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Letter from the President

We are now a trimmer and more functional organization, with financial controls, stability and predictability. We determined that BIND revenues had been subsidizing our other efforts, so we put more back into BIND, adding three DNS engineers in early 2015. On the operations side, we are cutting back on subsidized programs that no longer make sense, like commercial hosting and commercial SNS, while refocusing our efforts on public benefit F Root and ccTLD DNS publishing. We have had virtually no personnel turnover in more than a year since our reductions in force, and our customers and partners have stuck with us, too, maintaining a 93% renewal rate.

Going forward, ISC continues to balance our public benefit mission with financial stability; we are working cooperatively with other open source providers to provide commercial support for products like NLnet Lab’s Unbound and are in talks to add more. We’ve removed restrictions on our Knowledge Base so that everyone, not just paying customers, can access our technical documentation, and added 36 new feature articles and a comprehensive BIND DNSSEC guide just in 2014.

We are reaching out to our external contributors, accepting patches as a greater priority, and granting accounts in our bug tracking system to our frequent contributors. We opened public access read-only GITs for BIND and ISC DHCP, and posted our new DHCP project, Kea, on Github. We continue making significant contributions to industry standards development and have strong roles in NANOG, the IETF, RIPE NCC, DNS/OARC, ISOC, and ICANN to name a few.

ISC carries no debt, is approximately break even, and has sufficient financial reserves to carry us through normal downturns in the business. We are proud of our past and excited about our future. We are aggressively in discussions around the globe to research emerging problems we can help solve and playing fields we can help level. We aren’t going anywhere but forward. We hope you will consider supporting our mission financially and furthering our common goals.

Regards,

Jeff Osborn
1 About ISC

Where we get our money

ISC receives revenue primarily from support services for our products and services. In addition, in 2013, we sold our registry and security businesses. The sale of these businesses provided a cushion for our finances, and left us in our strongest financial position in years. In 2014, 84% of total revenue came from our four main products and services: BIND 9 (54%), Hosted® (16%), ISC DHCP (9%), and F Root (5%). By beefing up our staffing of those functions and trimming staff from the products we either completed or divested, we now have a roughly break even organization that is financially sound and ready to continue to serve the Internet community at large.
Where the money goes

The majority of ISC’s costs (and its greatest asset) are its people. Other than personnel costs, there are bandwidth and facilities, depreciation charges for our extensive network and hosting gear, travel, and just about nothing else. We run a lean organization, and are proud of the work done and its cost effectiveness. Technical personnel provide three major functions: Network operations, Software engineering and Technical support. Nearly three quarters of the staff are technical personnel; the remaining quarter are in sales, marketing and G&A.
2 Changes in 2014

Management

In 2014 we downsized the company, reducing the number of employees by about a third. We discontinued development of BIND 10, renaming it Bundy and turning it and all of its supporting materials over to The Bundy Project. We eliminated Vice President positions, appointing a Director of Engineering and a Director of Marketing. The software engineering function was (except for BIND 10) essentially untouched.

Changing from membership to subscriptions

Our primary product lines had changed in 2012 and part of 2013 from memberships to subscriptions. These various changes were made without our paying sufficient attention to customer needs, and we got a lot of them very wrong. In 2013 we began working hard to regain the confidence of customers made unhappy by changes to products and pricing. During 2014 we continued those efforts and have made good progress towards rebuilding the customer relationships that had been damaged.

Changes in Focus

During 2013, and continuing into 2014, we concluded a number of projects that had been drawing our focus away from our core responsibilities, which are ISC DHCP, BIND9 and F Root. Our staffing was adjusted to reflect the narrower project focus.

Also in 2013 and early 2014 we concluded the Open Home Gateway Forum, transferring the Open Source Routing project to netdef.org.

Staying the Course

After the tumultuous changes of 2013 and early 2014, ISC has benefitted from the stability that comes of having made the right choices and executed well on implementing them.
3 Activities

Software Engineering

In 2014 we did a solid job of maintaining our primary open source projects, BIND 9 and ISC DHCP. The backlog of unfixed bugs is smaller at the end of 2014 than it was at the beginning, which is to say that we fixed more bugs in 2014 than were discovered or reported in 2014 even as we dedicated a lot of resources to addressing the growing resolver DDoS problem and maintaining our support for standards development.

BIND 9

BIND is the industry reference implementation of the DNS protocols and a significant open source program at ISC. In 2014 we made the difficult decision to cancel work on BIND 10, and re-focus on BIND 9. We have continued development of BIND 9 and added a new feature branch. In 2015 added more staff to the BIND 9 engineering group, to improve our test coverage and to be able to bring out another new feature branch, 24 months after the previous one.

All DNS software must evolve to include new standards and react to new threats. In 2014 the most significant theme was DDoS attacks. Such attacks are becoming increasingly common and increasingly severe. As a result, issues of performance and resilience to DoS attacks were primary themes in BIND work in 2014.

Major BIND 9 accomplishments in 2014

- We released versions 9.8.7 & 9.8.8, 9.9.5 & 9.9.6, 9.10.0 & 9.10.1.
- We declared EOL for BIND 9.6 in January 2014 and for BIND 9.8 in December 2014.
- We added 24 new articles about BIND to our knowledge base (kb.isc.org).
- We posted an open BIND git repository.
- We announced a new BIND DNSSEC Guide (formally released in 2015).
Maintenance

We resolved 575 issues in 2014, (not counting those opened before 2011), and we opened 557 new issues in our bug tracker. This reduced the number of pending issues by 18. The previous year there had been an actual increase in the count of pending issues.

We made a special effort to review and accept more contributed patches. In 2014, we accepted, integrated, and released at least 35 contributed patches.

We created special Windows releases for: 9.6, 9.8.7, and 9.9.5, fixing a bug that prevented dig and nslookup from exiting properly when run on MS Windows systems.

We issued 4 sets of security releases.

We made an average of 2.6 fully reviewed commits per DAY to the BIND master branch.

We use the Coverity open source scanning program extensively. BIND is showing an incredibly low defect density of 0.01 per thousand lines of code, with 329,951 lines of code scanned. We added the Coverity badges that track the current status to our BIND and DHCP pages on the ISC website, so the information is readily available.

Security

The Heartbleed vulnerability discovered in OpenSSL had a big impact on the IT community, but did not impact BIND directly.

