

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended March 31, 2002

or

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-29739

REGISTER.COM, INC.

(Exact name of registrant as specified in its charter)

Delaware

11-3239091

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

575 Eighth Avenue, 8th Floor,
New York, New York

10018

(Address of principal executive offices)

(Zip Code)

(212) 798-9100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. /X/ Yes / / No

As of May 1, 2002, there were 39,675,853 shares of the registrant's
common stock outstanding.

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REGISTER.COM, INC.
FORM 10-Q

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 PART I. CONSOLIDATED FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

REGISTER.COM, INC.
 CONSOLIDATED BALANCE SHEET

(In thousands, except share amounts)

<Table>
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	March 31, 2002	December 31, 2001
	----- (Unaudited)	-----
<S>	<C>	<C>
Assets		
Current assets		
Cash and cash equivalents.....	\$ 66,262	\$ 61,932
Short-term investments.....	77,856	78,186
Accounts receivable, less allowance of \$1,815 and \$2,179, respectively.....	15,747	11,876
Prepaid domain name registry fees.....	15,228	13,845
Deferred tax assets, net.....	19,522	18,415
Other current assets.....	6,852	5,184
	-----	-----
Total current assets.....	201,467	189,438
Fixed assets, net.....	9,077	8,036
Prepaid domain name registry fees, net of current portion.....	7,124	4,718
Other investments.....	396	396
Marketable securities.....	61,871	57,651
Goodwill and other intangibles, net.....	18,521	8,550
	-----	-----
Total assets.....	\$ 298,456	\$ 268,789
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expenses.....	\$ 16,161	\$ 12,365
Deferred revenue, net.....	60,286	53,029
Acquisition notes payable	8,522	-
Other current liabilities.....	5,106	3,452
	-----	-----
Total current liabilities.....	90,075	68,846
Deferred revenue, net of current portion.....	29,344	24,350
Other long-term liabilities	175	-
	-----	-----
Total liabilities.....	119,594	93,196
	-----	-----
Commitments and contingencies.....		
Stockholders' equity		
Preferred stock -- \$0.0001 par value, 5,000,000 shares authorized; none issued and outstanding..	-	-
Common stock -- \$.0001 par value, 200,000,000 shares authorized; 39,499,295 shares issued and outstanding at March 31, 2002, and 38,296,581 shares issued and outstanding at December 31, 2001.....	4	4
Additional paid-in capital.....	210,823	210,679
Unearned compensation.....	(2,552)	(3,007)
Accumulated other comprehensive income.....	402	1,386
Accumulated deficit.....	(29,815)	(33,469)
	-----	-----
Total stockholders' equity.....	178,862	175,593
	-----	-----
Total liabilities and stockholders' equity..	\$ 298,456	\$ 268,789
	=====	=====

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The accompanying notes are an integral part of these consolidated financial statements.

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REGISTER.COM, INC.
 CONSOLIDATED STATEMENT OF OPERATIONS
 (UNAUDITED)

(In thousands, except per share amounts)

<Table>
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	Three months ended March 31,	
	2002	2001
<S>	<C>	<C>
Net revenues.....	\$ 27,300	\$ 30,660
Cost of revenues.....	8,753	8,451
Gross Profit.....	18,547	22,209
Operating costs and expenses		
Sales and marketing.....	8,234	8,210
Research and development.....	2,318	1,986
General and administrative (includes non-cash compensation of \$455 and \$424, respectively).....	3,864	4,343
Amortization of goodwill and other intangibles.....	30	3,882
Total operating costs and expenses.....	14,446	18,421
Income from operations.....	4,101	3,788
Other income, net.....	1,590	2,475
Income before provision for income taxes.....	5,691	6,263
Provision for income taxes.....	(2,037)	(4,312)
Net income.....	3,654	1,951
Other comprehensive income		
Unrealized gain on marketable securities	498	769
Unrealized loss on foreign currency translation.....	(96)	-
Comprehensive income	\$ 4,056	\$ 2,720
Basic earnings per share.....	\$ 0.09	\$ 0.05
Weighted average shares used in basic earnings per share.....	38,572	36,896
Diluted earnings per share.....	\$ 0.08	\$ 0.04
Weighted average shares used in diluted earnings per share.....	44,175	43,467

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The accompanying notes are an integral part of these consolidated financial statements.

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REGISTER.COM, INC.
 CONSOLIDATED STATEMENT OF CASH FLOWS
 (UNAUDITED)

(In thousands)

<Table>
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	Three months ended March 31,	
	2002	2001
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income.....	\$ 3,654	\$ 1,951
Adjustments to reconcile net income to net cash provided by operating activities		
Deferred revenues.....	5,315	(3,068)
Depreciation and amortization.....	1,010	4,736
Compensatory stock options and warrants expense.....	455	424
Deferred income taxes, net.....	(1,107)	537
Unrealized loss on foreign currency translation.....	(96)	-
Changes in assets and liabilities affecting operating cash flows		
Accounts receivable, net.....	(1,423)	(1,994)
Prepaid domain name registry fees.....	(766)	577
Prepaid income taxes.....	-	3,774
Other current assets.....	(852)	(1,968)
Accounts payable and accrued expenses.....	2,203	(874)
Income taxes payable.....	-	-
Other current liabilities.....	1,614	648
	-----	-----
Net cash provided by operating activities.....	10,007	4,743
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets.....	(910)	(545)
Purchases of investments.....	(60,693)	(37,499)
Maturities of investments.....	55,899	19,565
Acquisition, net.....	(93)	-
	-----	-----
Net cash used in investing activities.....	(5,797)	(18,479)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of common stock and warrants.....	144	104
Repayment of notes payable.....	(24)	-
	-----	-----
Net cash provided by financing activities.....	120	104
	-----	-----
Net increase (decrease) in cash and cash equivalents.....	4,330	(13,632)
Cash and cash equivalents at beginning of period.....	61,932	60,156
	-----	-----
Cash and cash equivalents at end of period.....	\$ 66,262	\$ 46,524
	=====	=====
Supplemental disclosure of cash flow information		
Cash paid for interest.....	\$ 8	\$ -
Cash paid for income taxes.....	\$ 1,731	\$ -

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The accompanying notes are an integral part of these consolidated financial statements.

REGISTER.COM, INC.
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND ORGANIZATION

NATURE OF BUSINESS

Register.com, Inc. (the "Company" or "Register.com") provides Internet domain name registration and other online products and services such as website creation, web-hosting, email, domain name forwarding and advertising.

Register.com began processing registrations in the generic top level domains (gTLD).com, .net and .org in June 1999 and, as such, were the first registrar accredited by the Internet Corporation for Assigned Names and Numbers (ICANN) to compete in the domain name registration market after ICANN introduced competition in the industry. Currently, the Company registers, renews and transfers domain names across the .com, .net and .org gTLDs, in new gTLDs such as .biz, .info and .name and in over 250 country code top level domains (ccTLDs), such as .co.uk and .org.uk for the United Kingdom, .de for Germany and .jp for Japan.

In June 2000, the Company acquired Inabox, Inc., developers of website creation software. Through its RegistryPro subsidiary, the Company is establishing a registry for the new gTLD .pro, which will be dedicated to certified professionals such as lawyers, doctors and accountants. The Company also has a small equity stake in Afilias, the consortium of 18 registrars, which manages the registry for the new gTLD .info which went live in October 2001.

In March 2002, the Company acquired Virtual Internet plc, a leading provider of online intellectual property protection services based in the United Kingdom.

ORGANIZATION

The Company originally operated as Forman Interactive Corp. ("Forman"), a New York corporation that was formed in November 1994. Pursuant to a Merger Agreement dated June 23, 1999 by and among Register.com, a Delaware corporation formed in May 1999 specifically for the purpose of this merger, and Forman, the stockholders of Forman exchanged their shares for an equivalent number of shares of Register.com. References herein to the operations and historical financial information of the "Company" prior to the date of the merger refer to the operations and historical financial information of Forman. On March 3, 2000, the Company sold shares of its common stock through its initial public offering.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Inter-company balances and transactions have been eliminated.

INTERIM FINANCIAL STATEMENTS

The interim financial statements have been prepared by Register.com without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, financial statements included in this report reflect all normal recurring adjustments which Register.com considers necessary for fair presentation of the results of operations for the interim periods covered and of the financial position of Register.com at the date of the interim balance sheet. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, Register.com believes that the disclosures are adequate for understanding the information presented. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. These interim financial statements should be read in conjunction with Register.com's December 31, 2001 audited financial statements and notes thereto included in Register.com's Annual Report on Form 10-K.

CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an initial maturity of 90 days or less to be cash equivalents. The Company maintains its cash balances in highly rated financial institutions. At times, such cash balances may exceed the Federal Deposit Insurance Corporation limit. The Company has pledged approximately \$7,425,000 of its cash equivalents and short-term investments as collateral against outstanding letters of credit as of March 31, 2002.

INVESTMENTS

The Company classifies the debt securities it has purchased as marketable securities in accordance with the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." These securities are carried at fair market value, with unrealized gains and losses reported in stockholders' equity as a component of other comprehensive income. Gains or losses on securities sold are based on the specific identification method.

Securities with maturities of less than one year are classified as short-term investments, and securities with maturities of greater than a year are non-current and are classified as marketable securities, within the consolidated balance sheet.

REVENUE RECOGNITION

The Company's revenues are primarily derived from domain name registration fees, advertising and online products and services.

DOMAIN NAME REGISTRATION FEES

Registration fees charged to end-users for registration services are recognized on a straight-line basis over the life of the registration term for initial registrations and registration renewals. Substantially all end-user subscribers pay for services with major credit cards for

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which the Company receives daily remittances from the credit card carriers. A provision for chargebacks from the credit card carriers is included in accounts payable and accrued expenses. Such amounts are separately recorded and deducted from gross registration fees in determining net revenues. Referral commissions earned by the Company's participants in the Company's global partner network are deducted from gross registration revenue in determining net revenues.

ONLINE PRODUCTS AND SERVICES

Revenue from online products and services is recognized on a straight-line basis over the period in which services are provided. Payments received in advance of services being provided are included in deferred revenue. Revenues from escrow services are recognized upon completion of the escrow service provided.

ADVERTISING

Advertising revenues are derived principally from short-term advertising contracts in which the Company typically guarantees a minimum number of impressions or pages to be delivered to users over a specified period of time for a fixed fee. Advertising revenues are recognized ratably in the period in which the advertisement is displayed, provided that no significant obligations remain, at the lesser of the ratio of impressions delivered over total guaranteed impressions or the straight-line basis over the term of the contract. To the extent that minimum guaranteed impressions are not met, the Company defers recognition of the corresponding revenues until the guaranteed impressions are achieved.

DEFERRED REVENUE

Deferred revenue primarily relates to the unearned portion of revenues related to the unexpired term of registration fees, net of an estimate for credit card chargebacks and external commissions, deferred advertising revenue and online products and services revenue.

PREPAID DOMAIN NAME REGISTRY FEES

Prepaid domain name registry fees represent amounts paid to registries for generic and country code domains for updating and maintaining the registries. Domain name registry fees are recognized on a straight-line basis over the life of the registration term for initial registrations and registration renewals.

INCOME TAXES

The Company recognizes deferred taxes by the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the management of the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's most significant estimates relate to credit card charge backs and refunds, the realizability of deferred tax assets and the amortization period of intangible assets. Actual results could differ from those estimates. The markets for the Company's products and services are characterized by intense competition, technology advances and new product/service introductions, all of which could impact the future realizability of the Company's assets.

EARNINGS PER SHARE

The Company accounts for earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share."

Basic earnings per share ("Basic EPS") is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share ("Diluted EPS") gives effect to all dilutive potential common shares outstanding during a period. In computing Diluted EPS, the treasury stock method is used in determining the number of shares assumed to be purchased from the conversion of common stock equivalents.

COMPREHENSIVE INCOME

The Company follows SFAS No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). This statement requires companies to classify items of their comprehensive income by their nature in the financial statements and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The difference between net income and comprehensive income for the three months ended March 31, 2002 included \$498,000 of net unrealized gains in marketable securities and \$96,000 of unrealized losses for foreign currency translation. The difference between net income and comprehensive income for the three months ended March 31, 2001 included \$769,000, the net unrealized gain in marketable securities.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142").

SFAS 141 establishes accounting and reporting for business combinations by requiring that all business combinations be accounted for under the purchase method. Use of the pooling-of-interests method is no longer permitted. SFAS 141 requires that the purchase method be used for business combinations initiated after June 30, 2001. The adoption of SFAS 141 is not expected to have a material impact on the Company's financial condition or results of operations.

