



Report of Independent Auditors and Financial  
Statements for  
**Internet Corporation for Assigned  
Names and Numbers**

June 30, 2011 and 2010

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors (Board)  
Internet Corporation for Assigned Names and Numbers

We have audited the accompanying statements of financial position of Internet Corporation for Assigned Names and Numbers ("ICANN" or the "Organization") as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of ICANN. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ICANN's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 ICANN as of June 30, 2011 and 2010, 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.

*Moss Adams LLP*

Los Angeles, California  
September 16, 2011

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS**

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30,**

**2011**

**2010**

*Amounts are rounded to the nearest thousand in US Dollars*

**ASSETS**

Cash and cash equivalents	\$	29,073,000	\$	17,205,000
Accounts receivable, net		15,068,000		16,723,000
Investments		51,716,000		45,680,000
Prepaid expenses		207,000		329,000
Other assets		105,000		395,000
Capital assets, net		3,651,000		2,661,000
Total assets	\$	<u>99,820,000</u>	\$	<u>82,993,000</u>

**LIABILITIES AND NET ASSETS**

Liabilities				
Accounts payable and accrued liabilities	\$	8,195,000	\$	5,682,000
Deferred revenue		<u>11,475,000</u>		<u>12,603,000</u>
Total liabilities		<u>19,670,000</u>		<u>18,285,000</u>
Unrestricted net assets		<u>80,150,000</u>		<u>64,708,000</u>
Total liabilities and net assets	\$	<u>99,820,000</u>	\$	<u>82,993,000</u>

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS****STATEMENTS OF ACTIVITIES****YEARS ENDED JUNE 30,****2011****2010***Amounts are rounded to the nearest thousand in US Dollars***UNRESTRICTED SUPPORT AND REVENUE**

Registry	\$ 33,202,000	\$ 31,915,000
Registrar	31,259,000	30,189,000
R.I.R.	823,000	823,000
ccTLD	1,990,000	1,666,000
IDN ccTLD Fast track request fees	468,000	236,000
Contributions	1,551,000	939,000
Total support and revenue	69,293,000	65,768,000

**EXPENSES**

Personnel	26,321,000	24,958,000
Travel and meetings	12,258,000	10,609,000
Professional services	12,864,000	14,605,000
Administration	8,541,000	8,475,000
Total expenses	59,984,000	58,647,000

Interest income	127,000	75,000
Investment gain	6,006,000	4,241,000
Total other income	6,133,000	4,316,000

Change in net assets	15,442,000	11,437,000
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**UNRESTRICTED NET ASSETS**

Beginning of year	64,708,000	53,271,000
End of year	\$ 80,150,000	\$ 64,708,000

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS****STATEMENTS OF CASH FLOWS****YEARS ENDED JUNE 30,****2011****2010***Amounts are rounded to the nearest thousand in US Dollars***CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$	15,442,000	\$	11,437,000
Adjustments to reconcile change in net assets to cash provided by operating activities:				
Depreciation expense		1,490,000		1,485,000
Bad debt expense		686,000		140,000
Realized and unrealized gain		(6,006,000)		(4,241,000)
Changes in operating assets and liabilities				
Accounts receivable		969,000		(5,106,000)
Prepaid expenses		120,000		142,000
Other assets		290,000		(50,000)
Accounts payable and accrued liabilities		2,514,000		(4,071,000)
Deferred revenue		(1,128,000)		2,399,000
Net cash provided by operating activities		14,377,000		2,135,000

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of capital assets		(2,479,000)		(1,143,000)
Proceeds from disposal of capital assets		-		91,000
Purchases of investments		(30,000)		(11,000,000)
Net cash used in investing activities		(2,509,000)		(12,052,000)

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

11,868,000 (9,917,000)

**CASH AND CASH EQUIVALENTS**

Beginning of year		17,205,000		27,122,000
End of year	\$	29,073,000	\$	17,205,000

# INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 - ORGANIZATION

The Internet Corporation for Assigned Names and Numbers (ICANN) was established in September 1998 under the laws of the state of California as a non-profit public benefit corporation.