We issued 5 CVEs, 3 of which were specific to BIND 9.10:

- CVE 2014 0591: A Crafted Query Against an NSEC3 signed Zone Can Crash BIND.
- CVE 2014 3214 A Defect in Prefetch Can Cause Recursive Servers to Crash (Affects recursive servers running BIND 9.10 only).
- CVE 2014 3859: BIND named can crash due to a defect in EDNS printing processing (Affects BIND 9.10 only).
- CVE 2014 8500: A Defect in Delegation Handling Can Be Exploited to Crash BIND (Affects recursive servers only).
- CVE 2014 8680: Defects in GeoIP features can cause BIND to crash (Affects BIND 9.10 only).

Codenomicon performed some packet fuzzing test runs on BIND 9.10 for us in the summer of 2014. They ran millions of test cases, and found a vulnerability in dig which, on closer inspection, revealed a packet of death vulnerability in BIND 9.10.0.
ISC issued an operational advisory explaining how to build BIND with gcc 4.9 to avoid the problem.

**New feature development**

We launched BIND 9.10, with a new and faster (but OS specific) map format for zone files, pre-fetch, cookies, shared views, and new statistics formatting.

Since the 9.10 release, we have developed per zone fetches, per server fetches, and a hold down timer for DDoS mitigation. We trialed these features in our experimental branch. We have also implemented a negative trust anchor mechanism, to ease deployment of DNSSEC validation. That feature is now in our premium subscription branch, and will in 2016 become part of the regular 9.11 release.

**Contributions to DNS standards**

ISC engineers invest considerable time and effort working on proposals for Internet standards. Below is a list of IETF documents to which ISC engineers made significant contributions. Some are draft standards.

- Domain Name System (DNS) Cookies: Donald Eastlake, Mark Andrews
- RFC 6598 6303 Add 100.64.0.0/10 prefixes to IPv4 Locally Served DNS Zones Registry: M. Andrews
- DNSSEC Key Rollover Timing Considerations: S. Morris, J. Ihnen, J. Dickinson, W. Mekking
- RFC 7314 Extension Mechanisms for DNS (EDNS) EXPIRE Option: M. Andrews
- A DNS Record for Confidential Comments (expired draft): E. Hunt, D. Mahoney
A Common Operational Problem in DNS Servers  Failure To Respond: M. Andrews
ISC DHCP

ISC DHCP is distributed with most open source operating systems and is incorporated into many commercial DDI/IPAM applications, as well as embedded devices. The software is mature and full featured, but challenging to maintain. We are proud to have completed a year of aggressive maintenance, and to have released another feature branch. We added an ISC software developer to the project in 2014. In 2016 we are hoping to taper off our work on ISC DHCP and focus more on Kea, the next generation DHCP server from ISC.

Major ISC DHCP accomplishments in 2014

- We released 4.1 ESVR9 & R10, 4.2.6 & 4.2.7, 4.3.0 & 4.3.1.
- We extended the date for End of Life for DHCP 4.1 another year (planned for December 2014, extended until December 2015).
- We created an open ISC DHCP git repository.
- We accepted at least 11 contributed patches.
- We added 12 new KB articles about ISC DHCP to our knowledge base (kb.isc.org).
- No security advisories needed or issued.

Maintenance

RESOLVED 167 issues in 2014 (not counting those opened before 1/1/2009)**

OPENED 133 new issues in our bug tracker

We use the Coverity free scanning program for open source programs, and starting in April 2014, we made it a priority to address our outstanding Coverity errors in the ISC DHCP project. Since then we have reversed the trend, and at the January 2015 scan we had a Coverity defect density of 0.09 per thousand lines of code, which is excellent.

We determined that our DHCP client script could be a vector for the Shellshock BASH vulnerability discovered in 2014. We communicated with and worked with the operating system packagers (who create these client scripts) about this possibility and are satisfied with the resolution.

New Feature Development

We launched ISC DHCP 4.3.0, which we called our IPv6 uplift release. This release added more feature support for IPv6, including access to relay options, on expiry/
on renew features, and class support. It also added OMAPI subclass control, and implemented the newer standardized DHCID resource record format.

In addition to the 4.3.0 feature release, we added 12 minor features requested by users in releases 4.3.1 and 4.3.2, with selective backporting to earlier releases.

ISC’s DHCP remains the only comprehensive non-Microsoft tool for assigning IP addresses to computers on both public and service provider networks. The closest competitor is Dnsmasq, optimized for embedded environments, produced by our friend Simon Kelley. There are fewer alternatives to ISC DHCP than there are in the DNS software arena, which is why we plan to add another developer on this team, while we continue our efforts to replace ISC DHCP with the new Kea DHCP server.

Despite ISC DHCP’s maturity, we get a significant number of requests to make minor adjustments in it. These are difficult to make, both because the software is difficult to update, and because any change we make threatens some legacy application or device that relies on the old behavior. We continue to maintain 4.1 and have started the EOL process for 4.2. While we will continue to provide some support for paying customers and will fix any significant security issues, we have stopped putting fixes into the 4.2 train and will not be releasing a 4.2.9 in the next release cycle.

Kea

Kea is our under development next generation DHCP server, intended to eventually replace ISC DHCP. Kea is a server only; it does not currently include a client or relay. Kea is intended to be more easily extended than ISC DHCP, and is designed for dynamic reconfiguration. We are encouraged by the interest in contributing to and deploying Kea that we saw from the community in 2014. We are continuing new feature development in 2015, making Kea suitable for datacenter or public wifi deployments.

Major accomplishments in 2014

- Released Kea 0.9, which separated Kea from the BIND10 framework, making it a working standalone application. We also removed the dependency on Python and Botan.
- Began working on Kea 0.9.1, which is being developed in the open at kea.isc.org.
- We established a set of Kea interest mailing lists, which you can sign up for on the ISC Mailman page.
- We continued our partnership with Gdansk University, holding a hackathon there, and proposing several masters and PHD thesis projects.
We opened a site on GITHUB to accept contributions.

We have accepted patches from the following: RedHat, CapGemini, CERN, Facebook, and 2 universities, Gdansk University and Silesian University.

**ISC contributions to DHCP related standards**

The best known of the IETF Dynamic Host Control standards is DHCP, but the DHCP Working Group is larger than just the DHCP protocol itself. ISC engineers invest considerable time and effort working on proposals for Internet standards. Among the more notable efforts in 2014 were the work on the DHCP proposals RFC3315bis and the two DHCP privacy drafts. In addition to working on drafts, ISC Senior Software Engineer Tomasz Mrugalski co chaired the IETF DHC working group in 2014.

