



# PROSPECTUS

## DomainMart Investment Account

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## SCOPE OF PROSPECTUS

This prospectus concisely provides the information that a prospective investor should know about a **DomainMart Investment Account** (“**Account**”) before investing. Investors are advised to read this prospectus carefully and to retain it for future reference.

## A BRIEF OVERVIEW OF THE ACCOUNT

The following is a summary of key information about the Account and the risks that apply. You will find additional information about the Account after this summary. You should carefully read the more detailed information. For a detailed discussion of risks of investing in the Account, please refer to “Main Risks of Investing in the Account,” on page 6.

### **What is a DomainMart Investment Account?**

The Account is a service designed to manage investments in domain names and domain-name based assets.

### **What is the Account’s Investment Objective?**

The Account seeks to provide value growth over the long-term and earn income from monetizing traffic of an Account’s domain names in order to achieve an attractive total return consistent with prudent investment risk.

### **What does the Account Invest in?**

The Account invests in domain names and domain-name based instruments that, in the Account’s Investment Manager’s opinion, offer the opportunity to meet the Account’s Investment Objective.

The Account’s manager exercises a flexible strategy in the selection of investments that is not limited by investment style or domain name class. The Account may invest in the following instruments:

- Globally registered domain names under existing generic top-level domain names (gTLDs), county-code domain names (ccTLDs), and non-ICANN approved extensions
- Domain name pre-registrations under extensions that are currently unavailable
- Domain name leases
- Money market accounts

- Distressed domain name investments, such as domain name liquidations ordered by a court

An Account’s Investment Manager may decide to sell investments given a variety of circumstances, such as when an investment no longer appears to offer the potential for long-term growth of capital, when an investment opportunity arises that the Investment Manager believes is more compelling, or to realize gains or limit losses.

**How is Monetization Revenue Generated?**

Details of domain name traffic monetization management are available at [http://www.domainmart.com/broker/parking/parking\\_enter.htm](http://www.domainmart.com/broker/parking/parking_enter.htm), and are incorporated by reference into this prospectus in its entirety.

**What are the Main Risks of Investing in the Account?**

- Market risk is the risk that general global economic conditions will affect returns of all assets, including domain names, in ways that are not anticipated.
- You may lose money by investing in an Account.
- An investment in an Account is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.
- There is no assurance that the Account will meet its investment objective.

**Who is an Account Designed for?**

The Account is designed for investors who wish to take advantage of investment opportunities in domain names and domain-name based assets while receiving periodic income.

**Who owns Purchased Domain Names?**

All purchased domain names for an Account are registered – registrant name and administrative contact – in the name of Account Owner.

**How often does an Investor Receive Performance Reports?**

Online reports on traffic monetization income, exchange transactions, and fees are updated monthly.

**How can an Investor open an Account?**

To open an account you must submit the online form. We will review your request and will notify you when the account is setup.

**How can Investors Increase their Investment in an Account?**

Investors can increase their investment at any time. See “Investor Qualifications” on page 9.

**How can an Investor Change the Monthly Auto Distribution Amount?**

An investor has to submit the Account modification form, available at [http://www.domainmart.com/broker/investment-account/IA\\_maintain.htm](http://www.domainmart.com/broker/investment-account/IA_maintain.htm).

**How can an Investor Terminate an Account?**

To terminate an account, an investor needs to submit the termination form available at [http://www.domainmart.com/broker/investment-account/IA\\_terminate.htm](http://www.domainmart.com/broker/investment-account/IA_terminate.htm). There are no termination penalties or fees.

**RETURN ANALYSES**

**(A) Sources of Return**

There are two distinct sources of return to a domain name owner: price appreciation, the difference between the sale and the acquisition prices, and traffic monetization revenue. Below is a decomposition of each of these sources.

**1. Price Appreciation**

A domain name can be acquired from another entity and/or secured through pre-registrations of new top-level domain (TLD) extensions – such as the newly launched “.eu” - introduced over time. Above normal returns are generated through acquisitions of undervalued domain names, those that the acquirer predicts to possess higher than average pay-per-click (PPC) growth rates, and those whose current PPC rates are deemed under-priced by the acquirer.

