MINDARROW SYSTEMS INC
Form S-4
August 27, 2002

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As Filed with the Securities and Exchange Commission on August 27, 2002

Registration No.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

MindArrow Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**7372**	**77-0511097**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(IRS Employer Identification No.)*

2120 Main Street, Suite 200

Huntington Beach, California 92648
Telephone: (714) 536-6200
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Michael R. Friedl
Chief Financial Officer
MindArrow Systems, Inc.
2120 Main Street, Suite 200
Huntington Beach, California 92648
Telephone: (714) 536-6200
(Address, including zip code, and telephone number, including area code, of agent for service)

With Copies to:

Allen Z. Sussman, Esq.
Morrison & Foerster LLP
555 West Fifth Street, Suite 3500
Los Angeles, California 90013-1024
(213) 892-5200

David F. Evans, Esq.
Snell & Wilmer, L.L.P.
15 West South Temple, Suite 1200
Gateway Tower West
Salt Lake City, Utah 84101
(801) 257-1900

Approximate date of commencement of proposed sale of the securities to the public: At the effective time of the merger of a wholly owned subsidiary of the Registrant with Category 5 Technologies, Inc., which shall occur as soon as practicable after the effective date of this Registration Statement and the satisfaction of all conditions to the closing of such merger.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering: o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
Common stock, $0.001 par value	47,794,154(1)	Not applicable	$11,653,504(2)	$1,073.00
Warrants to acquire common stock	9,504,069	Not applicable	$ 95,041(3)	$ 9.00
Common stock issuable upon exercise of warrants	(4)	(4)	(4)	(4)

(1) The Registrant is offering 38,290,085 shares of its common stock plus an additional 9,504,069 shares of common stock upon exercise of warrants to acquire common stock, which together is the maximum number of shares of common stock that the Registrant is expected to issue in connection with the merger described herein to holders of shares of common stock of Category 5 Technologies, Inc.

(2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act, and calculated pursuant to Rule 457(f) under the Securities Act. Pursuant to Rule 457(f)(1) and Rule 457(c) under the Securities Act, the registration fee has been calculated based on (i) $0.70, the average of the bid and asked prices of Category 5 Technologies, Inc. common stock as reported on the over-the-counter bulletin board as of a date within five business days prior to the date of the filing of this registration statement and (ii) the maximum number of shares of Category 5 Technologies, Inc. common stock to be acquired by the Registrant in the merger.

(3) Calculated pursuant to Rule 457(i) under the Securities Act based on $0.01, the exercise price per share of the warrants to acquire common stock.

(4) Included in the amounts indicated for the 47,794,154 shares of common stock being registered hereby.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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Subject to completion, dated , 2002

MINDARROW PROSPECTUS

MINDARROW AND CATEGORY 5 JOINT PROXY STATEMENT

MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT
PLEASE COMPLETE AND RETURN THE ENCLOSED PROXY CARD AS SOON AS POSSIBLE

The boards of directors of MindArrow Systems, Inc. and Category 5 Technologies, Inc. have agreed on a merger of Category 5 with and into a subsidiary of MindArrow. If we complete the merger, Category 5 will become a wholly owned subsidiary of MindArrow and Category 5 stockholders will receive, for each share of Category 5 common stock that they own:

- 2.3 shares of MindArrow common stock, representing 55.3% of the total outstanding shares of MindArrow immediately following the merger, and
- a warrant to acquire 0.5 shares of MindArrow common stock at an exercise price of $0.01 per share, vesting only upon the achievement of certain financial objectives by Category 5 s subsidiary, ePenzio, Inc., following the merger.

MindArrow stockholders will continue to own their existing shares following the merger. We cannot complete the merger unless the stockholders of MindArrow and Category 5 approve the merger.

The board of directors of MindArrow is also submitting, for a vote of MindArrow stockholders only, proposals to authorize the board of directors to effect up to a one for ten reverse stock split and to change the name of MindArrow to Avalon Digital Marketing Systems, Inc.

MindArrow common stock is traded on the Nasdaq SmallCap Market under the trading symbol ARRW, and on August 15, 2002, the closing price of MindArrow common stock was $0.45 per share.

This joint proxy statement/ prospectus provides you with detailed information about the proposals. In addition, you may obtain information about our companies from documents that we have filed with the Securities and Exchange Commission. **We encourage you to read this entire document carefully. In particular, please consider the matters discussed under Risk Factors on page 24 of this joint proxy statement/ prospectus.**

Whether or not you plan to attend a meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. Your vote is very important.

Robert I. Webber
President and Chief Executive Officer
MindArrow Systems, Inc.

Paul Anderson
Acting Chairman
and Chief Executive Officer
Category 5 Technologies, Inc.

The enclosed joint proxy statement/prospectus is dated , 2002 and is first being mailed to stockholders of each of MindArrow and Category 5 on or about , 2002.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the shares of MindArrow common stock and warrants to be issued in connection with the merger or determined whether this joint proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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MINDARROW SYSTEMS, INC.

2120 Main Street, Suite 200
Huntington Beach, California 92648
Telephone: (714) 536-6200

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

Date: , 2002

Time: 10:00 a.m. (Pacific time)
Place:

To the Stockholders:

A Special Meeting of Stockholders of MindArrow Systems, Inc., a Delaware corporation (MindArrow), will be held on , 2002 at 10:00 a.m. Pacific time at the Waterfront Hilton, located at 21100 Pacific Coast Hwy, Huntington Beach, California 92648, to consider and vote upon the following proposals:

1. To approve and adopt the Agreement and Plan of Merger, dated July 12, 2002, as amended effective August 9, 2002, among MindArrow, Category 5 and MindArrow Acquisition Corp., to approve the related merger pursuant to which, among other things, Category 5 will be merged with and into MindArrow Acquisition Corp., and to approve the issuance of shares of MindArrow common stock and warrants in connection with the merger. Under the merger agreement, as amended, each outstanding share of Category 5 common stock will convert into the right to receive:

   2.3 shares of MindArrow common stock, and

   a warrant to acquire 0.5 shares of MindArrow common stock at an exercise price of $0.01 per share, vesting only upon the achievement of certain financial objectives by Category 5 s subsidiary, ePenzio, Inc., following the merger.

2. To approve a reverse stock split in a ratio no greater than one for ten, effective immediately after the merger with Category 5;

3. To approve a change in the name of MindArrow to Avalon Digital Marketing Systems, Inc., effective immediately after the merger with Category 5; and

4. Such other business as may properly come before the Special Meeting or any postponement or adjournment thereof.

We will transact no other business at the Special Meeting, except business which may be properly brought before the Special Meeting or any adjournment or postponement of the Special Meeting.

Only holders of record of shares of MindArrow common stock at the close of business on , 2002, the record date for the Special Meeting, are entitled to notice of, and to vote at, the Special Meeting and any adjournment or postponement of the Special Meeting.

Whether or not you plan to attend the Special Meeting, please complete, sign and date the enclosed proxy and return it promptly in the enclosed postage-paid envelope. You may vote in person at the Special Meeting, even if you have returned a proxy. If you do not vote by proxy or in person at the Special Meeting, your shares will count as votes AGAINST the proposals to approve the merger, the reverse stock split and the change in the name of MindArrow.

Please do not send any stock certificates with your proxy cards.

By Order of the Board of Directors,

Robert I. Webber,

President and Chief Executive Officer

, 2002

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CATEGORY 5 TECHNOLOGIES, INC.

2755 East Cottonwood Parkway, 4th Floor
Salt Lake City, Utah 84121

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

Date: , 2002

Time: 10:00 a.m. (Mountain time)
Place:

To the Stockholders:

A Special Meeting of Stockholders of Category 5 Technologies, Inc., a Nevada corporation, will be held on , 2002 at , Mountain time, at Category 5 s principal business offices located at 2755 East Cottonwood Parkway, Suite 450, Salt Lake City, Utah to consider and to vote upon the following proposals:

1. To approve and adopt the Agreement and Plan of Merger, dated as of July 12,2002, as amended effective August 9, 2002 by and among Category 5, MindArrow Systems, Inc., and MindArrow Acquisition Corp., and approve the related merger pursuant to which, among other things, Category 5 will be merged with and into MindArrow Acquisition Corp., with MindArrow Acquisition Corp. surviving the merger. Under the merger agreement, as amended, each outstanding share of Category 5 common stock will convert into the right to receive:

   2.3 shares of MindArrow common stock, and

   a warrant to acquire 0.5 shares of MindArrow common stock at an exercise price of $0.01 per share, vesting only upon the achievement of certain financial objectives by Category 5 s subsidiary, ePenzio, Inc., following the merger.

2. Such other business as may properly come before the Special Meeting or any postponement or adjournment thereof.

We will transact no other business at the Special Meeting except business which may be properly brought before the Special Meeting or any adjournment or postponement of the Special Meeting.

These items of business are described in the enclosed joint proxy statement/ prospectus. The board of directors has fixed the close of business on , 2002 as the record date for determining the stockholders entitled to notice of and to vote at the Special Meeting.

Only holders of record of shares of Category 5 common stock at the close of business on , 2002, the record date for the special meeting, are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement of the special meeting.

Whether or not you plan to attend the special meeting, please complete, sign and date the enclosed proxy and return it promptly in the enclosed postage-paid envelope. You may vote in person at the special meeting, even if you have returned a proxy. If you do not vote by proxy or in person at the special meeting, your shares will count as votes against the proposal.

Please do not send any stock certificates with your proxy cards at this time.

IN ORDER THAT YOUR STOCK MAY BE REPRESENTED AT THE SPECIAL MEETING IN CASE YOU ARE NOT PERSONALLY PRESENT, PLEASE COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE ACCOMPANYING ADDRESSED ENVELOPE. NO POSTAGE NEED BE AFFIXED IF MAILED IN THE U.S.

By order of the Board of Directors,

Paul Anderson

Acting Chairman and Chief Executive Officer

2755 East Cottonwood Parkway, Suite 450
Salt Lake City, Utah 84121

, 2002

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WHERE YOU CAN FIND MORE INFORMATION

You can obtain documents incorporated by reference in this proxy statement/prospectus without charge by requesting them in writing or by telephone from Category 5 or MindArrow at the following addresses and telephone numbers:

MindArrow Systems, Inc.
2120 Main Street, Suite 200
Huntington Beach, California 92648
Attention: Corporate Secretary
Telephone: (714) 536-6200

Category 5 Technologies, Inc.
2755 East Cottonwood Parkway, Suite 450
Salt Lake City, Utah 84121
Attention: Corporate Secretary
Telephone: (801) 365-0455

If you would like to request documents from either company, please do so by , 2002 in order to receive them before your special meeting of stockholders.

Both MindArrow and Category 5 are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document filed by either MindArrow or Category 5 with the Securities and Exchange Commission, including the registration statement of which this joint proxy statement/prospectus is a part, at the Securities and Exchange Commission s Public Reference Room, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the reports, proxy statements or other information filed by MindArrow and Category 5 with the Securities and Exchange Commission may be obtained from the Securities and Exchange Commission at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. In addition, the Securities and Exchange Commission maintains a web site that contains reports, proxy statements and other information regarding registrants, such as MindArrow and Category 5, that file electronically with the Securities and Exchange Commission. The address of this web site is http://www.sec.gov.

MindArrow has filed a registration statement on Form S-4 to register with the Securities and Exchange Commission the MindArrow common stock and warrants to be issued to Category 5 stockholders in the merger. This joint proxy statement/prospectus is a part of that registration statement and constitutes a prospectus of MindArrow in addition to being a proxy statement of MindArrow and Category 5 for their special meetings. As allowed by Securities and Exchange Commission rules, this joint proxy statement/prospectus does not contain all the information you can find in the registration statement or the exhibits to the registration statement. You can obtain the additional information in the registration statement and the exhibits to the registration statement by contacting MindArrow at the address and telephone number listed above.

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APPENDICES TO THE JOINT PROXY STATEMENT/PROSPECTUS

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QUESTIONS & ANSWERS ABOUT THE MERGER

Q: Why are the companies proposing to merge?

A: MindArrow and Category 5 believe that the proposed merger presents an opportunity to create a combined company with better products, improved services, more efficient operations and stronger management than either entity could achieve on its own. These expected benefits stem from both sales and operating synergies, which should contribute to top line revenues and bottom line earnings of the combined company. Some of the key anticipated benefits of the merger include:

Increased scale and market share;

Ability to offer a broader and more complete range of products and solutions;

Strategic cross-selling, marketing and distribution opportunities;

Economies of vertical integration and cost savings through operational synergies;

Potential greater accessibility to capital markets

In addition, Category 5 believes that there are significant benefits of being part of a combined company in light of trends in consolidation and competition in the Internet and eCommerce industries and Category 5 s relatively small size and limited resources. Also, the anticipated exchange ratio in the merger represented a premium to the trading price of Category 5 s common stock.

Also, MindArrow believes that it needs to add scale and scope to its business, and the proposed merger presents it with an opportunity to obtain mass and scale, enhance its competitive position and strengthen its sales force and operations, all in a single transaction. MindArrow believes that the combined company s increased scale and revenues should better position it within the financial community, allowing greater access to capital markets and providing a groundwork to develop institutional relationships that might result in potential market research coverage.

For a more complete description of both companies reasons for the merger and recommendations of their boards of directors, see the section entitled The Merger Reasons for the Merger; Recommendations of the Boards beginning on page .

Q: How will these two companies merge?

A: MindArrow and Category 5 will combine under a merger agreement, as amended effective August 9, 2002, providing that Category 5 will merge with and into a wholly owned subsidiary of MindArrow, with Category 5 becoming a wholly owned subsidiary of MindArrow.

Q: What will each Category 5 stockholder receive in the merger?

A: Under the merger agreement, as amended, each outstanding share of Category 5 common stock will convert into the right to receive 2.3 shares of MindArrow common stock and a warrant to acquire 0.5 shares of MindArrow common stock at an exercise price of $0.01 per share, vesting only upon the achievement of certain financial objectives by Category 5 s subsidiary, ePenzio, Inc. following the merger. The warrants will vest only if ePenzio achieves an EBITDA of at least $8,700,000 for the one year period ending June 30, 2003, with EBITDA defined for this purpose as net income calculated in accordance with generally accepted accounting principles, plus interest, taxes, depreciation and amortization.

Q: What are the federal income tax consequences of the merger?

A: The merger is intended to qualify as a reorganization under the Internal Revenue Code. Assuming it so qualifies, no gain or loss will be recognized by MindArrow or Category 5 solely as a result of the merger and no gain or loss will be recognized by Category 5 stockholders to the extent they receive shares of MindArrow common stock and a contingent warrant to acquire additional shares of MindArrow common stock in the merger. In general, however, Category 5 stockholders will recognize gain or loss, if any, in connection with any cash they receive in lieu of fractional shares of MindArrow common stock. Category 5 stockholders should consult their tax advisors for a full understanding of the tax

consequences of the merger.

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Q: Who must approve the merger?

A: In addition to the approvals by the MindArrow board of directors and the Category 5 board of directors, each of which has already been obtained, the merger must be approved by the Category 5 stockholders and the MindArrow stockholders.

Q: What stockholder vote is required to approve the merger and the issuance of MindArrow common stock and warrants?

A: The affirmative vote of the holders of at least a majority of all outstanding shares of common stock of Category 5 is required to approve the merger and the merger agreement, and the affirmative vote of the holders of at least a majority of all outstanding shares of MindArrow common stock is required to approve the merger agreement and the merger and the issuance of MindArrow common stock and warrants in connection with the merger, as described in this joint proxy statement/prospectus. As of the record date set for the MindArrow special stockholders meeting, MindArrow stockholders holding an aggregate of 15,846,433 shares, or 51% of the total shares of MindArrow common stock issued and outstanding as of that date, have agreed to vote their shares in favor of the merger and the other proposals described herein and Category 5 stockholders holding an aggregate of 9,639,681 shares, or 57.9% of the total shares of Category 5 common stock issued and outstanding as of that date, have agreed to vote their shares in favor of the merger and the merger agreement.

Q: Do the MindArrow board of directors and the Category 5 board of directors recommend approval of the merger agreement and the merger?

A: Yes. After careful consideration, the MindArrow board of directors and the Category 5 board of directors recommend that their respective stockholders vote in favor of the merger. For a more complete description of the recommendation of both the MindArrow board of directors and the Category 5 board of directors, see the section entitled The Merger Reasons for the Merger; Recommendations of the Boards beginning on page 57.

Q: How do MindArrow stockholders vote?

A: MindArrow stockholders may indicate how they want to vote on their proxy card and then sign and mail their proxy card in the enclosed return envelope as soon as possible so that their shares may be represented at the MindArrow special meeting. MindArrow stockholders may also attend the special meeting in person instead of submitting a proxy.

If MindArrow stockholders fail either to return their proxy card or to vote in person at the special meeting, or if they mark their proxy abstain, the effect will be a vote against the proposals. If they sign and send in their proxy without indicating how they want to vote, their proxy will be counted as a vote for the proposals unless their shares are held in a brokerage account.

Q: How do Category 5 stockholders vote?

A: Category 5 stockholders may indicate how they want to vote on their proxy card and then sign and mail their proxy card in the enclosed return envelope as soon as possible so that their shares may be represented at the Category 5 special meeting. Category 5 stockholders may also attend the special meeting in person instead of submitting a proxy.

If Category 5 stockholders fail either to return their proxy card or to vote in person at the special meeting, or if they mark their proxy abstain, the effect will be a vote against the merger agreement and the merger. If they sign and send in their proxy without indicating how they want to vote, their proxy will be counted as a vote for the merger agreement and the merger unless their shares are held in a brokerage account.

Q: What do I need to do now?

A: After carefully reading and considering the information contained in this joint proxy statement/ prospectus, please complete and sign your proxy and return it in the enclosed return envelope as soon as possible, so that your shares may be represented at your special meeting of stockholders. If you sign and send

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in your proxy and do not indicate how you want to vote, we will count your proxy as a vote in favor of the proposals presented at the meeting.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker will vote your shares only if you provide instructions on how to vote. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. If you do not instruct your broker, your shares will not be voted.

Q: Can I change my vote after I have mailed my signed proxy?

A: Yes. You can change your vote at any time before your proxy is voted at the special meeting. If you hold your shares in your own name, you can do this in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy. If you choose either of these two methods, you must submit your notice of revocation or your new proxy to the Secretary of your company, at the address set forth in the answer to the last question below, which notice or new proxy must be received by the Secretary before your earlier proxy is voted at the special meeting. Third, you can attend your special meeting and vote in person. If you hold your shares in street name, you should follow the directions provided by your broker regarding how to change your vote.

Q: Should Category 5 stockholders send in their stock certificates now?

A: No. After the merger is completed, Category 5 stockholders will receive written instructions for exchanging Category 5 stock certificates. Please do not send in your stock certificates with your proxy.

Q: What matters other than the merger will be voted upon at the MindArrow special meeting?

A: At the MindArrow special meeting, the stockholders of MindArrow will be asked to approve a reverse stock split of MindArrow s common stock and a change in the name of MindArrow to Avalon Digital Marketing Systems, Inc.

Q: When and where is the MindArrow special meeting?

A: The special meeting of MindArrow stockholders will be held at 10:00 a.m., Pacific time, on , 2002 at the Waterfront Hilton located at 21100 Pacific Coast Hwy, Huntington Beach, California 92648.

Q: When and where is the Category 5 special meeting?

A: The special meeting of Category 5 stockholders will be held at 10:00 a.m., Mountain time, on , 2002 at Category 5 s principal business offices located at 2755 East Cottonwood Parkway, Suite 450, Salt Lake City, Utah.

Q: Are there any risks associated with the merger?

A: The merger does involve risks. For a discussion of risk factors that should be considered in evaluating the merger, see Risk Factors beginning on page 24.

Q: When do you expect the merger to be completed?

A: We expect to complete the merger in October 2002 or November 2002.

Q: Who can help answer my questions?

A: If you have any questions about the merger or if you need additional copies of this joint proxy statement/prospectus or the enclosed proxy, you should contact:

MindArrow Stockholder Contact:
2120 Main Street, Suite 200
Huntington Beach, California 92648
Telephone: (714) 536-6200, ext. 215
Attention: Michael Friedl, Chief Financial Officer

Category 5 Stockholder Contact:
2755 East Cottonwood Parkway, Suite 450
Salt Lake City, UT 84121
Telephone: (801) 365-0455
Attention: Corporate Secretary

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SUMMARY

This brief summary highlights selected information from this joint proxy statement/ prospectus. It does not contain all of the information that may be important to you in deciding how to vote. We urge you to read carefully the entire joint proxy statement/ prospectus and the other documents to which this joint proxy statement/ prospectus refers for further information about the merger. Each item in this summary includes a page reference directing you to a more complete description of that item.

The Companies

MindArrow Systems, Inc.

2120 Main Street, Suite 200
Huntington Beach, California 92648
(714) 536-6200

MindArrow Systems Inc., with headquarters in Southern California and offices in New York and Hong Kong, is a marketing communications software and services company. Its patented and patent-pending technologies deliver interactive multimedia content, including streaming video, Flash, audio, HTML, graphics, and animation, combined with the in-depth information of web links, digital documents and e-commerce capabilities. MindArrow s integrated communications platform is designed to allow clients to reach their customers in a personalized, innovative and cost-effective manner.

Category 5 Technologies Inc.