ICANN coordinates a select set of the Internet's technical management functions, such as the assignment of protocol parameters, the management of the domain name system, the allocation of Internet protocol (IP) address space, and the management of the root server system. Categories of Internet domains include Generic Top Level Domains (gTLDs), examples of which are *.com*, *.net*, *.org*, and *.edu* domains, Country Code Top Level Domains (ccTLDs), examples of which are *.us*, *.uk*, *.de* and *.fr*, and Internationalized Domain Name (IDN) ccTLDs for countries that use non-Latin based languages.

ICANN's primary sources of revenue are generated from domain name registration activities and DNS service providers as follows:

**Registry fees.** ICANN has contracts with registry operators of 22 generic top-level domains (gTLDs) such as dot-asia, dot-com and dot-jobs. Registry fees are described in the respective registry agreements. Based on those agreements, registries pay a fixed fee, transaction-based fee, or both.

**Registrar fees.** ICANN accredits registrars in accordance with the Registrar Accreditation Agreement (RAA). The RAA provides for the following types of fees:

- Application fees are paid one time by prospective registrars at the time of the application
- Annual accreditation fees are fees that all registrars are required to pay annually to maintain accreditation.
- Per-registrar variable fees are based upon a set amount divided by the number of accredited registrars and is based on a validated concept that ICANN often expends the same quantum of effort in providing services to a registrar regardless of size. However, some registrars may qualify for "forgiveness" of two-thirds of the standard per-registrar variable fee.
- Transaction-based fees are assessed on each annual increment of an add, transfer, or renewal domain name registration transaction.
- Add Grace Period (AGP) deletion fees are charged to registrars that delete added names within the grace period in excess of a threshold.

**Address registry fees.** ICANN coordinates with organizations responsible for the assignment and administration of Internet addresses (RIRs). RIR's contribute annually to ICANN.

## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 1 - ORGANIZATION (Continued)

*Application fees* are non-refundable and are paid at the time of application by applicants seeking to become an ICANN accredited domain name registrar.

- ICANN recognizes revenue as follows: Transaction fees are determined based upon an established rate per registration times the volume and number of contract years of the underlying domain registration. Transaction fees are earned and recognized in the year the billed fee applies (e.g., 1/10<sup>th</sup> of a registration transaction fee will be recognized in each year of a 10 year domain name registration).
- Fixed fee amounts and timing are due in accordance with the underlying agreements and are not event dependent, and are therefore recognized when billed.
- Application fees are non-refundable, and are recognized at the time the application fees are received.
- Accreditation fee amounts and timing are due in accordance with agreements and are not event dependent, and are recognized ratably monthly over the term of the accreditation.

*Deferred revenue* is recorded when fees are billed but not yet earned.

Deferred revenue consists of the following as of June 30:

	2011	2010
	<u>                    </u>	<u>                    </u>
Deferred registrar income - transactions	\$ 4,371,000	\$ 5,122,000
Deferred registrar income - unbilled	2,196,000	2,557,000
Deferred registrar income - accreditation	3,679,000	992,000
Deferred registry income - transactions	<u>1,229,000</u>	<u>3,932,000</u>
Total deferred revenue	<u>\$ 11,475,000</u>	<u>\$ 12,603,000</u>

ICANN has three supporting organizations which serve as advisory bodies to the ICANN board of directors with respect to internet policy issues and structure within three specialized areas, including the system of IP addresses and the domain name system. The three supporting organizations are the Address Supporting Organization (ASO), the Generic Names Supporting Organization (GNSO) and the Country Code Domain Name Supporting Organization (CCNSO). These supporting organizations are the primary source of substantive policy recommendations for matters lying within their respective specialized areas. The supporting organizations are not separately incorporated entities. Transactions handled by ICANN on behalf of the GNSO are included in the accompanying financial statements.

ICANN provides accounting support to the Registrar Constituency, a constituency within the ICANN community which serves as the representative for registrars and their customers. The accompanying financial statements do not reflect the financial results of the Registrar Constituency.



## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation** - The financial statements of ICANN have been prepared in accordance with generally accepted accounting principles in the United States. ICANN recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions and net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of ICANN and the changes therein are classified and reported as follows:

- **Unrestricted net assets** - Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the objectives of ICANN. ICANN's Board adopted an investment policy in November 2007. This investment policy established a Board designated Reserve Fund that limits use of the Reserve Fund based upon specific Board actions. All investments are designated under the Reserve Fund.
- **Temporarily restricted assets** - Net assets subject to donor-imposed stipulations that may or will be met either by actions of ICANN and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.
- **Permanently restricted net assets** - Net assets for which the donor has stipulated that the principal be maintained in perpetuity, but permits ICANN to use, or expend, all or part of the income derived from the donated assets for general or specific purposes, subject to statutory regulations.

As of June 30, 2011 and 2010, ICANN had no permanently or temporarily restricted net assets.

**Cash and cash equivalents** - Cash and cash equivalents include deposits in bank, money market accounts and marketable commercial paper. ICANN considers all cash and financial instruments with original maturities of three months or less to be cash and cash equivalents.

**Accounts receivable, net** - Accounts receivable net of allowances for doubtful accounts are \$15,068,000 and \$16,723,000 as of June 30, 2011 and 2010, respectively. On a periodic basis, ICANN adjusts its allowance based on an analysis of historical collectability, current receivables aging, and assessment of specific identifiable customer accounts considered at risk or uncollectible.

ICANN had bad debt expense of approximately \$686,000 and \$140,000 during the years ended June 30, 2011 and 2010, respectively.

## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Investments** - Investments in marketable securities are carried at fair value, based on quoted market prices.

Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

- |         |   |
|---------|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities.  |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.   |

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, mutual funds, asset backed securities, government securities, preferred securities, and common stock. Level 2 or 3 securities include securities where quoted market prices are not available and fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. ICANN has no assets or liabilities with Level 2 or 3 inputs as of the date of the financial statements.

**Capital assets** - Capital assets consist of capitalized computer equipment, software, furniture and fixtures and leasehold improvements and are stated at cost or, for contributed items, at fair value at date of contribution. Capital assets are depreciated using the straight-line method over their estimated useful lives, which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful life or the remaining lease term. Acquisitions in excess of \$10,000 and one year useful life are capitalized.

**Advertising costs** - Advertising costs are expensed in the period incurred. Advertising costs amounted to approximately \$24,000 and \$62,000, for the years ended June 30, 2011 and 2010, respectively.

## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Income taxes** - ICANN is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. However, ICANN is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the basic financial statements taken as a whole.

ICANN, under the provisions of ASC 740, *Income Taxes*, had no uncertain tax positions requiring accrual as of June 30, 2011 and 2010.

**Functional allocation of expenses** - Expenses that can be identified to a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on methods determined by management. ICANN's expenses are classified approximately as follows for the fiscal years ended June 30:

	2011	2010
Program services	\$ 42,108,000	\$ 40,680,000
Support services: management and general	17,876,000	17,967,000
Total expenses	<u>\$ 59,984,000</u>	<u>\$ 58,647,000</u>

**Use of estimates** - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications** - Certain 2010 amounts have been reclassified in the financial statements to conform to the 2011 presentation. These reclassifications have no impact on net assets.

**Subsequent events** - ASC 855, *Subsequent Events*, establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before financial statements are issued. ICANN recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. ICANN does not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the financial position date and before the financial statements are available to be issued. ICANN has evaluated subsequent events through September 16, 2011, which is the date the financial statements were available to be issued.

## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 3 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject ICANN to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and investments. ICANN places its cash with major financial institutions. Cash held at these financial institutions may, at times, exceed the amount insured by the Federal Deposit Insurance Corporation. Concentration of credit risk with respect to receivables is mitigated by the diversity of registries/registrar comprising ICANN's registry/registrar base. ICANN places its investments with a major investment broker. The investments held are subject to volatility of the market and industries in which they are invested.

