

# **ICM Registry, Inc. ("ICMR")**

## **Disclosure Memorandum**

September 28, 2000

This Disclosure Memorandum has been prepared by ICMR (the "Company") in connection with the offer and sale of shares of its Series A Convertible Preferred Stock, \$0.001 par value per share (the "Series A Preferred Stock").

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS DISCLOSURE MEMORANDUM AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY.

THE DELIVERY OF THIS DISCLOSURE MEMORANDUM SHALL NOT UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

THIS DISCLOSURE MEMORANDUM CONTAINS CONFIDENTIAL AND PROPRIETARY INFORMATION ABOUT THE COMPANY. THIS DISCLOSURE MEMORANDUM IS BEING SUPPLIED TO INVESTORS SOLELY FOR SUCH INVESTORS' CONFIDENTIAL USE WITH RESPECT TO EVALUATING AN INVESTMENT IN THE COMPANY. EACH INVESTOR EXPRESSLY UNDERSTANDS AND AGREES THAT BY RECEIVING THIS DISCLOSURE MEMORANDUM THE INVESTOR SHALL NOT DUPLICATE, FURNISH COPIES (IN WHOLE OR IN PART), RELEASE THE DISCLOSURE MEMORANDUM OR DISCUSS THE INFORMATION CONTAINED HEREIN TO PERSONS OTHER THAN THE INVESTOR'S INVESTMENT AND TAX ADVISERS, ACCOUNTANTS OR LEGAL COUNSEL (WHO, IN TURN, MAY USE THE INFORMATION CONTAINED HEREIN SOLELY FOR PURPOSES RELATED TO THE INVESTOR'S POSSIBLE INVESTMENT IN THE COMPANY). THE DISCLOSURE MEMORANDUM MAY NOT BE USED FOR ANY PURPOSE OTHER THAN EVALUATING A POTENTIAL INVESTMENT IN THE COMPANY.

IN MAKING A DECISION TO PURCHASE SHARES OF SERIES A PREFERRED STOCK, INVESTORS MUST RELY ON THEIR OWN EXAMINATION AND EVALUATION OF THE COMPANY. THE INFORMATION CONTAINED HEREIN IS NOT COMPLETE. NO PRIVATE PLACEMENT MEMORANDUM HAS BEEN PREPARED, OTHER THAN THIS DISCLOSURE MEMORANDUM WHICH PROVIDES ONLY A GENERAL DESCRIPTION OF THE COMPANY AND ITS PROPOSED BUSINESS.

AN INVESTMENT IN THE COMPANY ENTAILS A HIGH DEGREE OF RISK AND SHOULD BE UNDERTAKEN ONLY BY PERSONS WHO CAN AFFORD TO LOOSE ALL OR A PORTION OF THEIR INVESTMENT.

THIS DISCLOSURE MEMORANDUM HAS NOT BEEN FILED WITH OR REVIEWED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY COMPARABLE FOREIGN GOVERNMENTAL AUTHORITY. THE SERIES A PREFERRED STOCK HAS NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE OR FOREIGN SECURITIES COMMISSION OR REGULATORY

OR GOVERNMENTAL AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT REVIEWED, NOR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. FURTHER, THE SERIES A PREFERRED STOCK IS SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, APPLICABLE STATE SECURITIES LAWS AND REGULATIONS. THERE IS CURRENTLY NO PUBLIC OR OTHER MARKET FOR ANY OF THE COMPANY'S SECURITIES, INCLUDING THE SERIES A PREFERRED STOCK AND NO ASSURANCE CAN BE GIVEN THAT ANY SUCH MARKET WILL DEVELOP OR IF DEVELOPED WOULD BE SUSTAINED IN THE FUTURE. INVESTORS SHOULD BE AWARE THAT THEY MIGHT BE REQUIRED TO BEAR THE COMPLETE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

THIS DISCLOSURE MEMORANDUM CONTAINS CERTAIN STATEMENTS WITH RESPECT TO THE COMPANY'S FUTURE PERFORMANCE, INCLUDING CERTAIN STATEMENTS REGARDING THE COMPANY'S BUSINESS STRATEGIES, PLANS OF OPERATION AND MARKET ACCEPTANCE OF THE COMPANY'S SERVICES AND/OR PRODUCTS. SEE "RISK FACTORS." SUCH STATEMENTS REFLECT VARIOUS ASSUMPTIONS BY THE COMPANY CONCERNING ANTICIPATED RESULTS, WHICH MAY OR MAY NOT PROVE TO BE CORRECT. NO REPRESENTATIONS ARE MADE AS TO THE ACCURACY OF SUCH STATEMENTS. ANY STATEMENTS THAT ARE NOT BASED ON HISTORICAL FACTS ARE DEEMED TO BE FORWARD-LOOKING STATEMENTS, AS THE TERM IS DEFINED IN THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. FORWARD-LOOKING STATEMENTS ARE SUBJECT TO MANY UNCERTAINTIES AND RISKS. SEE "RISK FACTORS."