2755 East Cottonwood Parkway
Suite 450
Salt Lake City, Utah 84121
(801) 365-0455

Category 5 is positioning itself to become a leading provider of innovative website building tools, rich media marketing tools and complete commerce-enabling service and technologies to brick and mortar businesses as well as small- to medium-sized enterprises. From e-commerce platforms, web sites, shopping carts, merchant accounts and payment plug-ins, to communications and promotion tools, Category 5 enables both brick and mortar as well as Internet businesses to operate more efficiently and profitably, and to gain and retain new customers.

The Special Meetings

MindArrow will hold its special meeting at the Waterfront Hilton located at 21100 Pacific Coast Hwy, Huntington Beach, California 92648, at 10:00 a.m. Pacific time, on , 2002. At the special meeting, MindArrow is asking the holders of its common stock to vote on the following proposals:

1. to approve and adopt the merger agreement, as amended, and merger, and to approve the issuance of shares of MindArrow common stock and warrants in connection with the merger with Category 5; and

2. to approve a reverse stock split in a ratio no greater than one for ten, at the discretion of the MindArrow board of directors, effective immediately after completion of the merger with Category 5.

3. to approve a change in the name of MindArrow to Avalon Digital Marketing Systems, Inc., effective immediately after completion of the merger with Category 5.

To approve each proposal, at least a majority of the shares issued and outstanding and entitled to vote at the special meeting must be voted in favor of such proposal.

Although each of the above proposals is a separate matter to be voted on by the MindArrow stockholders, consummation of the merger and issuance of shares of MindArrow common stock and warrants in connection with the merger, and effectuation of each other proposal, is conditioned upon the approval by MindArrow

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stockholders of ALL the proposals. This means that ALL of these proposals must be approved by MindArrow stockholders in order for MindArrow to obtain the requisite MindArrow stockholder approval to consummate the merger. Accordingly, MindArrow stockholders who wish to approve the merger should also vote to approve ALL of the proposals.

Category 5 will hold its special meeting at its principal business offices located at 2755 East Cottonwood Parkway, Suite 450, Salt Lake City, Utah, 84121 at 10:00 a.m., Mountain Time, on , 2002. At the special meeting, Category 5 is asking the holders of its common stock to approve and adopt the merger.

Recommendation of MindArrow s Board of Directors (See page 57)

To the MindArrow stockholders: After careful consideration, the MindArrow board of directors has determined that the merger agreement, as amended, and the merger and issuance of MindArrow stock in connection with the merger, are advisable and fair to, and in the best interests of, MindArrow and its stockholders. The MindArrow board of directors has also determined that the proposed reverse stock split and change in the name of MindArrow to Avalon Digital Marketing Systems, Inc. are advisable and in the best interests of MindArrow and its stockholders. Therefore, the MindArrow board of directors recommends that the MindArrow stockholders vote:

For the approval and adoption of the merger and the issuance of MindArrow common stock and warrants in connection with the merger;

For the up to a one for ten reverse split of MindArrow common stock; and

For the change in name of MindArrow to Avalon Digital Marketing Systems, Inc.

Opinion of MindArrow s Financial Advisor (See page 62)

L.H. Friend, Weinress, Frankson & Presson, LLC, MindArrow s financial advisor, delivered an opinion to MindArrow s board of directors that, subject to the considerations described in the opinion, the exchange ratio in the merger is fair, from a financial point of view, to MindArrow stockholders. The opinion of L.H. Friend does not constitute a recommendation as to how any MindArrow stockholder should vote with respect to the merger. The complete opinion of L.H. Friend, dated July 23, 2002, is attached as Appendix C and is incorporated by reference herein. MindArrow stockholders are urged to read the opinion in its entirety.

Recommendation of Category 5 s Board of Directors (See page 57)

To the Category 5 stockholders: After careful consideration, the Category 5 board of directors has determined that the merger is advisable and is fair to, and in the best interests of Category 5 and its stockholders. The Category 5 board of directors has approved the merger and the merger agreement, as amended, and recommends that Category 5 stockholders vote for approval and adoption of the merger agreement and approve the related merger.

Opinion of Category 5 s Financial Advisor (See page 67)

SBI USA, LLC, Category 5 s financial advisor, delivered an opinion to Category 5 s board of directors that, subject to the considerations described in the opinion, the exchange ratio in the merger is fair, from a financial point of view, to Category 5 stockholders. The opinion of SBI USA, LLC does not constitute a recommendation as to how any Category 5 stockholder should vote with respect to the merger. The complete opinion of SBI USA, LLC, dated July 12, 2002, is attached as Appendix D and is incorporated by reference herein. Category 5 stockholders are urged to read the opinion in its entirety.

MindArrow Stockholder Approval

The approval of the merger and issuance of common stock and warrants in the merger, and the related transactions described herein, require the affirmative vote of at least a majority of the shares of MindArrow common stock outstanding on , 2002, the record date for the MindArrow special meeting, and

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present in person or by proxy at a duly-called meeting of MindArrow stockholders. Holders of MindArrow common stock are entitled to cast one vote per share of MindArrow common stock each MindArrow stockholder owned as of the record date. As of the record date, there were 30,896,878 shares of MindArrow common stock issued and outstanding.

Category 5 Stockholder Approval

The approval of the merger requires the affirmative vote of at least a majority of all shares of Category 5 common stock outstanding on , 2002, the record date for the Category 5 special meeting. Category 5 stockholders are entitled to cast one vote per share of Category 5 common stock each Category 5 stockholder owned as of the record date. As of the record date, there were 16,647,863 shares of Category 5 common stock issued and outstanding.

Percentage of Voting Shares held by Directors, Officers and their Affiliates

Executive officers and directors of Category 5 and their affiliates hold approximately 61.5% of all outstanding shares of Category 5 common stock entitled to vote on the merger and merger agreement. Executive officers and directors of MindArrow and their affiliates hold approximately 19% of all outstanding shares of MindArrow common stock entitled to vote on the merger, the issuance of shares of MindArrow common stock and warrants in connection with the merger, and related proposals described herein.

Structure of the Merger (See page 80)

Category 5 will merge with and into a subsidiary of MindArrow, MindArrow Acquisition Corp. MindArrow Acquisition Corp. will be the surviving entity. As a result of the merger, Category 5 will become a wholly owned subsidiary of MindArrow, and stockholders of Category 5 will become stockholders of MindArrow.

Procedure for Casting Your Vote (See page 2)

Please mail your signed proxy card in the enclosed return envelope as soon as possible so that your shares of Category 5 common stock or MindArrow common stock, as appropriate, may be represented and voted at the special meeting. If you do not include instructions on how to vote your proxy, your shares will be voted for approval of the merger and in favor of the other proposals identified in the proxy card and more specifically described herein.

Procedure for Casting Your Vote if Your Shares are Held by Your Broker in Street Name (See page 3)

Your broker will vote your shares only if you provide instructions on how to vote by following the instructions provided to you by your broker. If you do not provide your broker with voting instructions, your shares will not be voted at the special meeting and it will have the same effect as voting against approval of the merger and the other proposals identified in the proxy card and more specifically described herein.

Procedure for Changing Your Vote (See page 3)

If you want to change your vote, just send a later-dated, signed proxy card on a later date than your earlier-submitted proxy, before the special meeting, or attend the special meeting and vote your shares in person. You may also revoke your proxy by sending written notice to the secretary of Category 5 or MindArrow, as appropriate, before the special meeting.

Procedure for Exchanging Category 5 Stock Certificates (See page 82)

After the merger is completed, Category 5 stockholders will receive written instructions for exchanging their Category 5 stock certificates for MindArrow stock certificates and other merger consideration. Category 5 stockholders should not tender their Category 5 stock certificates at this time.

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Completion and Effectiveness of the Merger

Category 5 and MindArrow will complete the merger when all of the conditions to completion of the merger, as described in this joint proxy statement/ prospectus, are either satisfied or waived. The merger will become effective upon the later of filing of a certificate of merger with the state of Delaware and articles of merger with the state of Nevada. Category 5 and MindArrow are working toward completing the merger as quickly as possible and hope to complete the merger prior to November 30, 2002.

The Merger Agreement

The merger agreement, as amended effective August 9, 2002, is attached to this joint proxy statement/ prospectus as Appendix A and is hereby incorporated by reference into this joint proxy statement/ prospectus. Please read the merger agreement in its entirety. It is the legal document that governs your rights in connection with the merger.

Conditions to Completion of the Merger (See page 89)

Category 5 s and MindArrow s obligations to complete the merger are subject to a number of conditions, including the following:

Approval of the merger by the requisite number of outstanding shares of Category 5 common stock;

Approval of the merger and issuance of shares of MindArrow common stock and warrants in connection with the merger by the requisite number of outstanding shares of MindArrow common stock;

No law being adopted by a governmental entity or injunction, order or other action being entered by a court or other governmental entity preventing the merger, and no proceeding with respect to any such law, injunction, order or other action being pending;

There is no pending or threatened litigation regarding the merger agreement or any transactions contemplated thereby; and

The registration statement, of which this joint proxy statement/ prospectus is a part, must have been declared effective by the Commission and remain effective and no stop order suspending effectiveness shall have been issued.

Each of MindArrow s and MindArrow Acquisition Corp. s obligation to complete the merger is also subject to the following additional conditions:

The representations and warranties made by Category 5 in the merger agreement are true except where the failure to be true would not reasonably be expected to have a material adverse effect (as defined in the merger agreement);

Category 5 has performed or complied in all material respects with all agreements contained in the merger agreement;

Category 5 has certified to MindArrow that it has satisfied the above two conditions;

MindArrow has received an opinion of its tax counsel, Morrison & Foerster LLP, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

The receipt of all authorizations, consents or other approvals of any domestic or foreign governmental entity required in connection with the merger;

Category 5 has obtained required consents and approvals of third parties required for completion of the merger;

No more than 5% of the outstanding Category 5 shares of common stock shall have elected appraisal rights under the General Corporation Law of the State of Nevada;

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Category 5 s legal counsel shall have delivered a legal opinion to MindArrow; and

Category 5 has obtained the consents and/or waivers necessary to ensure that (i) options and warrants issued by Category 5 and entitling the holders thereof to purchase at least 15,000 shares of Category 5 common stock will not become fully vested and exercisable as a result of the merger and (ii) no payment shall become due as a result of the merger under certain employment agreements to which Category 5 is a party, with certain exceptions set forth in the merger agreement.

Category 5 s obligation to complete the merger is also subject to the following additional conditions:

The representations and warranties made by MindArrow and MindArrow Acquisition Corp. in the merger agreement are true except where the failure to be true would not reasonably be expected to have a material adverse effect (as defined in the merger agreement);

MindArrow has performed or complied in all material respects with all agreements contained in the merger agreement;

MindArrow has certified to Category 5 that it has satisfied the above two conditions;

Category 5 has received an opinion of Snell & Wilmer L.L.P. to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

The receipt of all authorizations, consents or other approvals of any domestic or foreign governmental entity required in connection with the merger;

MindArrow has obtain the required consents and approvals of third parties required for completion of the merger;

MindArrow s legal counsel, Morrison & Foerster LLP, shall have delivered a legal opinion to Category 5;

MindArrow will have a minimum of $1,500,000 in cash on hand;

MindArrow will have executed and/or assumed certain employment agreements with certain executive officers and other employees of Category 5;

MindArrow shall have taken action necessary to constitute and/or elect as directors of MindArrow certain individuals identified in the merger agreement;

MindArrow s stockholders will have approved the proposal herein authorizing the MindArrow board of directors to (i) effectuate a reverse stock split of the outstanding shares of MindArrow common stock by a ratio of up to 1 for 10 or (ii) to abandon the reverse split at the discretion of the MindArrow board of directors; and

MindArrow and every other party thereto shall have amended all stockholder rights agreements to which MindArrow is a party (with the exception of its agreement with East-West Capital Associates, Inc. dated June 12, 2002), and MindArrow shall have obtained the consents and/or waivers necessary to ensure that (i) those options and warrants issued by MindArrow entitling the holders thereof to purchase at least 15,000 shares of MindArrow common stock, will not become fully vested and exercisable, (ii) no payment shall become due under certain employment agreements to which MindArrow is a party, (iii) no rights to receive payments under a certain promissory note issued by MindArrow shall accrue or accelerate, and (iv) no rights to anti-dilution protection under a certain warrant to purchase MindArrow common stock shall be triggered, as a result of consummation of the merger.

In the event Category 5 or MindArrow determines to waive compliance with a material condition to the merger, they will seek the advice of counsel with respect to whether this joint proxy statement/ prospectus should be revised and recirculated to stockholders to reflect the waiver and whether Category 5 and/or MindArrow will resolicit proxies from their respective stockholders. Whether the boards of directors of

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Category 5 and MindArrow resolicit proxies will depend upon whether a stockholder could reasonably be expected to want to know, before signing a proxy, that the condition has been waived.

Termination of the Merger Agreement (See page 97)

As summarized below, the merger agreement may be terminated under certain circumstances at any time before the completion of the merger. The merger agreement may be terminated by mutual consent of Category 5 and MindArrow, whether before or after the vote by MindArrow and Category 5 stockholders. The merger agreement may also be terminated by either Category 5 or MindArrow under any of the following circumstances:

If the merger is not completed by October 31, 2002, except that either Category 5 or MindArrow may extend that termination date to a date not beyond November 30, 2002 if it reasonably determines in good faith that additional time is necessary to obtain any required governmental consents or approvals;

If either MindArrow or Category 5 stockholders do not approve the merger at the special meeting;

If the MindArrow stockholders do not approve the remaining proposals set forth in this joint proxy statement/ prospectus;

If a law, injunction, order or other action which permanently restrains, enjoins or otherwise prohibits consummation of the merger is in effect and which is final and non-appealable; or

If any governmental entity has failed to issue an order or ruling or has not taken any action necessary for certain conditions to the closing of the merger to be met.

Category 5 may terminate the merger agreement under the following circumstances:

If, pursuant to the terms and conditions of the merger agreement, prior to Category 5 stockholder approval of the merger, the Category 5 board of directors authorizes Category 5 to enter into a binding agreement relating to an unsolicited proposal by a third party to acquire Category 5 on terms determined by the Category 5 board of directors to be more favorable than the terms of the merger with MindArrow;

If MindArrow enters into a binding agreement for a proposal by a third party to acquire MindArrow on terms determined by the MindArrow board of directors to be more favorable than the terms of the merger with Category 5;

If the MindArrow board of directors has withdrawn or adversely modified its approval or recommendation of the merger;

If certain representations and warranties of MindArrow or MindArrow Acquisition Corp. relating to their respective capitalizations are not correct in any material respect; or

If MindArrow or MindArrow Acquisition Corp. has breached any other representation, warranty, covenant or agreement in the merger agreement that cannot be cured before October 31, 2002, or if applicable, the extended termination date.

MindArrow may terminate the merger agreement under the following circumstances:

If, pursuant to the terms and conditions of the merger agreement, prior to MindArrow stockholder approval of the merger, the MindArrow board of directors authorizes MindArrow to enter into a binding agreement relating to an unsolicited proposal by a third party to acquire MindArrow on terms determined by the MindArrow board of directors to be more favorable than the terms of the merger with Category 5;

If Category 5 enters into a binding agreement for a proposal by a third party to acquire Category 5 on terms determined by the Category 5 board of directors to be more favorable than the terms of the merger with MindArrow;

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If the Category 5 board of directors has withdrawn or adversely modified its approval or recommendation of the merger;

If certain representations and warranties of Category 5 relating to its capitalization are not correct in an material respect; or

If Category 5 has breached any other representation, warranty, covenant or agreement in the merger agreement that cannot be cured before October 31, 2002, or if applicable, the extended termination date.

Termination Fees (See page 99)

Category 5 has agreed to pay MindArrow a termination fee of $100,000, plus reasonable fees and expenses incurred by MindArrow in connection with the merger, if the merger agreement is terminated in any of the following circumstances:

If a proposal by a third party has been made or any third party has publicly announced an intention, whether or not conditional, to make a bona fide acquisition proposal (as defined in the merger agreement) in respect of Category 5 or any of its subsidiaries and the merger agreement is subsequently terminated (1) by either MindArrow or Category 5 because Category 5 stockholders have not approved the merger or (2) by MindArrow because Category 5, in violation of the terms and conditions of the merger agreement, solicits a proposal to acquire Category 5 from any party other than MindArrow or MindArrow Acquisition Corp. or participates in any discussions or negotiations regarding an acquisition, furnishes any information to any third party or takes any other actions that may reasonably be expected to lead to a proposal for an acquisition of Category 5 by any party other than MindArrow or MindArrow Acquisition Corp. and, in the case of clauses (1) and (2), within nine months of the termination Category 5 enters into an agreement with, or completes an extraordinary transaction with, a third party regarding an acquisition of Category 5, and the termination fee is to be paid at the earlier of the time an agreement with respect to such transaction is entered into or the transaction is consummated;

If, prior to Category 5 stockholder approval of the merger, Category 5 terminates the merger agreement to enter into a binding agreement relating to an unsolicited proposal by a third party determined by the Category 5 board of directors to be more favorable than the terms of the merger with MindArrow;

If MindArrow terminates the merger agreement because Category 5 enters into a binding agreement relating to a proposal by a third party to acquire Category 5 on terms determined by the Category 5 board of directors to be more favorable than the terms of the merger with MindArrow; or

If MindArrow terminates the merger agreement because the Category 5 board of directors withdraws or adversely modifies its approval or recommendation of the merger and within nine months of the termination Category 5 enters into an agreement with, or completes an extraordinary transaction with, a third party regarding an acquisition of Category 5, and the termination fee is to be paid at the earlier of the time an agreement with respect to such transaction is entered into or the transaction is consummated.

MindArrow has agreed to pay Category 5 a termination fee of $100,000, plus reasonable fees and expenses incurred by Category 5 in connection with the merger, if the merger agreement is terminated in any of the following circumstances:

If a proposal by a third party has been made or any third party has publicly announced an intention, whether or not conditional, to make a bona fide acquisition proposal (as defined in the merger agreement) in respect of MindArrow or any of its subsidiaries and the merger agreement is subsequently terminated (1) by either Category 5 or MindArrow because MindArrow stockholders have not approved the merger or (2) by Category 5 because MindArrow, in violation of the terms and conditions of the merger agreement, solicits a proposal to acquire MindArrow from any party other

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than Category 5, or participates in any discussions or negotiations regarding an acquisition, furnishes any information to any third party or takes any other actions that may reasonably be expected to lead to a proposal for an acquisition of MindArrow by any party other than Category 5 and, in the case of clauses (1) and (2), within nine months of the termination MindArrow enters into an agreement with, or completes an extraordinary transaction with, a third party regarding an acquisition of MindArrow, and the termination fee is to be paid at the earlier of the time an agreement with respect to such transaction is entered into or the transaction is consummated;

If, prior to MindArrow stockholder approval of the merger, MindArrow terminates the merger agreement to enter into a binding agreement relating to an unsolicited proposal by a third party determined by the MindArrow board of directors to be more favorable than the terms of the merger with Category 5;

If Category 5 terminates the merger agreement because MindArrow enters into a binding agreement relating to a proposal by a third party to acquire MindArrow on terms determined by the MindArrow board of directors to be more favorable than the terms of the merger with Category 5; or

If Category 5 terminates the merger agreement because the MindArrow board of directors withdraws or adversely modifies its approval or recommendation of the merger and within nine months of the termination MindArrow enters into an agreement with, or completes an extraordinary transaction with, a third party regarding an acquisition of MindArrow, and the termination fee is to be paid at the earlier of the time an agreement with respect to such transaction is entered into or the transaction is consummated.

Both MindArrow and Category 5 are Prohibited from Soliciting Other Offers (See page 93)

MindArrow and Category 5 have agreed not to initiate or, subject to limited exceptions, engage in discussions with another party regarding a business combination while the merger is pending.

MindArrow s and Category 5 s Boards May Withdraw their Recommendation of the Merger (See page 57)

Nothing in the merger agreement prevents Category 5 s board of directors or MindArrow s board of directors from withdrawing or changing its recommendation in favor of the merger if the board reasonably concludes in good faith, after consultation with its outside counsel, that the failure to withdraw or change its recommendation would be inconsistent with its fiduciary duties.

Appraisal Rights (See page 74)

Under the law of Nevada, where Category 5 is incorporated, holders of Category 5 common stock who comply with the applicable requirements of Nevada law will have the right to receive an appraisal of the fair value of their shares and to obtain payment for such shares in connection with the merger. We have included a copy of Sections 92A.300 to 92A.500, inclusive, of the Nevada Revised Statutes Appraisal Rights as Appendix E to this joint proxy statement/ prospectus.

Accounting Treatment (See page 75)

The merger will be accounted for using the purchase method of accounting in accordance with United States generally accepted accounting principles, with Category 5 being treated as the acquirer for accounting purposes, a reverse acquisition . Therefore, the aggregate merger consideration paid in connection with the merger will be allocated to MindArrow s identifiable tangible and intangible assets and liabilities based on their fair values with the excess being treated as goodwill. The assets and liabilities of both companies will be consolidated at the effective time of the merger. Thereafter the results of operations of Category 5 and MindArrow will be reported on a consolidated basis.