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 SFAS 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The Company adopted the Statement and ceased amortization of goodwill effective January 1, 2002.

In accordance with the adoption provisions of SFAS 142, the following is a reconciliation of net income, basic earnings per share and diluted earnings per share with the amounts reported by the Company for the three months ended March 31, 2001 as if SFAS 142 had been in effect for the stated period.

<Table>
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(In thousands, except per share amounts)	March 31, 2001

<S>	<C>
Net Income:	
Reported net income	\$ 1,951
Amortization of goodwill and other intangibles	3,882

Adjusted net income	\$ 5,833
	=====
Basic earnings per Share:	
Reported basic earnings per share	\$ 0.05
Amortization of goodwill and other intangibles per share	0.11

Adjusted basic earnings per share	\$ 0.16
	=====
Diluted Earnings Per Share:	
Reported diluted earnings per share	\$ 0.04
Amortization of goodwill and other intangibles per share	0.09

Adjusted diluted earnings per share	\$ 0.13
	=====

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In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS 144"), replacing SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and portions of APB Opinion 30, "Reporting the Results of Operations." SFAS 144 provides a single accounting model for long-lived assets to be disposed of and changes the criteria that would have to be met to classify an asset as held-for-sale. SFAS 144 retains the requirement of APB Opinion 30, to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS 144 is effective January 1, 2002 for the Company. The adoption of SFAS 144 did not have a material impact on the Company's financial condition or results of operations.

RECLASSIFICATION

Certain amounts in the financial statements of the prior year have been reclassified to conform to the current year presentation for comparative purposes.

3. CONTINGENCIES

LITIGATION

In November 2001, the Company, its Chairman, President, Chief Executive Officer Richard D. Forman, former Vice President of Finance and Accounting, Alan G. Breitman, Goldman Sachs & Co. and Lehman Brothers, Inc. two of the underwriters in the syndicate for our March 3, 2000 initial public offering, were named as defendants in a class action complaint alleging violations of the federal securities laws in the United States District Court, Southern District of New York. Goldman Sachs & Co. and Lehman Brothers, Inc. distributed 172,500 of the 5,750,000 shares in the IPO. The complaint seeks unspecified damages as a result of various alleged securities law violations arising from activities purportedly engaged in by the underwriters in connection with our initial public offering. Plaintiffs allege that the underwriter defendants agreed to allocate stock in the Company's initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the prospectus for the Company's initial public offering was false and misleading in violation of the securities laws because it did not disclose these arrangements. The Company intends to vigorously defend the action, which is being coordinated with over three hundred other nearly identical actions filed against other companies before one judge in the U.S. District Court for the Southern District of New York. No date has been set for any response to the complaint.

There are various other claims, lawsuits and pending actions against the Company incidental to the operations of its business. It is the opinion of management, after consultation with counsel, that the ultimate resolution of such claims, lawsuits and pending actions will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

4. ACQUISITION OF VIRTUAL INTERNET PLC

On February 1, 2002, through one of its newly established subsidiaries, Register.com (UK) Limited, the Company announced a recommended cash offer for all outstanding shares of Virtual Internet plc. The offer valued Virtual Internet plc at approximately \$16.9 million. The offer was declared unconditional on February 22, 2002 and the Company purchased all shares tendered prior to that date on March 8, 2002. The offer for the remaining shares closed on March 27, 2002. Together with shares the Company had acquired in the market directly, it owned approximately 98% of Virtual Internet plc's shares as of March 31, 2002. The Company expects to acquire the shares that had not been tendered before March 27, 2002 through the compulsory acquisition procedure pursuant to the U.K. Companies Act.

Virtual Internet plc shareholders, other than shareholders in certain jurisdictions outside of the UK, were given the opportunity to elect to receive loan notes to be issued by Register.com (UK) limited in exchange for their Virtual Internet plc shares. Register.com (UK) Limited issued approximately \$8.5 million in loan notes. These loan notes bear interest at a floating rate of LIBOR minus 1% and may be redeemed at the request of the holder at any time between six months after the date of issue and June 30, 2003, at which time they mature. The loan notes are guaranteed as to principal by Barclays Bank plc, whose guarantee is currently supported by a

cash deposit of approximately \$8.5 million by the Company. This deposit guarantees the payment of the loan notes. The cash portion of the Virtual Internet acquisition was funded with the Company's available cash resources. The terms of the transaction were determined through arms'-length negotiations between Register.com and Virtual Internet plc.

Virtual Internet plc is based in the U.K. and has operations in the United States and Europe operating through two divisions: the Corporate Services division and the Hosting division. The Corporate Services division provides online intellectual property management and protection services under the NetSearchers brand. The Hosting division provides web-hosting services under the Virtual Internet brand. The Company sold the Hosting division on May 9, 2002.

The results of operations for Virtual Internet plc's NetSearchers business have been included in the Company's consolidated financial results since March 8, 2002. The net realizable value of the net assets of the Hosting division have been classified as "Assets held for sale" included in Other Current Assets on the Company's Balance Sheet. The impact of Virtual Internet plc's business on net revenues and operating income in the quarter ended March 31, 2002 were \$730,000 and \$28,000, respectively.

Presented below are the pro forma financial results of the Company prepared under the assumption that the acquisition of Virtual Internet plc had been completed as of January 1, 2001. These pro forma financial results include the following significant assumptions:

- The acquisition has been accounted for under the provisions of SFAS 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets" as if adopted January 1, 2001. Intangibles of \$2.2 million have been identified and these primarily consist of trademarks, customer relationships and software technology with a weighted average life of 5.4 years. Goodwill of \$7.8 million has been recognized in connection with this transaction. The Goodwill and identified intangibles reflect the preliminary allocation of the excess of the acquisition cost over the fair value of the assets and liabilities acquired. The estimate of fair value and the identification of certain intangible assets is preliminary and subject to change. For purposes of preparing this pro forma statement in order to maintain comparability between the reported results for fiscal 2002 and 2001, all the intangible assets of Virtual Internet plc with an indefinite life and goodwill have not been amortized in the pro forma results.
- The acquisition price of approximately \$16.9 million was funded with the issuance of \$8.5 million of floating rate notes and \$8.4 million of cash. The floating rate notes had an interest rate during the first quarter of fiscal 2001 and 2002 of 4.75% and 0.90%, respectively. An increase of 0.25% in the average short-term interest rate would result in a change to interest expense of \$21,000 on an annual basis.
- The exchange rates used in the translation of the historical financial results of Virtual Internet from U.K. pounds to U.S. dollars for the three months ended March 31, 2001 and 2002 is US\$1.458 and US\$1.426 per U.K. pound, respectively.

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<Table>
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(In thousands)	PRO FORMA THREE MONTHS ENDED MARCH 31,	
	2002	2001
<S>	<C>	<C>
Net sales	\$ 29,028	\$ 31,463
Net Income	\$ 2,981	\$ 973

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This report contains forward-looking statements relating to future events and our future performance within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expects", "anticipates", "intends", "believes" or similar language. Actual results could differ materially from those anticipated in such forward-looking statements. All forward-looking statements included in this document are based on information available to us on the date hereof. It is routine for our internal projections and expectations to change as the year or each quarter in the year progress, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations may change prior to the end of each quarter or the year. Although these expectations may change, we may not inform you if they do. Our company policy is generally to provide our expectations only once per quarter, and not to update that information until the next quarter. We caution investors that our business and financial performance are subject to substantial risks and uncertainties. In evaluating our business, prospective investors should carefully consider the information set forth below under the caption "Risk Factors" in addition to the other information set forth herein and elsewhere in our other public filings with the Securities and Exchange Commission.

OVERVIEW AND SIGNIFICANT ACCOUNTING POLICIES

We are a provider of global domain name registration and Internet services for businesses and consumers that wish to have a unique address and branded identity on the Internet. Domain names serve as part of the infrastructure for Internet communications, including websites, email, audio, video and telephony.

We began processing registrations in the generic top level domains (gTLD) .com, .net and .org in June 1999 and, as such, were the first registrar accredited by the Internet Corporation for Assigned Names and Numbers (ICANN) to compete in the domain name registration market after ICANN introduced competition in the industry. We had approximately 3.4 million domain name registrations under management as of March 31, 2002. Currently, we register, renew and transfer domain names across the .com, .net and .org gTLDs, in new gTLDs such as .biz, .info and .name and in over 250 country code top level domains (ccTLDs), such as .co.uk and .org.uk for the United Kingdom, .de for Germany and .jp for Japan.

We believe that we offer a quick and user-friendly registration process as well as responsive and reliable customer support. We also offer a suite of value-added products and

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services targeted to assist our customers in developing and maintaining their online identities, including:

PRODUCTS AND SERVICES PROVIDED BY US	PRODUCTS AND SERVICES RESOLD BY US
- website-creation tools under the names FirstStepSite(R)and WebSiteNow!(TM)	- email
- intellectual property and brand protection services related to domain names	- search engine submission services
- domain name re-sale services offered through our subsidiary Afternic.com	- digital certificates

Domain name registration activity is driven by the use of the Internet by businesses and consumers for electronic commerce and communication, the promotion, marketing and protection of brand and identity across the world and other online activities. Our mission is to become the preferred partner for customers who seek to create, enhance and manage their Internet presence.

Our retail customers are typically small to medium-size businesses as well as small office/home office and individuals. Generally, these customers purchase domain name registration services directly from our website at www.register.com. Our Corporate Services division provides domain name registration and related products and services to large corporations enterprises with specialized registration needs including global registration and management services, brand and trademark protection and enhanced security.

In order to extend our distribution we maintain a Global Partner Network of Internet Service Providers (ISPs), web-hosting companies, telecom carriers, web portals and other e-businesses. Using our flexible software solutions, these companies are authorized to resell our domain name registration services and related products and services to their customers.

Recently we launched Registry Advantage(TM), a domain registry solution, to enable registries of all sizes to take advantage of our systems on an outsourced basis, and offering them a full domain registry solution.

Through our RegistryPro subsidiary, we are establishing a registry for the new gTLD .pro, which will be dedicated to certified professionals such as lawyers, doctors and accountants. We also have a small equity stake in Afilias, the consortium of 18 registrars, which manages the registry for the new gTLD .info which went live in October 2001.

We are the successor by merger to Forman Interactive Corp. Forman Interactive commenced operations in 1994 as a developer of electronic commerce software, and began offering web-hosting and related products and services in 1997. In February 1998, we began to distribute domain names for free and, to a lesser extent, on a commission basis when we distributed domain names for international registrars and registries. In April 1999, we commenced offering registration services for ccTLDs. On June 23, 1999, Forman Interactive

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merged with and into Register.com, Inc. and we began operating as a paid registrar in the .com, .net and .org domains. In June 2000, we acquired Inabox, Inc. and we used Inabox's software to develop our FirstStepSite(R), WebsiteNOW!(TM) products and My.register.com, one of the reseller solutions offered to our Global Partner Network. We acquired Inabox, Inc. for approximately \$1.0 million in cash and 280,019 shares of our common stock. In September 2000, we acquired Afternic.com, Inc., a leading secondary market exchange for domain names, for approximately \$10.0 million cash and 4,378,289 shares of our common stock. Each of these transactions was accounted for using the purchase method of accounting. As a result, the financial results of Inabox and Afternic.com are consolidated with our financial results from the dates of their respective acquisitions.

RECENT EVENT - ACQUISITION OF VIRTUAL INTERNET PLC

On February 1, 2002, through one of our newly established subsidiaries, Register.com (U.K.) Limited, we announced a recommended cash offer for all outstanding shares of Virtual Internet plc. Virtual Internet plc is based in the U.K. and has operations in the United States and Europe operating through two divisions: the Corporate Services division and the Hosting division. The Corporate Services division provides online intellectual property management and protection services under the NetSearchers brand. The Hosting division provides web-hosting services under the Virtual Internet brand. The offer valued Virtual Internet plc at approximately L11.99 million (approximately US \$16.9 million). We consummated our offer in March 2002 and we currently own approximately 98% of Virtual Internet plc's shares. We are in the process of acquiring the remaining shares through the compulsory acquisition procedure pursuant to the U.K. Companies Act. Virtual Internet plc shareholders, other than shareholders in certain jurisdictions outside of the U.K., were given the opportunity to elect to receive loan notes to be issued by Register.com (U.K.) Limited in exchange for their shares. Our results of operations for the three month period ended March 31, 2002, include those of Virtual Internet's NetSearchers business since March 8, 2002. On May 9, 2002, we sold Virtual Internet plc's Hosting division for \$0.5 million. The net realizable value of this division is included on the Balance Sheet as of March 31, 2002 as "Assets held for Sale" within Other Current Assets.