- RFC 7341 DHCPv4 over DHCPv6 (DHCP 4o6) Transport: Q. Sun, Y. Cui, M. Siodelski, S. Krishnan, I. Farrer
- Customizing DHCP Configuration on the Basis of Network Topology: T. Lemon, T. Mrugalski
- DHCPv6 Options for configuration of Softwire Address and Port Mapped Clients: T. Mrugalski, O. Troan, I. Farrer, S. Perreault, W. Dec, C. Bao, L. Yeh, X. Deng
- Privacy considerations for DHCP: S. Jiang, S. Krishnan, T. Mrugalski
- Privacy considerations for DHCPv6: S. Krishnan, T. Mrugalski, S. Jiang

**Major Changes to Other Projects**

We released version 1.2 of BIND 10, ended the BIND 10 development project at ISC, renamed the BIND 10 components as Bundy, and released control of the source to be managed by the third party Bundy project, which has put it up on GitHub.

We jettisoned the DNSco branding which had come to symbolize aggressive commercialization.

We wrapped up the Open Home Gateway Forum, funded by Comcast.
We removed all restrictions on our knowledge base and on our duplicate git repositories for BIND and ISC DHCP, so these resources are all free and open to anyone. Previously we had reserved some access for subscribers only.

**Network Infrastructure**

We maintain approximately 2700 BGP peering sessions across our worldwide infrastructure, more if you count all the nodes that peer via route servers. This number is similar to what a medium to large ISP might have. Maintaining these is a significant work item. In 2014 we worked nearly 200 peering related tickets, adding and deleting peers and troubleshooting session problems.

A number of service providers donate transit or hosting for F Root nodes. In addition, we received two significant donations to our network infrastructure in 2014:

- Telia Sonera provided us with free 1G transit links this year both for F Root and for general ISC network operations (in Atlanta, Chicago, Palo Alto, Frankfurt, and Amsterdam).
- NTT has generously upgraded their donation of Internet transit in our main Palo Alto datacenter from 10G to 40G, and also offered us transit at any of our other sites that need it.

**F Root operations**

We’ve operated F Root, one of the world’s thirteen root name servers, since 1994. We have F Root service deployed around the world in 57 locations to offer fast access even in remote parts of the world. F Root collectively has well over a thousand peers, and F Root handles roughly one third of all internet queries to the DNS root.

F Root is supported with the help of multi year donations in kind from many service providers and other Internet organizations. We partner with many Regional Internet Registries, such as LACNIC, APNIC, and AfriNIC, as well as many local sponsors to deploy F Root all over the globe.

We developed a design for a new F Single node that dramatically reduces the cost for small sites. During AfriNIC in Mauritius in November, 2014, we solicited new F Root node locations based on this new single node design.

In 2014 we added new nodes in Kuala Lumpur and Chennai. None of our public nodes was decommissioned in 2014. The total count of F Root nodes increased from 55 to 57 in 2014. We signed agreements to add nodes in Beijing and Luanda (Angola). Progress on the F Root node in Uruguay continues.
The sponsor of each F Root node purchases and owns its equipment. It is prudent to refresh the equipment at each node approximately every five years, and we encourage all sponsors to do that, but ultimately it is the sponsor's decision because it is the sponsor's money. During 2014 we accomplished hardware refreshes or upgrades in Amsterdam, Chicago, Frankfurt, and New York, software refreshes or upgrades in Brisbane, Paris, Tel Aviv, and Warsaw, and improved network connectivity to nodes in Amsterdam, Chennai, Monterrey, Chicago, Frankfurt, New York, Atlanta, and Palo Alto.

ISC F Root operations participates each year in the DNS OARC A Day in the Life data collection project. In 2014 we contributed over 58 terabytes of data, consisting of more than 5.5 billion queries to F Root. This was approximately 14% of queries to the root that were reported in the DITL data that year.

**Municipal network**

In 2014 we upgraded our public benefit municipal network service to 10Gbps. The nearby City of Menlo Park is now getting its internet entirely through ISC, and we continue to work with the Palo Alto Unified School District to get them a 20x increase in bandwidth. ISC provided free or subsidized connectivity and transit for 11 local towns, schools, and non-profit organizations in 2014.

**Hosted@**

We have historically provided free or subsidized hosting for non-profit projects. We did quite a bit of work in this area in 2014, resolving 234 issues for our hosted partners.

**Examples of Changes**

The Kernel.org team refreshed their equipment and donated their old servers to ISC. We are looking into putting them back under maintenance and using them as a VM farm for Hosted@ guests. The goal is to reduce the number of ancient power hungry guest servers in our Redwood City data center. The electric bill is enormous!

We added NANOG backup servers to Hosted@, and will publish nanog.org via SNS PB.

Our Hosted@ users include: DNS OARC, Public Library of Science, the FreeBSD Foundation, Public.Resource.org, the Network Time Foundation, the Measurement Lab (M Lab), NetBSD, distributed.net, OpenDNS, The Linux Kernel Archives, OpenBSD, The Center for Applied Internet Data Analysis (CAIDA), the Bufferbloat Proj
ect, Creative Commons, the Free Software and Open Source Foundation for Africa, HTTP Archive, Nanog, Sanog, and more. In 2014 we removed and returned equipment to OpenLDAP.org, unixheads.com, and Bay Area Children’s Theatre, among others.

NTP Amplification issue

This was a big event in early 2014, and impacted a number of our hosted projects. We helped deflect a NTP amplification attack against one of our hosted customers. We also found that a number of our hosted customers were the source of NTP amplification attacks. We collected incoming abuse reports and contacted administrators for these hosted systems to make sure they locked down their NTP servers.

SNS

ISC’s Secondary Name Service is an infrastructure service for publication of DNS zone data to the global Internet with maximum availability and minimum delay. Customers of SNS operate their own primary name servers where they manage their DNS zone data, and then ISC transfers this zone data to one or more of our globally anycast name server clusters. End users see extremely high availability and short response times when they look up domain names whose DNS zones are served by ISC’s Secondary Name Service.

ISC operated both a commercial secondary name service (SNS) and a subsidized public benefit service (SNS-PB) in 2014. There are several dozen small ccTLDs published through our subsidized SNS service.

As every other network operations team does, we spend considerable resources on DDoS prevention and mitigation. We had to update systems across the board in response to the HeartBleed, NTP, and Poodle issues in 2014.