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Material U.S. Federal Income Tax Consequences of the Merger to Category 5 Stockholders (See page 76)

The merger generally is intended to qualify as a nontaxable transaction. As a result, MindArrow and Category 5 expect that Category 5 stockholders will not recognize any gain or loss for U.S. federal income tax purposes to the extent they receive MindArrow common stock and contingent warrants to acquire shares of MindArrow common stock in exchange for their Category 5 common stock. Category 5 stockholders generally will, however, have to recognize gain or loss, if any, in connection with any cash they receive in lieu of fractional shares of MindArrow common stock. Category 5 stockholders who elect to exercise appraisal rights generally will have to recognize gain or loss, if any, in connection with cash received in exchange for their shares of the Category 5 common stock.

TAX MATTERS ARE VERY COMPLICATED AND THE TAX CONSEQUENCES OF THE MERGER TO YOU WILL DEPEND ON THE FACTS OF YOUR OWN SITUATION. YOU SHOULD CONSULT YOUR OWN TAX ADVISORS FOR A FULL UNDERSTANDING OF THE TAX CONSEQUENCES OF THE MERGER TO YOU.

Voting Agreements

In connection with the execution of the merger agreement, certain stockholders of MindArrow agreed to vote their shares of common stock of MindArrow in favor of the merger and the other proposals described in this joint proxy statement/ prospectus. As of the record date set for the MindArrow special stockholders meeting, MindArrow stockholders holding an aggregate of 15,846,433 shares, or 51% of the total shares of MindArrow common stock issued and outstanding as of that date, have agreed to vote their shares in favor of the merger and the other proposals described herein. The MindArrow Voting Agreement is attached to this joint proxy statement/ prospectus as Appendix F and is incorporated by reference herein.

In addition, certain stockholders of Category 5 agreed to vote their shares of common stock of Category 5 in favor of the merger agreement and the merger. As of the record date set for the Category 5 special stockholders meeting, Category 5 stockholders holding an aggregate of 9,639,681 shares, or 57.9% of the total shares of Category 5 common stock issued and outstanding as of that date, have agreed to vote their shares in favor of the merger and the merger agreement. The Voting Agreement of Category 5 Stockholders is attached to this joint proxy statement/ prospectus as Appendix G and is incorporated by reference herein.

Interests of Certain Persons in the Merger (See page 71)

In considering the recommendation of the board of directors of MindArrow or Category 5, as appropriate, with respect to the merger, the transactions contemplated by the merger agreement and other proposals set forth in this joint proxy statement/ prospectus, stockholders of Category 5 and MindArrow should be aware that some members of management of Category 5 and MindArrow have interests in the merger and other proposals set forth herein that are different from, or in addition to, the interests of stockholders of Category 5 and MindArrow generally:

- Certain directors and officers of Category 5 hold stock options to purchase Category 5 common stock which shall be assumed by MindArrow in connection with the merger;
- Certain executive officers of Category 5 have entered, or will enter, into employment agreements with MindArrow, which will become effective upon completion of the merger;
- Certain executive officers and/or directors of Category 5 hold options to purchase Category 5 common stock, the vesting of which will accelerate in connection with the merger;
- MindArrow directors and executive officers are currently beneficial owners of an aggregate of approximately 26% of MindArrow outstanding common stock;
- Category 5 directors and executive officers are currently owners of an aggregate of approximately 61.5% of Category 5 outstanding common stock;

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Certain Category 5 directors are affiliates of entities that own Category 5 promissory notes that will be convertible into MindArrow common stock following the merger;

A Category 5 director, Shelly Singhal, is a managing director of an investment bank, SBI USA, LLC, which will be paid compensation for financial advisory and investment banking services related to the merger. A predecessor in interest to SBI USA, LLC, SBI E2-Capital (USA), Ltd., of which Mr. Singhal was also a managing director, has previously provided other financial advisory services to Category 5. Mr. Singhal is also an executive vice president of SBI E2-Capital (HK) Limited. SBI E2-Capital (HK) Limited is the parent of SBI-USA, LLC and holds 75,000 shares of MindArrow common stock. Mr. Singhal and other associates of Mr. Singhal also hold 75,000 shares of MindArrow common stock;

Current officers and directors of both MindArrow and Category 5 may become eligible to receive options to purchase MindArrow common stock pursuant to the MindArrow Systems, Inc. 2000 Incentive Plan;

Category 5 officers and directors will receive from MindArrow customary rights to indemnification against liabilities; and

It is expected that Paul Anderson and Tyler Thompson, both of whom are currently directors and executive officers of Category 5 or its subsidiaries, will serve on MindArrow board of directors after the merger, and that Mr. Anderson and Mr. Thompson will serve on MindArrow executive management team after the merger.

The boards of directors of MindArrow and Category 5 were aware of these interests and took them into consideration when they considered the fairness of the merger and other proposals set forth herein.

Post-Merger Board of Directors of MindArrow

MindArrow has agreed to appoint two of Category 5 s current directors, Paul Anderson and Tyler Thompson, to its board of directors upon the closing of the merger. MindArrow s board of directors intends to accomplish this by increasing the size of its board to nine individuals effective upon the merger, and appointing Messrs. Anderson and Thompson to fill the two new vacancies until the next annual meeting of MindArrow. Therefore, following the merger it is expected that the board of directors of MindArrow will consist of Merv Adelson, Paul Anderson, Bruce Maggin, Joseph N. Matlock, Jr., Joel Schoenfeld, Bruce Stein, Tyler Thompson and Robert I. Webber. In addition, MindArrow has committed to appointing an additional director nominated by its investor, East-West Venture Group, upon the completion of certain funding commitments by East-West.

Reverse Split of MindArrow Common Stock (See page 189)

The primary purpose for the proposed reverse stock split is to attempt to increase the market price of MindArrow s common stock following the merger in order to meet the minimum requirements for listing of MindArrow s common stock on the Nasdaq SmallCap Market. In order for MindArrow s common stock to continue to be traded on the Nasdaq SmallCap Market, among other requirements, the common stock may be required to trade at a market price of at least $4.00 per share.

Risk Factors (See page 24)

Stockholders of Category 5 and MindArrow are urged to consider the items under the section entitled Risk Factors beginning on page 24 in determining whether to vote in favor of approval of the merger.

Forward-Looking Statements

Each of Category 5 and MindArrow has made forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 in this document that are subject to risks and uncertainties. Forward-looking statements include expectations concerning matters that

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are not historical facts, and actual results may differ materially from these forward-looking statements. Words such as believes, expects, anticipates or similar expressions indicate forward-looking statements. These forward looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward looking statements. For more information regarding factors that could cause actual results to differ from these expectations, you should refer to Risk Factors beginning on page 24.

Comparison of Stockholders Rights (See page 105)

Category 5 and MindArrow are incorporated in different states having differing corporation laws. In addition, the organizational documents of the two companies vary. As a result, the rights, protections, and duties that Category 5 stockholders have as stockholders of Category 5 will be different from those that they will have if they receive shares of MindArrow common stock pursuant to the merger.

Resales of MindArrow Common Stock Received in Connection with the Merger

Shares of MindArrow common stock issued to holders of Category 5 common stock upon consummation of the merger will be registered under the Securities Act. Such securities may be traded freely without restriction by those stockholders who are not deemed to be affiliates of MindArrow or Category 5, as that term is defined in the rules promulgated under the Securities Act.

Shares of MindArrow common stock received by those holders of Category 5 common stock who are deemed to be affiliates of Category 5 at the time of the Category 5 special meeting or of MindArrow common stock who are deemed to be affiliates of MindArrow at the time of the MindArrow special meeting may be resold without registration under the Securities Act only as permitted by Rule 145 under the Securities Act or as otherwise permitted thereunder. Moreover, affiliates of MindArrow and Category 5 may be subject to contractual obligations that restrict their ability to transfer the shares they receive in the merger.

The registration statement of which this joint proxy statement/prospectus forms a part does not cover any reoffers or resales of MindArrow common stock received by affiliates of MindArrow or Category 5.

Registration Statement on Form S-8

Promptly following the merger, MindArrow will file a registration statement on Form S-8 under the Securities Act covering the shares of MindArrow common stock issuable with respect to options to purchase Category 5 common stock assumed by MindArrow.

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SUMMARY CONDENSED CONSOLIDATED HISTORICAL AND PRO FORMA

COMBINED FINANCIAL INFORMATION

MindArrow and Category 5 are providing you the following information to aid you in your analysis of the financial aspects of the merger. The following summary historical financial information of MindArrow and Category 5 has been derived from their audited historical financial statements. The condensed consolidated financial statements of (a) MindArrow for the periods ended September 30, 2001, 2000 and 1999 and the nine months ended June 30, 2002, and the balance sheet data as of September 30, 2001 and 2000 and June 30, 2002 and of (b) Category 5 for the six-month period ended June 30, 2001 and for the years ended December 31, 2000 and 1999 and the nine months ended March 31, 2002 and March 31, 2001 are included elsewhere in this joint proxy statement/prospectus.

This information should be read in conjunction with the financial statements and notes thereto and with MindArrow Management s Discussion and Analysis of Financial Condition and Results of Operations and Category 5 Management s Discussion and Analysis of Financial Condition and Results of Operations.

Summary Selected Historical Consolidated Financial Data Of MindArrow

Set forth below is selected historical consolidated financial data for MindArrow and its subsidiaries for the periods and as of the dates indicated. This selected historical financial data is only a summary and we urge you to read this summary in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations of MindArrow and the financial statements and related notes thereto of MindArrow and its subsidiaries for the nine months ended June 30, 2002 and 2001 and for the periods ended September 30, 2001, 2000, and 1999, respectively, which are included elsewhere in this joint proxy statement/prospectus. In the opinion of management, these statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of the results of these periods. Historical results are not necessarily indicative of the results to be expected in the future.

	9 Months Ended June 30, 2002	9 Months Ended June 30, 2001	Year Ended September 30, 2001	Year Ended September 30, 2000	Year Period Ended September 30, 1999
	(Unaudited)	(Unaudited)			
Consolidated Combined Statement of Operations:					
Revenue	$ 3,082,482	$ 2,739,253	$ 3,534,777	$ 1,641,895	$ 6,250
Costs and expenses	11,288,377	15,091,791	20,211,372	18,668,016	2,380,975
Loss from operations	(8,200,895)	(12,352,538)	(16,676,595)	(17,026,121)	(2,374,725)
Interest income (expense)	(233,718)	222,149	(349,072)	537,321	24,274
Other income (expense)	11,695	(64,157)	31,993	20,029	
Recovery (loss) on transfer agent fraud	4,354,716	(19,609,090)	(19,658,753)		
Net loss	(4,068,202)	(31,803,636)	(36,652,427)	(16,468,771)	(2,350,451)
Value of stock dividend on preferred stock	(584,145)				
Beneficial conversion feature on preferred stock				(12,346,440)	(1,043,142)

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	9 Months Ended June 30, 2002	9 Months Ended June 30, 2001	Year Ended September 30, 2001	Year Ended September 30, 2000	Year Period Ended September 30, 1999
	(Unaudited)	(Unaudited)			
Net loss available to common stockholders	$ (4,652,347)	$(31,803,636)	$(36,652,427)	$(28,815,211)	$(3,393,593)
Weighted average shares, Basic and Diluted	17,410,184	10,604,816	10,923,506	9,759,222	8,751,760
Loss per share, Basic and Diluted	$ (0.27)	$ (3.00)	$ (3.36)	$ (2.95)	$ (0.39)

	June 30, 2002	September 30, 2001	September 30, 2000	September 30, 1999
	(Unaudited)			
Consolidated Combined Balance Sheet Data:				
Working capital (deficit)	$(2,062,219)	$ (3,868,143)	$10,992,679	$2,351,053
Total assets	8,933,109	11,455,212	18,607,386	6,820,236
Total liabilities	4,867,907	7,134,462	1,932,746	2,543,090
Stockholders equity	4,065,202	4,320,750	16,674,640	4,277,146

Summary Selected Historical Consolidated Combined Financial Data of Category 5

Set forth below is selected historical consolidated combined financial data for Category 5 and its subsidiaries for the periods and as of the dates indicated. This selected historical financial data is only a summary and we urge you to read this summary in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations of Category 5 and the financial statements and related notes thereto of Category 5 and its subsidiaries for the nine months ended March 31, 2002, and 2001, for the six months ended June 30, 2001, and for the years ended December 31, 2000, and 1999, respectively, which are included elsewhere in this joint proxy statement/prospectus. In the opinion of management, these statements have been prepared on the same basis as the audited consolidated combined financial statements and include all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of the results of these periods. Historical results are not necessarily indicative of the results to be expected in the future.

	9 Months Ended March 31, 2002	9 Months Ended March 31, 2001	6 Months Ended June 30, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
	(Unaudited)	(Unaudited)			
Consolidated Combined Statement of Operations(1):					
Revenue	$19,344,139	$12,351,186	$10,595,967	$20,070,443	$9,900,507
Costs and expenses	16,527,285	9,962,606	6,409,758	18,383,679	8,750,418
Income from operations	2,816,854	2,388,580	4,186,209	1,686,764	1,150,089
(Provision) benefit for income taxes	(924,000)		140,000		
Interest income (expense)	(108,690)	2,483	(1,237)	11,023	4,308
Other income (expense)				3,208	
Net income	$ 1,784,164	$ 2,391,063	$ 4,324,972	$ 1,700,995	$1,154,397

Pro forma earnings per share:					
Earnings as reported	$ 1,784,164	$ 2,391,063	$ 4,324,972	$ 1,700,995	$ 1,154,397
Pro forma income taxes		(933,000)	(1,710,000)	(638,000)	(433,000)
Pro forma earnings	$ 1,784,164	$ 1,458,063	$ 2,614,972	$ 1,062,995	$ 721,397

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	9 Months Ended March 31, 2002	9 Months Ended March 31, 2001	6 Months Ended June 30, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
	(Unaudited)	(Unaudited)			
Pro forma basic earnings per share	$ 0.15	$ 0.16	$ 0.28	$ 0.12	$ 0.08
Pro forma diluted earnings per share	$ 0.12	$ 0.16	$ 0.25	$ 0.12	$ 0.08
Weighted average shares, Basic	12,259,000	9,000,000	9,430,556	9,000,000	9,000,000
Weighted average shares, Diluted	15,147,000	9,000,000	10,384,103	9,000,000	9,000,000
Earnings per share, Basic	$ 0.15	$ 0.27	$ 0.46	$ 0.19	$ 0.13
Earnings per share, Diluted	$ 0.12	$ 0.27	$ 0.42	$ 0.19	$ 0.13
Cash dividends paid	$	$ 103,766	$ 484,348	$ 822,005	$ 627,929

	March 31, 2002	June 30, 2001	December 31, 2000	December 31, 1999
	(Unaudited)			
Consolidated Combined Balance Sheet Data(1):				
Working capital (deficit)	$ (787,067)	$1,411,227	$1,094,375	$408,328
Total assets	15,456,570	6,247,009	1,658,672	732,404
Total liabilities	5,922,200	997,139	249,426	202,148
Stockholders equity	9,534,370	5,249,870	1,409,246	530,256

(1) The selected financial data at and for the nine months ended March 31, 2002 and 2001, the six months ended June 30, 2001 and the years ended December 31, 2000 and 1999 include data from (a) Executive Credit Services, L.C., the predecessor of ePenzio, Inc., prior to May 17, 2000, (b) ePenzio, Inc., which was formed May 17, 2000 pursuant to subchapter S of the Internal Revenue Code, and (c) the reverse merger transacted May 29, 2001 between Category 5 (formerly Network Investor Communications, Inc.) and ePenzio, Inc. For accounting purposes the business combination was treated as a recapitalization of ePenzio, Inc., with ePenzio being treated as the accounting acquirer. Effective July 23, 2001, Network Investor Communications, Inc. changed its name to Category 5 Technologies, Inc.

MindArrow and Category 5 Summary Unaudited Pro Forma Financial Information

The following financial information is derived from the unaudited pro forma financial statements appearing elsewhere in this joint proxy statement/prospectus, which give effect to the merger as a purchase transaction. Due to different fiscal periods for MindArrow and Category 5, the unaudited pro forma combined condensed statement of operations data combines the historical consolidated statements of operations data for MindArrow for the year ended September 30, 2001 and for the nine months ended June 30, 2002 with Category 5 s unaudited consolidated combined statements of income for the year ended June 30, 2001 and for the nine months ended March 31, 2002, giving effect to the merger as if it had occurred at the beginning of each of those periods. The unaudited pro forma combined condensed balance sheet data combines MindArrow s historical consolidated balance sheet data as of June 30, 2002 with Category 5 s historical consolidated balance sheet data as of March 31, 2002, giving effect to the merger as if it had occurred on those respective dates.

The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the merger had been consummated at the beginning of the periods indicated, nor is it necessarily indicative of future operating results or financial position. You should read it together with those unaudited pro forma statements and the separate audited consolidated financial statements of MindArrow and Category 5 included elsewhere in this joint proxy statement/prospectus. See Unaudited Pro Forma Financial Information, and Where You Can Find More Information on the page immediately preceding the Table of Contents.

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MindArrow and Category 5

Selected Unaudited Pro Forma Combined Condensed Financial Data(1)

	Nine Months Ended March 31, 2002	Year Ended June 30, 2001
Unaudited Pro Forma Combined Condensed Statement of Operations Data:		
Net Revenue	$23,261,821	$ 21,687,217
Operating loss	(7,342,035)	(13,625,286)
Net loss	(3,367,008)	(33,615,484)
Net loss available to common stockholders	(3,951,153)	(33,615,484)
Net loss per share, basic and diluted	$ (0.71)	$ (6.83)
Dividends per share	$	$ 0.01

	As of March 31, 2002
Unaudited Pro Forma Combined Condensed Balance Sheet Data:	
Working capital (deficit)	$ (3,254,000)
Total assets	47,358,452
Total liabilities	12,576,258
Stockholders equity	34,782,194

(1) See Unaudited Pro Forma Combined Condensed Financial Statements beginning on page F-47 of this joint proxy statement/prospectus.

Unaudited Comparative Per Share Information

The following table summarizes per share information for MindArrow and Category 5 on a historical, pro forma combined and equivalent basis. The pro forma information gives effect to the merger accounted for on a purchase transaction basis. The information listed as per equivalent Category 5 share was obtained by multiplying the pro forma combined amounts by the exchange ratio of 2.3 to 1. You should read this information together with the historical financial statements included elsewhere in this joint proxy statement/ prospectus. You should also read this information in connection with the pro forma condensed consolidated financial information included elsewhere in this joint proxy statement/ prospectus. You should not rely on the pro forma condensed consolidated financial information to indicate the results that would have been achieved had the companies combined at a prior date or the future results that the combined company will experience after the merger. This presentation does not give effect to the reverse stock split that is proposed herein.

	As of and for the Year-Ended June 30, 2001(1)	As of and for the Nine Months Ended March 31, 2002(2)
Earnings (loss) per share basic		
Historical MindArrow	$(3.36)	$(0.27)
Historical Category 5	0.53	0.15
Pro forma combined(5)	(0.68)	(0.07)
Equivalent Category 5 share(4)	(1.57)	(0.16)
Earnings (loss) per share diluted		
Historical MindArrow	$(3.36)	$(0.27)
Historical Category 5	0.48	0.12
Pro forma combined(5)	(0.68)	(0.07)
Equivalent Category 5 share(4)	(1.57)	(0.16)

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	As of and for the Year-Ended June 30, 2001(1)	As of and for the Nine Months Ended March 31, 2002(2)
Book value per share(3)		
Historical MindArrow		$0.14
Historical Category 5		0.66
Pro forma combined		0.50
Equivalent Category 5 share(4)		1.16
Cash dividends per share, basic and diluted		
Historical MindArrow	$	$
Historical Category 5	0.06	
Pro forma combined	0.01	
Equivalent Category 5 share(4)	0.02	

(1) Because of different fiscal period ends, financial information for MindArrow for the year ended September 30, 2001 has been combined with financial information relating to Category 5 as of or for the twelve months ended June 30, 2001.

(2) Because of different fiscal period ends, financial information for MindArrow as of or for the nine months ended June 30, 2002 has been combined with financial information relating to Category 5 as of or for the nine months ended March 31, 2002.

(3) Historical book value per share is computed by dividing stockholders equity by the number of shares of MindArrow or Category 5 common stock outstanding. Pro forma book value per share is computed by dividing pro forma stockholders equity by the pro forma number of shares of common stock outstanding after the completion of the merger.

(4) The Equivalent Category 5 share amounts are calculated by multiplying the Pro forma combined amounts by the exchange ratio in the merger of 2.3 shares of MindArrow common stock for each share of Category 5 common stock.

(5) This presentation of pro forma combined earnings (loss) per share does not give effect to the reverse stock split proposed herein. Giving effect to the proposed 1-for-10 reverse stock split, basic and diluted loss per share would be $(6.83) per share and $(0.71) per share as of and for the periods ended June 30, 2001 and March 31, 2002, respectively.

Market Price and Dividend Information

The following table presents historical trading information for MindArrow common stock and Category 5 common stock.

MindArrow s common stock has traded on the Nasdaq SmallCap Market since November 7, 2000, and prior to that traded on the National Association of Securities Dealers OTC Electronic Bulletin Board since April 29, 1999. The information for MindArrow shows the high and low sales prices reported for each period while traded on the Nasdaq SmallCap Market and the high ask and low bid information during which trading occurred on the National Association of Securities Dealers OTC Electronic Bulletin Board.