A simple valuation model helps to clarify these sources:

Assume that the cash flows (CFs) generated by the asset to be acquired will grow indefinitely at a constant rate *g*. The value of such an asset can be mathematically captured by the simple formula,

$$\text{Value} = \frac{\text{CF}}{k - g}, \text{ where}$$

*k* is the required discount rate to adjust the value of the CFs to reflect their risk.

Thus, using the above formula, an under-valued domain name would have a price less than *Value*. The acquisition of such an asset leads to excess returns over a

fairly priced domain name. Nevertheless, an investor can also generate above normal returns from the acquisition of a fairly priced domain name if the investor believes that the current market value of PPC, i.e., the CF, is under-priced and/or forecasts the growth rate to be higher than the figure used for  $g$  that is used in the valuation of the asset's fair market price.

Applying the formula for a parked domain name, the CF is the current PPC rate for the keyword. The PPC rates are publicly available through Google and Yahoo's Overture.com. There are also well developed financial models to estimate  $k$ . Using the above formula, the acquirer needs to predict  $g$ .<sup>1</sup>

Undervalued domain names arise, for example, when the owner needs immediate liquidity or the domain name is being liquidated under a court order. Undervalued domain names provide an additional source of price appreciation in addition to the asset's normal required return.

Pre-registrations can provide tremendous return opportunities, as pre-registration fees have been set low, typically less than \$30. Thus, the successful ownership of domain names associated with high-value keywords can lead to returns in the thousands of percent over a relatively short period of time.

## **2. Enhanced Traffic Monetization**

Allocating the domain names to the highest revenue generating service provider can result in tremendous returns. Moreover, moving the acquired domain name from parking monetization to developing a customized mini-website can increase revenue multi-fold.

### **(B) Expected Return Estimate**

In addition to the benchmark performance, the size of the additional sources of return is outlined below.

#### **1. Benchmark Return**

Empirical studies show that the average annual price appreciation is 94%.<sup>2</sup> This represents benchmark annual return.

#### **2. Investment Monetization**

The additional return that can be generated by moving a parked domain name to a superior service provider can generate returns in excess of 50%.

#### **3. Custom Mini-Website**

A customized mini-website can generate higher returns than parking, stemming from increased chance of link-click due to the customized landing-page design, higher

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<sup>1</sup> DomainMart is constantly refining their estimation models for "g" for the various keyword industry segments.

<sup>2</sup> See Alex Tajirian, "[94% Annual Domain Name Price Appreciation](#)," DomainMart (June 15, 2006).

PPC rates from direct negotiations with advertisers, increased traffic due to better chance of being indexed by a major search engine, and increased number of repeat customers due to increased customer stickiness.

#### **4. Investment in Future Extensions**

Investments in future extensions provide tremendous windfall profit opportunities. In addition to being lucrative for the average investor, proprietary information that we collect from our investments yields additional returns through concentrations of pre-registration on superior performing keywords.

## **MAIN RISKS OF INVESTING IN THE ACCOUNT**

All investments carry risks. **An investment in the Account involves substantial risks.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these Accounts or passed upon the adequacy of this prospectus.

### **Investment-Related Risks**

- **General Economic and Market Conditions**

General economic and market conditions, such as interest rates, inflation rates, global economic uncertainty, changes in laws, and national and international political circumstances may affect the success of the Account's investment objective. These factors may affect domain name prices and the liquidity of investments held by the Account. Unexpected illiquidity could impair the Account's profitability or result in losses.

- **Risks of Securities Activities**

All investing and trading activities involve the risk of loss of capital.

- **Illiquid Portfolio Investments**

Domain name markets are not liquid. The market prices, if any, for such securities tend to be volatile and the Account Investment Manager may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time.

- **Non-Diversified Status**

The Account is "non-diversified" under the Investment Company Act. That means that the Account can invest in a single instrument without limit.

To the extent the Account invests a relatively high percentage of its assets in a single instrument the Account is subject to additional risk of loss if those obligations lose market value.

In view of the risks noted above, the Account should be considered a speculative investment and investors should invest in the Account only if they can sustain a considerable loss of their investment. No guarantee or representation is made that the investment program of the Account or that the various domain names selected by the Account will produce positive returns or that the Account will achieve its investment objective.

In addition, as the Account's investment program develops and changes over time, an investment in the Account may in the future be subject to additional and different risk factors.