Early in 2014, our secondary name service was hit by TCP resource exhaustion attacks. We monitored the servers, increasing the availability of TCP sockets as needed. Later, in July, we were hit with a 200+ gigabit DDoS against both the SNS Public Benefit servers in the San Francisco Bay Area, Chicago, and Amsterdam as well as AS1280. The target was a ccTLD that we were hosting. We were able to work with both our friends in the community to locate the attack vector (a mixture of NTP and a flood of bad DNS packets from a well known botnet), and then with our transit providers to filter out the attack traffic. This attack made isc.org completely unreachable for an hour or so and dramatically degraded our connectivity for most of a day.
After the massive DDoS, we realized that we do not have the bandwidth or the scale to effectively protect against a modern flooding attack. Making the investment in equipment required to reach that scale is probably not consistent with our non-profit mission. So, we made the decision to recommend that our commercial SNS customers move to another (larger) provider. ISC is no longer accepting commercial SNS customers, although we will continue our subsidized public benefit SNS service. We have secured additional bandwidth for our subsidized public benefit SNS to help withstand future DDoS attacks.

**DLV**

ISC created and operates the DNSSEC Lookaside Validation (DLV) registry. DLV was developed as a transition mechanism to help people who wanted their DNSSEC signed zones to be validated even though their parent had not yet adopted DNSSEC. There is an interface at dlv.isc.org that allows users to register their domain to be validated through the DLV.

In 2014 we modernized the DLV infrastructure, moving it to virtual machines at our Palo Alto datacenter, because it was running on very old hardware and an old OS. We also did an assessment and created a proposed plan for gradually decommissioning the DLV, which is being presented to the DNS community in 2015. We currently have about 2,800 working zones that can be validated through the DLV.

**RIPE Atlas Anchor**

In 2014 ISC became one of the Anchor Probe sites for the RIPE NCC Atlas project.

**AS112 Server**

ISC operates one of the AS112 servers. The network of AS112 servers absorb leaked advertisements for what are supposed to be private RFC1918 addresses, reducing the load on the rest of the DNS infrastructure.

**Network Engineering for IETF Meetings**

Jim Martin, our Director of Operations, has been the volunteer NOC Team Lead for the IETF for the past 15 years. Jim spends a substantial amount of his time in planning, establishing, and running the conference and hotel IP network for every IETF
meeting. He and his team of volunteers create a rapid deployment event network consisting of an extensive wireless deployment (>100 access points), multiple IPv4 and IPv6 BGP peerings over anything from a DS3 to a 100G experimental link, for about 1500 of the most demanding users on the planet—the people who design the way the Internet works. In 2014 Jim established and worked in the NOC for the 89th IETF in London, the 90th IETF in Toronto, and the 91st IETF in Honolulu, and scouted future possible locations for the IETF.

**ISC.org Website**

One notable event in 2014 (we can’t call it an accomplishment) was the malware infection of the Wordpress installation that we use to implement the ISC website. We took our website down between Christmas and New Year’s day while we scrubbed all the files on our website, updated the software, and added malware detection. We could have restored the website faster, but we figured that everyone looking at it was on vacation, so we took our time. We have not had any reports that we actually infected anyone, but we deeply regret the whole situation.

**Domain Survey**

ISC’s Internet Domain Survey, which was begun by Network Wizards, is the longest running survey of the number of computers connected to the Internet. This data provides an in-depth look at the active IPv4 addresses on the Internet. Despite its name, the ISC Domain Survey is not a survey of domains. It is a survey of IPv4 addresses that have a domain name attached to them. ISC has been sponsoring the Domain Survey since it was founded, although the process by which the information is gathered has evolved since then.

The current Domain Survey attempts to discover every IPv4 host on the Internet by doing a complete search of the allocated address space and following PTR links to published domain names. Survey data is collected and a summary is published quarterly. The complete set of data is available for purchase from ISC. In a recent survey, we found more than 1 billion hosts. Therefore, the corresponding datasets, especially for the .com, .net, .edu, and .org TLDs, are quite large. For example, the .com file is more than 170MB zipped. The Domain Survey is approximately revenue neutral. This is a program we run for the benefit of those doing teaching and research on the growth of the Internet.
Support and Training

Software Support

We have a team of dedicated technical support engineers, located in the US and Europe, who provide support for our core products, BIND and ISC DHCP, and for other open source software products that are sufficiently similar to our own that we can support them with our existing staff.

We sent three support engineers to NLnet Labs in Amsterdam for training, and upon their return, began offering commercial support for Unbound and NSD, which are DNS software products from NLnet Labs.

The Support team (4 senior engineers plus a manager) also runs our Advance Security Notification service. The revenues generated from our Support service make up over half of ISC’s funding, and support all our software maintenance and development operations. Effectively, our support subscribers are funding the ongoing maintenance of our core open source products.

We offer five levels of support contracts: Basic, which includes only Advance Security Notifications, and Bronze, Silver, Gold and Platinum. The Basic subscription, which we began offering in November 2014, offers a simple but valuable benefit at our lowest contribution level. The metals offer increasingly fast response from our support team, plus increasing amounts of bundled training and consulting. Our customers include OEMs, Telcos, Service Providers and Internet Enterprises that measure their service outages in minutes and millions of dollars.

To support these customers we have rotating on-call coverage and support and engineering employees in different time zones to provide 7×24 hour support to our best customers.

<table>
<thead>
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<tr>
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<td>750</td>
<td>1052</td>
</tr>
</tbody>
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We accept bug reports via email to bind9 bugs@isc.org and dhcp bugs@isc.org. We received and processed 799 bug reports from the user community (non-customers) in 2014. We spend considerable time in reviewing and replying to these reports. Many were duplicates of known issues or were user error.

In addition to our paid support, we also provided free community support via various email distributions. We monitor relevant Internet mailing lists closely for any hint of
security vulnerabilities in our software. That effort takes a big chunk of our support staff’s time. In 2014 there were 2096 messages exchanged on the BIND Users list, 983 on the DHCP Users list, and 55 on the Kea Users list.

Testing new Software Features

Recently, many problems reported by our customers have involved Distributed Denial of Service (DDoS) attacks on DNS servers. Many of the experimental new features that ISC’s Software Engineering group are exploring for BIND are also DDoS related. Realistic testing of DDoS defense mechanisms requires a scale that is larger than anything in our Software Engineering testing laboratory. So ISC’s Support staff have been working with actual customers and large real customer networks to explore the efficacy of proposed DDoS mechanisms.

Knowledge Base

We started the Knowledge Base (KB) in 2011. We began requiring registration and login for KB access in 2012. In 2013 we added access levels, making some content restricted to paid support customers. Although the restricted content is almost exclusively related to support procedures, and not useful to the general public, we felt that the new mode has caused some people to have more trouble accessing the information they need.