Category 5 s common stock has traded on the National Association of Securities Dealers OTC Electronic Bulletin Board since June 12, 2001. The information for Category 5 shows the high ask and low bid information during which trading occurred, as reported on the National Association of Securities Dealers OTC Electronic Bulletin Board. Category 5 has been unable to obtain any reliable trading history during the period of January 1, 2000 through the first quarter of 2001, as there existed little or no trading of Category 5 common stock during that period and there is otherwise no established public trading market for Category 5 common stock. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

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	MindArrow Common Stock		Category 5 Common Stock	
	High	Low	High	Low
Year Ended December 31, 2000:				
First Quarter	$55.00	$18.88	$	$
Second Quarter	40.94	6.00		
Third Quarter	10.25	4.00		
Fourth Quarter	8.69	1.69		
Year Ended December 31, 2001:				
First Quarter	5.81	2.75		
Second Quarter	4.50	1.15	1.93	0.03
Third Quarter	1.49	0.40	2.18	0.25
Fourth Quarter	1.25	0.55	5.25	1.55
Year Ended December 31, 2002:				
First Quarter	0.96	0.41	3.20	1.60
Second Quarter	0.75	0.35	2.75	0.70
Third Quarter (through August 20, 2002)	0.89	0.37	1.08	0.60

The following table shows the last reported sales price of the common stock of MindArrow and common stock of Category 5 on July 12, 2002, the last full trading day before the public announcement of the merger agreement, and on August 21, 2002, the latest practicable date prior to the filing of the registration statement of which this joint proxy statement/prospectus is a part with the Securities and Exchange Commission, each as reported on the Nasdaq SmallCap Market and the National Association of Securities Dealers OTC Electronic Bulletin Board, respectively:

	MindArrow	Category 5	Pro Forma Equivalent Value of Category 5
Last reported sale price on July 12, 2002	$0.65	$0.75	$1.50
Last reported sale price on August 21, 2002	$0.37	$0.70	$0.85

The equivalent value per share is equal to the closing price of a share of Category 5 common stock on that date multiplied by the exchange ratio of 2.3, which is the number of shares of MindArrow stock to be issued in the merger in exchange for each share of Category 5 stock.

MindArrow common stock is traded on the Nasdaq SmallCap Market under the symbol ARRW. Category 5 common stock is traded on the National Association of Securities Dealers OTC Electronic Bulletin Board under the symbol CFVT .

Dividends

Since it began public trading, MindArrow has not paid dividends to its stockholders and MindArrow does not expect to pay dividends in the foreseeable future.

Prior to the reverse acquisition of ePenzio by Category 5 on May 29, 2001, ePenzio declared and paid cash dividends on its common stock in the amounts of $484,348, $822,005 and $627,929 for the six months ended June 30, 2001 and for the years ended December 31, 2000 and 1999, respectively, which is equivalent to $0.05, $0.09 and $0.07 per share, respectively, based on the basic weighted average number of shares outstanding during those periods. However, since May 29, 2001, Category 5 has not declared or paid any cash dividends on its common stock. Category 5 currently intends to retain any earnings for use in its business and therefore does not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay cash dividends will be made by Category 5 s board of directors in light of Category 5 s earnings, financial position, capital requirements, contractual restrictions and such other factors as the board of directors deems relevant.

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The Zions First National Bank $2 Million revolving line of credit restricts the dividends that may be paid by Category 5 to its stockholders. Nevada Revised Statutes Section 78.288 limits Category 5 s ability to pay dividends on its common stock if any such dividend would render Category 5 insolvent on either a cash flow basis or balance sheet basis.

Holders

On July 31, 2002, there were approximately 325 holders of record of MindArrow s common stock. On August 9, 2002, there were approximately 118 holders on record of Category 5 common stock

FORWARD-LOOKING STATEMENTS

This joint proxy statement/prospectus contains forward-looking statements within the meaning of the term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are based on the beliefs of management as well as assumptions made by, and information currently available to, the management of MindArrow and Category 5. Forward-looking statements are not guarantees of performance. Forward-looking statements are typically identified by use of the words anticipate, believe, estimate, expect, intend, may, will, should, project, propose, plan, and similar words and expressions. I any of the events anticipated by the forward-looking statements will occur, or if any of them do, what impact they will have on the results of operations and financial condition of MindArrow or the price of its stock.

Forward-looking statements regarding MindArrow include, among other things, the following:

- that the proposed merger represents an opportunity to create a combined company with better products, improved services, more efficient operations, and a stronger management team than either company could achieve at present on its own;
- that the combined company will benefit from sales synergies that will contribute to top line revenues;
- that the combined company will benefit from operating and cost synergies that will contribute to bottom line earnings;
- that the merger will provide strategic cross-selling, marketing and distribution opportunities, strengthen the company s competitive position, and provide potential greater access to capital markets;
- that MindArrow s business pipeline will grow and that the market will accept its products and services;
- that the Internet will continue to grow and develop, and that there will be increased demand for digital marketing communications products and services;
- that MindArrow s market position, future operations, liquidity and capital resources will grow;
- that MindArrow s technology development and marketing efforts will be effective;
- that MindArrow s clients will be able to communicate more quickly and effectively using interactive multimedia and targeted one-to-one messaging;
- that e-commerce will grow, and additional online revenue can be driven by enabling e-commerce transactions directly within an email;
- that sales cycles can be shortened and customer relationships can be strengthened through targeted, customized messaging and real-time tracking and reporting; and
- that online marketing communications can be more cost-effective and improve return on investment vis-à-vis direct mail and printed mail.

Forward-looking statements regarding Category 5 include, among other things, the following:

that there is a large and growing market for technologies and services that enable existing and new businesses and financial institutions to commence or improve their e-commerce transactions;

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that the Internet will continue to grow and develop in the United States and in foreign countries, in particular that e-commerce will increase;

that the size of Category 5 s potential market will grow;

that Category 5 s market position, future operations, margins, profitability, liquidity, and capital resources will likewise grow;

that Category 5 s marketing techniques will be effective;

that Category 5 s industry relationships will continue to develop, particularly with certain financial institutions;

that there will be increased demand for enabling services and technologies;

that Category 5 s proprietary marketing techniques and key industry relationships have been effective in marketing its various bankcard processing-solution products and services nationwide;

that sales and revenues will increase during the fiscal year ending June 30, 2003 and beyond;

that email marketing and promotions products provided by Category 5 through its recently-acquired subsidiary, Exposure International, LLC, will enable customers of Category 5 to communicate rapidly and directly with their customers, increasing sales and retaining loyalty;

that Category 5 customers will find this technology easy to use, enabling those customers to create professional newsletters to send to their customers and prospects and allowing Category 5 customers to learn about preferences of their customers on a real-time basis;

that the shopping cart and e-commerce technology of Category 5 s subsidiary, Bottomline Online, Inc. will successfully integrate with the website design and presentation software of another recently-acquired Category 5 subsidiary, FlashAlly, LLC;

that Category 5 s domestic and international customers will be able to successfully create their own high-end Flash websites and presentations using the website design and presentation software at Category 5 s recently acquired subsidiary, FlashAlly, LLC, thereby increasing stickiness, conversion rates and customer retention;

that the software and related system developed by another recently-acquired subsidiary of Category 5, CaptureQuest, Inc., will allow Category 5 customers to conduct rich-media marketing and promotions campaigns, to provide Category 5 customers with capabilities necessary to create, manage, assess and measure the success of these campaigns, to provide Category 5 customers with the technical and creative know how to execute a successful campaign, and to provide Category 5 customers with all of the necessary tools, flexibility, and versatility to service Category 5 customers in their online marketing, advertising, education and communication needs;

that Category 5 intends to develop new products and services, as well as the internal capabilities and competencies necessary in order to provide directly to its customers some of those products sold by Category 5 but currently outsourced to other suppliers;

that Category 5 anticipates that it will finance a greater number of installment contracts through its wholly-owned subsidiary, Olympus Financial, Inc., thereby avoiding significant discounts applied by various financing institutions which currently purchase some of Category 5 s installment contracts;

that Category 5 anticipates that it will continue to receive a greater portion of monthly fees and discount rates historically paid to various payment processors for the processing needs of Category 5 s customers; and

that the acquisition of Transaxis, S.A. will enable Category 5 to offer its products and services to businesses and financial institutions internationally.

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You are cautioned that forward-looking statements are not guarantees of future performance, results or events and are subject to various risks and uncertainties, including those relating to demand for and market acceptance of each company s products, technology obsolescence, external economic conditions, ability to obtain financing for the operations of the combined company, competitive products and pricing, difficulties in product development, product delays, compliance with financial covenants, failure to adequately service current clients and failure to meet certain milestones or delivery requirements. Risks and uncertainties pertaining specifically to the proposed merger include the possible failure to occur of any of the conditions to closing set forth in the merger agreement, the possible failure or refusal by the majority of stockholders of either company to approve the transaction, the possible failure of the companies to successfully integrate their product offerings and operations, and potential difficulties of marketing the companies combined product and service solutions.

Other risks, uncertainties and factors, including those discussed under the heading Risk Factors beginning on page 24 and elsewhere in this joint proxy statement/ prospectus, could cause the actual results of the combined company to differ materially from those projected in any forward-looking statements. The forward-looking statements contained herein are made only as of the date of this joint proxy statement/ prospectus. Except as required by law, none of MindArrow, Category 5 or any other person undertakes to revise the forward-looking statements and information to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events that occur with different results than expected.

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RISK FACTORS

In addition to the other information included in this joint proxy statement/prospectus, you should carefully consider the following risk factors in determining how to vote.

Risks Related to the Merger

MindArrow may not be able to successfully integrate Category 5 and achieve the benefits expected to result from the merger.

The merger will present challenges to management, including the integration of the operations, technologies and personnel of MindArrow and Category 5, and special risks, including possible unanticipated liabilities, unanticipated costs, diversion of management attention and loss of personnel.

MindArrow cannot assure you that it will successfully integrate or profitably manage Category 5 s businesses. In addition, MindArrow cannot assure you that, following the transaction, its businesses will achieve sales levels, profitability, efficiencies or synergies that justify the merger or that the merger will result in increased earnings for the combined company in any future period. Also, the combined company may experience slower rates of growth as compared to historical rates of growth of MindArrow and Category 5 independently.

Because the exchange ratio in the merger is fixed, stockholders of MindArrow and Category 5 are exposed to the risk that the market price of the other company s stock will drop.

Under the merger agreement, as amended, each share of Category 5 common stock will convert into the right to receive 2.3 shares of MindArrow common stock and warrant to acquire 0.5 shares of MindArrow common stock at an exercise price of $0.01 per share, vesting only upon the achievement of certain financial objectives by Category 5 s subsidiary, ePenzio, Inc., following the merger. This exchange ratio is a fixed number and will not be adjusted if the price of MindArrow common stock or Category 5 common stock increases or decreases. The prices of MindArrow common stock and Category 5 common stock at the closing of the merger may vary from their prices on the date of this joint proxy statement/prospectus and on the date of each special meeting.

These prices may vary because of changes in the business, operations or prospects of MindArrow or Category 5, market assessments of the likelihood that the merger will be completed, the timing of the completion of the merger, the prospects of post-merger operations, regulatory considerations, general market and economic conditions and other factors.

Because the date that the merger is completed will be later than the date of the special meeting, the prices of MindArrow common stock and Category 5 common stock on the date of the special meetings may not be indicative of their respective prices on the date the merger is completed.

We urge both MindArrow and Category 5 stockholders to obtain current market quotations for MindArrow common stock and Category 5 common stock, and to be aware that the relative prices of MindArrow and Category 5 common stock may change dramatically after the special meeting.

MindArrow cannot assure you that its common stock will continue to be listed on the Nasdaq SmallCap Market after the merger.

On February 14, 2002, MindArrow received notice from Nasdaq that MindArrow s common stock had closed below a required minimum bid price of $1.00 per share for a period of 30 consecutive trading days. In accordance with Nasdaq rules, MindArrow had 180 calendar days, or until August 13, 2002, to regain compliance with the minimum bid price requirement. MindArrow has obtained an extension of this requirement until February 18, 2003. In addition, Nasdaq may regard the proposed merger with Category 5 as a reverse merger , which would require under Nasdaq rules that the combined company qualify for initial inclusion on the Nasdaq SmallCap Market immediately following the merger. Although Nasdaq has not definitively informed MindArrow that the proposed merger would constitute a reverse merger , it is possible

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that Nasdaq could take this position prior to closing. MindArrow is seeking approval for the reverse stock split in order to assure that the combined company meets all of the requirements for initial inclusion on the Nasdaq SmallCap Market, so that it could remain listed on the Nasdaq SmallCap Market even if Nasdaq treats the proposed merger as a reverse merger . However, there can be no assurance that, whether or not the merger and the reverse stock split are consummated, MindArrow s common stock would continue to trade on the Nasdaq SmallCap Market. If MindArrow s common stock is de-listed from the Nasdaq SmallCap Market, it will become significantly less liquid and may decline significantly in price.

The price of MindArrow common stock may be affected by factors different from those affecting the price of Category 5 common stock.

When the merger is completed, holders of Category 5 common stock will become holders of MindArrow common stock. MindArrow s business differs from that of Category 5, and MindArrow s results of operations, as well as the price of MindArrow common stock, may be affected by factors different from those affecting Category 5 s results of operations and the price of Category 5 common stock. Different factors include the following:

- gain or loss of a significant client;
- gain or loss of a strategic partner;
- failure to achieve and sustain revenue growth;
- a large retail stockholder base may cause price volatility; and
- unsubstantiated information on Internet message boards.

Failure to complete the merger could negatively impact the market price of MindArrow s common stock and Category 5 s common stock.

If the merger is not completed for any reason, both MindArrow and Category 5 may be subject to a number of material risks, including:

- the market price of either or both companies stock may decline to the extent that the current market price reflects a market assumption that the merger will be completed;
- either party may be required to pay the other a termination fee; and
- costs related to the merger, such as legal and accounting fees, must be paid even if the merger is not completed.

Neither MindArrow nor Category 5 may be able to enter into a merger or business combination with another party at a favorable price because of restrictions in the merger agreement.

While the merger agreement is in effect, subject to specified exceptions, both MindArrow and Category 5 are prohibited from soliciting, initiating or encouraging any inquiries or proposals that may lead to a proposal or offer for a merger, consolidation, business combination, sale of substantial assets, tender offer, sale of shares of capital stock or other similar transaction with any other person. As a result of this prohibition, MindArrow and Category 5 may be unable to enter into an alternative transaction at a favorable price.

Category 5 officers and directors have conflicts of interest that may influence them to support or recommend the merger.

The officers and directors of Category 5 participate in arrangements that provide them with interests in the merger that are different from, or are in addition to, those of Category 5 stockholders. In particular, certain officers and employees of Category 5 may enter into employment agreements with MindArrow which will provide for, among other things, employment with MindArrow after the merger and other payments and benefits. In addition, the merger agreement provides that Paul Anderson and Tyler Thompson will be

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appointed to the board of directors of MindArrow until the next annual meeting, and that MindArrow will provide certain indemnification to the directors and officers of Category 5.

As a result of these interests, these officers and directors could be more likely to support or recommend to Category 5 stockholders the approval of the merger than if they did not have these interests. Category 5 stockholders should consider whether these interests may have influenced these officers and directors to support or recommend the approval of the merger.

MindArrow may have difficulty integrating Category 5 s operations and retaining important employees of Category 5.

There can be no guarantee that management of MindArrow will be able to successfully integrate Category 5 s employees and operations following the merger, and there is the risk that MindArrow will be unable to retain all of Category 5 s key employees for a number of reasons. There also can be no assurance that any contemplated synergies from the integration of the businesses will be realized. The challenges involved in this integration include the following:

- the risk that the cultures of the companies will not blend;
- obtaining synergies from the customer acquisition methodologies of the companies; and
- obtaining synergies from the companies product and service offerings effectively and quickly integrating technology, back office, human resources, accounting and financial systems.

While both companies have completed several acquisitions, neither MindArrow nor Category 5 has experience in integrating operations on the scale presented by the merger. The integration process will be complicated and will involve a number of special risks in addition to the challenges described above, including the possibility that management may be distracted from regular business operations. It is not certain that MindArrow and Category 5 can be successfully integrated in a timely manner or at all or that any of the anticipated benefits will be realized. Failure to effectively complete the integration could materially harm the business and operating results of the combined companies.

The integration of Category 5 will require substantial time and effort of key managers of MindArrow, which could divert the attention of those managers from other matters.

The merger will place significant demands on key managers of MindArrow. Managing the integration of the two companies and the growth of the Category 5 business may limit the time available for those managers of MindArrow to attend to other operational, financial and strategic issues.

The merger of Category 5 with MindArrow may be viewed as disadvantageous by certain customers of MindArrow and Category 5.

Certain of MindArrow s and Category 5 s existing customers and other business partners may view the merger as disadvantageous to them. As a consequence, the future relationship with these persons could be adversely affected. The merger will require the consent of certain parties who have entered into contracts with Category 5 and may require the consent of certain parties who have entered into contracts with MindArrow. There can be no assurance that such consents will be given and, if not given, that such contracts will not terminate.

Following the merger, MindArrow may not be able to retain the employees of Category 5 or MindArrow.

The success of MindArrow and Category 5 will be dependent in part on the retention and integration of management, technical, marketing, sales and customer support personnel. There can be no assurance that the companies will be able to retain such personnel or that the companies will be able to attract, hire and retain replacements for employees who leave following consummation of the Merger. The failure to attract, hire, retain and integrate such skilled employees could have a material adverse effect on the business, operating results and financial condition of MindArrow and Category 5.

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If the conditions to the merger are not met, the merger will not occur.

Several conditions must be satisfied or waived to complete the merger. These conditions are described under Conditions to Completion of the Merger and in detail in the merger agreement. MindArrow and Category 5 cannot assure you that each of the conditions will be satisfied. If the conditions are not satisfied or waived, the merger will not occur or will be delayed, and MindArrow and Category 5 each may lose some or all of the intended benefits of the merger.

The merger will result in substantial costs whether or not completed.

The merger will result in significant costs to MindArrow and Category 5. Excluding costs associated with combining the operations of the two companies and severance benefits and costs associated with discontinuing some redundant business activities, direct transaction costs of both companies are estimated at approximately $1,000,000 in the aggregate. These costs are expected to consist primarily of fees for financial advisors, attorneys, accountants, filing fees and financial printing. The aggregate amount of these costs may be greater than currently anticipated. A substantial amount of these costs will be incurred whether or not the merger is completed.

The rights of the Category 5 stockholders will be affected by the merger.

Stockholders of Category 5, as of the effective time of the merger, will become holders of MindArrow common stock. Certain differences exist between the rights of stockholders of Category 5 under Nevada law, the Category 5 Articles of Incorporation and the Category 5 Bylaws, and the rights of stockholders of MindArrow under Delaware law, the Certificate of Incorporation of MindArrow and the Bylaws of MindArrow.

The merger may have a dilutive effect to stockholders.

Although the companies believe that beneficial synergies will result from the merger, there can be no assurance that the combining of the two companies businesses, even if achieved in an efficient, effective and timely manner, will result in combined results of operations and financial condition superior to what would have been achieved by each company independently, or as to the period of time required to achieve such result. The issuance of MindArrow common stock in connection with the merger may have the effect of reducing MindArrow s net income per share from levels otherwise expected and could reduce the market price of the MindArrow common stock unless revenue growth or cost savings and other business synergies sufficient to offset the effect of such issuance can be achieved.

The merger with MindArrow may create an opportunity loss for Category 5 as a stand-alone entity.

As a consequence of the merger, Category 5 stockholders will lose the chance to invest in the development and exploitation of Category 5 s products on a stand-alone basis. It is possible that Category 5, if it were to remain independent, could achieve economic performance superior to that which it could achieve as a subsidiary of MindArrow. Consequently, there can be no assurance that stockholders of Category 5 would not achieve greater returns on investment if Category 5 were to remain an independent company.

MindArrow and Category 5 stockholders should not place undue reliance on forward-looking information.

Information contained in this joint proxy statement/prospectus may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which can be identified by the use of forward-looking terminology like may, will, expect, intend, anticipate, believe, estimate, continue or pro forma or the negative or other variations or comparable terminology.

All forward-looking statements contained in this joint proxy statement/prospectus are expressly qualified in their entirety by the cautionary statements set forth in this joint proxy statement/prospectus. Stockholders

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of Category 5 and MindArrow are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date of this joint proxy statement/prospectus. Except as required by law, neither MindArrow nor Category 5 undertakes any responsibility to update you on the occurrence of any anticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this joint proxy statement/prospectus.

Risks Related to the Business of MindArrow

MindArrow may need additional financing.

The capital requirements associated with developing MindArrow s network and corporate infrastructure have been and will continue to be significant. MindArrow has been substantially dependent on private placements of equity securities to fund such requirements.