NET REVENUES

We derive our net revenues from domain name registrations, online products and services and advertising. Net revenues from domain name registrations consist of fees paid by registrants over the course of the registration period reduced by referral commissions and a provision for credit card chargebacks. We currently earn registration fees in connection with new, renewal, extended and transferred registrations. Registration periods generally range from one to ten years.

Under current credit card industry practices, we are liable for fraudulent and disputed credit card transactions because we do not obtain the cardholder's signature at the time of the transaction, even though the financial institution issuing the credit card may have approved the transaction. If a significant percentage of customers request refunds or chargebacks to their credit cards based on claims that their credit card was used fraudulently or without their consent, our business could be materially adversely affected. As a result, we must estimate the amount of credit card chargebacks we will receive in the future related to credit card sales in the current

period. In determining our estimate, we review historical rates of credit card chargebacks, current economic trends and changes in acceptance of our products and services on a monthly basis. Deferred revenues and net revenues are presented net of provisions recorded for potential chargebacks.

In addition to our standard registration fees published on our www.register.com website, we have a number of different fee structures for our domain name registration services. Our Corporate Services division delivers a diversified range of higher-priced services for our corporate customers and extends volume-based discounts for domain name registrations and transfers. We pay referral commissions based on a percentage of the net registration revenues derived from registrations processed through certain participants in our Global Partner Network and those we process through our www.register.com website referred to us by participants in our affiliate network. Other participants in our Global Partner Network (those who use our My.register.com(TM) and TPP interfaces) pay us a fee per registration, discounted off of our standard registration fee.

Domain name registration revenues are deferred at the time of the registration and are recognized ratably over the term of the registration period. Under this subscription-based model, we recognize revenue when we provide the registration services, including customer service and maintenance of the individual domain name records. We require prepayment via credit card for all online domain name registration sales, which provides us with the full cash fee at the beginning of the registration period while recognizing the revenues over the registration period. For some of our customers who register domain names through our Corporate Services division and for some participants in our Global Partner Network, we establish lines of credit based on credit worthiness.

We believe that the high growth rate experienced in the domain name registration market in late 1999 and 2000 is not an indication of anticipated future growth rates. During that period substantial numbers of domain name registrations were driven by factors including: (i) the recognition by businesses that they needed to establish an online presence; (ii) significant registration activity by domain name speculators, who register names with the intention of reselling them rather than putting them to use; and (iii) extremely strong growth in new business start-ups in the Internet sector. In late 2000, the domain name registration market's growth rate began to decrease. Since the end of the third quarter of 2001, the overall number of .com, .net and .org gTLDs in the registry decreased from 32 million as of September 30, 2001 to 28.8 million as of December 31, 2001 to 27.3 million as of March 31, 2002. This is due, in large part, to the large number of names, which were registered in 1999 and 2000, by domain name speculators. Because we had a significant number of such promotional names registered through various aggressive marketing efforts, including our NameDemo.com service which we discontinued in February 2001, a significant percentage of the domain name registrations managed by us were not renewed and lapsed in the fourth quarter of 2001. This resulted in a decrease of our total names under management from approximately 3.8 million as of September 30, 2001 to approximately 3.3 million as of December 31, 2001. In the first quarter of 2002 our total names under management increased slightly to 3.4 million as of March 31, 2002. Our number of paid domain name registrations, renewals and transfers, decreased sequentially each quarter from the first quarter of 2000 until the introduction of new gTLDs in the fourth quarter of 2001. Registration renewals contribute to our revenues from domain name registrations as our

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customers' initial registrations reach the end of their terms and a portion of these customers renew their registrations. Over time, as the percentage of names held by speculators decreases, we expect to see an increase in renewal rates across the industry. Taking into account all of these dynamics, we anticipate that revenues from domain name registrations will remain relatively flat for the short term, but will increase over time if our renewal and other marketing efforts are successful. We also anticipate that revenue from domain names will continue to be the largest component of our revenues for the foreseeable future.

Online products and services, which primarily consist of applications for new gTLDs, intellectual property protection services related to the introduction of new gTLDs, email, domain name forwarding, web-hosting, site submission to search engines and software, are sold either as one time offerings or annual or monthly subscriptions, depending on the product or service offering. Examples of the online products and services related to the introduction of new gTLDs have included domain name applications for .biz, .info and .name, Brand Protection Plans for .biz (each such Plan included IP (Intellectual Property) claim filing and notification services, domain name application submissions and the registration of the .biz domain name should the customer obtain it), and defensive registrations for .name. Revenues from domain name applications, which may or may not result in domain registrations, and these other related services for .biz, .info and .name were recognized upon the sale of the applications and related services. Revenues from our other online products and services, such as email and domain name forwarding, are recognized ratably over the period in which we provide such services. To date, online products and services related to the introduction of new gTLDs have been designed by the different new gTLD registries and, as such, we cannot be certain as to which, if any, opportunities will arise nor the success we will meet in selling these products and services. To date, our software revenues have not been material and we do not expect these revenues to be material for the foreseeable future.

Advertising revenues are derived from the sale of sponsorships and banner advertisements under short-term contracts that range from one month to one year in duration. We recognize these revenues ratably over the period in which the advertisements are displayed provided that no significant company obligation remains and collection of the resulting receivable is probable.

COST OF REVENUES

Our cost of revenues consists of the costs associated with providing domain name registrations and online products and services. Cost of revenues for domain name registrations primarily consists of registry fees, depreciation on the equipment used to process the domain name registrations, the fees paid to the co-location facilities maintaining our equipment and fees paid to the financial institutions to process credit card payments on our behalf. We pay registry fees for gTLDs ranging from \$5.30 per year for each .biz and .info domain name registration to \$6 per year for each .com, .net and .org domain name registration and registry fees of approximately \$5 to \$160 for one- or two-year country code domain name registrations. The largest component of our cost of revenues is the registry fees, which, while paid in full at the time that the domain name is registered, are recorded as a prepaid expense and recognized ratably over the term of the registration.

Cost of revenues for our online products and services consists of fees paid to third-party service providers, depreciation on the equipment used to deliver the services, fees paid to the co-location facilities maintaining our equipment and fees paid to the financial institutions to process credit card payments on our behalf. The cost of revenues for online products and services are recognized ratably over the periods in which the services are provided.

There are no material costs associated with our software revenues.

While we have no direct cost of revenues associated with our advertising revenue, we do incur operational costs including salaries and commissions, which are classified as operating expenses. We have no incremental cost of revenues associated with delivering advertisements since we use the same equipment to deliver the advertisements as we use for our domain name registration services.

OPERATING EXPENSES

Our operating expenses consist of sales and marketing, research and development, general and administrative, non-cash compensation expenses, and amortization of goodwill and other intangible assets. Our sales and marketing expenses consist primarily of employee salaries, marketing programs such as advertising, registry fees associated with the domain names registered through NameDemo.com (discontinued in February 2002) or as part of our promotional campaigns which offered free registrations and commissions paid to our sales representatives. Research and development expenses consist primarily of employee salaries, fees for outside consultants and related costs associated with the development and integration of new products and services, the enhancement of existing products and services and quality assurance. General and administrative expenses, excluding non-cash compensation, consist primarily of employee salaries and other personnel-related expenses for executive, financial and administrative personnel, as well as professional services fees and bad debt accruals. Non-cash compensation expenses are related to grants of stock options and warrants made to employees, directors, consultants and vendors. Facilities expenses are allocated across our different operating expense categories. In addition to the \$1.8 million, \$2.2 million and \$4.9 million of non-cash compensation expenses recorded in 2001, 2000 and 1999, respectively, we estimate we will record approximately \$3.0 million in additional non-cash compensation charges through 2005 as follows: \$1.8 million in 2002, \$883,000 in 2003, \$143,000 in 2004 and \$174,000 in 2005. These charges primarily relate to the issuance of employee stock options having exercise prices below fair market value on the date of grant. The non-cash compensation charges will reduce our earnings or increase our losses, as applicable, in future periods.

NET INCOME

Although we achieved profitability for the quarter ended March 31, 2002 and for the year ended December 31, 2000, we were not profitable for the year ended December 31, 2001. Our net loss for 2001 included a one-time write down of approximately \$32.5 million of intangible assets associated with the acquisition of Afternic and the reversal of a tax valuation allowance of \$2.5 million. Our year 2000 profitability was due, in part, to a one-time gain of \$4.6 million from the sale of our investment in a private company and the recognition of interest income. We anticipate that our operating expenses will increase in the foreseeable future as we explore

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strategic opportunities, develop new products and services, expand internationally, increase our sales and marketing operations, develop new distribution channels and strategic relationships, improve our operational and financial systems and broaden our customer service capabilities. In addition, losses at RegistryPro and Virtual Internet may reduce our profitability in 2002.

RESULTS OF OPERATIONS

The following tables set forth our selected unaudited quarterly statement of operations data, in dollar amounts and as a percentage of net revenues, for the three months ended March 31, 2002 and 2001. In our opinion, this information has been prepared substantially on the same basis as the audited financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2001, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results of operations data. The operating results in any quarter are not necessarily indicative of the results to be expected for any future period.

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	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	(In thousands)	
<S>	<C>	<C>
Net revenues.....	\$ 27,300	\$ 30,660
Cost of revenues.....	8,753	8,451
Gross Profit.....	18,547	22,209
Operating costs and expenses		
Sales and marketing.....	8,234	8,210
Research and development.....	2,318	1,986
General and administrative (includes non-cash compensation of \$455 and \$424, respectively).....	3,864	4,343
Amortization of goodwill and other intangibles.....	30	3,882
Total operating costs and expenses.....	14,446	18,421
Income from operations.....	4,101	3,788
Other income, net.....	1,590	2,475
Income tax expense.....	(2,037)	(4,312)
Net income.....	\$ 3,654	\$ 1,951

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	THREE MONTHS ENDED MARCH 31,	
	2002	2001
<S>	<C>	<C>
Net revenues.....	100%	100%
Cost of revenues.....	32%	28%
Gross Profit.....	68%	72%
Operating costs and expenses		
Sales and marketing.....	30%	27%
Research and development.....	9%	6%
General and administrative (includes non-cash compensation of \$455 and \$424, respectively).....	14%	14%
Amortization of goodwill and other intangibles.....	-	13%
Total operating costs and expenses.....	53%	60%
Income from operations.....	15%	12%
Other income, net.....	5%	8%
Income tax expense.....	-7%	-14%
Net income.....	13%	6%

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THREE MONTHS ENDED MARCH 31, 2001 AND 2002

NET REVENUES

Total net revenues decreased from \$30.7 million for the three months ended March 31, 2001 to \$27.3 million for the three months ended March 31, 2002.

DOMAIN NAME REGISTRATIONS. Revenues from domain name registrations decreased 4.6% to \$24.9 million for the three months ended March 31, 2002 from \$26.1 million for the three months ended March 31, 2001. This decrease was due primarily to lower preceding sales levels and the resulting recognition of a lower amount of deferred revenue during the three months ended March 31, 2002 as compared to the amount recognized during the three months ended March 31, 2001.

At March 31, 2002, we had \$89.6 million of deferred revenue compared to \$77.4 million at December 31, 2001. This represents a net increase of \$12.2 million for the three months ended March 31, 2002 as compared to a \$3.1 million decrease in deferred revenue for the three months ended March 31, 2001. The increase was primarily the result of the acquisition of Virtual Internet, which contributed \$7.1 million in deferred revenue, and increased sales from renewed and transferred domain registrations. During the last twelve months, the average term of our domain name registrations has remained relatively constant at 19 months.

ONLINE PRODUCTS AND SERVICES. Revenues from online products and services increased 4.4% from \$794,000 for the three months ended March 31, 2001 to \$829,000 for the three months ended March 31, 2002. The increase resulted primarily from sales of .name defensive registrations.

ADVERTISING. Revenues from advertising decreased 57.9% from \$3.8 million for the three months ended March 31, 2001 to \$1.6 million for the three months ended March 31, 2002, primarily from the decrease in our rates and volume of advertising and sponsorships we sold on our www.register.com, FirstStepSite(R) and other web pages during the current period. We anticipate continuing to face increasing challenges in the Internet advertising market in future periods.

COST OF REVENUES

Total cost of revenues increased from \$8.5 million for the three months ended March 31, 2001 to \$8.8 million for the three months ended March 31, 2002.

COST OF DOMAIN NAME REGISTRATIONS. Costs of domain name registrations increased 2.4% to \$8.7 million for the three months ended March 31, 2002 from \$8.3 million for the three months ended March 31, 2001. This increase was due primarily to increased costs other than registration fees, such as fulfillment costs.