THIS DISCLOSURE MEMORANDUM DOES NOT CONTAIN ANY FINANCIAL PROJECTIONS RELATING TO THE COMPANY'S FUTURE FINANCIAL PERFORMANCE, AND THE COMPANY HAS NOT PREPARED ANY FINANCIAL PROJECTIONS IN CONNECTION WITH THE OFFER AND SALE OF THE SERIES A PREFERRED STOCK. NO PERSON HAS BEEN AUTHORIZED TO PROVIDE ANY FINANCIAL PROJECTIONS OR TO MAKE ANY REPRESENTATIONS REGARDING THE PROJECTED FINANCIAL PERFORMANCE OF THE COMPANY. TO THE EXTENT THAT FINANCIAL PROJECTIONS WERE INCLUDED IN ANY BUSINESS PLAN OR PRESENTATION MADE BY THE COMPANY'S OFFICERS AND DIRECTORS, SUCH PROJECTIONS WERE FOR ILLUSTRATION PURPOSES ONLY AND SHALL NOT BE RELIED UPON BY ANY INVESTOR AS AN INDICATOR OF THE COMPANY'S FUTURE PERFORMANCE.

IN DECIDING WHETHER TO PURCHASE SHARES OF SERIES A PREFERRED STOCK, EACH INVESTOR MUST CONDUCT AND RELY ON ITS OWN EVALUATION OF THE COMPANY AND THE SECURITIES OFFERED. INVESTORS SHOULD NOT

CONSTRUE THE CONTENTS OF THIS DISCLOSURE MEMORANDUM OR ANY PRIOR OR SUBSEQUENT COMMUNICATIONS FROM THE COMPANY, AS LEGAL OR TAX ADVICE. EACH INVESTOR SHOULD CONSULT ITS OWN COUNSEL, ACCOUNTANT OR BUSINESS ADVISOR AS TO LEGAL, TAX AND RELATED MATTERS CONCERNING THEIR INVESTMENT IN THE COMPANY AND ITS PURCHASE OF SERIES A PREFERRED STOCK.

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS DISCLOSURE MEMORANDUM. NO PERSON SHOULD RELY UPON ANY OTHER INFORMATION OR REPRESENTATION GIVEN OR MADE.

IT IS THE RESPONSIBILITY OF ANY INVESTOR WISHING TO PURCHASE THE SECURITIES OFFERED HEREBY TO OBSERVE THE LAWS OF ANY RELEVANT JURISDICTION OUTSIDE THE UNITED STATES IN CONNECTION WITH ANY SUCH PURCHASE, INCLUDING OBTAINING ANY REQUIRED GOVERNMENTAL, REGULATORY OR OTHER CONSENTS OR OBSERVING ANY OTHER APPLICABLE LEGAL OR OTHER FORMALITIES PRIOR TO SUBSCRIBING FOR THE SECURITIES OF THE COMPANY.

THE SERIES A PREFERRED SHARES AND THE SHARES OF CLASS A COMMON STOCK INTO WHICH THEY ARE CONVERTIBLE CAN ONLY BE RESOLD IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S PROMULGATED UNDER THE SECURITIES ACT, PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, OR PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION.

INVESTORS MAY NOT ENGAGE IN HEDGING TRANSACTIONS (INCLUDING, WITHOUT LIMITATION, ANY SHORT SALE, OPTION OR EQUITY SWAP TRANSACTIONS OR ANY OTHER DERIVATIVE SECURITY TRANSACTIONS) WITH REGARD TO THE SERIES A PREFERRED SHARES OR THE SHARES OF CLASS A COMMON STOCK INTO WHICH THEY ARE CONVERTIBLE, UNLESS IN COMPLIANCE WITH THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT").

THIS DISCLOSURE MEMORANDUM HAS BEEN PREPARED IN THE ENGLISH LANGUAGE AND NO AUTHORIZED TRANSLATION HAS BEEN MADE.