At June 30, 2002, MindArrow had available cash of approximately $1.2 million and negative working capital of approximately $2.0 million. This negative working capital balance includes as current liabilities approximately $800,000 of deferred revenues as well as a payment of $500,000 due October 1, 2002 on a promissory note issued in connection with MindArrow s acquisition of substantially all of the assets of Radical Communication, Inc. in September 2001. In August 2002, MindArrow raised $740,000 in cash and $250,000 from the conversion of a portion of the promissory note payment due on October 1, 2002, thereby reducing MindArrow s working capital deficit by $990,000. In addition, during the quarter ended June 30, 2002, MindArrow took further steps to reduce monthly cash operating expenses. MindArrow currently estimates that its cash operating expenses are approximately $600,000 per month. Over the past year, MindArrow s revenues have averaged nearly $300,000 per month, and during the quarter ended June 30, 2002, revenues increased to an average of $412,000 per month. Although MindArrow believes that as a result of an existing backlog of contracts and anticipated new contracts its monthly revenues will continue to increase over time, there can be no assurance that this will happen. Based on MindArrow s current operating plan, available cash, and financing commitments currently in place, MindArrow estimates that it may need to obtain additional financing prior to December 31, 2002. This need may also be eliminated with the resources available from the combined business of MindArrow and Category 5 Technologies, should the proposed merger be consummated. In their report on MindArrow s consolidated financial statements for the year ended September 30, 2001, MindArrow s auditors expressed significant doubt about its ability to continue as a going concern. THERE CAN BE NO ASSURANCE THAT ANY ADDITIONAL FINANCING WILL BE AVAILABLE ON ACCEPTABLE TERMS, IF AT ALL. IF MINDARROW IS UNSUCCESSFUL IN RAISING ADDITIONAL FUNDS, ITS LIQUIDITY POSITION WILL BE MATERIALLY AND ADVERSELY AFFECTED AND IT COULD BE REQUIRED TO MAKE DRASTIC COST REDUCTIONS, WHICH WOULD NEGATIVELY IMPACT ITS OPERATIONS.

Although MindArrow believes the assumptions underlying its operating plan are reasonable, MindArrow lacks the operating history of a more seasoned company and there can be no assurance that its forecasts will prove accurate. In the event that MindArrow s plans change, its assumptions change or prove inaccurate, if the committed financing from East-West Capital Associates, Inc. fell through, if the merger does not close, or if future private placements, other capital resources and projected cash flow otherwise prove to be insufficient to fund operations, MindArrow could be required to seek additional financing sooner than currently anticipated. To the extent that MindArrow is able to raise additional funds and it involves the sale of its equity securities, the interests of MindArrow s stockholders could be substantially diluted.

Recent actions that MindArrow has taken may negatively impact its ability to achieve its business objectives.

In order to manage MindArrow s liquidity and cash position, over the past year MindArrow has had to implement certain cost cutting measures, including reductions in force of 68 employees. After these staff reductions, as of June 30, 2002, MindArrow had 51 full time employees worldwide. Although these cost cutting measures have improved MindArrow s short-term cash requirements, they may negatively impact MindArrow s ability to grow its business and achieve its business objectives.

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MindArrow s limited operating history makes evaluation of its business difficult.

MindArrow s business was formed as eCommercial.com in March 1999 and MindArrow was a development-stage company through December 31, 1999. In January 2000, principal operations commenced. MindArrow has recorded a cumulative net loss of approximately $57 million through June 30, 2002 (including $18.6 million attributable to the non-cash portion of the non-operating loss on transfer agent fraud) and anticipates recording losses in the near term. Accordingly, MindArrow has a limited operating history on which to base an evaluation of current business and prospects. MindArrow s short operating history makes it difficult to predict future results, and there are no assurances that its revenues will increase, or that MindArrow will achieve or maintain profitability or generate sufficient cash from operations in future periods.

MindArrow s ability to achieve and sustain profitability would be adversely affected if MindArrow:

fails to effectively market and sell its services;

fails to develop new and maintain existing relationships with clients;

fails to continue to develop and upgrade its technology and network infrastructure;

fails to respond to competitive developments;

fails to introduce enhancements to its existing products and services to address new technologies and standards; or

fails to attract and retain qualified personnel.

MindArrow s operating results are also dependent on factors outside of its control, such as strength of competition and the growth of the market for its services. There is no assurance that MindArrow will be successful in addressing these risks, and failure to do so could have a material adverse effect on MindArrow s financial performance.

MindArrow expects to incur losses in the near term, and if it is unable to generate sufficient cash flow or raise the capital necessary to allow MindArrow to continue to meet all of its obligations as they come due, its business could suffer.

MindArrow s future revenues are not predictable, and its results could vary significantly.

Because of MindArrow s limited operating history and the emerging nature of its markets, it is unable to reliably forecast its revenues. MindArrow s operating results may fluctuate significantly in the future as a result of a variety of factors. These factors include:

the demand for its services;

the addition or loss of individual clients;

the amount and timing of capital expenditures and other costs relating to the expansion of its operations;

the introduction of new products or services by MindArrow or its competitors; and

general economic conditions and economic conditions specific to the Internet, such as electronic commerce and online media.

Any one of these factors could cause MindArrow s revenues and operating results to vary significantly. In addition, as a strategic response to changes in the competitive environment, MindArrow may from time to time make certain pricing, service or marketing decisions or acquisitions that could significantly hurt its operating results in a given period.

Due to all of the foregoing factors, MindArrow believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Furthermore, it is possible that MindArrow s operating results in one or more quarters will fail to meet the expectations of investors. In such event, the market price of MindArrow s common stock could drop.

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If MindArrow is unable to obtain funding, its customers and vendors may decide not to do business with it.

If MindArrow is unable to continue funding its operations at current levels, and if customers and vendors become concerned about MindArrow s business prospects, they may decide not to conduct business with MindArrow, or may conduct business with MindArrow on terms that are less favorable than those customarily extended by them. In that event, MindArrow s revenues would decrease and its business will suffer significantly.

MindArrow is not sure if the market will accept its product offerings.

MindArrow s ability to succeed will depend on the following, none of which can be assured:

the effectiveness of its marketing and sales efforts;

market acceptance of its current and future offerings; and

the reliability of its networks and services.

MindArrow operates in a market that is in the early stage of development, is rapidly evolving, and is characterized by an increasing number of competitors and risk surrounding market acceptance of new technologies and services. Potential customers must view MindArrow s technologies as a viable alternative to traditional commercial advertising and direct mail. Because this market is new, it is difficult to predict its size and growth rate. If the market fails to develop as MindArrow anticipates, its growth will be slower than expected.

MindArrow may make acquisitions of complementary technologies or businesses, which may disrupt MindArrow s business and be dilutive to its existing stockholders.

MindArrow intends to consider acquisitions of businesses and technologies on an opportunistic basis, such as, for example, its prior acquisitions of Control Commerce, Inc. and Radical Communication, Inc. Acquisitions of businesses and technologies involve numerous risks, including the diversion of management attention, difficulties in assimilating the acquired operations, loss of key employees from the acquired company, and difficulties in transitioning key customer relationships. In addition, these acquisitions may result in dilutive issuances of equity securities, the incurrence of additional debt, large one-time expenses and the creation of goodwill or other intangible assets that result in significant amortization expense and impairment charges. Any acquisition may not provide the benefits originally anticipated, and there may be difficulty in integrating the service offerings and customer and supplier relationships gained through acquisitions with those of MindArrow. Although MindArrow attempts to minimize the risk of unexpected liabilities and contingencies associated with acquired businesses through planning, investigation and negotiation, such unexpected liabilities nevertheless may accompany such acquisitions. MindArrow cannot guarantee that it will successfully identify attractive acquisition candidates, complete and finance additional acquisitions on favorable terms, or integrate the acquired businesses or assets into MindArrow. Any of these factors could materially harm MindArrow s business or operating results in a given period.

Network and system failures could adversely impact MindArrow s business.

The performance, reliability and availability of MindArrow s Web sites and network infrastructure is critical to its reputation and ability to attract and retain clients. MindArrow s systems and operations are vulnerable to damage or interruption from earthquake, fire, flood, power loss, telecommunications failure, Internet breakdowns, break-ins, tornadoes and similar events. MindArrow carries business interruption insurance to compensate for losses that may occur, but insurance is not guaranteed to remove all risk of loss. Services based on sophisticated software and computer systems often encounter development delays and the underlying software may contain errors that could cause system failures. Any system failure that causes an interruption could result in a loss of clients and could reduce the attractiveness of MindArrow s services.

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MindArrow is also dependent upon Web browsers, Internet service providers and online service providers to provide Internet users access to its clients, users and Web sites. Users may experience difficulties due to system failures or delays unrelated to MindArrow s systems. These difficulties may hurt audio and video quality or result in intermittent interruptions in broadcasting and thereby slow MindArrow s growth.

Circumvention of MindArrow s security measures and viruses could disrupt its business.

Despite the implementation of security measures, MindArrow s networks may be vulnerable to unauthorized access, computer viruses and other disruptive problems. Anyone who is able to circumvent security measures could steal proprietary information or cause interruptions in its operations. Service providers have occasionally experienced interruptions in service as a result of the accidental actions of users or intentional actions of hackers. MindArrow may have to spend significant capital to protect against security breaches or to fix problems caused by such breaches. Although MindArrow has implemented security measures, there can be no assurance that such measures will not be circumvented in the future. Eliminating computer viruses and alleviating other security problems may require interruptions, delays or cessation of service to users, which could hurt MindArrow s business.

MindArrow depends on continued growth in use of the Internet.

Rapid growth in use of the Internet is a recent phenomenon and there can be no assurance that use of the Internet will continue to grow or that a sufficient base of users will emerge to support MindArrow s business. The Internet may not be accepted as a viable medium for broadcasting advertising and brochure distribution, for a number of reasons, including:

inadequate development of the necessary infrastructure;

inadequate development of enabling technologies;

lack of acceptance of the Internet as a medium for distributing rich media advertising; and

inadequate commercial support for Web-based advertising.

To the extent that Internet use continues to increase, there can be no assurance that the Internet infrastructure will be able to support the demands placed upon it, and especially the demands of delivering high-quality video content.

Furthermore, user experiences on the Internet are affected by access speed. There is no assurance that broadband access technologies will become widely adopted. In addition, the Internet could lose its viability as a commercial medium 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. MindArrow s business could suffer if use of the Internet grows more slowly than expected, or if the Internet infrastructure does not effectively support the growth that does occur.

If MindArrow does not respond to technological change, it could lose or fail to develop customers.

The development of MindArrow s business entails significant technical and business risks. To remain competitive, MindArrow must continue to enhance and improve the functionality and features of its technology. The Internet and the e-commerce industry are characterized by:

rapid technological change;

changes in client requirements and preferences;

frequent new product and service introductions embodying new technologies; and

the emergence of new industry standards and practices.

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The evolving nature of the Internet could render MindArrow s existing systems obsolete.

MindArrow s success will depend, in part, on its ability to:

develop and enhance technologies useful in its business;

develop new services and technology that address the increasingly sophisticated and varied needs of its current and prospective clients; and

adapt to technological advances and emerging industry and regulatory standards and practices in a cost-effective and timely manner.

Future advances in technology may not be beneficial to, or compatible with, MindArrow s business. Furthermore, MindArrow may not use new technologies effectively or adapt its systems to client requirements or emerging industry standards on a timely basis. MindArrow s ability to remain technologically competitive may require substantial expenditures and lead time. If MindArrow is unable to adapt to changing market conditions or user requirements in a timely manner, it will lose clients.

MindArrow could face liability for Internet content.

As a distributor of Internet content, MindArrow faces potential liability for negligence, copyright, patent or trademark infringement, defamation, indecency and other claims based on the content of MindArrow s broadcasts. Such claims have been brought, and sometimes successfully pressed, against Internet content distributors. MindArrow s general liability insurance may not be adequate to indemnify it for all liability that may be imposed. Although MindArrow generally requires its clients to indemnify it for such liability, such indemnification may be inadequate. Any imposition of liability that is not covered by insurance or by an indemnification by a client could harm MindArrow s business.

MindArrow s operating results could be impaired if it becomes subject to burdensome government regulations and legal uncertainties concerning the Internet.

Due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted with respect to the Internet, relating to:

user privacy;

pricing, usage fees and taxes;

content;

copyrights;

distribution;

characteristics and quality of products and services; and

online advertising and marketing.

The adoption of any additional laws or regulations may decrease the popularity or impede the expansion of the Internet and could seriously harm MindArrow s business. A decline in the popularity or growth of the Internet could decrease demand for MindArrow s products and services, reduce its revenues and margins and increase its cost of doing business. Moreover, the applicability of existing laws to the Internet is uncertain with regard to many important issues, including property ownership, intellectual property, export of encryption technology, libel and personal privacy. The application of laws and regulations from jurisdictions whose laws do not currently apply to MindArrow s business, or the application of existing laws and regulations to the Internet and other online services, could also harm its business.

MindArrow s stock price has been and may continue to be volatile.

The trading price of MindArrow s common stock has been and is likely to continue to be highly volatile. For example, on May 9, 2001, MindArrow s common stock closed at $2.00 per share, and on August 21, 2002,

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the common stock closed at $0.37 per share. MindArrow s stock price could be subject to wide fluctuations in response to factors such as:

- the average daily trading volume of its common stock;
- actual or anticipated variations in quarterly operating results and its need for additional financing to fund MindArrow s continuing operations;
- announcements of technological innovations, new products or services by MindArrow or its competitors;
- the addition or loss of strategic relationships or relationships with MindArrow s key customers;
- conditions or trends in the Internet, streaming media, media delivery, and online commerce markets;
- changes in the market valuations of other Internet, online service, or software companies;
- announcements by MindArrow or its competitors of significant acquisitions, strategic partnerships, joint ventures, or capital commitments;
- legal or regulatory developments;
- additions or departures of key personnel;
- sales of MindArrow common stock;
- MindArrow s failure to obtain additional financing on satisfactory terms, or at all; and
- general market conditions.

The historical volatility of MindArrow s stock price may make it more difficult for investors in its securities to resell shares at prices they find attractive. See also Risk Factors MindArrow cannot assure you that its common stock will continue to be listed on the Nasdaq SmallCap Market.

In addition, the stock market in general, the Nasdaq SmallCap Market, the market for Internet and technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. These broad market and industry factors may reduce MindArrow s stock price, regardless of its operating performance.

Future sales of MindArrow s common stock may depress its stock price.

Sales of a substantial number of shares of MindArrow s common stock in the public market, or the appearance that such shares are available for sale, could adversely affect the market price for its common stock. As of August 16, 2002, MindArrow had 30,896,878 shares of common stock outstanding. A significant number of these shares are not publicly traded but are available for immediate resale to the public. MindArrow also has reserved shares of its common stock as follows:

- 14,064,533 shares are reserved for issuance upon the exercise of warrants;
- 2,475,000 shares are reserved for issuance under MindArrow s 1999 Stock Option Plan; and
- 5,497,500 shares are reserved for issuance under MindArrow s 2000 Stock Incentive Plan.

Shares underlying vested options are generally eligible for immediate resale in the public market.

MindArrow s efforts to protect its intellectual property rights may not sufficiently protect it, and it may incur costly litigation to protect its rights.

MindArrow has filed 18 patent applications and it plans to file additional patent applications in the future with respect to various additional aspects of its technologies. In addition, MindArrow has received one patent on technology it obtained in the Control Commerce acquisition. MindArrow marks its software with copyright notices, and intends to file copyright registration applications where appropriate. MindArrow has also filed several federal trademark registration applications for trademarks and service marks that it uses. There can,

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however, be no assurance that any patents, copyright registrations, or trademark registrations applied for by MindArrow will be issued, or if issued, will sufficiently protect its proprietary rights.

MindArrow also relies substantially on certain technologies that are not patentable or proprietary and are therefore available to its competitors. In addition, many of the processes and much of MindArrow s technology are dependent upon its technical personnel, whose skill, knowledge and experience are not patentable. To protect MindArrow s rights in these areas, it requires all employees, significant consultants and advisors to enter into confidentiality agreements under which they agree not to use or disclose MindArrow s confidential information as long as that information remains proprietary. MindArrow also requires that its employees agree to assign to it all rights to any inventions made during their employment relating to MindArrow s activities, and not engage in activities similar to those of MindArrow during the term of their employment. There can be no assurance, however, that these agreements will provide meaningful protection for MindArrow s trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure of such trade secrets, know-how or proprietary information. Further, in the absence of patent protection, it may be exposed to competitors who independently develop substantially equivalent technology or otherwise gain access to MindArrow s trade secrets, knowledge or other proprietary information.

Despite MindArrow s efforts to protect its intellectual property, a third party or a former employee could copy, reverse-engineer or otherwise obtain and use its intellectual property or trade secrets without authorization or could develop technology competitive to MindArrow.

MindArrow s intellectual property may be misappropriated or infringed upon. Consequently, litigation may be necessary in the future to enforce MindArrow s intellectual property rights, to protect its confidential information or trade secrets, or to determine the validity or scope of the rights of others. Litigation could result in substantial costs and diversion of management and other resources and may not successfully protect MindArrow s intellectual property. Additionally, MindArrow may deem it advisable to enter into royalty or licensing agreements to resolve such claims. Such agreements, if required, may not be available on commercially reasonable or desirable terms or at all.

MindArrow s technology may infringe on the rights of others.

Even if the patents, copyrights and trademarks MindArrow applies for are granted, they do not confer on MindArrow the right to manufacture or market products or services if such products or services infringe on intellectual property rights held by others. If any third parties hold conflicting rights, MindArrow may be required to stop making, using, or marketing one or more of its products or to obtain licenses from and pay royalties to others, which could have a significant and material adverse effect on it. There can be no assurance that MindArrow will be able to obtain or maintain any such license on acceptable terms or at all.

MindArrow may also be subject to litigation to defend against claims of infringement of the rights of others or to determine the scope and validity of the intellectual property rights of others. If third parties hold trademark, copyright or patent rights that conflict with MindArrow s business, then it may be forced to litigate infringement claims that could result in substantial costs to it. In addition, if MindArrow was unsuccessful in defending such a claim, it could have a negative financial impact on it. If third parties prepare and file applications in the United States that claim trademarks used or registered by MindArrow, it may oppose those applications and be required to participate in proceedings before the United States Patent and Trademark Office to determine priority of rights to the trademark, which could result in substantial costs to MindArrow. An adverse outcome in litigation or privity proceedings could require MindArrow to license disputed rights from third parties or to cease using such rights. Any litigation regarding MindArrow s proprietary rights could be costly, divert management s attention, result in the loss of certain of MindArrow s proprietary rights, require it to seek licenses from third parties and prevent it from selling its services, any one of which could have a negative financial impact on MindArrow. In addition, inasmuch as MindArrow broadcasts content developed by third parties, its exposure to copyright infringement actions may increase because it must rely upon such third parties for information as to the origin and ownership of such licensed content. MindArrow generally obtains representations as to the origin and ownership of such licensed content and generally obtains

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indemnification to cover any breach of such representations; however, there can be no assurance that such representations will be accurate or given, or that such indemnification will adequately protect MindArrow.

The length of MindArrow s sales cycle increases its costs.

Many of MindArrow s potential customers conduct extensive and lengthy evaluations before deciding whether to purchase or license its products. In MindArrow s experience to date, the sales cycle has ranged from a few days up to six months. While the potential customer is making this decision, MindArrow continues to incur salary, travel and other similar costs of following up with these accounts. Therefore, the risk associated with MindArrow s lengthy sales cycle is that it may expend substantial time and resources over the course of the sales cycle only to realize no revenue from such efforts if the customer decides not to purchase from MindArrow. Any significant change in customer buying decisions or sales cycles for MindArrow s products could have a material adverse effect on MindArrow s business, results of operations, and financial conditions.

MindArrow has a limited operating history in international markets.

MindArrow has only limited experience in operating in international markets. Although MindArrow has distributed its products and services internationally since August 1999, MindArrow had no experience in international operations prior to the acquisition of its Hong Kong-based subsidiary, MindArrow Asia Ltd., in April 2000. Through June 2002, MindArrow has recognized approximately $2.0 million of revenue related to its international operations in eastern Asia. There can be no assurance that its international operations will be successful.

There are risks inherent in conducting international operations.

There are many risks associated with MindArrow s international operations in eastern Asia, including, but not limited to:

difficulties in collecting accounts receivable and longer collection periods;

changing and conflicting regulatory requirements;

potentially adverse tax consequences;

tariffs and general export and customs restrictions;

difficulties in staffing and managing foreign operations;

political instability;

fluctuations in currency exchange rates;

the need to develop localized versions of MindArrow s products;

national standardization and certification requirements;

seasonal reductions of business activity; and

the impact of local economic conditions and practices.

Any of the above-listed risks could have a material adverse effect on MindArrow s future business, financial condition, or results of operations.

International markets for online marketing are in their very early stages of development.

MindArrow distributes its messages globally. To date, MindArrow has developed or modified into foreign language text and delivered content to recipients in the United Kingdom, France, Switzerland, Austria, Norway, Sweden, Iceland, Finland, Denmark, Greece, Lebanon,

Mexico, Panama, Peru, Philippines, Australia, Singapore, Hong Kong, China, and Taiwan. The markets for online advertising and direct marketing in these countries are generally in earlier stages of development than in the United States, and MindArrow cannot assure you that the market for, and use of online advertising and direct marketing in

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international markets such as these and others will be significant in the future. Factors that may account for slower growth in the online advertising and direct marketing markets include, but are not limited to:

slower growth in the number of individuals using the Internet internationally;

privacy concerns;

a lower rate of advertising spending internationally than in the United States; and

a greater reluctance to use the Internet for advertising and direct marketing.

Any of the above-listed risks could have a material adverse effect on MindArrow s future business, financial condition, or results of operations.

MindArrow is subject to risks associated with governmental regulation and legal uncertainties.