We added 36 new articles and numerous updates and release notes to our KB in 2014. We have gradually been removing technical information from our website and moving it to the KB. This has increased the importance of the KB to ISC and its stakeholders.
**Marketing**

As part of our cost cutting in 2014, we cut back significantly in outbound marketing. The focus of ISC communication efforts in 2014 was on sharing information and updates on our software and operations via social media and the ISC website, rather than on sales lead generation or commercial product promotion.

**ISC Website**

Our primary marketing vehicle is the ISC website. Nearly all of our new open source support customers make contact with us through our website, and it is a key way for users to locate updated software and technical information. Of the 13 new support subscribers in 2014, eight came to ISC through inquiry forms on the website.

On an average weekday, between 1900 and 2000 users visit the ISC website. During 2014, we had approximately 50,000 web sessions each month, with about a half million users during the year. We are seeing a trend towards decreasing Website traffic across the year.

**Major changes to the ISC Website in 2014**

- Posted 22 blog articles
- Began posting Release notes alongside software downloads
- Began posting the BIND software documentation (ARM) on the website
- Created a page with Tools and Resources, listing links to some of the many informative articles and websites about BIND, DHCP, IPv6 and DNSSEC.
- Began maintaining a Calendar of Conferences that ISC is attending, noting where we plan to present to make it easier for users to find us.
- Created the 2013 ISC Annual Report as a web page
- Created and posted a 50 page excerpt from the ISC DHCP Man pages on the web, so people could review it without installing the software
- Added sections on Training and Support Subscriptions to the ISC website, and made it possible to purchase training through the ISC website
- Added a sub menu for Developers, with coding standards, submission guidelines, internals documentation for BIND and Kea, and links to the new public GITs for our open source
- We started recognizing all our individual and corporate donors on the donations page
We ran paid Ads on the downloads page for most of 2014. This earned us a bit more than $1000 a month in extra revenue.

**Social Media Audience Building**

We wanted to reach out to our large open source user base and build communications channels beyond our relatively narrow base of support subscribers. Our audiences on social media have increased as we have invested more in frequent updating. We kept up a steady stream of news, combining open source industry news with ISC accomplishments and events.

- Twitter readership increased dramatically in 2014, from 1500 to 48,900 as we increased the volume of Tweets.
- ISC’s Facebook page has approximately 1500 likes; the count has been growing by about 5–10% per month since the beginning of 2014.
- ISC maintains two LinkedIn groups: the ISC page (with about 1000 followers) and the DNS and BIND page, that was transferred to ISC in mid-year. Each posting on the ISC page during 2014 had several hundred to several thousand viewings depending on its content.

**Removing the DNSCo brand**

By the end of 2014, we had rebranded and moved all the content related to support subscription and training sales from the DNSco website to the ISC website. We finally decommissioned the DNSco website in early 2015. We abandoned the DNSco branded social media channels, and removed the branding from product literature.

**ISC conference presentations**

- Apricot DNS Response Rate Limiting
- SELF (South East LinuxFest) DNSSEC Signing Your Zones
- APNIC 10 Years of F Root
- UKNOF 28 Kea overview
- NANOG How to Fund Open Source
- DNS OARC Case Preservation in BIND
- ICANN 50 BIND Roadmap
ICANN 51  ISC & BIND Update
AFRINIC 21  F Root in Africa  & ISC Update
LISA 14  DNS Response Rate Limiting mini tutorial
In addition, we organized a meeting about DNS resolver DDoS mitigation measures at the 90th IETF in Toronto.

Webinars
We held only two webinars in 2014. Producing these is resource intensive, and we just couldn’t do more in 2014. We would like to produce more informative webinars in 2015 because we hear from support customers in particular that they appreciate the in-depth technical information presented.

The Internet Domain Survey: 20 Years
Using the Thales HSM with BIND and the PKCS#11 interface added in BIND 9.10.0

Customer Satisfaction Surveys
In Spring 2014 we surveyed our users via our website, and in Spring 2015 we surveyed our support customers directly, to learn about their satisfaction with our software and service. The two surveys were quite different so we can’t compare them directly. They were both relatively small samples because we did not offer any incentives to respondents.

Based on the 2014 survey as well as other feedback from users, we created and posted on the website a downloadable excerpt from the DHCP manpages. This has not been entirely satisfactory, but it was what was feasible. We also added more bug reporting forms on the website, and added links on the website to release notes and documentation.

The high proportion of beginner users is a concern; we need to provide more prescriptive how-to documentation. The BIND DNSSEC guide we published in 2014 is our first significant effort to address that need.
4 ISC is grateful for the support of ...

**FR oot Partners**

**Transit**

Because of the distributed nature of an anycasted service, each node can potentially have a separate transit provider. That greater diversity makes for greater robustness. Here are the organizations that donated transit for F Root in 2014.

<table>
<thead>
<tr>
<th>Country</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>akl</td>
<td>Telstraclear</td>
</tr>
<tr>
<td>akl</td>
<td>FX Networks</td>
</tr>
<tr>
<td>ams</td>
<td>BIT.nl</td>
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<tr>
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<tr>
<td>ams</td>
<td>nl ix</td>
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<td>bne</td>
<td>Future</td>
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<td>Vegatelecom</td>
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<td>Avantel (MCI Mexico)</td>
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<td>Triara/Telmex</td>
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<td>AccessHaiti</td>
</tr>
<tr>
<td>pap</td>
<td>Multilink</td>
</tr>
<tr>
<td>pnh</td>
<td>MekongNet</td>
</tr>
<tr>
<td>pty</td>
<td>CW</td>
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<td>scl</td>
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<td>CSI</td>
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<td>itgate</td>
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<td>uio</td>
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<td>uio</td>
<td>GlobalCrossing</td>
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<tr>
<td>uln</td>
<td>MobiCom</td>
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<tr>
<td>waw</td>
<td>Hurricane Electric</td>
</tr>
<tr>
<td>waw</td>
<td>PLIX</td>
</tr>
<tr>
<td>yow</td>
<td>NRC</td>
</tr>
<tr>
<td>yyz</td>
<td>CIRA</td>
</tr>
</tbody>
</table>
**Hosting Providers (Providing Rack Space and Power)**

- Equinix
- NIKHEF/SARA
- Prolexic/Akamai
- Telehouse
- Telx
- United Layer

**Internet Transit**

- AboveNet
- Cogent
- Hurricane Electric
- NTT
- Telia

**Peering**

Globally we have about 1700 BGP peers. Here are some of our larger ones.