ICANN had two major registries/registrars totaling approximately \$36,606,000 or 53% of the total support in fiscal year 2011 and \$34,453,000 or 53% of the total support in fiscal year 2010. ICANN had accounts receivable amounting to approximately \$4,329,000 and \$4,765,000 due from these two major registries/registrars at June 30, 2011 and 2010, respectively.

#### NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following as of June 30:

	<u>2011</u>	<u>2010</u>
gTLD registries and registrars	\$ 14,019,000	\$ 15,466,000
IP address registries	-	823,000
ccTLD's	1,116,000	818,000
IDN Fast track	772,000	156,000
Other	145,000	10,000
	<u>16,052,000</u>	<u>17,273,000</u>
Less: allowance for doubtful accounts	<u>(984,000)</u>	<u>(550,000)</u>
	<u>\$ 15,068,000</u>	<u>\$ 16,723,000</u>

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5 - INVESTMENTS**

Investments consist of the following as of June 30, 2011:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Equities - domestic	\$ 18,436,000	\$ -	\$ -	\$ 18,436,000
Equities - international	5,460,000	-	-	5,460,000
Fixed income - domestic	27,820,000	-	-	27,820,000
	<u>\$ 51,716,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,716,000</u>

Investments consist of the following as of June 30, 2010:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market funds	\$ 1,313,000	\$ -	\$ -	\$ 1,313,000
Mutual funds	15,084,000	-	-	15,084,000
Asset backed securities	8,169,000	-	-	8,169,000
Government securities	6,874,000	-	-	6,874,000
Preferred securities	17,000	-	-	17,000
Common stock	14,223,000	-	-	14,223,000
	<u>\$ 45,680,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,680,000</u>

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS****NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5 - INVESTMENTS (Continued)**

Net investment gain is comprised of the following for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Dividend and interest income	\$ 2,121,000	\$ 2,374,000
Realized and unrealized gains	4,222,000	2,125,000
Management fees and other	<u>(337,000)</u>	<u>(258,000)</u>
Total net investment gain	<u>\$ 6,006,000</u>	<u>\$ 4,241,000</u>

**NOTE 6 - CAPITAL ASSETS**

Capital assets consist of the following as of June 30 (useful lives of respective asset class in parentheses):

	<u>2011</u>	<u>2010</u>
Computer equipment (Three years)	\$ 5,097,000	\$ 4,062,000
Computer software (Three years)	520,000	277,000
Furniture and fixtures (Seven years)	295,000	295,000
Leasehold improvements (Varies per lease)	1,394,000	608,000
Construction in progress (None)	<u>416,000</u>	<u>-</u>
	7,722,000	5,242,000
Less: accumulated depreciation	<u>(4,071,000)</u>	<u>(2,581,000)</u>
	<u>\$ 3,651,000</u>	<u>\$ 2,661,000</u>

**NOTE 7 - LEGAL MATTERS**

In the ordinary course of business, ICANN is occasionally named as a defendant in lawsuits and may be involved in other alternative dispute resolution proceedings. Management is unable at this time to determine the probable outcome or the effect, if any, that these matters may have on the financial position and the ongoing operations of ICANN. Accordingly, the accompanying financial statements do not include a provision for any losses that may result from ICANN's current involvement in legal matters.

## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 8 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2010, Dr. Paul Twomey, ICANN's former President and Chief Executive Officer, provided services to ICANN through a professional services agreement with Argo Pacific Party Limited (Argo Pacific), an Australian Proprietary Company. Dr. Twomey is the owner/founder of Argo Pacific.

Payments were made to Argo Pacific under a contractual arrangement with ICANN (the terms of which were approved by the ICANN Board of Directors) for the provision of Dr. Twomey's professional services, benefits allowance, and for related expenses (incidental travel, telecommunications, computer supplies, and office supplies). This contractual arrangement terminated on December 31, 2009.