COST OF ONLINE PRODUCTS AND SERVICES. Cost of online products and services increased from \$173,000 for the three months ended March 31, 2001 to \$700,000 for the three months ended March 31, 2002 primarily due to fees paid to the .name registry in connection with sales of .name defensive registrations.

OPERATING EXPENSES

Total operating expenses decreased from \$18.4 million for the three months ended March 31, 2001 to \$14.4 million for the three months ended March 31, 2002.

SALES AND MARKETING. Sales and marketing expenses remained relatively constant, at \$8.2 million for the three months ended March 31, 2001 and March 31, 2002. We anticipate that sales and marketing expenses for 2002 will show an increase as compared to 2001 as we market new products and services in accordance with our customer segmentation strategy and expand into new markets.

RESEARCH AND DEVELOPMENT. Research and development expenses increased 16.7% from \$2.0 million for the three months ended March 31, 2001 to \$2.3 million for the three months ended March 31, 2002. The increase resulted primarily from salaries associated with new personnel in technology to support our growth. We anticipate that research and development expenses will continue to increase as we develop and modify our systems to accommodate growth in our business.

GENERAL AND ADMINISTRATIVE. General and administrative expenses decreased 11.0% from \$4.3 million for the three months ended March 31, 2001 to \$3.9 million for the three months ended March 31, 2002. The decrease was primarily due to a reduction in bad debts and the associated reserves for the three months ended March 31, 2002. We expect that our general and administrative expenses will increase as appropriate to support our overall growth. Non-cash compensation expenses, included herein, increased from \$424,000 for the three months ended March 31, 2001 to \$455,000 for the three months ended March 31, 2002. The non-cash compensation expenses were primarily attributable to the amortization of deferred compensation related to employee stock options. Based principally on grants of stock options and warrants made to date, we will record approximately \$3.0 million of non-cash compensation charges in future periods as follows: \$1.8 million in 2002, \$883,000 in 2003, \$143,000 in 2004 and \$174,000 in 2005.

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLES. Amortization and write-down of goodwill and other intangibles decreased from \$3.9 million for the three months ended March 31, 2001 to \$30,000 for the three months ended March 31, 2002. During the three months ended March 31, 2001, the amortization of goodwill and other intangibles was primarily related to the acquisitions of Inabox in June 2000 and Afternic in September 2000. In accordance with SFAS 142 we ceased amortization of goodwill effective January 1, 2002.

OTHER INCOME, NET

Other income, net, which consisted primarily of interest income, net of interest expense, decreased from \$2.5 million for the three months ended March 31, 2001 to \$1.6 million for the three months ended March 31, 2002. The decrease was primarily due to lower interest rates in the current period and a shift in our portfolio from higher rate taxable securities to lower rate tax-exempt securities.

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INCOME TAX EXPENSE

The provision for income taxes was \$4.3 million for the three months ended March 31, 2001 compared to \$2.0 million for the three months ended March 31, 2002. The decrease in income tax expense is primarily due to a lower net income before provision for income taxes.

NET INCOME

Net income for the three months ended March 31, 2002 was \$3.7 million compared to a net income of \$2.0 million for the three months ended March 31, 2001. If the non-amortization provisions of SFAS 142 had been effective in 2001, net income for the three months ended March 31, 2001 would have been \$5.8 million.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have funded our operations and met our capital expenditure requirements primarily through sales of equity securities, cash generated from operations and borrowings. We issued 5,222,279 shares of our common stock to the public on March 3, 2000, which generated approximately \$115.3 million after deducting the underwriting discount and other offering expenses.

At March 31, 2002, the combined total of our (i) cash and cash equivalents, (ii) short-term investments and (iii) marketable securities totaled \$206.0 million. This is compared to \$197.8 million at December 31, 2001.

On February 1, 2002, through one of our newly established subsidiaries, Register.com (U.K.) Limited, we announced a recommended cash offer for all outstanding shares of Virtual Internet plc for L.468 per share (approximately \$0.66 per share). The offer valued Virtual Internet at approximately L11.99 million (approximately \$16.9 million). We consummated our offer in March 2002 and we currently own approximately 98% of Virtual Internet plc's shares. We are in the process of acquiring the remaining shares through the compulsory acquisition procedure pursuant to the U.K. Companies Act. Virtual Internet plc shareholders, other than shareholders in certain jurisdictions outside of the U.K., were given the opportunity to elect to receive loan notes to be issued by Register.com (U.K.) Limited in exchange for their Virtual Internet plc shares. These loan notes bear interest at a floating rate of LIBOR minus 1% and may be redeemed at the request of the holder at any time between six months after the date of issue and June 30, 2003, at which time they mature. We issued approximately L6.0 million (approximately \$8.5 million) in loan notes and the remainder of the purchase price has been paid in cash. The loan notes are guaranteed as to principal only by Barclays Bank plc, which guarantee is currently supported by a cash deposit of L6.0 million (approximately \$8.5 million) by us. This deposit guarantees the payment of the loan notes. The cash portion of the Virtual Internet acquisition of approximately \$8.4 million was funded with our available cash resources.

Our business generated \$10.0 million of cash from operations during the three months ended March 31, 2002 compared to \$4.7 million in 2001. The increase in cash generated from operations was primarily due to an increase in paid domain name registrations, primarily from renewals.

Net cash used for investing activities was \$5.8 million for the three months ended March 31, 2002 compared to \$18.5 million in 2001. Approximately 83% and 97% of the cash used for investing activities related to our purchase of short-term investments and marketable securities in 2002 and 2001, respectively. Net cash used for investing activities in 2002 for the acquisition of Virtual Internet plc was \$0.1 million. The aggregate purchase price was approximately \$16.9 million. The purchase price was funded by the issuance of \$8.5 million aggregate principal amount of loan notes and \$8.4 million in cash. In addition, the Company acquired \$8.7 million of cash which Virtual Internet plc had at the date of acquisition. Finally, \$0.9 million was used for the purchase of property and equipment and investment in our systems infrastructure.

Net cash provided by financing activities totaled \$120,000 for the three months ended March 31, 2002 compared to \$104,000 in 2001. In 2002 and 2001 the majority of our financing activities were attributable to the issuance of common stock upon the exercise of warrants and options.

Although we have no material commitments for capital expenditures or other long-term obligations, we anticipate that we will increase our capital expenditures and lease commitments consistent with our anticipated growth in operations, infrastructure and personnel, including the addition of new products and services, implementation of additional co-location facilities and various capital expenditures associated with expanding our facilities. We currently anticipate that we will continue to experience growth in our operating expenses for the foreseeable future and that our operating expenses will be a material use of our cash resources. We believe that our existing cash and cash from operations will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months.

RISK FACTORS

ANY INVESTMENT IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CONSIDER CAREFULLY THE RISKS DESCRIBED BELOW, TOGETHER WITH THE OTHER INFORMATION CONTAINED IN THIS REPORT. IF ANY OF THE FOLLOWING EVENTS ACTUALLY OCCURS, OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS MAY SUFFER MATERIALLY. AS A RESULT, THE MARKET PRICE OF OUR COMMON STOCK COULD DECLINE, AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT IN OUR COMMON STOCK.

RISKS RELATED TO OUR INDUSTRY AND OUR BUSINESS

WE ENCOUNTER DIFFICULTIES FACED BY EARLY-STAGE COMPANIES BECAUSE WE HAVE A LIMITED OPERATING HISTORY AND THE DOMAIN NAME INDUSTRY IS YOUNG AND RAPIDLY EVOLVING.

The domain name registration industry is young and rapidly evolving. Our role in this industry dates back only to February 1998, when we began providing a consumer interface for registering domain names by forwarding the information we gathered from the consumer to Network Solutions or the applicable country code registries. In June 1999, we began to compete directly with Network Solutions for registrations in the .com, .net and .org domains. More recently, we have started registering domain names in other gTLDs. Accordingly, we have only a limited operating history as a domain name registrar upon which our current business and prospects can be evaluated, and our operating results, since June 1999, are not comparable to our results for prior periods. In addition, the newly competitive and rapidly evolving nature of the domain name registration industry presents other risks and uncertainties that may affect our ability to implement our business plan successfully. We cannot assure you that we will adequately address these risks and uncertainties or that our business plan will be successful.

WE HAVE A HISTORY OF LOSSES AND ALTHOUGH WE WERE PROFITABLE FOR THE YEAR ENDED DECEMBER 31, 2000 AND FOR THE QUARTER ENDED MARCH 31, 2002, WE CANNOT ASSURE YOU THAT WE WILL SUSTAIN OR INCREASE OUR PROFITABILITY OR POSITIVE CASH FLOW IN THE FUTURE.

Although we achieved profitability for the quarter ended March 31, 2002 and for the year ended December 31, 2000, we were not profitable for the year ended December 31, 2001. In addition, our year 2000 profitability was due, in part, to a one-time gain of \$4.6 million from the sale of our investment in a private company and the recognition of interest income. We incurred losses from operations of approximately \$9.7 million for the year ended December 31, 1999, \$9.7 million for the year ended December 31, 2000 and \$19.9 million for the year ended December 31, 2001. As of March 31, 2002 our accumulated deficit totaled \$29.8 million. We anticipate that our operating expenses will increase in the foreseeable future as we explore strategic opportunities, develop new products and services, expand internationally, increase our sales and marketing operations, develop new distribution channels and strategic relationships, improve our operational and financial systems and broaden our customer service capabilities. In addition, losses at RegistryPro and Virtual Internet may reduce our profitability in 2002. Accordingly, we cannot assure you that we will be able to achieve profitability again or sustain or increase our positive cash flow in the future.

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WE MAY NOT BE ABLE TO MAINTAIN OR IMPROVE OUR COMPETITIVE POSITION BECAUSE OF STRONG COMPETITION FROM VERISIGN, INC.

NETWORK SOLUTIONS' AUTHORIZATION BY THE U.S. GOVERNMENT TO ACT AS THE SOLE DOMAIN NAME REGISTRAR PRIOR TO APRIL 1999 IN THE .COM, .NET AND .ORG DOMAINS GIVES VERISIGN A SIGNIFICANT COMPETITIVE ADVANTAGE IN THE DOMAIN NAME REGISTRATION INDUSTRY.

Before the introduction of competition into the domain name registration industry in 1999, Network Solutions was the sole entity authorized by the U.S. government to serve as the registrar for domain names in the .com, .net and .org domains. This position allowed Network Solutions to develop a substantial customer base, which gives it advantages in securing customer renewals and in developing and marketing ancillary products and services. On June 9, 2000, Network Solutions was acquired by VeriSign, Inc., a provider of Internet trust services. We face significant competition from VeriSign as we seek to increase our revenue from domain name registration services, and we cannot assure you that we will be able to maintain or improve our competitive position. The acquisition of Network Solutions by VeriSign has not only facilitated cross-marketing between the two companies, but it has also strengthened VeriSign's competitive advantage by enabling it to bundle registration services with an expanded range of products and services. This leadership position together with VeriSign's broader array of products and service offerings and strong financial position, enable it to compete more effectively than most registrars in the formation of strategic partnerships, and the pursuit of acquisition targets. We cannot assure you that we will be able to overcome VeriSign's advantages and may therefore lose certain partnership and acquisition opportunities to VeriSign.

VERISIGN'S EXCLUSIVE CONTROL OVER THE REGISTRY FOR THE .COM, .NET AND .ORG DOMAINS HAS GIVEN IT AN ADVANTAGE OVER ALL COMPETITIVE REGISTRARS.

On May 25, 2001, ICANN finalized agreements with VeriSign that supercede the original agreements between the parties and enable VeriSign to continue to operate the .com registry until at least 2007 and the .net registry until at least June 30, 2005 while retaining ownership and control over its registrar business. The agreements also provide that, under certain conditions, VeriSign may continue to operate both registries beyond these dates. VeriSign will also continue to operate the .org registry through December 2002.

As the exclusive registry for these domains, VeriSign receives from us, and from every other competitive registrar, \$6 per domain name per year. The substantial net revenues from these registry fees, and the certainty of receiving them, provide VeriSign significant advantages over any competitive registrar. The most recent ICANN-VeriSign agreements strengthen VeriSign's competitive advantage over us and other competitive registrars by securing VeriSign's ability to act as a registrar while it is the sole registry for the .com, .net and .org domains and earns revenues from the fees competitive registrars pay. We cannot assure you that developments under these ICANN-VeriSign agreements, or any future amendments to them will not materially harm our business, financial condition and results of operation.