- Apple Computer
- CenturyLink
- China Telecom
- CNNIC
- Comcast
- DTAG
- France Telecom
- Level 3
- NASA
- Tata Communications
- Time Warner

**Deployment Partners**

We partner with many Regional Internet Registries, as well as many local sponsors to deploy F Root all over the globe. Our top deployment partners are:

- AfriNIC
- LACNIC
- APNIC
Equipment donations

Arbor Networks
Cisco
Juniper

Services

We would like to thank the following vendors for their continued support:

- Afilias  Secondary name services support for isc.org and dlv.isc.org
- Coverity  Provides free software static analysis through their Coverity Scan program for open source projects. We use this scanning service regularly on BIND9, ISC DHCP, and Kea.

Sponsored Development

The following organizations sponsored open source development through ISC in 2014.

- AT&T  Sponsored development of the BIND9 RRL feature, and RRL classifiers.
- Comcast  Sponsored development of Kea and BIND.
- Google
- JANET
- JPRS  BIND Forum member
- University of Iowa  BIND and DHCP Fora member

We discontinued the BIND and DHCP Forum Membership programs last year. Some of our software subscription customers have subscribed not because they need support, but because they want to continue to contribute to ISC. We sincerely appreciate that. We don’t list our current subscribers here or on our website at this time because we don’t know which of them might want to be publicly identified.

Technical Contributors

ISC welcomes technical contributions to our open source. We try to acknowledge these in our release notes, but undoubtedly we have failed to acknowledge everyone who has contributed. In addition, there are some very dedicated individuals who help answer technical questions from the community on our busy mailing lists (bind us
ers@lists.isc.org, dhcp users@lists.isc.org, and kea users@lists.isc.org), and who field test our alpha and beta software releases. We are grateful for their help. The lists below are a partial list of 2014 contributors.

2014 Contributors to BIND 9 new features

- Vincent Bernat
- Tony Finch
- Wilmer van der Gaast
- Tomas Hozza
- Marty Lee
- Peter Palfrader
- Jeffry A. Spain
- Loganaden Velvindron

2014 Contributors to ISC DHCP and Kea new features

- David Carlier
- David Gutierrez Rueda (CERN)
- Adam Kalmus (Gdank University of Technology)
- Adam Osuchowski (Silesian University of Technology)
- Jiri Popelka (Red Hat)
- Marcin Wyszynski (Facebook)

Operating System distributors of our software

ISC software is distributed, and our packages maintained, by a group of mostly volunteers at the various UNIX and LINUX operating system teams. We would like to recognize these individuals who regularly monitor BIND and ISC DHCP, report bugs to us, send us patches, and help keep our users updated.

Operating System | BIND and DHCP Maintainers
--- | ---
CentOS (uses RedHat packages) | Carl Byington
Debian and Ubuntu | Lamont Jones, Andrew Pollock, Michael Gilbert
FreeBSD | Erwin Lansing, Mathieu Arnold
Monetary Donations

ISC is grateful to the following people and organizations for their donations in 2014. Names listed in **boldface** made larger donations.

ISC thanks you, and the entire open source community thanks you for supporting open source software.

**Individuals**

Greg Albrecht
Rui Almeida
David Carlier
**Fred Cirera**
Jason Daniels
Richard Doty
Ronald Wang Eights
David Goncalves
Phil Hagerty

Michael Machado
David McCullough
Michael Pelly
Kedar Rajadnya
Luo Sheng
**Kardakov Slava**
Franz Steiner
Aleksey Stupnikov

**Organizations**

**COMCAST**

**Craigslist Foundation**

**Facebook**

Intuix, LLC

JANET

SIDNET
5 Partnerships

ISC Staff contribute in a number of technical fora. The list below describes some of our more substantial commitments.

DNS OARC  ISC staff attend the DNS OARC meetings and participate on their mailing list discussions. In addition we contribute annually in the Day In the Life data project, providing the raw data for continuing research into the growth and changes of the global DNS.

ICANN  As part of our ongoing participation in root server policy, we participated in the re-launch of the ICANN Root Server System Advisory Committee with the appointment of Suzanne Woolf (an ISC contractor) as both the representative for F Root and liaison to the ICANN board.

IETF  ISC sends 4 or 5 developers to every IETF meeting and our engineers participate vigorously in the development of new standards. ISC’s association with the DNSOP working group continued. Tomek Mrugalski, the lead developer on our Kea DHCP server is co-chair of the IETF DHCP working group. Our Director of Operations, Jim Martin, has led the team that builds the IETF network for well over a decade and for each of its 2014 meetings (IETF 89 in London, IETF 90 in Toronto, and IETF 91 in Honolulu).

ISOC  David Farber, one of ISC’s Directors, is a current Trustee of the Internet Society. Leah Symekher is San Francisco Bay Area ISOC Chapter President.

NANOG  ISC technical staff participate regularly in meetings of the North American Network Operators Group

PLNOG  Members of ISC technical staff participate regularly in meetings of the Polish Network Operators Group.

RIPE  ISC technical staff participate in the RIPE community.

UKNOF  Stephen Morris of ISC sits on the Advisory Committee and Cathy Almond, our Lead Technical Support Engineer is a member of the Program Committee for the UK Network Operators Forum.
6 Recent IETF RFCs Published

The following recent IETF RFCs were published while their authors were employed by ISC. ISC employees have worked on or contributed to other drafts that didn’t reach publication during their tenure at ISC.

- RFC 7227 (May 2014) D. Hankins, T. Mrugalski, M. Siodelski, S. Jiang, S. Krishnan
- RFC 7314 (Jul 2014) M. Andrews
- RFC 7341 (Aug 2014) Q. Sun, Y. Cui, M. Siodelski, S. Krishnan, I. Farrer
- RFC 7343 (Sep 2014) J. Laganier, F. Dupont.
7 Organization Structure and Management

Internet Systems Consortium, Inc. is a US nonprofit 501(c)(3) corporation. ISC Inc. has Public Charity status 509(a)(1) and 170(b)(1) (A)(vi), which means that contributions to ISC can be deducted from US income taxes. Our US Federal EIN is 20 0141248.

Board of Directors

ISC’s Board of Directors is currently made up of four members, each with a long and important history of involvement with the internet. Rick Adams (Chairman of the Board), Fred Baker (Director), David J. Farber (Director), Stephen Wolff (Director).

Management

ISC is managed by Jeff Osborn (President), Stephen Morris (Senior Director of Software Engineering), Jim Martin (Director of Operations), Brian Reid (Senior Member of Technical Staff), Vicky Risk (Director of Marketing and Product Marketing) and T. Marc Jones (Director of Sales).