MindArrow is subject to general business laws and regulations. These laws and regulations, as well as new laws and regulations that may be adopted in the United States and other countries, may impede the growth of the Internet. These laws may relate to areas such as advertising, taxation, personal privacy, content issues (such as obscenity, indecency, and defamation), copyright and other intellectual property rights, encryption, electronic contracts and digital signatures, electronic commerce liability, email, network and information security, and the convergence of traditional communication services with Internet communications, including the future availability of broadband transmission capability. Other countries and political organizations are likely to impose or favor more and different regulation than that which has been proposed in the United States, thus furthering the complexity of regulation. In addition, state and local governments may impose regulations in addition to, inconsistent with, or stricter than, federal regulations. The adoption of such laws or regulations, and uncertainties associated with their validity, applicability, and enforcement, may affect the available distribution channels for and costs associated with MindArrow s products and services, and may affect the growth of the Internet. Such laws or regulations may therefore harm its business.

MindArrow does not know for certain how existing laws governing issues such as privacy, property ownership, copyright and other intellectual property issues, taxation, illegal or obscene content, retransmission of media, and data protection, apply to the Internet. The vast majority of such laws were adopted before the advent of the Internet and related technologies and do not address the unique issues associated with the Internet and related technologies. Most of the laws that relate to the Internet have not yet been interpreted. Changes to or the interpretation of these laws could:

limit the growth of the Internet;

create uncertainty in the marketplace that could reduce demand for MindArrow s products and services;

increase MindArrow s cost of doing business;

expose MindArrow to significant liabilities associated with content distributed or accessed through MindArrow s products or services, and with its provision of products and services, and with the features or performance of its products;

lead to increased product development costs, or otherwise harm MindArrow s business; or

decrease the rate of growth of MindArrow s user base and limit its ability to effectively communicate with and market to its user base.

Any of the above-listed consequences could have a material adverse effect on MindArrow s future business, financial condition, or results of operations.

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MindArrow may be subject to legal liability in connection with the data collection capabilities of its products and services.

MindArrow s products are interactive Internet applications that by their very nature require communication between a client and server to operate. To provide better consumer experiences and to operate effectively, MindArrow s products occasionally send information to servers at MindArrow. Many of the services MindArrow provides also require that users provide information to it. MindArrow posts privacy policies concerning the use and disclosure of MindArrow s user data. Any failure by MindArrow to comply with its posted privacy policies could impact the market for MindArrow s products and services, subject it to litigation, and harm its business.

In addition, the Child Online Privacy Protection Act (COPPA) became effective as of April 21, 2000. COPPA requires operators of commercial Web sites and online services directed to children (under 13), and general audience sites that know that they are collecting personal information from a child, to:

provide parents notice of their information practices;

obtain verifiable parental consent before collecting a child s personal information, with certain limited exceptions;

give parents a choice as to whether their child s information will be disclosed to third parties;

provide parents access to their child s personal information and allow them to review it and/or have it deleted;

give parents the opportunity to prevent further use or collection of information;

not require a child to provide more information than is reasonably necessary to participate in an activity; and

maintain the confidentiality, security, and integrity of information collected from children.

MindArrow does not knowingly collect and disclose personal information from such minors, and therefore believes that it is fully compliant with COPPA. However, the manner in which COPPA may be interpreted and enforced cannot be fully determined, and thus COPPA and future legislation such as COPPA could subject MindArrow to potential liability, which in turn would harm its business.

Risks Related to the Business of Category 5

Future losses could impair Category 5 s ability to raise capital.

Although Category 5 recorded net income of $1,784,164 for the nine months ended March 31, 2002, net income of $4,324,972 for the six months ended June 30, 2001, and net income of $1,700,995 for the twelve months ended December 31, 2000, Category 5 cannot assure you that it will be profitable in future periods. Losses in future periods could impair Category 5 s ability to raise capital as needed.

Category 5 is subject to compliance with securities laws, which exposes it to potential liabilities.

Historically, Category 5 has periodically offered and sold Category 5 common stock to investors pursuant to certain exemptions from the registration requirements of the Securities Act of 1933, as well as those of various state securities laws. The basis for relying on such exemptions is factual; that is, the applicability of such exemptions depends upon Category 5 s conduct and that of those persons contacting prospective investors and making the offering. Category 5 has not received a legal opinion to the effect that any of Category 5 s prior offerings were exempt from registration under any federal or state law. Instead, Category 5 has relied upon the operative facts as documented by it as the basis for such exemptions, including information provided by investors themselves.

If any prior offering did not qualify for such exemption, an investor would have the right to rescind its purchase of the securities if it so desired. It is possible that if an investor should seek rescission, such investor would succeed. A similar situation prevails under state law in those states where the securities may be offered

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without registration in reliance on the partial preemption from the registration or qualification provisions of such state statutes under the National Securities Markets Improvement Act of 1996, which does not preempt compliance with certain filing and notice requirements and other conditions that rarely, but in some instances, must be satisfied prior to making an offer in a specific state. If investors were successful in seeking rescission, Category 5 would face severe financial demands that could adversely affect it and, thus, the nonrescinding investors.

Additionally, if Category 5 did not qualify for the exemptions upon which Category 5 has relied, Category 5 may become subject to significant fines and penalties imposed by the Commission under the Securities Act and state securities agencies.

Category 5 s business strategies and financial projections are based on various factors and assumptions, which may prove to be incorrect.

This joint proxy statement/ prospectus describes Category 5 s business strategy and plans. Such information has been prepared by Category 5 and is based on a number of variables, hypotheticals and assumptions about various matters, including the following:

General Internet industry information from third-party sources, including information respecting level of usage, continued growth, security protocol development, and other matters;

Expectations of management regarding managerial and financial resources available to Category 5;

Anticipated results of advertising and marketing activities;

Estimates of market size and characteristics;

Competitive conditions;

Future capital requirements; and

Rates of growth.

Such information is based on present circumstances, third party data believed reliable but not fully verified or verifiable by management, Category 5 s estimates, and on events that have not occurred, which may not occur, or which may occur with different sequences and consequences from those now assumed or anticipated. All such information, estimates, and projections must be considered in light of the emerging nature of the Internet industry and the uniqueness of Category 5 s business plan and strategy. If investors were to consult with their own advisors or other industry experts, it should be expected that their views may differ from those set forth herein. No assurance can be given that all material assumptions have been considered. No representation or warranty of any kind is made by Category 5, and none should be inferred, respecting the future accuracy or completeness of such forward-looking material.

Some of Category 5 s marketing channels are unproven and may not be successful.

Category 5 has recently commenced marketing products and services through a new marketing channel using resellers and multi-level marketing. This marketing channel is unproven and may not be successful. If it is unsuccessful, Category 5 s operating expenses may increase without a corresponding increase in sales.

Category 5 must successfully implement its marketing and business strategy in order to generate sales.

Category 5 intends to continue or begin to advertise to potential clients through a variety of distribution channels, such as seminars, print and Internet media advertising, direct marketing campaigns, cold calling, and co-marketing arrangements with key industry partners. If these distribution channels prove more costly or less effective than anticipated, Category 5 s growth and ability to generate revenues would be adversely affected.

Category 5 s continued success depends on its ability to compete in an industry that is highly competitive, with rapid technological advances and constantly improving products in both price and performance. As most

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market areas in which Category 5 operates continue to grow, Category 5 is experiencing increased competition, and expects this trend to continue. Under Category 5 s current competitive strategy, Category 5 endeavors to remain competitive by growing existing businesses, developing new businesses internally, increasing efficiency, improving access to new markets, and reducing costs. Although Category 5 s executive management team and board of directors continue to review and monitor Category 5 s strategic plans, Category 5 can give no assurance that it will be able to continue to follow its current strategy or that this strategy will be successful.

Category 5 cannot accurately predict its future revenues.

There can be no assurance that Category 5 will be able to generate significant revenues or that it will achieve or maintain profitability, or generate revenues from operations in the future. Category 5 believes that its success will depend upon its ability to generate and retain new merchant subscribers, which cannot be assured and, in many circumstances, will be beyond Category 5 s control. Category 5 s ability to generate subscribers will depend on a variety of factors, including:

Category 5 s sales and marketing efforts as well as the co-marketing efforts of its strategic partners;

The reliability and cost-effectiveness of Category 5 s services;

The level and growth of use of the Internet; and

Customer service and support.

Because of Category 5 s recent rapid growth and the ongoing evolution of its business model, Category 5 does not have historical financial data on which to base planned operating expenses. Category 5 may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in revenues. Therefore, any significant shortfall of demand for Category 5 s Internet services in relation to Category 5 s budget expectations would have an immediate adverse impact on Category 5 s business, operating results and financial condition.

Category 5 expects its operating results to fluctuate, which makes it difficult to predict future performance.

Category 5 expects a portion of its revenue stream to come from set-up and other fees charged to new customers, which will fluctuate in amount. Registration for Internet e-commerce services tends to be cyclical in nature. In addition, Category 5 could potentially experience significant fluctuations in future operating results caused by a variety of factors, many of which are outside of Category 5 s control, including:

Demand for and market acceptance of new Internet services;

The introduction or enhancement of Internet services or access by Category 5 or its competitors;

Capacity utilization;

Technical difficulties, system downtime, or Internet brownouts;

Fluctuations in data communications and telecommunications costs;

Subscriber retention;

The timing and magnitude of capital expenditures and requirements;

Costs relating to the expansion or upgrading of operations, facilities, and infrastructure;

Changes in Category 5 s pricing policies and those of its competitors;

Changes in regulatory laws and policies; and

General economic conditions, particularly those related to the Internet industry.

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Because of the foregoing factors, Category 5 expects its future operating results to fluctuate. As a result of such fluctuations, it will be difficult to predict Category 5 s operating results. Period-to-period comparisons of operating results are not necessarily meaningful and should not be relied upon as an indicator of future performance. In addition, a relatively large portion of Category 5 s expenses will be fixed in the short-term, particularly with respect to data communications and telecommunications costs, depreciation, real estate and personnel. Therefore, Category 5 s future operating results will be particularly sensitive to fluctuations in revenues because of these and other short-term fixed costs.

Category 5 may be unable to collect its receivables and retainages in amounts previously estimated.

In accordance with United States generally accepted accounting principles, Category 5 has established reserves against its retainages and receivables. Category 5 believes that the established reserves adequately allow for the estimated uncollectable portion of the retainages and receivables. However, Category 5 may experience collection rates below its established reserves, which could reduce the amount of available funds and require additional reserves. Reduced available funds could adversely affect Category 5 s ability to successfully implement the objectives of Category 5 s business plan. There can be no assurance that Category 5 will be able to collect its retainages and receivables in sufficient amounts. Failure to collect adequate amounts of its retainages and receivables could materially adversely affect Category 5 s business and results of operations.

There are low barriers to entry in Category 5 s market, which could result in increased competition in the future.

The market for Internet-based services is relatively new, intensely competitive and rapidly evolving. There are minimal barriers to entry, and current and new competitors can launch new Internet products and services at a relatively low cost within relatively short time periods. Category 5 expects competition to persist and intensify and the number of competitors to increase significantly in the future. Should Category 5 seek in the future to attempt to expand the scope of its Internet services and product offerings, Category 5 will compete with a greater number of Internet companies. Because the operations and strategic plans of existing and future competitors are undergoing rapid change, it is difficult for Category 5 to anticipate which companies are likely to offer competitive products and services in the future.

The intense competition in Category 5 s industry could reduce or eliminate the demand for its services.

The market for Category 5 s services is intensely competitive and subject to rapid technological change. Category 5 expects competition to intensify in the future. Category 5 s primary source of competition comes from developers of other systems for merchant account setup and e-commerce processing. In addition, other companies may enter the market for Category 5 s services. Category 5 s current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with other e-commerce service providers, thereby increasing the ability of their services to address the needs of Category 5 s prospective customers.

Category 5 will rely on certain key co-marketing alliances to generate clients, end-users, and revenue.

Category 5 has entered into certain key co-marketing arrangements with strategic partners in order to leverage the industry and marketing expertise of such partners. Category 5 expects that revenues generated from the sale of Category 5 s products and services through such strategic co-marketing arrangements will account for a significant portion of its revenues for the foreseeable future. Some of these arrangements provide, for the co-marketing partner, certain exclusive rights to co-market Category 5 s services in a particular industry, which might hinder Category 5 from directly contacting potential clients in such industry. Category 5 s arrangements with these co-marketing partners are relatively new and have not yet generated material revenues. There can be no assurance that such arrangements will be successful in generating such revenues. Further, if a co-marketing relationship is terminated, Category 5 may be unable to replace such relationship with other alliances that have comparable customer bases and user demographics.

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Category 5 is dependent upon certain relationships with third parties, the loss of which may be detrimental to its operations.

Category 5 is dependent on certain banking relationships as well as strategic relationships with third parties who provide payment gateways to Category 5 s customers. Category 5 must comply with certain bank covenants to maintain its banking relationships. Failure of these financial institutions and third parties to continue their relationships with Category 5 or to continue to provide services in a satisfactory way to Category 5 s customers could adversely impact Category 5 s financial viability and result in its loss of the business of the merchants to whom Category 5 sells products and services. During the nine months ended March 31, 2002, one of the two of Category 5 s financing sources factored 63% of Category 5 s financing contracts and the other factored 32%. Category 5 may in the future continue to finance its operations by factoring its financing contracts. If these financial institutions and third party service providers do not continue to provide services to Category 5 customers, Category 5 may not be able to find other third-party service providers. In that instance, Category 5 customers may terminate their agreements and move their business to Category 5 s competitors, which could have a significant effect on Category 5 revenues and earnings.

Category 5 s sales may suffer due to loss of certain outside referral source.

Category 5 s wholly-owned subsidiary, ePenzio, Inc., has historically generated a substantial percentage of its revenue from selling products and services at programs sponsored by other companies (lead sources). During the last year, one of the larger lead sources has been Home, Inc. ePenzio was informed on May 10, 2002 that Home, Inc. may no longer allow ePenzio sales teams to participate in Home, Inc. programs. Subsequently, on June 14, 2002, ePenzio and Home, Inc. executed an agreement pursuant to which ePenzio s sales teams would have continued to participate in Home, Inc. s programs. However, in August 2002, Home, Inc. terminated this contract. While it is unclear what the actual effect on revenues, profits, cash flow, or the financial condition of Category 5 will be as a result of the termination of the relationship between ePenzio and Home, Inc., there is a substantial likelihood that revenues will decrease in the short term as a result of this development. During the nine month period ended March 31, 2002, the six months ended June 30, 2001, and the year ended December 31, 2000, this outside referral source provided customer referrals which generated in excess of 21%, 60%, and 88%, respectively, of Category 5 s gross revenues. The Company has relationships with other lead sources, and intends to begin sending sales teams out with these companies as soon as reasonably possible. While there can be no assurances in this regard, it is anticipated that the loss of Category 5 s contractual relationship with Home, Inc. may significantly affect the Company s results of operations.

Category 5 is subject to risks associated with research and development of new products.

In order to remain competitive and continue to increase Category 5 s revenues, Category 5 must update its products and services, a process which could result in increased research and development costs in excess of historical levels and the loss of revenues and customers if the new products and services do not perform as intended or are not acceptable in the marketplace. The electronic payments market in which Category 5 competes is characterized by technological change, new product introductions, evolving industry standards and changing customer needs.

Category 5 s market experiences rapid technological change. Any delay in the delivery of new products or services could render them less desirable to Category 5 s customers, or possibly even obsolete.

Category 5 may not adequately manage its growth and expansion.

Category 5 has recently experienced a period of rapid growth. This growth may continue at a substantial rate as Category 5 seeks to expand its operations and begin generating increased revenues. If Category 5 is not

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able to manage this growth, its business and results of operations will likely suffer. To manage growth effectively, Category 5 must:

Expand its operating and financial procedures and controls;

Replace or upgrade its operational, financial and management information systems;

Attract, train, motivate, manage, and retain key employees;

Expand its infrastructure;

Enter into strategic relationships and agreements with vendors and co-marketers; and

Increase substantially the size of the sales, marketing, customer development; and customer service departments.

There can be no assurance that Category 5 will be successful in evaluating its growth requirements to address these risks.

Some of Category 5 s competitors are larger and have greater financial and operational resources which may give them an advantage in Category 5 s market.

Many of Category 5 s competitors are larger than Category 5 and have greater financial and operational resources than Category 5. This may allow them to offer better pricing terms to customers in the industry, which could result in a loss of Category 5 s potential or current customers or could force Category 5 to lower its prices as well. Either of these actions could have a significant effect on Category 5 s revenues. In addition, Category 5 s competitors may have the ability to devote more financial and operational resources than Category 5 can to the development of new technologies that provide improved operating functionality and features to their product and service offerings. If successful, their development efforts could render Category 5 s product and services offerings less desirable to customers, again resulting in the loss of customers or a reduction in the price Category 5 can demand for its offerings.

Category 5 may become subject to additional U.S. state taxes that cannot be passed through to Category 5 s merchant customers, in which case Category 5 s profitability could be adversely affected.

Transaction processing companies like Category 5 may be subject to taxation by various U.S. states on certain portions of Category 5 s fees charged to customers for Category 5 s services. Application of this tax is an emerging issue in Category 5 s industry and the states have not yet adopted uniform regulations on this topic. If Category 5 is required to pay such taxes and is not able to pass the tax expense through to Category 5 s merchant customers, Category 5 s operating costs will increase, reducing its profit margin.

Category 5 may become subject to government regulation and legal uncertainties that could substantially impair its growth or expose it to unanticipated liabilities.

The adoption and interpretation of any future or currently existing regulations might have a negative impact on Category 5 s business. The Internet industry is relatively new. The applicability to the Internet of existing laws governing issues such as property ownership, copyrights and other intellectual property issues, taxation, libel, obscenity and personal privacy is uncertain. Due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted with respect to the Internet or other online services covering issues such as user privacy, content, copyrights, pricing of products and services, taxation, advertising, intellectual property rights, information security, distribution and characteristics and quality of products and services. Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to Category 5 s business, or the application of existing laws and regulations to the Internet and other online services could have a material adverse effect on Category 5 s business, prospects, financial condition and results of operations.

The growth and development of the market for online commerce may prompt more stringent consumer protection laws that may impose additional burdens on those companies conducting business online. The

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adoption of any additional laws or regulations, possibly including the taxation of Internet services and transactions, may decrease the growth of use of the Internet or other online services generally and could decrease the acceptance of the Internet as a communications and commercial medium, which could, in turn, decrease the demand for Category 5 s products and services and/or increase Category 5 s cost of doing business, or otherwise have an adverse effect on Category 5 s business, prospects, financial condition and results of operations.

The international market for Category 5 s future products and services is unproven and the revenue generated by any future international operations may not be adequate to offset the expense of establishing and maintaining those operations.

Category 5 s long-term strategy includes a plan to expand Category 5 s services into international markets. The international market for Internet service providers and Category 5 s business model, products and services is unproven. Therefore, Category 5 cannot assure you that it will be able to market, sell and provide its Internet services successfully outside the United States. Category 5 could suffer significant operating losses if the revenue generated by any international operations is not adequate to offset the related expense.

Category 5 needs to hire and retain qualified personnel to sustain its business.

Category 5 is currently managed by a small number of key management and operating personnel. Category 5 does not have employment agreements with most of its employees. Category 5 does not maintain key man insurance on any employees. Category 5 s future success depends, in part, on the continued service of its key executive, management, and technical personnel, many of whom have only recently been hired, and Category 5 s ability to attract highly skilled employees. If key officers or employees are unable or unwilling to continue in their present positions, Category 5 s business could be harmed. From time to time, Category 5 has experienced, and it expects to continue to experience, difficulty in hiring and retaining highly skilled employees. Competition for employees in Category 5 s industry is intense. If Category 5 is unable to retain Category 5 s key employees or attract, assimilate or retain other highly qualified employees in the future, that may have a material adverse effect on Category 5 s business and results of operations.

Category 5 is dependent on the continued participation of certain key executives and personnel to effectively execute its business plan and strategies and Category 5 must effectively integrate its management team.

Category 5 s performance is substantially dependent on the continued services of the members of Category 5 s management team, as well as on its ability to retain and motivate Category 5 s officers and key employees. Category 5 s future success also depends on its continuing ability to attract and retain highly qualified technical and managerial personnel. The market for highly qualified personnel is very competitive. There can be no assurance that Category 5 will be able to retain its existing employees or that it will be able to attract, assimilate or retain sufficiently qualified personnel in the future. The inability to attract and retain the necessary technical, managerial, design, editorial, sales and marketing personnel could have a material adverse effect on Category 5 s business, financial condition and operating results.

Category 5 depends on the ability of its management team to effectively execute Category 5 s business plan and strategies. During the last several months, Category 5 has significantly expanded its managerial, technical, financial, marketing, operations, and customer service departments and has hired many of its key employees and executives. Some of these key employees and executives have no prior senior management experience in public companies. Because many members of Category 5 s management team have worked together only for a short period of time, Category 5 must integrate these key executives and other employees into its operations. If the Category 5 management group is unable to effectively integrate its activities, or if Category 5 is unable to integrate new employees into its operations, Category 5 s business plan and strategies will not be effectively executed and Category 5 s operations could suffer.

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Recent changes in senior management of Category 5 may negatively impact future operations if the merger does not occur.