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WE ALSO FACE COMPETITION FROM OTHER COMPETITIVE REGISTRARS AND OTHERS IN THE DOMAIN NAME REGISTRATION INDUSTRY AND EXPECT THIS COMPETITION TO CONTINUE TO INTENSIFY.

COMPETITION IN THE DOMAIN NAME REGISTRATION SERVICES INDUSTRY CONTINUES TO INTENSIFY AMONG THE MARKET PARTICIPANTS.

When we began providing online domain name registrations in the .com, .net and .org domains in June 1999, we were one of only five testbed competitive registrars accredited by ICANN to interface directly with Network Solutions' registry for .com, .net and .org domain names. Since the end of the testbed period on November 30, 1999, ICANN has continued to accredit new registrars. As of April 29, 2002, ICANN had accredited 149 competitive registrars, including us, to register domain names in one or more of the gTLDs, though not all of these accredited registrars are operational. We also face substantial competition from many resellers that are not accredited registrars but offer domain name registrations through a competing accredited registrar's system. The continued introduction of competitive registrars and resellers into the domain name registration industry and the rapid growth of some competitive registrars and resellers who have already entered the industry have made it difficult for us to maintain our unit market share during 2000 and 2001 and, together with a decline in the growth rate of the domain name registration market, contributed to a sequential quarterly decline in the number of paid domain name registrations, transfers and renewals we performed from the first quarter of 2000 until the introduction of new gTLDs in the fourth quarter of 2001. If we were to again experience a decline in paid domain name registrations, transfers and renewals our business, financial condition and results of operations could be materially adversely affected.

WE FACE COMPETITION FROM COMPETITIVE REGISTRARS AND OTHERS IN THE DOMAIN NAME REGISTRATION INDUSTRY THAT MAY HAVE LONGER OPERATING HISTORIES, GREATER NAME RECOGNITION, PARTICULARLY IN INTERNATIONAL MARKETS OR GREATER RESOURCES.

Our competitors in the domain name registration industry include companies with strong brand recognition and Internet industry experience, such as major telecommunications firms, cable companies, ISPs, web-hosting providers, Internet portals, systems integrators, consulting firms and other registrars. Many of these companies also possess core capabilities to deliver ancillary services, such as customer service, billing services and network management and have a broad array of value-added products and services which they can bundle with domain name registrations. Our market position could be harmed by any of these existing or future competitors, some of which may have longer operating histories, greater name recognition, particularly in international markets, and greater financial, technical, marketing, distribution and other resources than we do.

INCREASING COMPETITION IN THE DOMAIN NAME REGISTRATION INDUSTRY COULD FORCE US TO REDUCE OUR PRICES FOR OUR CORE PRODUCTS AND SERVICES, WHICH WOULD NEGATIVELY IMPACT OUR RESULTS OF OPERATIONS.

In response to increasing competition in the domain name registration industry, we may be required, by market factors or otherwise, to reduce, perhaps significantly, the prices we charge for our core domain name registration and related products and services. Some of our competitors offer domain name registration services at a wholesale price level minimally above

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the \$6 registry fee for .com, .net and .org domains. Other competitors, including VeriSign, have reduced and may continue to reduce their pricing for domain name registrations both for short-term promotions and on a permanent basis. Further, some of our competitors have offered domain name registrations for free, deriving their revenues from other sources. Reducing the prices we charge for domain name registration services through our core register.com branded offerings in order to remain competitive could materially adversely affect our results of operations.

IF THE GROWTH RATE OF THE MARKET FOR DOMAIN NAMES CONTINUES TO FALL, OUR NET REVENUES FROM DOMAIN NAME REGISTRATIONS MAY FALL BELOW ANTICIPATED LEVELS.

The domain name market is still in its early stages of development and we do not expect that it will experience the same high level of growth it has experienced in the past. As the market began to absorb the slow down in the growth and expansion of the Internet and Internet-related business and the decrease of speculative domain names discussed in the following risk factor, based on VeriSign press releases, the total number of .com, .net and .org domains in the registry decreased from 30.6 million as of March 31, 2001 to 27.3 million as of March 31, 2002. In addition the overall number of registrations in each new gTLD, such as .biz and .info, is expected to be significantly lower than that for .com registrations. The slow down in the overall market growth, together with increased competition, contributed to a sequential quarterly decline in the number of our paid domain name registrations, transfers and renewals from the first quarter of 2000 until the introduction of new gTLDs in the fourth quarter of 2001. A resumption of this decline could materially adversely affect our business, results of operations and financial condition.

IF OUR CUSTOMERS DO NOT RENEW THEIR DOMAIN NAME REGISTRATIONS OR IF THEY TRANSFER THEIR REGISTRATIONS TO OUR COMPETITORS, AND WE FAIL TO REPLACE THEIR BUSINESS OR DEVELOP ALTERNATIVE SOURCES OF REVENUE, OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS WOULD BE MATERIALLY ADVERSELY AFFECTED.

The growth of our business depends in great part on our customers' renewal of their domain name registrations through us. Our first expirations for .com, .net and .org domain names occurred in January 2001. As such, we have only limited experience to date with registration renewals. Our renewal rate for paid registrations for the year ended December 31, 2001 was less than 50%. We believe that our renewal rates in 2001 were depressed by the high number of speculative registrations that occurred during the initial growth stage of the domain name registration industry in 1999 and 2000. During the third and fourth quarters of 2000 we offered one-year registrations at no charge or at significant discounts to our standard registration fees. We have experienced and anticipate very low renewal rates for these and other speculative registrations. Our total domain name registrations under management declined from approximately 3.8 million as of September 30, 2001 to approximately 3.3 million as of December 31, 2001, but then grew slightly to 3.4 million as of March 31, 2002. We cannot predict the volume of registration renewals we should expect or assure you that those customers who will renew their registrations will do so through us. If we are unable to increase our overall renewal rate or number of new registrations, the combination of our customers deciding not to renew their registrations through us and the increase we have experienced in the transfers of registrations to other registrars will continue to have the cumulative effect of decreasing the

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number of domain name registrations under our management. This could cause our revenues from domain name registrations to decrease and could materially adversely affect our business, financial condition and results of operations.

IF THE INTRODUCTION OF NEW GTLDS EXPERIENCE ADDITIONAL DELAYS OR IF OUR CUSTOMERS TURN TO OTHER REGISTRARS FOR THEIR REGISTRATION NEEDS FOR NEW GTLDS, OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS COULD BE MATERIALLY ADVERSELY AFFECTED.

Intervening factors, including longer than expected contract negotiations, changes to terms of the registry's product offering and litigation, resulted in delays in the launches of the new gTLDs. The .biz, .info and .name registries have launched their registration services, however, the .pro registry only recently signed its agreement with ICANN, and still faces many operational challenges prior to launch. We do not know if any additional generic top level domains will be introduced in the future. Furthermore, the overall number of registrations in each new gTLD that has been launched is expected to be significantly lower than that for .com registrations and we cannot assure you that we will successfully market our capabilities with respect to new gTLDs or that customers will rely on us to provide registration services within these domains. Our business, financial condition and results of operations could be materially adversely affected if the new gTLDs are not successful, additional new top level domains are not introduced, or if substantial numbers of our customers turn to other registrars for their new gTLD registration needs.

THE INTRODUCTION OF NEW TOP LEVEL DOMAINS MAY CAUSE FLUCTUATIONS IN OUR RESULTS OF OPERATIONS, THEREBY MAKING OUR FUTURE OPERATING PERFORMANCE DIFFICULT TO PREDICT.

We anticipate that with the introduction of each new gTLD or newly launched TLD such as .us or .eu, our revenue from new registrations and other products and services related to the launch of these TLDs will initially increase and then level off, which will have a corresponding affect on our net revenues and our cost of revenues. As a result, our operating results may fluctuate in the future. If our marketing and other expenses associated with their launch exceed the revenues we recognize from these opportunities, our business, financial condition and results of operations could be materially adversely affected.

WE CANNOT ASSURE YOU THAT THE REGISTRYPRO AND AFILIAS VENTURES WILL BE SUCCESSFUL. IN ADDITION, WE INTEND TO INCUR ADDITIONAL CAPITAL EXPENDITURES TO ESTABLISH AND DEVELOP REGISTRYPRO'S PRODUCTS AND SERVICES. SUCH EXPENDITURES WOULD REDUCE THE FINANCIAL RESOURCES WE COULD USE FOR OUR PRIMARY BUSINESS.

In November 2000, Afilias, LLC, a consortium of 18 ICANN-accredited registrars including us, was selected to operate a registry for the .info gTLD and RegistryPro, initially a joint venture between Virtual Internet plc and us, was selected to operate a registry for the .pro gTLD which will be exclusively for accredited professionals. In March 2002, we consummated our recommended cash offer for all outstanding shares of Virtual Internet and we have since acquired approximately 98% of Virtual Internet's shares. While Afilias launched real time .info registrations in October 2001, RegistryPro only recently signed its contract with ICANN and still faces many operational challenges prior to launch including finalizing the overall technological integration and function of the .pro top level domain product. In their early stages, these

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ventures will likely require additional infusions of capital as they establish themselves as registries of new top level domains. As they require further funding it may be difficult to obtain financing from outside sources, and we expect we will have to invest our own capital to build systems to support RegistryPro and to market its services. The same may occur with Afilias. A lack of adequate funding could impact RegistryPro's ability to launch its services or either Registry's ability to promote the new top level domains in the marketplace once launched. We cannot accurately predict whether there will be a demand for the domain names for which these ventures would serve as the registry, when or the extent to which we will be able to generate revenues from Afilias and RegistryPro, or if either of these ventures will be profitable. If there is no demand, or demand is lower than anticipated, for these new gTLDs, or if the returns on our capital expenditures are lower than expected or take longer to materialize, our primary business, financial condition and results of operation could be materially adversely affected.

WE CANNOT PREDICT WITH ANY CERTAINTY THE EFFECT THAT NEW GOVERNMENTAL AND REGULATORY POLICIES, OR INDUSTRY REACTIONS TO THOSE POLICIES, WILL HAVE ON OUR BUSINESS.

Before April 1999, Network Solutions managed the domain name registration system for the .com, .net and .org domains pursuant to a cooperative agreement with the U.S. government. In November 1998, the Department of Commerce recognized ICANN, to oversee key aspects of the Internet domain name registration system. Since that time and particularly because the domain name industry is in its early stages of development, ICANN has been subject to strict scrutiny by the public and the government. ICANN faces significant questions regarding its financial viability and efficacy as a private sector entity, and its President recently recommended a restructuring of the organization, including additional roles for government and government funding. While these issues will take time to sort out, the long term structure and mission of ICANN may evolve even in the coming year to answer perceived shortcomings. As such, we continue to face the risks that:

- the U.S. government may, for any reason, reassess its decision to introduce competition into, or ICANN's role in overseeing, the domain name registration market;
- the Internet community or the Department of Commerce or U.S. Congress may become dissatisfied with ICANN and refuse to recognize its authority or support its policies, which could create instability in the domain name registration system;
- ICANN may attempt to impose additional fees on registrars if it fails to obtain funding sufficient to run its operations;
- accreditation criteria could change in ways that are disadvantageous to us;
- we may not be selected as a registrar for additional top-level domains (particularly sponsored new gTLDs) as they become approved; and
- ICANN's limited resources may seriously affect its ability to carry out its mandate.

OUR BUSINESS WILL BE MATERIALLY HARMED IF IN THE FUTURE THE ADMINISTRATION AND OPERATION OF THE INTERNET NO LONGER RELIES UPON THE EXISTING DOMAIN NAME SYSTEM.

The domain name registration industry continues to develop and adapt to changing technology. This development may include changes in the administration or operation of the Internet, including the creation and institution of alternate systems for directing Internet traffic without the use of the existing domain name system. Some of our competitors have begun registering domain names with extensions that rely on such alternate systems. These competitors are not subject to ICANN accreditation requirements and restrictions. Other competitors have introduced naming systems which use keywords rather than traditional domain names. The widespread acceptance of any alternative systems could eliminate the need to register a domain name to establish an online presence and could materially adversely affect our business, financial condition and results of operations.

OUR REVENUES FROM ADVERTISING MAY CONTINUE TO BE ADVERSELY AFFECTED BY PERCEIVED WEAKNESS OF INTERNET ADVERTISING AND THE CONTINUED WEAKNESS IN THE INTERNET ADVERTISING MARKET.