### Sources of Potential Risk

- **Foreign Exchange Risk:** This risk is associated with foreign exchange fluctuations vis-à-vis the United States Dollar (USD). As domain name traffic monetization payments are made in USD, investors outside the US will be exposed to this risk. The amount of risk exposure depends on the domain name owner's home currency volatility and the size of monetization revenue.
- **Credit Risk:** In general, credit risk is due to uncertainty in a counterparty's ability to meet its obligations. This risk arises when a monetization service provider is unable to make obligations in full or on time.
- **Operational Risk:** This is the risk of monetary losses resulting from inadequate or failed internal processes, people, or systems.
- **Legal Risk:** The legal risk is from uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, laws, or regulations.
- **Regulatory Risk:** This risk arises when governments change the law in a way that adversely affects assets in the Account.

While the Investment Manager will attempt to moderate these risks, there can be no assurance that the Account's investment activities will be successful or that an Account owner will not suffer losses.

## INVESTMENT MANAGER

Alex Tajirian (the “Investment Manager”) serves as the Account’s manager and provides day-to-day investment management services to the Account.

After completing his Ph.D. course work in Economics at U. C. Berkeley, Tajirian joined Bank of America as a visiting scholar responsible for providing quantitative support to the trading floor. Tajirian has seventeen years of academic and practical experience. He has taught finance at the Graduate School of Business (Haas School) at U. C. Berkeley, and Business Policy and Strategy at U.C. Berkeley's Worldwide Programs. His nonacademic experience includes consulting experience with Morgan Stanley, Treynor-Arbit Associates, Financometrics, and BARRA on financial risk monitoring and valuation.

Tajirian launched the first domain name secondary market in 1996. He has since pioneered the development of a number of industry models and estimation procedures, including: valuation based on pay-per-click (PPC), statistical regression-trees to estimate the likelihood of sale given an ask price, and liquidation value; sources and estimates of premiums among gTLDs; statistical domain name suggestion tools; and traffic monetization.

He has also been engaged in the following industry activities: an expert witness in a number of ecommerce-related litigation support, including federal antitrust cases; and a panelist at the Domain Roundtable Conference.

He is also a member of the board of Third World Enterprises Ltd, a leader in the acquisition and online distribution of Reggae-related intellectual property.

A sample of his industry studies and opinions is available at <http://www.domainmart.com/news/studies-opinion.htm>.

## FEES AND EXPENSES OF THE ACCOUNT

The fee structure is as follows:

1. A non-refundable upfront fee of 2% of the initial investment and any subsequent increases in investments in the Account.
2. A 20% commission on the monthly income generated by the Account.

Domain name registrations, renewals, and other registrar and registry services deemed valuable by the Investment Manager are expensed at cost.

## **DISTRIBUTION PLAN**

The Auto Distribution Plan enables you, as the owner of an Account, to make regular monthly redemptions of monthly monetization income (MMI). With your authorization, we will automatically payout MMI and have it automatically deposited into your bank account or a check in the amount specified mailed to you. The required minimum distribution to participate is \$100.

To participate in the Auto Distribution Plan, you should select the option in your Application Form or submit an Account Maintenance Modification form.

If you elect to receive distributions in cash, and checks (1) are returned and marked as “undeliverable” or (2) remain uncashed for six months, your cash election will be changed automatically and your future MMI will be fully reinvested in the Account at face value determined as of the date of payment of the distribution. In addition, any undeliverable checks or checks that remain uncashed for six months will be canceled and will be reinvested in the Account at face value determined as of the date of cancellation.

Distributions from all of the Account may be subject to federal, state, and local taxes.

## **INVESTOR QUALIFICATIONS**

Accounts are being offered only to investors who represent that they are companies and individuals with a net worth of more than five times their total investment in all their Accounts.

The minimum investment in the Account is \$50,000 and the minimum additional investment is \$10,000.

You should rely only on the information contained in this prospectus. The Account has not authorized anyone to provide you with different information. In addition, you should not assume that the information provided by this prospectus is accurate as of any date other than the date on the front of this prospectus.

## **MORE INFORMATION ABOUT THE ACCOUNT**

For additional information on the Account, contact us online at [DomainMart.com](http://DomainMart.com) or call us at +1.415.905.4234. ■