In June 2002, Mitchell Edwards resigned as President and acting Chief Financial Officer of Category 5. Should the merger be consummated, it is anticipated that Robert Webber, President of MindArrow, will serve as President of the combined entity and that Michael Friedl, Chief Financial Officer of MindArrow, will serve as Chief Financial Officer. In addition, William C. Gibbs had been serving as Chairman and Chief Executive Officer of Category 5 s board of directors. However, Mr. Gibbs and Category 5 are currently negotiating a settlement of Mr. Gibbs employment contract, and Paul Anderson has assumed the duties of Chairman and Chief Executive Officer of Category 5. Should the merger not occur, the loss of Category 5 s Chief Executive Officer and Chief Financial Officer may negatively impact operations of Category 5 unless and until Category 5 can recruit and retain replacement senior management.

Category 5 is negotiating a settlement with William Gibbs, which may be disruptive to the combined company and result in substantial costs.

Since June 2001, William C. Gibbs has served as the Chief Executive Officer and Chairman of the board of directors of Category 5. However, Mr. Gibbs and Category 5 are currently negotiating a settlement of Mr. Gibbs employment contract, and Paul Anderson has assumed the duties of Chairman and Chief Executive Officer of Category 5. Category 5 cannot provide any assurance that this matter will be resolved prior to the closing of the merger, or that a resolution will occur without the parties seeking a legal remedy. Should litigation occur, such event may be disruptive to the combined company and may result in substantial legal fees and other costs.

The demand for Category 5 s services could be negatively affected by a reduced growth of e-commerce or delays in the development of the Internet infrastructure.

Category 5 s growth generally depends on the growing use and acceptance of the Internet as a medium of commerce by merchants and customers. Rapid growth in the use of and interest in the Internet is a relatively recent development. Category 5 cannot be certain that acceptance and use of the Internet will continue to develop or that a sufficiently broad base of merchants and consumers will adopt, and continue to use, the Internet as a medium of commerce. The development of the Internet as a commercial marketplace may occur more slowly than Category 5 anticipates for a number of reasons, including potentially inadequate development of the necessary network infrastructure or delayed development of enabling technologies and performance improvements. If the number of Internet users or their use of Internet resources continues to grow, it may overwhelm the existing Internet infrastructure and adversely affect the growth of the Internet as a marketplace. Delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity could also have a detrimental effect. These factors could result in slower response times or adversely affect usage of the Internet, ultimately resulting in lower numbers of e-commerce transactions and lower demand for Category 5 s services.

Category 5 depends upon third parties to implement elements of its business.

Category 5 depends substantially upon third parties for several critical elements of its business, including:

Payment processing companies, for merchant settlement services;

Telecommunication services;

Vendors of software and hardware for maintenance and upgrades of software, systems, and hardware used to deliver Category 5 s products on the Internet;

Finance companies; and

Referrals.

Any loss or interruption of service by such providers and suppliers would have an adverse effect on Category 5 s business and prospects.

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Category 5 may be unable to raise necessary funds for operations.

Category 5 anticipates that it may need to raise additional funds to meet its cash flow and capital requirements. In the past, Category 5 has frequently experienced cash flow shortages because Category 5 has not generated enough cash from operations to cover its expenses. Category 5 may need to raise additional funds if Category 5 has underestimated its capital needs or if Category 5 incurs unexpected expenses. There can be no assurance that such financings will be available in amounts or on terms acceptable to Category 5, if at all. Further, Category 5 s lack of tangible assets to pledge could prevent Category 5 from establishing debt based sources of financing. The inability to raise necessary funding would adversely affect Category 5 s ability to successfully implement Category 5 s business plan. There can be no assurance that Category 5 will be able to obtain additional financing to meet Category 5 s current or future requirements on satisfactory terms, if at all. Failure to obtain sufficient capital could materially adversely affect Category 5 s business and results of operations.

Category 5 s operations could be hurt by terrorist attacks and other activity that make air travel difficult or reduce the willingness of its target customers to attend group meetings.

Category 5 relies on frequent presentations of its preview training sessions and Internet training workshops by a limited number of persons in various cities, and these persons generally travel by air. In addition, these preview training sessions and Internet training workshops involve large groups of persons in upscale and sometimes marquis hotel facilities. Category 5 s business would be materially and adversely affected by air travel becoming less available due to significant cut backs in the frequency of service or significant increases in processing times at airports due to security or other factors or by air travel becoming unavailable due to governmental or other action as was the case during a brief period during September 2001. In addition, Category 5 s business would be materially and adversely affected if its target customers were to become fearful of attending large public meetings in large hotels.

Current Management of Category 5 owns approximately 61.5% of Category 5 outstanding common stock and their interests could conflict with those of other stockholders.

Category 5 s current directors and executive officers own approximately 61.5% of Category 5 outstanding common stock. A majority of the outstanding shares of Category 5 s common stock is required to approve the merger. As a result, the directors and executive officers collectively may be able to substantially influence all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control.

Category 5 may not pay dividends.

Category 5 does not anticipate paying cash dividends on its common stock in the foreseeable future. In addition, Category 5 s current Business Loan Agreement with Zions First National Bank does, and Category 5 s future credit facilities and debt instruments may, restrict its ability to pay cash dividends on its common stock. Moreover, Category 5 is a holding company, and Category 5 s ability to pay dividends is dependent upon the receipt of distributions from Category 5 s direct and indirect subsidiaries.

A change of control may be difficult.

Category 5 s Amended and Restated Articles of Incorporation, as corrected, contain, among other things, provisions authorizing the issuance of blank check preferred stock. Category 5 is also subject to provisions of Nevada law which may affect certain merger and other change of control transactions. These provisions could delay, deter or prevent a tender offer, certain business combinations or other changes of control involving Category 5 that its stockholders might consider to be in their best interests.

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Future acquisitions may be unsuccessful, result in disruptions to Category 5 s business or distractions of its management due to difficulties in assimilating acquired personnel and operations, or strain or divert Category 5 s resources from more profitable operations.

As part of Category 5 s ongoing business strategy, Category 5 may acquire complementary businesses or technologies. If Category 5 pursues any such acquisition, Category 5 s ongoing business may be disrupted and management s attention and resources may be diverted from other business concerns. Such acquisitions may result in Category 5 entering into markets or market segments in which it has limited prior experience. Further, any such acquisition transaction may be expensive, time-consuming, and complicated. Acquisitions involve a number of special risks, including failure of management to integrate the acquired business, failure to retain key personnel of the acquired business, and risks associated with unanticipated events or liabilities, some or all of which could have a material adverse effect on Category 5 s business, financial condition, and results of operations.

As part of Category 5 s ongoing business strategy, Category 5 intends to consider acquisitions, alliances, and transactions involving other companies that could complement Category 5 s existing business. However, Category 5 may not be able to identify suitable acquisition parties, joint venture candidates, or transaction counterparties. Also, even if Category 5 can identify suitable parties, Category 5 may not be able to obtain the financing necessary to complete any such transaction or consummate these transactions on terms that it finds favorable.

Failure to protect Category 5 s intellectual property could harm its name recognition efforts and ability to compete effectively.

Currently, Category 5 relies on a combination of patents, trademarks, copyrights and common law safeguards including trade secret protection. To protect its intellectual property rights in the future, Category 5 intends to continue to rely on a combination of patents, trademarks, copyrights and common law safeguards, including trade secret protection. Category 5 also relies on restrictions on use, confidentiality and nondisclosure agreements and other contractual arrangements with its employees, affiliates, customers, alliance partners and others. The protective steps Category 5 has taken may be inadequate to deter misappropriation of its intellectual property and proprietary information. A third party could obtain Category 5 s proprietary information or develop products or technology competitive with Category 5. Category 5 may be unable to detect the unauthorized use of, or take appropriate steps to enforce its intellectual property rights. Effective patent, trademark, copyright and trade secret protection may not be available in every country in which Category 5 offers or intends to offer products and services to the same extent as in the United States. Failure to adequately protect Category 5 s intellectual property could harm or even destroy Category 5 s brands and impair its ability to compete effectively. Further, enforcing Category 5 s intellectual property rights could result in the expenditure of significant financial and managerial resources and may not prove successful.

Category 5 may have made, or may make in the future, acquisitions that are unsuccessful or strain or divert resources from more profitable operations.

Category 5 may not be able to successfully integrate any businesses that its has acquired, or may acquire, into its existing operations. If Category 5 cannot successfully integrate acquisitions, its operating expenses may increase. This increase would affect Category 5 s net earnings, which could adversely affect the value of the outstanding securities. Moreover, these types of transactions may result in potentially dilutive issuances of equity securities, the incurrence of additional debt, and amortization of expenses related to goodwill and intangible assets, all of which could adversely affect Category 5 s profitability. These transactions involve numerous other risks as well, including the diversion of management attention from other business concerns, entry into markets in which Category 5 has had no or only limited experience, and the potential loss of key employees of acquired companies. Occurrence of any of these risks could have a material adverse effect on Category 5. Category 5 is still working to integrate personnel and operations from Exposure International, LLC, Transaxis, S.A., Bottomline OnLine, Inc., FlashAlly, LLC and CaptureQuest, Inc. that it acquired during the last nine months.

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Category 5 may be in breach of its purchase agreement with CaptureQuest if it does not fund $1,500,000 to CaptureQuest by September 25, 2002.

On April 10, 2002, Category 5 closed its acquisition of CaptureQuest, Inc. Category 5 acquired CaptureQuest for 3,105,769 shares of common stock. At closing, 2,105,769 of these shares were issued to the former shareholders of CaptureQuest, and the remaining 1,000,000 shares were deposited into an escrow account to indemnify Category 5 against certain representations and warranties made by CaptureQuest, and to serve as an earnout upon attainment by CaptureQuest of certain revenue and profitability targets during the 12 months following the closing. Category 5 granted to each of the former CaptureQuest shareholders the right to repurchase the CaptureQuest shares transferred to Category 5 by such shareholder if Category 5 ceases to operate, if Category 5 files for bankruptcy, or if Category 5 s stock trades at a price below $1.00 for a period of fifteen days after one year from the closing. Moreover, Category 5 agreed to contribute, on or before September 25, 2002, $1,500,000 to CaptureQuest to be used for working capital. Category 5 may not be able to fund the $1,500,000 to CaptureQuest for working capital on September 25, 2002, or ever. Therefore, the former CaptureQuest shareholders may have a right to repurchase the CaptureQuest shares acquired by Category 5 if Category 5 s stock trades at a price below $1.00 for a fifteen-day period subsequent to April 10, 2003.

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THE MINDARROW SPECIAL MEETING

Date; Time; Place

The special meeting of MindArrow stockholders will be held at 10:00 a.m. (Pacific time) on , 2002 at the Waterfront Hilton located at 21100 Pacific Coast Hwy, Huntington Beach, California 92648.

Matters to be Considered at the Special Meeting

At the special meeting, MindArrow stockholders will be asked to vote on the following proposals:

1. to approve and adopt the merger agreement, as amended, and merger, and approve the issuance of shares of MindArrow common stock and warrants in connection with the merger with Category 5;

2. to approve a reverse stock split in a ratio no greater than one for ten, effective immediately after the completion of the merger with Category 5;

3. to approve a change in the name of MindArrow to Avalon Digital Marketing Systems, Inc., effective immediately after the merger with Category 5; and

4. such other business as may properly come before the Special Meeting or any postponement or adjournment thereof.

Under the merger agreement, Category 5 will merge with and into MindArrow Acquisition Corp., a wholly owned subsidiary of MindArrow. Category 5 will become a wholly owned subsidiary of MindArrow. All of the proposals must be approved for the transaction to be completed. For additional information about the terms of the merger, please refer to The Merger Agreement.

Revocability of Proxies

You may revoke a proxy at any time before it is voted by filing with the Secretary of MindArrow an instrument revoking the proxy. MindArrow stockholders should make such filing to the attention of Michael R. Friedl, Chief Financial Officer, Treasurer and Corporate Secretary, MindArrow Systems, Inc., 2120 Main Street, Suite 200, Huntington Beach, California 92648. You may also revoke a proxy at any time before it is voted by returning a duly executed proxy bearing a later date or by attending the special meeting and voting in person. Your attendance at the special meeting will not by itself constitute revocation of a proxy.

Record Date; Stock Entitled to Vote; Quorum

The record date for the determination of the stockholders entitled to vote at the special meeting is the close of business on , 2002. On the record date, shares of MindArrow common stock were issued, outstanding and entitled to vote and were held by approximately holders of record. A quorum is present at the special meeting if a majority of the shares of MindArrow common stock issued and outstanding and entitled to vote on the record date are represented in person or by proxy. In the event that a quorum is not present at the special meeting, it is expected that the meeting will be adjourned or postponed to solicit additional proxies. Holders of record of MindArrow common stock on the record date are entitled to one vote per share at the special meeting on each of the proposals.

Voting Procedures

To approve each proposal, at least a majority of the shares issued and outstanding and entitled to vote at the special meeting must be voted in favor of the respective proposal.

Only shares affirmatively voted for approval of the proposals, including properly executed proxies that do not contain voting instructions, will be counted as favorable votes for the proposals. If a MindArrow stockholder abstains from voting or does not vote, either in person or by proxy, it will have the effect of a vote against approval of the proposals. All shares represented by properly executed proxies received in time for the special meeting will be voted at the special meeting in the manner specified by their holders.

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Shares of MindArrow common stock represented at the special meeting but not voted, including shares of MindArrow common stock for which proxies have been received but for which holders of shares have abstained, will be treated as present at the special meeting for purposes of determining the presence or absence of a quorum for the transaction of all business.

Brokers who hold shares of MindArrow common stock in street name for customers who are the beneficial owners of such shares may not give a proxy to vote those customers shares in the absence of specific instructions from those customers. These non-voted shares are referred to as broker non-votes and have the effect of votes against approval of the proposals.

The persons named as proxies by a stockholder may propose and vote for one or more adjournments of the special meeting, including adjournments to permit further solicitations of proxies. No proxy voted against approval of the proposals will be voted in favor of any such adjournment or postponement.

MindArrow does not expect that any matter other than the proposals described in this joint proxy statement/prospectus will be brought before the special meeting. If, however, other matters are properly brought before the special meeting, the persons named as proxies will vote in accordance with their judgment.

Solicitation of Proxies

Proxies are being solicited by and on behalf of the MindArrow board of directors. MindArrow and Category 5 will equally share the expenses incurred in connection with the printing and mailing of this joint proxy statement/ prospectus. MindArrow will bear the costs relating to the solicitation of proxies from MindArrow stockholders. MindArrow will also request banks, brokers and other intermediaries holding shares of MindArrow common stock beneficially owned by others to send this joint proxy statement/ prospectus to, and obtain proxies from, the beneficial owners and will reimburse the holders for their reasonable expenses in so doing. In addition to solicitation by mail, MindArrow directors, officers and employees, without additional remuneration, may solicit proxies by telephone, facsimile machine and personal interviews, and MindArrow reserves the right to retain outside agencies for the purpose of soliciting proxies, which may be paid customary fees for performing those services.

MindArrow stockholders should not surrender their stock certificates at this time in connection with the merger.

MindArrow Voting Agreements

In connection with the execution of the merger agreement, certain stockholders of MindArrow agreed to vote their shares of common stock of MindArrow in favor of the merger and the other proposals described in this joint proxy statement/ prospectus. As of the record date set for the MindArrow special stockholders meeting, MindArrow stockholders holding an aggregate of 15,846,433 shares, or 51% of the total shares of MindArrow common stock issued and outstanding as of that date, have agreed to vote their shares in favor of the merger and the other proposals described herein. The MindArrow Voting Agreement is attached to this joint proxy statement/ prospectus as Appendix F and is incorporated by reference herein.

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THE CATEGORY 5 SPECIAL MEETING

General

Category 5 is furnishing this joint proxy statement/ prospectus to the Category 5 stockholders in connection with the solicitation of proxies by the Category 5 board of directors for use at the Category 5 special meeting of stockholders. This joint proxy statement/ prospectus, the attached notice of special meeting of stockholders and the enclosed proxy card are first being mailed to the stockholders of Category 5 on or about , 2002.

Matters to be Considered at the Category 5 Special Meeting

At the Category 5 special meeting, Category 5 stockholders will consider and vote on the proposal to approve and adopt the merger agreement, as amended, and approve the related merger, and any other business as may properly come before the special meeting. Adoption of the merger agreement will also constitute approval of the merger and the other transactions contemplated by the merger agreement.

If the stockholders of Category 5 adopt the merger agreement and the other conditions to the completion of the merger are satisfied or waived, Category 5 will merge with and into MindArrow Acquisition Corp., and MindArrow Acquisition Corp. will survive the merger as a wholly owned subsidiary of MindArrow. For each share of Category 5 common stock such stockholders hold on the effective date of the merger, such stockholders will be entitled to receive

2.3 shares of a share of MindArrow common stock, $.001 par value per share, and

a warrant certificate entitling such stockholder to purchase up to 0.5 shares of MindArrow common stock, exercisable at a price of $0.01 per share upon the terms set forth in the merger agreement and more particularly described in this joint proxy statement/ prospectus.

A copy of the merger agreement, as amended, is attached as Appendix A to this joint proxy statement/ prospectus and is incorporated by reference herein. We urge you to read carefully the merger agreement.

AFTER CAREFUL CONSIDERATION, THE CATEGORY 5 BOARD OF DIRECTORS HAS DETERMINED THAT THE MERGER IS ADVISABLE AND IS FAIR TO, AND IN THE BEST INTERESTS OF, CATEGORY 5 AND ITS STOCKHOLDERS. THE CATEGORY 5 BOARD OF DIRECTORS HAS APPROVED THE MERGER AND THE MERGER AGREEMENT, AS AMENDED, AND RECOMMENDS THAT HOLDERS OF CATEGORY 5 COMMON STOCK VOTE FOR THE APPROVAL AND ADOPTION OF THE MERGER AGREEMENT, AS AMENDED, AND APPROVAL OF THE MERGER.

Date; Time; Place

The Category 5 special meeting is scheduled to be held at 10:00 a.m., Mountain Time, on , 2002, at the principal offices of Category 5 located at 2755 East Cottonwood Parkway, Suite 450, Salt Lake City, Utah.

PLEASE COMPLETE THE ENCLOSED PROXY CARD AND MAIL IT IN THE ENCLOSED PREPAID RETURN ENVELOPE AS SOON AS POSSIBLE SO THAT YOUR SHARES MAY BE REPRESENTED AND VOTED AT THE SPECIAL MEETING.

Category 5 stockholders should not send their Category 5 stock certificates with their proxy. A transmittal form with instructions for the surrender of Category 5 common stock certificates will be mailed to Category 5 stockholders as soon as practicable after completion of the merger.

Record Date; Quorum

The Category 5 board of directors has fixed the close of business on , 2002 as the record date for the determination of the stockholders entitled to notice of, and to vote at, the Category 5 special meeting. On

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that date, Category 5 had 16,647,863 shares of common stock outstanding. The holders of these shares will be entitled to one vote per share on the merger.

A quorum is present at a special meeting if a majority of the outstanding shares of Category 5 common stock entitled to vote at the meeting is represented at the meeting in person or by proxy. Shares of Category 5 common stock represented at the special meeting, but for which the holders have abstained from voting, will be treated as present at the special meeting for purposes of determining the presence or absence of a quorum for the transaction of business.

Vote Required

Approval and adoption of the merger agreement and approval of the merger requires the affirmative vote of at least a majority of all outstanding shares of Category 5 entitled to vote thereon.

Category 5 Voting Agreements

In connection with the execution of the merger agreement, certain stockholders of Category 5 agreed to vote their shares of common stock of Category 5 in favor of the merger agreement and the merger. As of the record date set for the Category 5 special stockholders meeting, Category 5 stockholders holding an aggregate of 9,639,681 shares, or 57.9% of the total shares of Category 5 common stock issued and outstanding as of that date, have agreed to vote their shares in favor of the merger and the merger agreement. The Voting Agreement of Category 5 Stockholders is attached to this joint proxy statement/ prospectus as Appendix G and is incorporated by reference herein.

Voting of Proxies; Revocability of Proxies

Shares of Category 5 common stock represented by properly executed proxies received in advance of the special meeting will, unless these proxies have been properly revoked, be voted in accordance with the instructions indicated on such proxies or, if no instructions have been indicated, will be voted in favor of approval of the merger, and, in the discretion of the individuals named in the accompanying proxy card, on any other matters which may properly come before the Category 5 special meeting. Abstentions may be specified with respect to the approval of the merger by properly marking the ABSTAIN box on the proxy card for such proposal.

Any proxy may be revoked by the stockholder giving it, at any time prior to its being exercised, by filing a notice of revocation with the Secretary of Category 5 at the address given on the notice of stockholders meeting accompanying this joint proxy statement/prospectus, or by submitting a duly executed proxy card bearing a later date. Any proxy may also be revoked by the stockholder s attendance at the Category 5 special meeting and voting in person. A notice of revocation need not be on any specific form, but must be in writing. Attendance at the special meeting will not, in and of itself, constitute a revocation of a proxy.

CATEGORY 5 STOCKHOLDERS SHOULD NOT SEND IN ANY STOCK CERTIFICATE WITH THEIR PROXIES. A TRANSMITTAL FORM WITH INSTRUCTIONS FOR SURRENDER OF STOCK CERTIFICATES FOR CATEGORY 5 COMMON STOCK WILL BE MAILED TO CATEGORY 5 STOCKHOLDERS AS SOON AS PRACTICAL FOLLOWING THE MERGER.

