually, and adjustments to compensation, if made, are based on the market data as well as individual performance and the approved budget.

At Risk Compensation

ICANN's at risk (bonus) compensation program is designed to provide incentives to staff for the accomplishment of specific goals and objectives throughout the year that have been identified as being of significant importance or adding value to the overall ICANN effort.

Most staff members participate in the at risk compensation program. Participation, and level of participation, are determined by senior management or the Board of Directors as appropriate. In 2006, the Board approved a framework whereby 10 percent of staff compensation was allocated to at risk payment, 20 percent for managers and specialists and 30 percent for executives. Some executives' at risk compensation is more than 30 percent. The more senior a staff member is the more of her/his compensation is allocated to the at risk component. It is fair and reasonable to expect employees (especially managers and executives) to deliver on their responsibilities, and where they fail to deliver, not to enjoy the financial benefits.

The annual available at risk compensation is calculated at the level of participation (expressed as a percent) times the base annual salary at the beginning of the measurement period. Officers' annual basis percentage was set by the Board of Directors, which also authorizes the remaining staff at risk compensation levels to be set upon approval of the CEO or COO. The CEO's at risk compensation by contractual agreement is reviewed once each year by the Board of Directors.

Most participants have an opportunity to earn a portion of their annual at risk compensation three times each year. The plan is built around the milestone management trimester system that is part of the Performance Management Program. Once the level of participation is determined, the at risk compensation for any given trimester period can be determined. The at risk compensation for a trimester is prorated to the length of the trimester.

For example, if an individual is eligible for up to a 10 percent of base pay in at risk compensation, and the annual base pay for the individual is $50,000 at the beginning of the trimester, the following would apply.

The current trimester is 124 days long, or 124/365ths of a year equal to 34 percent of the annual bonus opportunity. Thus, the at risk compensation available during this period for this individual would be $50,000 (annual base salary) times 10 percent (the level of participation) times 34 percent (the length of the trimester) - $50,000 x 10 percent = $5,000 x 34 percent = $1,700. An individual cannot earn more than at risk compensation available for the period. Actual at risk compensation earned and paid is based on the recommendation of the manager. In most cases the recommendation reasonably reflects the score achieved for the trimester in the milestone management process.

At risk compensation is typically paid within 45 days of the end of the trimester. Staff must be employed or on contract on the date the payment is made to receive the payment. Individuals terminated before the payment date are not eligible for payment. Recommendations for at risk compensation payments are approved by either the COO or the CEO before payment, and in the case of the CEO, is separately approved by the Board of Directors. Participants must work at least 35 percent of the trimester period to be eligible for an at risk payment, including employees who are on leave for any portion of a trimester. Any at risk payment recommended is prorated for the length of the trimester period worked.

Time Off Benefits

Time off benefits include vacation time, public holidays, sick time, bereavement leave and jury service pay. Payments for these benefits are made in lieu of base pay for the benefit day(s) and are reported as part of base compensation.

Health and Welfare Benefits

Health and welfare benefits include health insurance programs (such as medical, dental or vision plans), life insurance, accidental death and dismemberment insurance, travel accident and other relevant insurances as appropriate. The types and levels of programs provided are based on competitive and regional practices as well as local law. Every effort is made to treat staff equitably based on competitive practices. This includes providing certain staff with benefit compensation in lieu of buying benefits directly for that staff member when such purchases are not practical or available to ICANN.

Retirement Benefits

Retirement benefits are provided to staff based on competitive and regional practices as well as local law. Every effort is made to treat staff equitably based on competitive practices. This includes providing certain staff with compensation directly in lieu of contributing to a retirement scheme where such contributions are not practical or available to ICANN. Where ICANN contributes to a retirement program all contributions are made during the term of the staff member's employment. ICANN does not accrue any liability for retirement benefits to be paid at a staff member's retirement.

Housing Allowance

In some instances, housing allowances may be provided to key staff members when the staff member is asked to work in a location that makes commuting from the staff member's permanent home impractical, or where a staff member is relocated. The housing allowance is negotiated and is not intended to cover the full cost of maintaining two households. Any housing allowance provided is reported as taxable compensation as appropriate.

Reporting

Compensation is reported as required for staff members to the appropriate applicable jurisdiction(s). ICANN is guided in the preparation of its United States annual tax return on Form 990 (the 990).