## **The Company**

The Company is a newly formed Internet domain name registration service provider. The Company's goal is to become the exclusive registrar for domain names with the .XXX and .KIDS level domains. By registering these specific Internet domain names, the Company would enable businesses, other organizations and individuals to establish a unique and targeted Internet identity from which to communicate and conduct commerce. There can be no assurance, however, that this goal will be realized. The Company's domain name registration service will register domain names in accordance with the provisions, requirements and specifications promulgated by The Internet Corporation for Assigned Names and Numbers ("ICANN"). These provisions, requirements and specifications are posted on the ICANN world wide web site <http://www.icann.org/nsi/icann-raa-04nov99.htm#II-I>

The Company expects to derive its revenues primarily from registration fees of businesses, other organizations and individuals that register domain names via the Company's Internet domain name registration service.

To date the Company has not operated its domain name registration service and is not operational. The Company expects its domain name registration service will become operational upon the issuance of ICANN accreditation. There can be no assurance, however, that the Company will be successful in achieving ICANN accreditation. If ICANN does not accredit the Company the Company will never be able to launch its domain name registration service. Even if the Company secures ICANN accreditation, there can be no assurance that the Company will be successful in maintaining such accreditation since ICANN may terminate a company's accreditation under certain circumstances outlined in the ICANN policy.

The Company believes that its domain name registration service, offering registration of .XXX and .KIDS domain names will enable businesses, organizations and individuals, wishing to reach the separate and distinct markets for children oriented web sites ("site(s)") and adult content sites, certain benefits from transacting on line using such top level domain names including more targeted market access and the possibility of the reduction of likelihood of censorship or other regulation.. There can be no assurance, however, that businesses, organizations and individuals will perceive these factors as sufficiently beneficial to cause them to register with new domains.

At this time the Company faces competitors and potential new entrants in the domain name registry service market, however the Company believes that being one of the first entrants to provide a domain name registration service targeted specifically toward the separate and distinct markets for children oriented sites and adult content sites, will result in competitive advantages for the Company that surpass the advantages of the Company's competitors and potential new entrants into the domain name registry market. There can be no assurance, however, that other companies with greater financial

and other resources than the Company are not currently planning to or will not enter the adult content and children content domain name registry market. These other companies may become more successful than the Company and the Company may not be able to effectively compete against these companies.

### **Risk Factors**

The following is a partial summary of the risks associated with an investment in the Company. The fact that certain risks are discussed herein and in other sections of this Disclosure Memorandum does not mean there are no other material risks of which an Investor should be aware. This summary is intended to be general and brief. The Company strongly recommends that each Investor consult with and rely on his own advisors as to the possible risks and benefits arising out of an investment in the Company.

(1) **Start-up Entity; No Operations to Date.** The Company is a start-up domain name registration service. To date, the Company has only engaged in operations relating to the development of its business plan, including the development of its service. To date, the Company has not yet made a commercial launch of its domain name registration service. To date the Company has not yet received accreditation from ICANN to become an Internet domain name registrar. As a start-up entity, the Company is subject to many of the risks common to such enterprises, including the ability of the Company to implement its business plan, market acceptance of its proposed business, under-capitalization, cash shortages, limitations with respect to personnel, financing and other resources, and uncertainty of the Company's ability to generate revenues. There can be no assurance that the Company's activities will be successful or result in any revenues or profit for the Company, and the likelihood of the Company's success must be considered in the light of the stage in its development. In addition, no assurance can be given that the Company will be able to consummate its business strategy and plans, as described herein, or that financial, technological limitations, or other limitations may not force the Company to modify, alter, significantly delay, or significantly impede the implementation of such plans. If the Company is unable to successfully implement its business strategy and plans, the Investors may lose their entire investment in the Company.

(2) **The Company's Continuing as a Going Concern Depends Upon Financing.** The Company has generated no revenues to date, and the Company's ability to implement its business plan and continue as a going concern is dependent upon the Company's ability to procure sufficient working capital from third party sources. No assurance can be given as to the Company's ability to procure financing from those or other sources.

(3) **Need for Future Financing.** The Company expects to require additional funds in the near future. There are no present commitments by anyone for future financing. Securities comparable to the Series A Preferred Stock and

other securities may be offered to other investors at a price per share lower than the price per share offered to the Investors, or upon terms which may be deemed more favorable than offered hereunder. In addition, except as otherwise provided in the terms of the Series A Preferred Stock, any future financing may dilute an Investor's equity ownership in the Company. Moreover, the Company, may issue derivative securities, including options and/or warrants, from time to time, to procure qualified personnel or for other business reasons. The issuance of any such derivative securities, which is at the discretion of the Board of Directors of the Company, may further dilute the equity ownership of the shareholders of the Company, including the Investors.