Staff

In February of 2014 we reduced headcount significantly, to reflect the new smaller requirements of our more focused product line. This was a very difficult decision, as some talented and dedicated ISC staff had to find other employment. ISC Headquarters is in Redwood City, CA, but many staff work remotely and are located in various countries as well as in the US. At the end of 2014 ISC had 32 employees and 5 consultants.
8 Independent Auditor's Report

ISC's financials were audited by Regalia and Associates, Certified Public Accountants. The cover letter from the auditor, which accompanied the audit report, is reproduced at the end of this document.

The combined financial statements on the following pages include the accounts of Internet Systems Consortium, Inc. which is a 501(c)(3) nonprofit public benefit corporation incorporated in the state of Delaware, and Internet Systems Corporation which is a for-profit C corporation incorporated in the state of Delaware and wholly owned by Internet Systems Consortium.
# Combined Statements of Financial Position

## December 31, 2014

### ASSETS

<table>
<thead>
<tr>
<th>Item</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 1,728,330</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,331,463</td>
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<tr>
<td>Prepaid expenses and other current assets</td>
<td>56,789</td>
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<tr>
<td><strong>Total current assets</strong></td>
<td>3,116,582</td>
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<tr>
<td><strong>Investments</strong></td>
<td></td>
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<tr>
<td>Property, equipment and leasehold improvements, net</td>
<td>247,613</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 3,364,195</td>
</tr>
</tbody>
</table>

### LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th>Item</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and other accruals</td>
<td>$ 228,737</td>
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<tr>
<td>Accrued payroll liabilities</td>
<td>331,553</td>
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<tr>
<td>Deferred revenue</td>
<td>2,121,334</td>
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<tr>
<td><strong>Total current liabilities</strong></td>
<td>2,681,624</td>
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<tr>
<td><strong>Net assets:</strong></td>
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<tr>
<td>Unrestricted</td>
<td>682,571</td>
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<tr>
<td>Temporarily restricted</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>682,571</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$ 3,364,195</td>
</tr>
</tbody>
</table>
Combined Statement of Activities and Changes in Net Assets

Year Ended December 31, 2014

Changes in unrestricted net assets:
Revenue and support:
  Subscriptions (net of discounts) $3,812,272
  Memberships (net of discounts) 89,776
  Software support 77,833
  Software development 90,000
  Services / Training / Consulting 1,688,217
  F Root 311,012
  Donations and grants 12,552
  Other income 68,910
  ____________
  Total revenue and support 6,150,572

  Net assets released from restrictions:
    Satisfaction of program restrictions -
    Total net assets released from restrictions -
  ____________
  Total revenue and support 6,150,572

Operating expenses:
  Program 6,096,996
  General and administrative 747,545
  Fund raising 249,765
  ____________
  Total operating expenses 7,094,306

Decrease in unrestricted net assets before gain on sale (943,734)
Gain on sale of assets -
Decrease in unrestricted net assets (943,734)

Changes in temporarily restricted net assets:
  Net assets released from restrictions -
  ____________
  Decrease in temporarily restricted net assets -

Decrease in net assets (943,734)
Net assets at beginning of year 1,626,305

Net assets at end of year $682,571
Combined Statement of Cash Flows
Year Ended December 31, 2014

Operating activities:
Decrease in net assets $ (943,734)
Adjustments to reconcile to cash provided by (used for) operating activities:
Depreciation and amortization 723,439
Changes in:
   Accounts receivable 244,186
   Prepaid expenses and other current assets 36,265
   Accounts payable and accrued liabilities (516,115)
   Accrued payroll liabilities (122,928)
   Deferred revenue (108,389)
   Cash provided by (used for) operating activities (687,276)

Investing activities:
   Acquisition of property and equipment, net (117,933)
   Cash used for investing activities (117,933)

Increase (decrease) in cash and cash equivalents (805,209)
Cash and cash equivalents at beginning of year 2,533,539

Cash and cash equivalents at end of year $ 1,728,330

Additional cash flow information:
   Interest paid $ -
   Tax registration fees $ 150
Combined Statement of Functional Expenses for 2014

Year Ended December 31, 2014

<table>
<thead>
<tr>
<th></th>
<th>General &amp; Admin-</th>
<th>Fund</th>
<th>2014 Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Programs</td>
<td>Raising</td>
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<td>$ -</td>
<td>$ 31,328</td>
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<tr>
<td>Bank charges and other fees</td>
<td>$ -</td>
<td>$ 11,736</td>
<td>$ 11,736</td>
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<tr>
<td>Commissions</td>
<td>$ -</td>
<td>$ 494,246</td>
<td>$ 494,246</td>
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<td>Conferences and Seminars</td>
<td>$ -</td>
<td>$ 6,370</td>
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<tr>
<td>Connectivity and bandwidth</td>
<td>$ 593,527</td>
<td>$ -</td>
<td>$ 593,527</td>
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<tr>
<td>Cost of memberships</td>
<td>$ 13,311</td>
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<td>$ 13,311</td>
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<tr>
<td>Cost of software support</td>
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<td>Cost of software development</td>
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<td>$ 1,250,969</td>
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<td>Cost of services/training/consulting</td>
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<td>$ 378,531</td>
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<td>Cost of F Room</td>
<td>$ 95,792</td>
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<td>$ 95,792</td>
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<tr>
<td>Cost of other services</td>
<td>$ 9,054</td>
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<td>$ 9,054</td>
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<tr>
<td>Depreciation and amortization</td>
<td>$ 614,923</td>
<td>$ 108,516</td>
<td>$ 723,439</td>
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<tr>
<td>Dues and subscriptions</td>
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<td>$ 13,616</td>
<td>$ 13,616</td>
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<tr>
<td>Fundraising/promotion/development</td>
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<td>$ 155,049</td>
<td>$ 155,049</td>
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<td>Insurance</td>
<td>$ 30,871</td>
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<td>$ 50,126</td>
<td>$ 6,835</td>
<td>$ 56,961</td>
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<td>Postage and shipping</td>
<td>$ 11,583</td>
<td>$ 2,119</td>
<td>$ 14,126</td>
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<td>Professional fees and outside services</td>
<td>$ 176,578</td>
<td>$ 137,745</td>
<td>$ 318,141</td>
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<tr>
<td>Rent and utilities</td>
<td>$ 255,566</td>
<td>$ 46,750</td>
<td>$ 311,666</td>
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<tr>
<td>Repairs and maintenance</td>
<td>$ 114,561</td>
<td>$ 20,956</td>
<td>$ 139,708</td>
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<tr>
<td>Salaries, payroll taxes and benefits</td>
<td>$ 1,818,773</td>
<td>$ 332,702</td>
<td>$ 2,218,015</td>
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<tr>
<td>Supplies and office</td>
<td>$ 29,954</td>
<td>$ 5,480</td>
<td>$ 36,430</td>
</tr>
<tr>
<td>Telephone and telecommunications</td>
<td>$ 23,709</td>
<td>$ 4,337</td>
<td>$ 28,931</td>
</tr>
<tr>
<td>Travel, meals and entertainment</td>
<td>$ 230,424</td>
<td>$ 42,151</td>
<td>$ 281,585</td>
</tr>
<tr>
<td>Subtotals</td>
<td>$ 6,096,996</td>
<td>$ 1,243,850</td>
<td>$ 7,260,836</td>
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<tr>
<td>Reversal of accrued legal fees</td>
<td>$ -</td>
<td>$ (496,305)</td>
<td>$ (496,305)</td>
</tr>
<tr>
<td>Totals</td>
<td>$ 6,096,996</td>
<td>$ 747,545</td>
<td>$ 7,064,506</td>
</tr>
</tbody>
</table>
Notes to Financial Statements