Pursuant to the agreement, during the year ended June 30, 2010, Argo Pacific was paid \$95,000 associated with Dr. Twomey's employee benefits, \$296,000 in base compensation, and \$218,000 in bonus payments. A portion of these bonus payments were made for services rendered during the year ended June 30, 2009. Argo Pacific's agreement with ICANN is denominated in Australian Dollars. Reimbursements made to Argo Pacific for related expenses such as travel, telecommunications, and office supplies amounted to \$3,000 for the year ended June 30, 2010. Total payments made to Argo Pacific for the year ended June 30, 2010 were approximately \$611,000. There were no outstanding amounts due to Argo Pacific as of June 30, 2010.

A portion of ICANN's President and Chief Executive Officer Rod Beckstrom's services were provided to ICANN through a professional services agreement with The Rod Beckstrom Group. Rod Beckstrom is the owner/founder of The Beckstrom Group. Pursuant to the agreement, during the year ended June 30, 2010, The Beckstrom Group was paid \$27,000 for services rendered during the period of June 18-30, 2009.

Dr. Bruce Tonkin is a voting member of the Board of Directors. Dr. Tonkin is also Chief Strategy Officer of Melbourne IT, an ICANN accredited registrar. Revenue from Melbourne IT amounted to \$767,000 and \$833,000 for the years ended June 30, 2011 and 2010, respectively, under the fee structure of the standard Registrar Accreditation Agreement. To avoid any conflict of interest between ICANN and Melbourne IT, Dr. Tonkin abstains from voting on all matters he identifies as potential conflicts of interest that come before the Board.

Additionally, during years ended June 30, 2011 and 2010, the following voting Board members identified that they may have conflicts in accordance with ICANN's Conflicts of Interest Policy: Harald Tveit Alvestrand, Sebastien Bachollet, Steve Crocker, Chris Disspain, Bill Graham, Rita Rodin Johnston, Mike Silber and Kuo-Wei Wu.

## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 9 - COMMITMENTS

ICANN leases its offices and certain other facilities under operating lease agreements. The lease agreements have various termination clauses requiring three to thirty-four months' rent for early termination. Minimum future payments under operating leases for the future years ending June 30 are approximately:

2012	\$	2,019,000
2013		900,000
2014		811,000
2015		851,000
2016		893,000
Thereafter		<u>2,361,000</u>
Total	\$	<u>7,835,000</u>

Rent expense amounted to approximately \$2,684,000 and \$2,113,000 for the years ended June 30, 2011 and 2010, respectively. ICANN also has pass-through and additional charges from certain sublessors that are not included in the minimum expected payments above. The pass-through and additional charges cannot be reasonably estimated for future periods. Pass-through and additional charges amounted to approximately \$299,000 and \$247,000 for the years ended June 30, 2011 and 2010, respectively.

#### NOTE 10 - DEFINED CONTRIBUTION PENSION PLAN

ICANN's 401(k) Plan (the "Plan") is available to all employees in the United States at the first of the month following hire date with ICANN. ICANN contributes 5% of employee's salary to the Plan regardless of employee contributions. ICANN also matches employee contributions up to 10% of the employee's annual salary. Employer contributions recognized for the years ended June 30, 2011 and 2010 amounted to approximately \$1,967,000 and \$1,598,000, respectively. The June 30, 2011 and 2010 payroll contributions were \$117,000 and \$107,000, respectively.

An internal audit of the 401(k) plan performed by ICANN revealed that between 2005 and 2008, some untimely payments to the Plan consisting of employee deferrals were made after the date required under the Department of Labor's regulations. To correct this error and to compensate for all lost interest, ICANN made a corrective payment to the Plan and reported the correction to the Department of Labor through the Department's Voluntary Fiduciary Correction Program. Contributions were made to affected participants of the Plan to compensate for the lost earnings resulting from the late payments. On January 31, 2011, the Department of Labor issued a no action letter in recognition of ICANN's voluntary compliance.

The above noted internal audit also revealed errors related to administration of the Plan. ICANN filed an application with the Internal Revenue Service ("IRS") for making the necessary corrections to the Plan under the IRS's Voluntary Correction Program. On July 18, 2011, the IRS issued a compliance letter constituting enforcement resolution and accepting ICANN's application for making necessary corrections to the Plan. Management intends to make those corrections by December 15, 2011.