Additional Information

The following individuals are officers of the corporation. Accordingly, their remuneration is explained in detail here.

President and Chief Executive Officer

Dr. Paul Twomey was appointed ICANN's President and Chief Executive Officer, as well as a member of the Board of Directors, effective 27 March 2003. ICANN entered into a consultancy services agreement with Argo P@cific Pty Limited, an Australian Proprietary Company, for the provision of Dr. Twomey's services. There was a 2003 agreement for a term of three years, and a second agreement in July 2006 (2006 agreement). The agreement in 2003 was drafted in US dollars and then converted to Australian dollars at the then-current interbank exchange rate. True to ICANN's policy that staff should not bear the burden of exchange rate fluctuation, this exchange rate has been maintained during the life of the agreement and its renewal.

Under the terms of the initial agreement Argo P@cific was paid a professional services fee at the annual rate of US$343,200 (consisting of a base fee of US$260,000 plus an allowance for Argo P@cific to provide all benefits, as described above, to Dr. Twomey). In the 2006 agreement, the professional services fee was adjusted, according to the ICANN compensation philosophy and market-survey process outlined earlier in this appendix, to US$350,000 per year. At the exchange rate of the agreement, this converted to $673,200 AUD. The agreement, similar to its predecessor, provided US $112,000 per year to cover costs of health, retirement savings and welfare. Over the years the declining value of the US dollar has caused the US dollar value of Dr. Twomey's compensation to rise even though it has remained unchanged in Australian dollars. The volatility of the US dollar in Australian dollar terms has been high.

Over each year, Argo P@cific has also been reimbursed for invoiced (with supporting documentation) telecommunications, travel and accommodation, and office expenses incurred to support Dr Twomey in his role with ICANN. Argo P@cific is eligible for additional at risk compensation each year of up to 30 percent of the professional services fee. This risk compensation each year is determined by the ICANN Board in consideration of the CEO's achievement of agreed performance compensation metrics.

Chief Operating Officer

Mr. Doug Brent was appointed as Chief Operating Officer on 13 December 2006. Brent's compensation consists of a base salary of US$270,000 per year, a housing allowance of $24,000 per year which is tax neutralized, additional at risk compensation of up to 48 percent of base pay each year, and coverage under vacation, health and welfare plans including medical, dental, vision, life insurance and a 401(k) retirement plan as ICANN makes available to its staff.

Executive Officer and Vice President of Corporate Affairs

Mr. Paul Levins was appointed as Executive Officer and Vice President Corporate Affairs on 17 September 2006. Levins' compensation consists of a base salary of US$220,000 per year, a housing allowance of $48,000 per year which is tax neutralized, additional at risk compensation of up to 30 percent of base pay per year, and coverage under vacation, health and welfare plans including medical, dental, vision, life insurance and a 401(k) retirement plan as ICANN makes available to its staff. In the past year, Mr. Levins is also reimbursed for certain other costs associated with his move to Los Angeles, California and also to Washington, DC.

General Counsel and Secretary

Mr. John Jeffrey was appointed as General Counsel and Secretary on 2 September 2003. Jeffrey's compensation consists of a base salary of US$230,000 per year, additional at risk compensation of up to 30 percent of base pay per year, and coverage under vacation, health and welfare plans including medical, dental, vision, life insurance and a 401(k) retirement plan as ICANN makes available to its staff.

Senior Vice President, Services

Mr. Kurt Pritz was appointed as Vice President, Business Operations on 2 September 2003. Pritz was appointed Senior Vice President, Services on 13 December 2006. Pritz' compensation consists of a base salary of US$245,000 per year, additional at risk compensation of up to 30 percent of base pay per year, and coverage under vacation, health and welfare plans including medical, dental, vision, life insurance and a 401(k) retirement plan as ICANN makes available to its staff.

Chief Financial Officer

Mr. Kevin Wilson was appointed as Chief Financial Officer on 26 June 2007. Wilson's compensation consists of a base salary of $150,000 per year, additional at risk compensation of up to 20 percent of base pay per year, and coverage under vacation, health and welfare plans including medical, dental, vision, life insurance and a 401(k) retirement plan as ICANN makes available to its staff.