Our revenues from advertising depend on the use of the Internet as an advertising and marketing medium. The Internet advertising market is relatively new and rapidly evolving, and it cannot yet be compared with traditional advertising media to gauge its effectiveness. As a result, demand for and market acceptance of Internet advertising are uncertain. If advertisers perceive the Internet to be a limited or ineffective advertising medium or perceive our websites to be less effective or less desirable than other Internet advertising vehicles, advertisers may be reluctant to advertise on our websites. Many of our current and potential customers have little experience with Internet advertising and have allocated only a limited portion of their advertising and marketing budgets to Internet activities. The adoption of Internet advertising, particularly by entities that have historically relied upon traditional methods of advertising and marketing, requires the acceptance of a new way of advertising and marketing. These customers may find Internet advertising to be less effective for meeting their business needs than traditional methods of advertising and marketing.

We compete with websites and traditional advertising media for a share of advertisers' total advertising budgets. In recent quarters, the overall market for Internet advertising has been characterized by continuing and significant reduction in demand, a reduction or cancellation of advertising contracts, a significant increase in uncorrectable receivables from advertisers, and a significant reduction of Internet advertising budgets, especially by Internet-related companies. In addition, an increasing number of Internet-related companies have experienced deteriorating financial results and liquidity positions, and/or ceased operations or filed for bankruptcy protection, or may be expected to do so.

For the year ended 2001, our advertising revenues were down 22.5% compared to the year ended December 31, 2000, and constituted 8.2% of our net revenues. For the quarter ended March 31, 2002, this trend continued as our advertising revenues were down 57.9% from the quarter ended March 31, 2001. The price we are able to charge for advertisements has been negatively impacted by the overall Internet advertising market, which negatively impacts our business. Given the current market conditions, our customers that are Internet-related companies

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may be anticipating or experiencing difficulty raising capital and therefore may elect to scale back the resources they devote to advertising. The softness in the market for Internet advertising coupled with the actual or perceived ineffectiveness of Internet advertising in general could materially adversely affect our business, financial condition and results of operations.

IF OUR CUSTOMERS DO NOT FIND OUR EXPANDED PRODUCT AND SERVICE OFFERINGS APPEALING, OR IF WE FAIL TO ESTABLISH OURSELVES AS A RELIABLE SOURCE FOR THESE PRODUCTS AND SERVICES, WE MAY REMAIN DEPENDENT ON DOMAIN NAME REGISTRATIONS AS A PRIMARY SOURCE OF REVENUE AND OUR NET REVENUES MAY FALL BELOW ANTICIPATED LEVELS.

Part of our long-term strategy includes diversifying our revenue base by offering value-added products and services related to domain name usage. We expect to incur significant costs in acquiring, developing and marketing these new products and services. We cannot assure you that we will be able to develop new products and services outside of our primary business and, if we are able to develop such products and services, that we will succeed in attaining the market's confidence in us as a reliable provider of these products and services. Our primary business, domain name registration services, generated 91% of our net revenues during the quarter ended March 31, 2002. If we fail to offer products and services that meet our customers' needs, or we do not provide products and services which are competitive with those offered in the marketplace, or our customers elect not to purchase our products and services, our anticipated net revenues may fall below expectations, we may not generate sufficient revenue to offset these related costs and we will remain dependent on domain name registrations as our primary source of revenue. In addition, as we offer new products and services, we may need to increase the size and will need to expand the training of our customer service staff to ensure that they can adequately respond to customer inquiries. If we fail to provide our customer service staff with training and staffing sufficient to support our new products and services, we may lose customers who feel that their inquiries have not been adequately addressed. Our inability to successfully diversify our revenue base from domain name registrations could, together with a decline in that market, materially adversely affect our business, financial condition and results of operations.

OUR ACQUISITION STRATEGY, AND OUR RECENT ACQUISITION OF VIRTUAL INTERNET PLC, SUBJECTS US TO SIGNIFICANT RISKS, ANY OF WHICH COULD HARM OUR BUSINESS.

Acquisitions, including our recent acquisition of Virtual Internet plc, involve a number of risks and present financial, managerial and operational challenges, including:

- diversion of management attention from running our existing business;
- increased expenses, including legal, administrative and compensation expenses resulting from newly hired employees;
- increased costs to integrate the technology, personnel, customer base and business practices of the acquired company with our own;
- adverse effects on our reported operating results due to possible write-down of goodwill associated with acquisitions; and

- potential disputes with the sellers of acquired businesses, technologies, services or products.

We acquired Virtual Internet in March 2002, sold its hosting division in May 2002 and have only recently begun the integration process of its NetSearchers division. We may not be successful in integrating the business, technology, operations and personnel of Virtual Internet or any other acquired company. Moreover, performance problems with an acquired business, technology, service or product could also have a material adverse impact on our reputation as a whole. In addition, any acquired business, technology, service or product could significantly under-perform relative to our expectations, and we may not achieve the benefits we expect from our acquisitions.

Our recent acquisition of Virtual Internet presents a number of challenges, including:

- We may not be able to increase revenues and/or cut expenses sufficiently to turn Virtual Internet profitable.
- We face increased managerial and operational challenges due to the European location of Virtual Internet's operations.

For all these reasons, our pursuit of an overall acquisition and investment strategy or any individual acquisition or investment, including our recent acquisition of Virtual Internet, could have a material adverse effect on our business, financial condition and results of operations.

WE RECENTLY EXPANDED OUR BUSINESS INTERNATIONALLY. THIS EXPANSION COULD EXPOSE US TO BUSINESS RISKS THAT COULD LIMIT THE EFFECTIVENESS OF OUR GROWTH STRATEGY AND CAUSE OUR RESULTS OF OPERATION TO SUFFER.

We recently expanded our business into international markets, through our acquisition of Virtual Internet which is based in the United Kingdom and has offices in France and Italy. Prior to this acquisition, our customer service operation in Canada was our only experience with operations outside of New York or the United States. Introducing and marketing our products and services internationally, developing direct and indirect international sales and support channels and managing Virtual Internet's foreign personnel and operations will require significant management attention and financial resources. There are a number of risks associated with conducting our business internationally that could negatively impact our results of operation, including:

- management and integration problems resulting from cultural differences;
- political and economic instability in some international markets;
- competition with foreign companies;
- legal uncertainty regarding liability and compliance with foreign laws;
- currency fluctuations and exchange rates;

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- potentially adverse taxes;
- difficulties in protecting intellectual property rights in international jurisdictions; and
- the level of adoption of the Internet in international markets.

We may not succeed in our efforts to expand into international markets and if we do, we cannot assure you that one or more of the factors described above will not have a material adverse effect on our future international operations, if any, and consequently, on our business, financial condition and results of operation.

IF WE ARE UNABLE TO MAKE SUITABLE ACQUISITIONS AND INVESTMENTS, OUR LONG-TERM GROWTH STRATEGY COULD BE IMPEDED.

Our long-term growth strategy includes identifying and acquiring or investing in suitable candidates on acceptable terms. In particular, we intend over time to acquire or make investments in providers of product offerings that complement our business and other companies in the domain name registration industry. In pursuing acquisition and investment opportunities, we may be in competition with other companies having similar growth and investment strategies. Competition for these acquisitions or investment targets could also result in increased acquisition or investment prices and a diminished pool of businesses, technologies, services or products available for acquisition or investment. Our long-term growth strategy could be impeded if we fail to identify and acquire or invest in promising candidates on terms acceptable to us.

RAPID GROWTH IN OUR BUSINESS COULD STRAIN OUR MANAGERIAL, OPERATIONAL, FINANCIAL, ACCOUNTING AND INFORMATION SYSTEMS, CUSTOMER SERVICE STAFF AND OFFICE RESOURCES.

Our expanded operations have placed a significant strain on our resources. In order to maintain our growth strategy, we have had to and will continue to expand all aspects of our business, including our computer systems, telecommunications systems and related infrastructure, customer service capabilities and sales and marketing efforts. The demands on our network infrastructure, technical staff and technical resources have grown rapidly with our expanding customer base, our expansion of operations to Canada, our acquisitions and the increasing complexity of our product and service offerings. We cannot assure you that our infrastructure, technical staff and technical resources will adequately accommodate these changes. Additionally, and as a result of this growth, we need to improve our financial and managerial controls, billing systems, reporting systems and procedures, and we need to, and will continue to, expand, train and manage our workforce. If we fail to manage our growth effectively, our business, financial condition and results of operation could be materially adversely affected.

IF WE ARE UNABLE TO ATTRACT AND RETAIN HIGHLY QUALIFIED MANAGEMENT AND TECHNICAL PERSONNEL, OUR BUSINESS MAY BE HARMED.

Our success depends in large part on the contributions of our senior management team and technology personnel and in particular Richard D. Forman, our President and Chief Executive Officer. We compete with other technology and Internet companies in hiring and retaining qualified personnel. As a result, we may be unable to retain our employees or attract,

integrate, train and retain other highly qualified employees in the future. Over the past years, we experienced high turnover among our employees and have added a significant number of new members to our management team. These individuals have not worked with one another before and may not be able to develop an effective working relationship. Moreover, our new managers are still learning about our company and our industry while working to expand our business into new areas. If our management team cannot work together effectively and cannot master the details of our business and our market, then our business will be harmed, and we will incur additional costs in seeking and retaining new management personnel. The loss of services of these or any other executive officers or the loss of the services of other key employees could harm our business. In addition, if we fail to attract and successfully integrate new personnel, or retain and motivate our current personnel, our business, financial condition and results of operations could be materially adversely affected.

WE CANNOT ASSURE YOU THAT WE WILL BE ABLE TO GENERATE REVENUES OR PROFITS FROM OPERATIONS IN THE SECONDARY MARKET FOR DOMAIN NAMES OR THAT ICANN WILL NOT IMPOSE RESTRICTIONS ON THE ABILITY OF ACCREDITED REGISTRARS TO CONDUCT BUSINESS IN THIS SECTOR.

In September 2000, we acquired Afternic.com, Inc., a business which has only been in operation since September 1999. Through Afternic, we provide a secondary market for companies and individuals to buy and sell domain names, as well as appraisal and escrow services for these names. The growth of the secondary market did not meet our expectations and we did not generate the anticipated level of revenues. As a result, and because market conditions and attendant multiples used to estimate terminal values have become and remain significantly depressed since our acquisition of Afternic, our results for the quarter ended September 30, 2001 included a one-time \$32.5 million write down of intangible assets associated with the acquisition of Afternic. In addition, we cannot be certain that ICANN will not impose certain terms and conditions on us relating to the integration of Afternic's secondary market operations with our current operations.

IF WE CONTINUE TO INCUR EXPENSES RELATED TO CREDIT CARD CHARGEBACKS AND REFUNDS, OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS COULD BE MATERIALLY ADVERSELY AFFECTED.

A substantial majority of our revenues are obtained through online credit card transactions. Under current credit card industry practices, we are liable for fraudulent and disputed credit card transactions because we do not obtain the cardholder's signature at the time of the transaction, even though the financial institution issuing the credit card may have approved the transaction. If a significant percentage of our customers request refunds or chargebacks to their credit cards based on claims that their credit card was used fraudulently or without their consent, our business could be materially adversely affected. Although we have implemented procedures to reduce fraudulent and disputed credit card transactions, we have a high rate of chargebacks and refunds. If we cannot decrease our rate of chargebacks and credit card refunds we experience, we may continue to experience a decrease of our net revenues, damage our relationship with customers, credit card issuers and processors, and our own creditors and in turn lose our ability to process certain credit card transactions.

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IF WE FAIL TO COMPLY WITH THE REGULATIONS OF THE COUNTRY CODE REGISTRIES OR ARE UNABLE TO REGISTER DOMAIN NAMES WITH THOSE REGISTRIES, OUR BUSINESS COULD BE MATERIALLY ADVERSELY AFFECTED.

Each of the country code registries requires registrars to comply with specific regulations. Many of these regulations vary from country code to country code. If we fail to comply with the regulations imposed by country code registries, these registries will likely prohibit us from registering or continuing to register domain names in their country codes. Further, in most cases, our rights to provide country code domain name registration services are not governed by written contract. In the case of our existing written contracts, there is uncertainty as to which country's law may govern. As a result, we cannot be certain that we will continue to be able to register domain names in the ccTLDs we currently offer. Any restrictions on our ability to offer domain name registrations in a significant number of country codes, or in a significant country, could materially adversely affect our business, financial condition and results of operations.

IF COUNTRY CODE REGISTRIES CEASE OPERATIONS OR OTHERWISE FAIL TO PROCESS REGISTRATIONS OR RELATED INFORMATION ACCURATELY, WE WOULD BE UNABLE TO HONOR OUR SUBSCRIPTIONS RELATING TO THOSE COUNTRY CODES.