Notes to Financial Statements December 31, 2014

Organization and Combination

The combined financial statements include the accounts of:

Internet Systems Consortium, Inc. which is a 501(c)(3) nonprofit public benefit corporation incorporated in the state of Delaware, with employees in Alaska, Arkansas, California, Colorado, Delaware, Florida, Michigan, Michigan, North Carolina, New York, North Carolina, Tennessee, Texas, Australia, France, India, Poland, and the United Kingdom. ISC has a global constituency and is dedicated to supporting the infrastructure of the universal connected self-organizing Internet and the autonomy of its participants by developing and maintaining core production quality software, protocols, and operations and

Internet Systems Corporation which is a for-profit C corporation incorporated in the state of Delaware and wholly owned by Internet Systems Consortium. The two organizations are collectively referred to as ISC.

Founded in 1994 under an initial grant from UUNET Communications Services, Inc., ISC’s current funding is from donations, program membership fees and by increasing revenues from Internet Systems Corporation.

Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The combined financial statements of ISC have been prepared on the accrual basis of accounting in accordance with Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, Presentation of Financial Statements of Not-for-Profit Entities. All significant balances and transactions between ISC’s intercompany accounts have been eliminated in the combined statements of financial position.

Use of Estimates

The preparation of combined 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 disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

ISC considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. ISC maintains its cash balances in high quality financial institutions, which at times may exceed federally insured limits. ISC has not experienced any losses in such accounts.

**Fair Value of Financial Instruments**

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments, none of which are held for trading purposes, approximate carrying values of such amounts.

**Property, Equipment and Improvements**

Property and equipment are valued at cost or, if donated, at fair market value on the date of donation. Depreciation is provided by use of the straight line method over the estimated useful lives of the assets. The cost of property and equipment greater than $1,000 is capitalized and depreciated over the estimated useful life of each class of depreciable asset.

**Net Assets**

In accordance with accounting principles generally accepted in the United States of America under ASC 958.205, combined financial statements must present classes of net assets based on the following categories: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Grants and contributions are classified in the appropriate net asset category based on the absence or existence of donor imposed restrictions that limit the use of the donated assets if they are designated as support for future periods or future projects when they are received.

ISC reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor’s intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions where restrictions
are met in the same reporting period in which they are contributed are reported as unrestricted support.

Permanently restricted net assets include those net assets that must be maintained in perpetuity in accordance with donor restrictions. The investment return from such assets may be used for purposes as specified by the donor or, if the donor has not specified a purpose, the income from such investments is not restricted and is included in unrestricted net assets. ISC had no permanently restricted net assets as of December 31, 2014.

Unrestricted net assets include all of those donated assets that have no restrictions or limitations imposed on their use. The Board of Directors may elect certain unrestricted funds to be set aside as Board designated funds, which may not be spent without approval by the Board. No such funds were set aside as of December 31, 2014.

There were no temporarily restricted net assets at December 31, 2014. Net assets released from restrictions amounted to $50,866 during the year ended December 31, 2013. There were no net assets released from restrictions during the year ended December 31, 2014.

**Revenue and Support Recognition**

ISC receives revenue from a variety of sources. Revenues from other restricted grants and donations are recognized as income in the temporarily restricted fund in the period in which donor conditions are met and grant proceeds are considered earned.

**Contributions**

ISC records contributions in accordance with the recommendations of ASC 958.605, Revenue Recognition of Not for Profit Entities. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in unrestricted net assets. ISC reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor’s intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions in which the donor restrictions are never relieved are recorded as permanently restricted support. Donor restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.
Donated property is recorded at the estimated fair value at the date of receipt. ISC reports gifts of property as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, ISC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**InKIND Contributions**

Contributed services and costs are reflected at the fair value of the contribution received. The contributions of services and costs are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

**Income Taxes (Internet Systems Consortium, Inc.)**

Financial statement presentation follows the recommendations of ASC 740, Income Taxes. Under ASC 740, ISC is required to report information regarding its exposure to various tax positions taken by ISC and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that ISC has adequately evaluated its current tax positions and has concluded that as of December 31, 2014, ISC does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

ISC has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. This exemption is subject to periodic review by the federal and state taxing authorities and management is confident that ISC continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. ISC may periodically receive unrelated business income requiring ISC to file separate tax returns under federal and state statutes. Under such conditions, ISC calculates and accrues the applicable taxes payable.

**Income Taxes (Internet Systems Corporation)**

Internet Systems Corporation was organized as a subsidiary of Internet Systems Consortium, Inc. and incorporated as a Delaware C corporation. Accordingly, it is a
separate taxable entity and must file annual tax returns with the Internal Revenue Service. Additionally, Internet Systems Corporation was required to register with the State of California and file annual tax filings with the California Franchise Tax Board. The Company prepares and files its tax returns utilizing the accrual basis method of accounting, in accordance with all applicable Federal and state laws.
INDEPENDENT AUDITORS’ REPORT

The Board of Directors
Internet Systems Consortium

We have audited the accompanying combined financial statements of Internet Systems Consortium and Internet Systems Corporation (Delaware Corporations) which comprise the combined statements of financial position as of December 31, 2014 and 2013 and the related combined statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the combined financial statements.

Management’s Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility
Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Internet Systems Consortium and Internet Systems Corporation as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dannville, California
June 12, 2015