In addition, no assurance can be given as to the Company's ability to procure additional financing, if required, and on terms deemed favorable by the Company. To the extent additional capital is required and cannot be raised successfully, the Company may then have to limit its then current operations and/or may have to curtail certain of its business objectives and plans. If the Company is unable to procure sufficient funding on terms deemed favorable by the Company, the Company may be then forced to curtail its then current level of operations, no matter how limited.

(4) **No Trading Market; Arbitrary Determination of Offering Price.** The shares of Series A Preferred Stock and the shares of Class A Voting Common Stock into which they are convertible (collectively the "Shares") have not been registered under the Securities Act of 1933, as amended (the "Act"), and accordingly, cannot be sold, transferred, hypothecated, pledged, assigned or otherwise disposed, unless such securities are registered under the Act, or if in the opinion of counsel, satisfactory to the Company, such sale, transfer, hypothecation, assignment, pledge or disposition is exempt from such registration requirements. There is currently no public trading market for any of the Shares and no market is contemplated to be created. Moreover, the Shares will be deemed "restricted shares" under the Act, and the public sale thereof, absent registration of such securities under the Act, may only be made in compliance with Rule 144, promulgated under the Act (provided the Company becomes a reporting company under the Securities Exchange Act of 1934, of which no assurance can be given and which is not contemplated at this time). Accordingly, an investment in the Series A Preferred Stock is an illiquid investment and no assurance can be given as to the ability of the holders of such securities to dispose or otherwise liquidate their position in the Company.

The offering price of the Series A Preferred Stock has been determined arbitrarily by the Company, without reference to any established criteria of value.

(5) **Unpredictable Economic Conditions.** Entities engaged in the domain name registration service business are affected by economic and political conditions, and by governmental and monetary policies. Conditions such as

inflation, recession, unemployment, high interest rates, restricted money supply, international Internet business regulation including licensing fees, taxation and regulation fees, and other factors beyond the control of the Company and may materially adversely affect the Company's business, financial condition and results of operations.

(6) **Limitation on Dividends.** It is not anticipated that the Company will distribute any cash dividends to its shareholders in the foreseeable future. Earnings of the Company, if any, are expected to be retained by the Company to enhance its capital structure or distributed by the Company to pay its operating costs.

(7) **Ability to Attract and Retain Business.** The Company's success is dependent upon its ability to continually attract businesses, other organizations and individuals to use its domain name registration service to register their domain names, and, upon the Company's ability to maintain relationships with ISPs worldwide. Thus, if businesses, other organizations and individuals elect not to use the .XXX and .KIDS domain names, the Company's business, financial condition and results of operations would be materially adversely affected. Additionally, if ISPs were to elect not to route Internet communications to or from domain names registered by the Company or if enough ISPs were to elect to provide routing to a set of accepted root servers which did not point to the Company's TLD servers, the Company's business, financial condition and results of operations would be materially adversely affected.

(8) **Uncertainty of Government Regulation.**

**a. Uncertainty Regarding Domain Name Registration Regulation.** The Company's operations may be subject to supervision and regulation by governmental regulatory agencies in each jurisdiction where the Company proposes to operate. The legal and regulatory environment that pertains to domain name registration service businesses is currently under revision by ICANN and therefore remains uncertain and may change. Changes in the regulatory environment could result in the Company being subject to direct regulation by other U.S. regulatory agencies, such as the Federal Communications Commission (the "FCC") and the Department of Commerce (the "DoC"). In addition, as Internet usage becomes more widespread internationally, there is an increased likelihood of international regulation. The Company cannot predict whether or to what extent any such new regulation will occur; however, such regulation could have a material adverse effect on Company's business, financial condition and results of operations.

**b. Uncertainty Regarding Domain Name Registries of Adult Content Internet Sites.** The legal and regulatory environment that pertains to the registry of adult internet sites is evolving and subject to change. New and existing laws applicable to the Company's domain name registration service for adult content



Internet sites could have a material adverse effect on the Company's business, future prospects, financial condition or results of operations.

**c. Uncertainty Regarding Applicability of Intellectual Property Regulation.** Additionally, the applicability to the Company of existing laws governing issues such as intellectual property ownership is uncertain. For example, courts may hold that, under certain circumstances, domain name regarding services could be held responsible for the failure to prevent the distribution of material that infringes on others' copyrights and other intellectual property or such services may be liable for trademark infringement as a result of their activities. Costs incurred or decisions rendered as a result of court order or government actions, including enactment of new laws or adoption of new regulation, investigations or lawsuits relating to any of the foregoing, could have a material adverse effect on the Company's business, financial condition and results of operations.