Country code registries may be administered by the host country, entrepreneurs or other third parties. If these registry businesses cease operations or otherwise fail to process domain name registrations or the related information in ccTLDs, we would be unable to honor the subscriptions of registrants who have registered, or are in the process of registering, domain names in the applicable ccTLD. If we are unable to honor a substantial number of subscriptions for our customers for any reason or if the country code registries fail to process our customers' registrations in a timely and accurate fashion, our business, financial condition and results of operations could be materially adversely affected.

WE CANNOT ASSURE YOU THAT OUR STANDARD AGREEMENTS WILL BE ENFORCEABLE.

We rely on several agreements that govern the terms of the services we provide to our users, including, but not limited to, domain name registration and secondary market services. These agreements contain a number of provisions intended to limit our potential liability arising from our providing services for our customers including liability resulting from our failure to register or maintain domain names. As most of our customers use our services online, execution of our agreements by customers occurs electronically or, in the case of our terms of use, is deemed to occur because of a user's continued use of the website following notice of those terms. We believe that our reliance on these agreements is consistent with the practices in our industry, but if a court were to find that either one of these methods of execution is invalid or that key provisions of our services agreements are unenforceable, we could be subject to liability that could have a materially adverse effect on our business, financial condition and results of operations.

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OUR FAILURE TO REGISTER OR MAINTAIN OR RENEW THE DOMAIN NAMES THAT WE PROCESS ON BEHALF OF OUR CUSTOMERS, MAY SUBJECT US TO NEGATIVE PUBLICITY OR CLAIMS OF LOSS, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

Clerical errors or systems failures have resulted in our failure to properly register or to maintain or renew the registration of domain names that we process on behalf of our customers. Our failure to properly register or to maintain or renew the registration of our customers' domain names, even if we are not at fault, may subject us to negative publicity or claims of loss, which, together with the costs associated with defending such claims, could have a material adverse effect on our business, financial condition and results of operations.

WE MAY BE HELD LIABLE IF THIRD PARTIES MISAPPROPRIATE OUR USERS' PERSONAL INFORMATION.

A fundamental requirement for online communications is the secure transmission of confidential information over public networks. If third parties succeed in penetrating our network security or otherwise misappropriate our customers' personal or credit card information, we could be subject to liability. Our liability could include claims for unauthorized purchases with credit card information, impersonation or other similar fraud claims as well as for other misuses of personal information, including for unauthorized marketing purposes. These claims could result in litigation and adverse publicity, which could have a material adverse effect on our business, financial condition and results of operations, as well as our reputation.

In addition, the Federal Trade Commission and state agencies have investigated various Internet companies regarding their use of personal information. The federal government has enacted legislation protecting the privacy of consumers' nonpublic personal information. We cannot assure you that our current information-collection procedures and disclosure policies will be found to be in compliance with existing or future laws or regulations. Our failure to comply with existing laws, including those of foreign countries, the adoption of new laws or regulations regarding the use of personal information that require us to change the way we conduct our business or an investigation of our privacy practices could make it cost-prohibitive to operate our business and prevent us from pursuing our business strategies.

WE MAY INCUR SIGNIFICANT EXPENSES RELATED TO THE SECURITY OF PERSONAL INFORMATION ONLINE.

The need to physically secure and securely transmit confidential information online has been a significant barrier to electronic commerce and online communications. Any well-publicized compromise of security could deter people from using online services such as the ones we offer, or from using them to conduct transactions that involve transmitting confidential information. Because our success depends on the general acceptance of online services and electronic commerce, we may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by these breaches.

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WE MAY NOT BE ABLE TO PROTECT AND ENFORCE OUR INTELLECTUAL PROPERTY RIGHTS OR PROTECT OURSELVES FROM THE CLAIMS OF THIRD PARTIES.

WE MAY BE UNABLE TO PROTECT AND ENFORCE OUR INTELLECTUAL PROPERTY RIGHTS FROM INFRINGEMENT.

We rely upon copyright, trade secret and trademark law, invention assignment agreements and confidentiality agreements to protect our proprietary technology and other assets, including software, applications and trademarks, and other intellectual property to the extent that protection is sought or secured at all. We do not currently have patents on any of our technologies or processes. While we typically enter into confidentiality agreements with our employees, consultants and strategic partners, and generally control access to and distribution and use of our proprietary information, we cannot ensure that our efforts to protect our proprietary information will be adequate against infringement or misappropriation of our intellectual property by third parties, particularly in foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States.

We have received initial rejections from the U.S. Patent and Trademark Office on our trademark applications for "register" and "register.com" based on descriptiveness. We have responded to these initial rejections arguing that these brands have become widely known through extensive use in commerce and are valid trademarks. While we will be taking all reasonable measures to secure federal trademark registrations for the "register" and "register.com" marks, we cannot assure you that we will be able to obtain these registrations. Our inability to obtain these trademark registrations could materially harm our business.

Effective trademark, service mark, copyright and trade secret protection may not be available in every country in which our services are or will be made available. We also expect to license proprietary rights such as trademarks or copyrighted material to strategic partners in the course of planned national and international expansion. While we will attempt to ensure in our agreements that licensees will maintain the quality of our service, we cannot assure you that they will not take actions that might diminish the value of our proprietary rights or reputation, which could thereby materially harm our business.

Furthermore, because the validity, enforceability and scope of protection of proprietary rights in Internet-related industries is uncertain and still evolving, we cannot assure you that we will be able to defend our proprietary rights. In addition to being difficult to police, once any infringement is detected, disputes concerning the ownership or rights to use intellectual property could be costly and time-consuming to litigate, may distract management from operating the business and may result in our losing significant rights and our ability to operate our business.

WE CANNOT ASSURE YOU THAT THIRD PARTIES WILL NOT DEVELOP TECHNOLOGIES OR PROCESSES SIMILAR OR SUPERIOR TO OURS.

We cannot ensure that third parties will not be able to independently develop technology, processes or other intellectual property that is similar to or superior to ours. The unauthorized reproduction or other misappropriation of our intellectual property rights, including copying the look, feel and functionality of our website, could enable third parties to benefit from our

technology without our receiving any compensation and could materially adversely affect our business, financial condition and results of operations.

WE MAY BE SUBJECT TO CLAIMS OF ALLEGED INFRINGEMENT OF INTELLECTUAL PROPERTY RIGHTS OF THIRD PARTIES.

We do not conduct comprehensive patent searches to determine whether our technology infringes patents held by others. In addition, technology development in Internet-related industries is inherently uncertain due to the rapidly evolving technological environment. There may be numerous patent applications pending, many of which are confidential when filed, with regard to technologies similar to our own. To date, we have not been notified that our technologies infringe the proprietary rights of any third parties. However, third parties may assert infringement claims against us with respect to past, current or future technologies, and these claims and any resultant litigation, should it occur, could subject us to significant liability for damages. Even if we prevail, litigation could be time-consuming and expensive to defend, and could result in the diversion of management's time and attention. Any claims from third parties may also result in limitations on our ability to use the intellectual property subject to these claims unless we are able to enter into agreements with the third parties making these claims. Such royalty or licensing agreements, if required, may be unavailable on terms acceptable to us, if at all. If a successful claim of infringement is brought against us and we fail to develop non-infringing technology or to license the infringed or similar technology on a timely basis, it could materially adversely affect our business, financial condition and results of operations.

We rely on certain technologies that we license from other parties. For instance, VeriSign has licensed us the right to use key software products and database technology. We cannot assure you that these third-party technology licenses will not infringe on the proprietary rights of others or will continue to be available to us on commercially reasonable terms, if at all. The loss of such technology could require us to obtain substitute technology of lower quality or performance standards or at greater cost, which could materially harm our business.

THE NATURE OF OUR SERVICES MAY SUBJECT US TO ALLEGED INFRINGEMENT AND OTHER CLAIMS RELATING SPECIFICALLY TO DOMAIN NAMES.

As a registrar of domain names, a provider of web-hosting services, and a participant in the secondary market for domain names, we may be subject to various claims, including claims from third parties asserting trademark infringement or dilution, unfair competition and violations of publicity and privacy rights, to the extent that such parties consider their rights to be violated by the registration of particular domain names by our users or our hosting of our users' websites or secondary market activities.

For example, we provide an automated service enabling users to register domain names and do not monitor or review the content of such domain names. Users might register a domain names which, based on the nature and content of such domain names, could be considered obscene, hateful or defamatory, or which could infringe or dilute a third party's intellectual property. The law relating to the liability of registrars stemming from the activities of registrants in this regard is currently unsettled both within the United States and abroad, and the actions of our users may therefore expose us to significant liability. Even if we were to prevail in a dispute

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concerning such actions, litigation could be time-consuming and expensive to defend, and could result in the diversion of management's time and attention.

In addition, the Anticybersquatting Consumer Protection Act was enacted in November 1999 to curtail a practice commonly known in the industry as "cybersquatting." A cybersquatter is generally defined in this Act as one who registers a domain name that is identical or similar to another party's trademark or the name of a living person, in each case with the bad faith intent to profit from use of the domain name. Cybersquatting is a problem that could be exacerbated with any additional top level domain names that may be established by ICANN. Although the Act states that registrars may not be held liable for registering or maintaining a domain name for another person absent a showing of the registrar's bad faith intent to profit from the use of the domain name, registrars may be held liable if they fail to comply promptly with procedural provisions under the Act. If we are held liable under this law, any liability could have a material adverse effect on our business, financial condition and results of operations.

Although established case law and statutory law have, to date, shielded us from liability relating to cybersquatting registrations on our site in the primary registration market, this law remains new and unsettled in many jurisdictions and the application of these laws and precedent to the secondary market or other domain name registration related services is still undeveloped. Therefore, we cannot predict what our potential liabilities may be with respect to allegations that our participation in the secondary market facilitates cybersquatting. Any determination that our secondary market activities or other domain name registration related services facilitate cybersquatting could have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATED TO OUR TECHNOLOGY AND THE INTERNET

SYSTEMS DISRUPTIONS AND FAILURES COULD CAUSE OUR CUSTOMERS AND ADVERTISERS TO BECOME DISSATISFIED WITH US AND MAY IMPAIR OUR BUSINESS.

OUR CUSTOMERS, ADVERTISERS AND BUSINESS ALLIANCES MAY BECOME DISSATISFIED WITH OUR PRODUCTS AND SERVICES DUE TO INTERRUPTIONS IN ACCESS TO OUR WEBSITE.

Our ability to maintain our computer and telecommunications equipment in working order and to reasonably protect them from interruption is critical to our success. Our website must accommodate a high volume of traffic and deliver frequently updated information. Our website has in the past experienced slower response times as a result of increased traffic. We have conducted planned site outages and experienced unplanned site outages with minimal impact on our business. If we were to experience a substantial increase in traffic and fail to increase our capacity, our customers would experience slower response times or disruptions in service. Our customers, advertisers and business partners may become dissatisfied by any systems failure that interrupts our ability to provide our products and services to them. Substantial or repeated system failures would significantly reduce the attractiveness of our website and could cause our customers, advertisers and business partners to switch to another domain name registration service provider.

OUR CUSTOMERS, ADVERTISERS AND BUSINESS PARTNERS MAY BECOME DISSATISFIED WITH OUR PRODUCTS AND SERVICES DUE TO INTERRUPTIONS IN OUR ACCESS TO THE REGISTRATION SYSTEMS OF GENERIC TOP LEVEL DOMAIN OR COUNTRY CODE REGISTRIES.

We depend on the registration systems of generic top level domain and country code registries to register domain names on behalf of our customers. We have in the past experienced problems with the registration systems of these top level domain registries, including outages, particularly during their implementation phase. Any significant outages in the registration systems of these registries would prevent us from delivering or delay our delivery of our services to our customers. Prolonged or repeated interruptions in our access to the registries could cause our customers, advertisers and business alliances to switch to another domain name registration service provider.

DELAYS OR SYSTEMS FAILURES UNRELATED TO OUR SYSTEMS COULD HARM OUR BUSINESS.

Our customers depend on ISPs, online service providers and others to access our websites. Many of these parties have experienced outages and could in the future experience outages, delays and other difficulties due to systems failures unrelated to our systems. Although we carry general liability insurance, our insurance may not cover any claims by dissatisfied customers, advertisers or parties to our strategic alliances, or may be inadequate to indemnify us for any liability that may be imposed in the event that a claim were brought against us. Our business could be materially harmed by any system failure, security breach or other damage that interrupts or delays our operations.

OUR BUSINESS WOULD BE MATERIALLY HARMED IF OUR COMPUTER SYSTEMS BECOME DAMAGED.