(9) **Intellectual Property Rights.** If it were determined that the Company does not have ownership rights in its database of information relation to customers in its domain name registration service or if the Company is unable to protect such rights in this database or is required to share the database with potential competitors, there could be a material adverse effect on the Company's business, financial condition and results of operations.

(10) **Control By Founding Shareholders: Disproportionate Voting Rights.** Prior to completion of the sale of any Series A Preferred Stock, the Company's founders (the "Founders") beneficially own, in the aggregate, all of the Company's outstanding shares of Class A Voting Common Stock. The sale of the Series A Preferred Stock will not significantly dilute the Founders' ownership. The Founders will continue to have the ability to control the business and affairs of the Company. All future issuances of shares of the Company's capital stock, up to the number of shares of Common Stock and Preferred Stock of the Company currently authorized, including the issuance of options and other derivative securities, is at the election and discretion of the Company's Board of Directors.

(11) **Lack of Historical Financial Results.** The Company does not have historical financial data on which to base a planned budget including operating expenses. A substantial portion of the Company's operating expenses are related to developing its business plan. The level of spending for such expenses are based, in significant part, on the Company's expectations of the costs of implementing such plan and future revenue generation, if any. If actual revenue levels, if any revenues are so generated, of which no assurance can be given, are below management's expectations, the Company's business, operating results and financial condition are likely to be adversely affected. Revenues for any future period cannot currently be predicted with any significant degree of accuracy.

(12) **Management Has Broad Discretion as to the Use of Proceeds.** Management has broad discretion to use the proceeds from the sale of the Series A Preferred Stock for general working capital purposes. There can be no assurance that management's decisions will cause the most positive results for the Company or are the spending decisions that individual Investors would make if they were in management's position. Investors will have no control over such decisions because the Founders will still control the Company following the sale of the Series A Preferred Stock.

(13) **Software Defects.** The performance of software to be used by the Company is critical to the Company's ability to realize revenues. The Company may use proprietary software and "off-the-shelf" software licensed from third parties. Such software might contain undetected errors and fail when introduced or when usage increases, even though certain of such software has been in commercial use for a period of time. Sufficiently severe and sustained software defects could have a material adverse effect on the Company's business, financial condition and future results of operations.

(14) **Risk of Product Defects and System Failures. Responses to Technological Changes.** Although the Company does not expect to experience material adverse effects resulting from undetected software errors or hardware failures, there can be no assurance that these failures will not happen in the future, particularly as of such time when the operations of the Company are commenced, of which no assurance can be given. Any system failures could harm the Company's reputation for providing quality service on a continuous basis, which could have a material adverse effect upon the Company's business, operating results and financial condition. There is the possibility that software defects, might exist and adversely affect software performance upon commercial deployment. If sufficiently severe and sustained, such defects could have a material adverse effect on the Company. The Company's operations are dependent in part upon its ability to protect its operating systems against physical damage from fire, floods, earthquakes, power-loss, telecommunications failures, break-ins and similar events, of which no assurance can be given. The Company plans to have, but does not presently have, a redundant, multiple-site capacity. The Company's servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with the Company's computer systems. The occurrence of any of these events could result in interruptions, delays or cessations in service to users of the computing system, which could have a material adverse effect on the Company's business, operating results and financial condition.

(15) **Potential Conflicts of Interest.** The Company's Officers and Directors may serve as directors and/or executive officers of other business entities. The Company does not prohibit its Officers and Directors, or their affiliates, from transacting business with other entities, and conflicts of interest may arise which could have a material adverse effect on the Company.

(16) **Limited Intellectual Property Protection.** The Company intends to rely on a combination of common law copyright and trademark laws, trade secrets and software security measures to protect its proprietary information. The Company currently has no registered copyrights or trademarks. It may be possible for unauthorized third parties to copy aspects of, or otherwise obtain and use, the Company's proprietary information without authorization.

(17) **Dependence on Key Personnel.** The Company's performance is substantially dependent on the performance of the Founders. The Company does not carry key person life insurance on and of the Founders, and the loss of their services could have a material adverse effect on the business, operating results and financial condition of the Company. The Company's future success also depends on its continuing ability to attract and retain highly qualified technical and managerial personnel. Competition for personnel is intense and there can be no assurance that the Company will be able to retain its key managerial and technical employees or that it will be able to attract and retain additional highly qualified technical and managerial personnel in the future. The inability to attract and retain the necessary technical and managerial personnel could have a material adverse effect upon the Company's business, operating results and financial condition.