Our network and communications systems are located at hosting facilities in New Jersey and New York. We are continually building out our systems located at these facilities and may in the future add additional facilities to make our systems geographically redundant. We cannot assure you that our systems are, or ever will be geographically redundant, particularly because of the proximity of our current facilities to one another and in light of the increased threat of terrorism following the recent events of September 11, 2001. Fires, floods, earthquakes, power losses, telecommunications failures, break-ins and similar events could damage these systems. Computer viruses, electronic break-ins, human error or other similar disruptive problems could also adversely affect our systems.

Despite any precautions we may take, the occurrence of a natural disaster, a decision to close a facility we are using without adequate notice for financial reasons or other unanticipated problems at any of our facilities including our hosting facilities, could result in lengthy interruptions in our services. This risk has increased since Exodus Communications, Inc., which operates our New Jersey hosting facility, filed for Chapter 11 protection under the federal bankruptcy laws in September 2001. In addition, the failure by Exodus or our other hosting facilities to provide our required data communications or any damage to or failure of our systems could result in interruptions in our service. Such interruptions would reduce our revenues and profits, and our future revenues and profits would be harmed if our users were to believe that our systems are unreliable. In addition, our business interruption insurance may not be adequate to compensate us for losses that may occur. Accordingly, any significant damage to our systems or

disruption in our ability to provide our services would have a material adverse effect on our business, financial condition and results of operations.

OUR ABILITY TO DELIVER OUR PRODUCTS AND SERVICES AND OUR FINANCIAL CONDITION DEPEND ON OUR ABILITY TO LICENSE THIRD-PARTY SOFTWARE, SYSTEMS AND RELATED SERVICES ON REASONABLE TERMS FROM RELIABLE PARTIES.

We depend upon various third parties for software, systems and related services, including access to the various registration systems of domain name registries. Many of these parties have a limited operating history or may depend on reliable delivery of services from others. If these parties fail to provide reliable software, systems and related services on agreeable license terms, we may be unable to deliver our products and services.

FAILURE BY OUR THIRD-PARTY SERVICE PROVIDERS TO DELIVER SUCH SERVICES WILL HAVE A NEGATIVE EFFECT ON OUR BUSINESS.

We have engaged Cybersource to process credit card payments for our individual customers. Therefore, if Cybersource or its system fails for any reason to process credit card payments in a timely fashion, the domain name reservation process will be delayed and customers may be unable to obtain their desired domain name.

In addition, we offer services to our users, including electronic mail and digital certificates, through various third party service providers engaged to perform on our behalf. In the event that these service providers fail to maintain adequate levels of support or otherwise discontinue such lines of business, we may experience a negative impact to our customer relations and may have to pursue replacement third party relationships.

OUR FAILURE TO RESPOND TO THE RAPID TECHNOLOGICAL CHANGES IN OUR INDUSTRY MAY HARM OUR BUSINESS.

If we are unable, for technological, legal, financial or other reasons, to adapt in a timely manner to changing market conditions or customer requirements, we could lose customers, strategic alliances and market share. The Internet and electronic commerce are characterized by rapid technological change. Sudden changes in user and customer requirements and preferences, the frequent introduction of new products and services embodying new technologies and the emergence of new industry standards and practices could render our existing products, services and systems obsolete. The emerging nature of products and services in the domain name registration industry and their rapid evolution will require that we continually improve the performance, features and reliability of our products and services. Our success will depend, in part, on our ability:

- to enhance our existing products and services;
- to develop and license new products, services and technologies that address the increasingly sophisticated and varied needs of our current and prospective customers; and

- to respond to technological advances and emerging industry standards and practices on a cost-effective or timely basis.

The development of additional products and services and other proprietary technology involves significant technological and business risks and requires substantial expenditures and lead time. We may be unable to use new technologies effectively or adapt our websites, internally developed technology or transaction-processing systems to customer requirements or emerging industry standards. Updating our technology internally and licensing new technology from third parties may require us to incur significant additional capital expenditures.

IF INTERNET USAGE DOES NOT GROW, OR IF THE INTERNET DOES NOT CONTINUE TO EXPAND AS A MEDIUM FOR COMMERCE, OUR BUSINESS MAY SUFFER.

Our success depends upon the continued development and acceptance of the Internet as a widely used medium for commerce and communication. Rapid growth in the uses of and interest in the Internet is a relatively recent phenomenon, and we cannot assure you that use of the Internet will continue to grow at its current pace. A number of factors could prevent continued growth, development and acceptance, including:

- the unwillingness of companies and consumers to shift their purchasing from traditional vendors to online vendors;
- the Internet infrastructure may not be able to support the demands placed on it, and its performance and reliability may decline as usage grows;
- security and authentication issues may create concerns with respect to the transmission over the Internet of confidential information, such as credit card numbers, and attempts by unauthorized computer users, so-called hackers, to penetrate online security systems; and
- privacy concerns, including those related to the ability of websites to gather user information without the user's knowledge or consent, may impact consumers' willingness to interact online.

Any of these issues could slow the growth of the Internet, which could have a material adverse effect on our business, financial condition and results of operations.

WE DEPEND ON THE TECHNOLOGICAL STABILITY AND MAINTENANCE OF THE INTERNET INFRASTRUCTURE.

Our success and the viability of the Internet as an information medium and commercial marketplace will depend in large part upon the stability and maintenance of the infrastructure for providing Internet access and carrying Internet traffic. Failure to develop a reliable network system or timely development and acceptance of complementary products, such as high-speed modems, could materially harm our business. In addition, the Internet could lose its viability due to delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity or due to increased government regulation.

WE MAY BECOME SUBJECT TO BURDENSOME GOVERNMENT REGULATIONS AND LEGAL UNCERTAINTIES AFFECTING THE INTERNET.

To date, government regulations have not materially restricted the use of the Internet. The legal and regulatory environment pertaining to the Internet, however, is uncertain and may change. Both new and existing laws may be applied to the Internet by state, federal or foreign governments, covering issues that include:

- sales and other taxes;
- user privacy;
- the expansion of intellectual property rights;
- pricing controls;
- characteristics and quality of products and services;
- consumer protection;
- cross-border commerce;
- libel and defamation;
- copyright, trademark and patent infringement;
- security;
- pornography; and
- other claims based on the nature and content of Internet materials.

The adoption of any new laws or regulations or the new application or interpretation of existing laws or regulations to the Internet could hinder the growth in use of the Internet and other online services generally and decrease the acceptance of the Internet and other online services as media of communications, commerce and advertising. Our business may be harmed if any slowing of the growth of the Internet reduces the demand for our services. In addition, new legislation could increase our costs of doing business and prevent us from delivering our products and services over the Internet, thereby harming our business, financial condition and results of operations.

THE INTRODUCTION OF TAX LAWS TARGETING COMPANIES ENGAGED IN ELECTRONIC COMMERCE COULD MATERIALLY ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

We file tax returns in such states as required by law based on principles applicable to traditional businesses. However, one or more states could seek to impose additional income tax obligations or sales tax collection obligations on out-of-state companies, such as ours, which engage in or facilitate electronic commerce. A number of proposals have been made at state and local levels that could impose such taxes on the sale of products and services through the Internet

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or the income derived from such sales. Such proposals, if adopted, could substantially impair the growth of electronic commerce and materially adversely affect our business, financial condition and results of operations.

On November 28, 2001, President Bush signed the Internet Tax Nondiscrimination Act, which limits the ability of the states to impose taxes on Internet-based transactions. While this legislation provides significant benefits to Internet-based businesses, it will expire on November 1, 2003 and if not renewed, would allow various states to impose taxes on Internet-based commerce. The imposition of such taxes could materially adversely affect our business, financial condition and results of operations.

INVESTMENT RISKS

OUR STOCK PRICE, LIKE THAT OF MANY INTERNET COMPANIES, IS HIGHLY VOLATILE.

The market price of our common stock has been and is likely to continue to be highly volatile and significantly affected by a number of factors, including:

- general market and economic conditions and market conditions affecting technology and Internet stocks generally;
- limited availability of our shares on the open market;
- actual or anticipated fluctuations in our quarterly or annual registrations or operating results;
- announcements of technological innovations, acquisitions or investments, developments in Internet governance or corporate actions such as stock splits; and
- industry conditions and trends.

The stock market has experienced extreme price and volume fluctuations that have particularly affected the market prices of the securities of Internet-related companies. These fluctuations may adversely affect the market price of our common stock.

OUR DIRECTORS, EXECUTIVE OFFICERS AND PRINCIPAL STOCKHOLDERS OWN A SIGNIFICANT PERCENTAGE OF OUR SHARES, WHICH WILL LIMIT YOUR ABILITY TO INFLUENCE CORPORATE MATTERS.

As of May 1, 2002, our directors, executive officers and principal stockholders beneficially owned approximately 24.4% of our common stock. Accordingly, these stockholders could have significant influence over the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, and also could prevent or cause a change in control. The interests of these stockholders may differ from the interests of our other stockholders. In addition, third parties may be discouraged from making a tender offer or bid to acquire us because of this concentration of ownership.

SHARES ELIGIBLE FOR PUBLIC SALE COULD ADVERSELY AFFECT OUR STOCK PRICE.

Currently 11,667 shares of common stock held by the former stockholders of Inabox are subject to lock-up agreements with us pursuant to which all 11,667 unregistered shares will be released from the lock-up on June 4, 2002. In addition, as of April 15, 2002, 939,363 shares of common stock held by the former stockholders of Afternic.com are also subject to lock-up agreements and will be released on a monthly basis until the expiration of the lock-up agreements on September 15, 2004. Of these shares, 32,392 shares are released from the lock-up each month, of which 2,796 shares are covered by a registration statement and 29,596 shares are not covered by a registration statement. Additionally, a number of holders of our common stock and common stock issuable upon the exercise of warrants have the right to require us to register their shares under the Securities Act. If we register these shares, they can be sold in the public market. The market price of our common stock could decline as a result of sales by these existing stockholders of their shares of common stock in the market or the perception that these sales could occur. These sales also might make it difficult for us to sell equity securities in the future at a time and price that we deem appropriate.

OUR CHARTER DOCUMENTS AND DELAWARE LAW MAY INHIBIT A TAKEOVER THAT STOCKHOLDERS MAY CONSIDER FAVORABLE.

Provisions in our amended and restated certificate of incorporation, our amended and restated bylaws and Delaware law could delay or prevent a change of control or change in management that would provide stockholders with a premium to the market price of their common stock. The authorization of undesignated preferred stock, for example, gives our board the ability to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of the company. If a change of control or change in management is delayed or prevented, this premium may not be realized or the market price of our common stock could decline.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our exposure to market risk is limited to interest rates and foreign currency exchange rates. We believe that we are not subject to any material interest rate risk because all of our investments are in fixed-rate, short-term securities having a maturity of not more than two years with a majority having a maturity of under one year. The fair value of our investment portfolio or related income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the fixed-rate, short-term nature of the substantial majority of our investment portfolio.

We consider our exposure to foreign currency exchange rate fluctuations to be minor. Both the revenues and expenses of our wholly owned subsidiaries are denominated in local currencies. In these regions, we believe this serves as a natural hedge against exchange rate fluctuations because although an unfavorable change in the exchange rate of the foreign currency against the United States dollar will result in lower revenues when translated to United States dollars, operating expenses will also be lower in these circumstances. Because of our limited exposure to the adverse impact of foreign currency exchange rate fluctuations, we have not

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engaged in any hedging activities, although if future events or changes in circumstances indicate that hedging activities would be beneficial, we may consider such activities.

We generally do not enter into financial instruments for trading or speculative purposes and do not currently utilize derivative financial instruments.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORT ON FORM 8-K

(a) None.

(b) The following reports on Form 8-K were filed during the quarter ended March 31, 2002:

On February 4, 2002, we filed a Current Report on Form 8-K, Item 5, announcing a recommended cash offer by a wholly-owned Register.com subsidiary for the outstanding shares of Virtual Internet plc ("Virtual Internet").

On February 27, 2002, we filed a Current Report on Form 8-K, Item 5, announcing that our recommended cash offer for all outstanding shares of Virtual Internet was declared unconditional on February 22, 2002.

On March 1, 2002, we filed a Current Report on Form 8-K, Item 5, announcing that Peter A. Forman, one of our directors and our co-founder, had amended his written selling plan to extend the term to December 31, 2002.

On March 25, 2002, we filed a Current Report on Form 8-K, Item 2, announcing the purchase of 97% of Virtual Internet's shares in the recommended cash offer.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGISTER.COM, INC.

Date: May 15, 2002

By: /s/ Rene Mathis

Name: Rene Mathis

Title: Chief Financial Officer and Treasurer (Principal
Financial and Accounting Officer and Duly Authorized
Officer)

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