Only shares affirmatively voted for the approval of the merger, including properly executed proxies that do not contain voting instructions, will be counted as favorable votes for that proposal. If a properly executed proxy is returned and the stockholder has instructed the proxies to abstain from voting on adoption of the merger agreement, the Category 5 common stock represented by the proxy will be considered present at the special meeting for purposes of determining a quorum. If a Category 5 stockholder abstains from voting or does not vote, either in person or by proxy, it will have the same effect as if that Category 5 stockholder had voted against the approval of the merger. If a Category 5 stockholder s shares are held in an account at a brokerage firm or a bank, they must instruct such institution how to vote the shares. Such brokers and banks who hold shares of Category 5 common stock in street name for customers who are the beneficial owners of such shares may not authorize a proxy to vote those customers shares in the absence of specific instructions

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from those customers. These non-voted shares are referred to as broker non-votes and have the effect of votes against the approval of the merger.

The persons named as proxies by a stockholder may propose and vote for one or more adjournments of the special meeting, including adjournments to permit further solicitations of proxies. No proxy voted against the proposal to approve the merger will be voted in favor of any such adjournment or postponement.

Category 5 does not expect that any matter other than the proposal to approve the merger will be brought before the special meeting. If, however, the Category 5 board of directors properly presents other matters, the persons named as proxies will vote in accordance with their discretion unless authority to do so is withheld in the proxy.

Solicitation of Proxies by Category 5

Proxies are being solicited by and on behalf of the Category 5 board of directors. MindArrow and Category 5 will equally share the expenses incurred in connection with the printing and mailing of this joint proxy statement/ prospectus. Category 5 will bear the costs relating to the solicitation of proxies from Category 5 stockholders. Category 5 will also request banks, brokers and other intermediaries holding shares of Category 5 common stock beneficially owned by others to send this joint proxy statement/ prospectus to, and obtain proxies from, the beneficial owners and will reimburse the holders for their reasonable expenses in so doing. In addition to solicitation by mail, Category 5 s directors, officers and employees, without additional remuneration, may solicit proxies by telephone, facsimile machine and personal interviews, and Category 5 reserves the right to retain outside agencies for the purpose of soliciting proxies, which may be paid customary fees for performing those services.

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PROPOSAL NO. 1: THE MERGER

This section summarizes the material terms of the proposed merger that is being submitted for the approval of MindArrow s stockholders and Category 5 s stockholders. It is qualified in its entirety by reference to the merger agreement, as amended effective August 9, 2002, which is attached as Appendix A to this joint proxy statement/prospectus. You are urged to read the merger agreement.

The merger agreement provides that the merger will be consummated if the approvals of the Category 5 stockholders and the MindArrow stockholders are obtained and all other conditions to the merger are satisfied or waived as provided in the merger agreement. On completion of the merger, each outstanding share of Category 5 common stock will be converted into the right to receive (i) 2.3 shares of fully paid and nonassessable MindArrow common stock, par value $0.001 per share, and (ii) a warrant to acquire 0.5 shares of MindArrow common stock at an exercise price of $0.01 per share, vesting only upon the achievement of certain financial objectives by Category 5 s subsidiary, ePenzio, Inc., following the merger. Cash will be delivered to each Category 5 stockholder in lieu of any fractional shares remaining after the exchange.

Upon the consummation of the merger, outstanding options to purchase shares of Category 5 common stock will be assumed by MindArrow and the holders of such assumed options will be entitled to purchase the number of shares of MindArrow common stock equal to the number of shares of Category 5 common stock subject to the original option multiplied by 2.3. The exercise price per share of MindArrow common stock under the assumed option will be equal to the former exercise price per share of Category 5 common stock under the option immediately prior to the merger divided by 2.3.

Upon the consummation of the merger, each outstanding warrant to purchase shares of Category 5 common stock shall be assumed by MindArrow. The number of shares of MindArrow common stock subject to the Category 5 warrants shall be determined by multiplying the number of shares of Category 5 common stock subject to the warrants by 2.3, and the exercise price under the warrants shall be determined by dividing the exercise price per share of the Category 5 common stock warrants by 2.3. Upon the exercise of any assumed warrant, the holder will also receive a contingent warrant to purchase that number of shares of MindArrow common stock that such holder would have received had the holder exercised the assumed warrant immediately prior to the merger, except that no contingent warrants shall be issued upon the exercise of an assumed warrant after the expiration date of all contingent warrants.

Based on the number of shares of Category 5 common stock outstanding as of August 9, 2002, we anticipate that Category 5 stockholders will receive 38,290,085 newly issued shares of MindArrow common stock and contingent warrants to purchase up to 8,323,932 newly issued shares of MindArrow common stock, before giving effect to the proposed one for ten reverse stock split. Based on those figures, following the merger former Category 5 stockholders will own approximately 55.3% of the outstanding shares of MindArrow common stock, and contingent warrants could potentially increase the former Category 5 stockholders ownership percentage to approximately 60.1%.

Background of the Merger

Almost from each company s inception, both MindArrow and Category 5 have continuously evaluated strategic and business development opportunities as part of ongoing market evaluation and initiatives to strengthen their respective businesses. In 2001, due to a challenging market environment and a decrease in technology spending in general, and market challenges facing suppliers of online services and digital marketing in particular, MindArrow s management and board of directors became particularly focused on developing strategies to secure the company s future by strengthening its product and service offerings and adding scale. In particular, MindArrow s management and board of directors determined that providing an integrated end-to-end solution with products and services that spanned the digital communications and commerce space would enable the company to improve its offerings to key clients and grow its business. As part of this strategy, MindArrow acquired privately-held Control Commerce, Inc., and Radical Communication, Inc.

In October 2001, Category 5 entered into a non-exclusive arrangement with SBI E2-Capital (USA) Ltd., a predecessor in interest to SBI USA, LLC and an investment banking arm of Softbank

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Investment Corp., to provide the company with financial advisory services, including investigation of business development opportunities. A managing director of SBI E2-Capital (USA), Ltd. and later SBI USA, Shelly Singhal, was appointed to the board of directors of Category 5 in February 2002.

In November 2001, MindArrow entered into a non-exclusive arrangement with SBI E2-Capital (USA) Ltd. to provide the company with financial advisory services, including investigation of business development opportunities.

In February 2002, concurrent with Mr. Singhal s appointment to the Category 5 board of directors, the October 2001 agreement between Category 5 and SBI E2-Capital (USA) Ltd. was replaced with an exclusive agreement between these two entities. At Category 5 s regularly scheduled board meeting in February 2002, a discussion occurred regarding possible merger or acquisition candidates for Category 5. During this discussion, Mr. Singhal mentioned MindArrow as a possible candidate. At the time of the board meeting, Category 5 was in discussions to acquire CaptureQuest, a privately-held company that focuses on rich-media email marketing products and services, primarily using Flash technology. The board of directors decided to defer consideration of a possible transaction with MindArrow until the CaptureQuest transaction was completed.

In March 2002, Mr. Singhal suggested to Robert Webber, CEO of MindArrow, that he should look into Category 5 as a potential business fit with MindArrow. Mr. Webber reviewed publicly-available materials on Category 5 and requested that the Vice President of Business Development at MindArrow prepare a preliminary analysis.

In April 2002, as part of its strategy to broaden its own offerings of products and services, Category 5 completed the acquisition of CaptureQuest, Inc. MindArrow business development personnel had met informally with CaptureQuest during the summer of 2001 to investigate a potential business arrangement between the companies, but did not pursue discussions beyond an introductory phase due primarily to MindArrow s then pending acquisition of another rich media email marketing company, Radical Communication, Inc. that had developed its own proprietary Java-based email video technology.

In late April 2002, after the closing of the CaptureQuest acquisition, William C. Gibbs, Chairman and CEO of Category 5, contacted Mr. Webber to suggest a meeting. On April 25, Mr. Gibbs and a representative of Snell & Wilmer LLP, legal counsel for Category 5, visited with Mr. Webber at MindArrow s corporate offices in Southern California. Although the initial discussion focused on potential cross-selling opportunities for the CaptureQuest Flash technology and the MindArrow RadicalMail technology, the parties recognized similarities in the other company s growth strategies, and Mr. Webber and Mr. Gibbs discussed the potential for a broader relationship. On April 26, Mr. Gibbs invited Mr. Webber to visit Category 5 s headquarters in Salt Lake City. Over the weekend, MindArrow initiated a general analysis of a possible business combination with Category 5, using publicly available information.

On April 30, 2002, Mr. Webber and Mr. Wolff met with Category 5 officers and employees in Salt Lake City. After this meeting, Mr. Webber and Mr. Wolff prepared an internal report on key benefits and risks of a potential business combination with Category 5.

On May 1, 2002, Mr. Webber and Mr. Gibbs had a telephonic meeting to discuss further the potential business combination between MindArrow and Category 5. During this meeting Mr. Webber and Mr. Gibbs discussed their common beliefs in the strategic benefits of a business combination and their respective interests in further exploring a merger between the two companies.

On May 2, 2002, the MindArrow board of directors convened its regular quarterly meeting. This meeting was held in New York, and all MindArrow directors attended. Prior to the board meeting, Mr. Webber had informed board members of his conversations with Mr. Gibbs, and at the meeting presented a non-binding letter of intent received by fax the prior evening from Category 5 that would allow the companies to begin due diligence in earnest. Mr. Webber reviewed in detail the preliminary analysis that MindArrow performed regarding the strategic rationale of a business combination, and the MindArrow board discussed the strategic rationale for the business combination and alternatives. The board voted to authorize entering into the non-binding letter of intent and instructed Mr. Webber to proceed with due diligence.

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On May 2, 2002, the Category 5 board of directors convened a special meeting. This meeting was held in Salt Lake City, Utah and all Category 5 directors attended. Prior to the board meeting, Mr. Edwards and Mr. Gibbs had informed board members of their conversations with Mr. Webber of MindArrow, and at the meeting presented a non-binding letter of intent that would allow the companies to begin due diligence in earnest. Mr. Gibbs reviewed in detail rationale of a business combination for a possible combination with MindArrow. The board unanimously voted to authorize entering the non-binding letter of intent and instructed Mr. Gibbs to proceed with due diligence.

Following the May 2 meeting, Category 5 and MindArrow executed a joint non-disclosure and confidentiality agreement to facilitate further discussions and the related exchange of confidential information. Each company began an extensive due diligence investigation of the business and operations of the other and a potential business combination. On May 7, 2002, the MindArrow board of directors held a meeting to further discuss aspects of the potential business combination, as well as to review information in connection with MindArrow financing activities. MindArrow retained the law firm of Morrison & Foerster to assist with legal and diligence activities.

From May 7 through June 4, 2002, Mr. Webber, Michael Friedl, CFO of MindArrow, Mr. Gibbs and other members of the Category 5 board of directors had numerous telephonic meetings to discuss valuation concepts and issues associated with the business combination, the governance and management of the combined company and strategic synergies of the business combination. Several meetings were held with executive officers of both companies, and several visits occurred between the two corporate headquarters. Mr. Webber also requested that members of East-West Capital Associates, Inc., who were in the process of making an investment in MindArrow, assist the company in its due diligence. Ravin Agrawal, a managing director of East-West, and Donna Romer, East-West entrepreneur-in-residence and technology consultant, spent several days with the Category 5 team in Salt Lake City conducting diligence. Paul Anderson, Chairman of Category 5, also met with Mr. Webber in California on May 30, 2002.

On June 4, 2002, the MindArrow board of directors convened a meeting to discuss the potential business combination with Category 5 and other matters. Mr. Webber updated the board on the discussions with Category 5, and each company s positions on various terms of the proposed business combination. At this meeting, Mr. Webber reviewed the analysis performed by MindArrow s management concerning the potential business combination and updated the board of directors on the discussions with Category 5 and each company s positions on various terms of the business combination. The MindArrow board of directors authorized continued discussions with Category 5.

On June 5, 2002, MindArrow retained L.H. Friend, Weinress, Frankson & Presson, LLC to assist with due diligence and prepare a fairness opinion for the MindArrow board of directors in connection with the financial terms of the proposed business combination. On the same day, Mr. Gibbs, a representative of Snell & Wilmer LLP, Tyler Thompson and Matthew Greene of Category 5 met with Mr. Webber and Mr. Friedl at the company s offices in Southern California to further discuss strategic and operational issues as well as various terms of the proposed business combination.

From June 6 to June 20, Mr. Webber, Mr. Friedl and members of Category 5 s board of directors, and their respective legal counsel, had a number of telephonic meetings to further discuss valuation concepts and issues associated with the business combination, governance and management of the combined company, strategic synergies of the business combination and integration issues, and the proposed draft merger agreement. During this time representatives of East-West also had several telephonic discussions with members of Category 5 s board of directors and senior management team. Mr. Webber circulated a draft of the proposed merger agreement to the MindArrow board and East-West.

On June 21, the MindArrow board of directors convened a special meeting to consider further a business combination with Category 5. All MindArrow directors attended this meeting, with the exception of Mr. Thomas Quick. Mr. Friedl, representatives from Morrison & Foerster LLP (MindArrow s outside counsel) and East-West also attended the meeting. During this meeting, Mr. Webber reported on the discussions to date with Category 5, and presented the MindArrow board with the results of business due diligence, an assessment of strategic options, and an analysis of the strategic rationale for the proposed

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business combination. Outside counsel to MindArrow reviewed terms of the draft merger agreement, with particular attention to, among other things, conditions to closing and termination rights. Following these presentations and deliberation among members of the MindArrow board of directors, the MindArrow board of directors authorized management to continue its discussions with Category 5 regarding the business combination.

From June 22 to June 27, Mr. Webber and members of Category 5 s board of directors had a number of telephonic meetings to further discuss valuation concepts and issues associated with the business combination, governance and management of the combined company, strategic synergies of the business combination and integration issues.

On June 27, 2002, the MindArrow board of directors convened a special meeting to further consider a business combination with Category 5. All MindArrow directors attended this meeting, with the exception of Mr. Merv Adelson, who was unable to attend. Mr. Friedl, representatives from East-West, representatives from Morrison & Foerster, and representatives from L.H. Friend also participated in the meeting. During this meeting, Mr. Webber updated the board on the discussions with Category 5, and an analysis of the strategic rationale for the proposed business combination. A representative from Morrison & Foerster further reviewed the fiduciary duties of the MindArrow board of directors in connection with its consideration of the business combination, answered questions on legal and regulatory issues, and terms of the merger agreement. At this meeting, representatives from L.H. Friend presented a financial analysis with respect to the business combination and delivered its opinion that that the exchange ratio provided for in the merger agreement is fair, from a financial point of view, to the holders of MindArrow common stock. After deliberation, the MindArrow board of directors unanimously determined the merger to be fair to, and in the best interests of, MindArrow and its stockholders and declared the merger to be advisable, approved the terms of the merger agreement, resolved to recommend that the stockholders of MindArrow approve and adopt the merger agreement and approve the merger, and directed that such matter be submitted to MindArrow s stockholders at a meeting of MindArrow stockholders. MindArrow s management was authorized to sign the merger agreement on the exchange ratio approved by the board.

On July 2, 2002, Category 5 formally engaged SBI E2-Capital (USA) Ltd. as its financial advisor in connection with the possible acquisition of Category 5 by MindArrow, pursuant to an Engagement Letter dated the same date. Subsequently, SBI E2-Capital (USA) Ltd. assigned, and Category 5 approved the assignment of, all of SBI E2-Capital s rights and obligations in relation to the Engagement Letter to SBI USA, LLC, a successor in interest of SBI E2-Capital (USA), Ltd., pursuant to an assignment and assumption agreement dated effective July 2, 2002.

On July 5, the Category 5 board of directors convened a special meeting to consider further the business combination with MindArrow. All Category 5 directors participated in this meeting. A representative of Snell & Wilmer, Category 5 s counsel, also participated in the meeting telephonically. During this meeting, Mr. Gibbs reported on the discussions to date with MindArrow, and presented the Category 5 board with the results of business due diligence, an assessment of strategic options, and a summary of the strategic rationale for the proposed business combination, and the board reviewed the terms of the merger agreement, a copy of which had been previously provided to, and reviewed by, each Category 5 board member. A representative of SBI USA, LLC, Category 5 s financial advisor in connection with the merger negotiations, reviewed its presentation with the Category 5 board of directors and delivered its oral opinion that the exchange ratio contemplated by the merger agreement was fair, from a financial point of view, to the Category 5 stockholders. Following these presentations and further deliberation among members of the Category 5 board of directors, the Category 5 board of directors determined the merger to be fair to, and in the best interests of, Category 5 and its stockholders, approved the terms and conditions of the merger agreement, as drafted, and the merger, and resolved that the merger agreement and the merger should be presented to the stockholders of Category 5 during a special stockholders meeting for their approval, with the Category 5 board s recommendation. In addition, the Category 5 authorized the appropriate officers of Category 5 to execute the merger agreement on behalf of Category 5.

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From June 27 to July 12, Mr. Webber, Mr. Friedl, and members of Category 5 s board of directors had a number of telephonic meetings to discuss certain legal and financial terms in connection with the merger agreement and certain issues associated with the business combination, governance and management of the combined company.

MindArrow and Category 5 executed the merger agreement as of July 12, 2002. On Monday, July 15, 2002, MindArrow and C5 issued a press release announcing the execution of the merger agreement and the merger.

Effective August 9, 2002, Category 5, MindArrow and MindArrow Acquisition Corp. amended the merger agreement to, among other things:

extend the date by which the merger must be completed by one month;

remove as conditions to closing the merger that (i) MindArrow s Investors Rights Agreement with East-West Capital Associates and others be terminated, (ii) Category 5 obtain a consent of holders of its convertible promissory notes, and (iii) certain officers, directors, and stockholders of Category 5 and of MindArrow enter into lock-up agreements following the merger;

remove for approval by the stockholders of MindArrow (i) an amendment to MindArrow s 2000 Incentive Plan increasing the aggregate share limit to 5,500,000 shares (this has already been approved stockholders) and (ii) the re-election of the MindArrow board and election of the Category 5 representatives to the board (this will be handled by Board action instead); and

change the ratio of the proposed reverse stock split to be submitted to stockholders of MindArrow.

Reasons for the Merger; Recommendations of the Boards

MindArrow s reasons for the Merger and Factors Considered by the MindArrow Board of Directors.

The board of directors and management of MindArrow believe that the proposed merger represents a compelling opportunity to deliver increased value to MindArrow s stockholders. MindArrow believes that the merger presents an opportunity to create a combined company with better products, improved services, more efficient operations and stronger management than either entity could achieve at present on its own. MindArrow believes that the merged company will benefit from both sales and operating synergies, which should contribute to top line revenues and bottom line earnings. In the current market environment, the failure to take quick and decisive action to strengthen MindArrow s market presence and technology could weaken its competitive position. Also, the failure to add scale and scope to MindArrow s business could ultimately erode the value of MindArrow.

Some of the key anticipated benefits of the merger include:

Increased scale and market share;

Ability to offer a broader and more complete range of products and solutions;

Strategic cross-selling, marketing and distribution opportunities;

Economies of vertical integration and cost savings through operational synergies;

Potential greater accessibility to capital markets

MindArrow s board believes that the merger presents MindArrow with an opportunity to obtain mass and scale, enhance its competitive position and strengthen its sales force and operations, all in a single transaction. The board feels that MindArrow should achieve greater mass in order to sustain its viability, achieve recognition from the financial community and ensure its clients of its long-term prospects. The merger with Category 5, which had approximately $25 million in revenues and $4.2 million in net income for the twelve months ended March 31, 2002, increases MindArrow s scale and mass several-fold.

As large and small enterprises look to key vendors to meet their digital marketing communication and commerce needs, it will be crucial not only to have offerings across a broad spectrum of products, but also to

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have market-leading solutions across that spectrum. MindArrow believes that the merger will expand its product and service offerings, open new channels in the small and medium enterprise market for its software, make it a more compelling partner for large enterprise clients and provide a more robust platform for innovation. Additionally, the combined company should be better positioned to attract and retain outstanding employees because of its stronger, healthier business and increased depth of management.

The business combination provides several near-term cross-selling opportunities. MindArrow s personalized email software can be sold into the small and medium enterprise market, including several thousand current customers served by Category 5 s ePenzio subsidiary. Products and services from Category 5 s CaptureQuest subsidiary can be sold to MindArrow s large enterprise customers. Additionally Category 5 s Flash technology and service capabilities fill a gap in MindArrow s current offering, with the opportunity to leverage Flash-based products and services in a bundled solution for MindArrow clients and prospects.

The merger can provide several vertical integration benefits with respect to research and development, product development, and operations, which would not be available to the companies separately. Operational synergies can be realized through cost savings on overhead as expenses borne by both companies separately will now be shared over a larger base.

MindArrow anticipates that the combined company will realize cost synergies:

- in administrative and IT costs by eliminating redundant IT investment following the completion of the merger and by eliminating redundant positions across corporate administration and finance;
- in research and development by eliminating duplicative efforts; and
- in marketing by eliminating redundant marketing and communications programs, such as overlapping trade show participation, marketing materials, etc.

While the company will seek to attain cost savings in each of these areas in order to boost net profit, there can be no assurance that the net present value of anticipated cost savings from the merger will be reflected in the trading price of MindArrow common stock following completion of the merger.

Finally, MindArrow believes that the combined company s increased scale and revenues should better position it within the financial community, allowing greater access to capital markets and providing a groundwork to develop institutional relationships that might result in potential market research coverage.

Recommendation of MindArrow s Board of Directors.

At a meeting held on June 28, 2002, the MindArrow board of directors unanimously:

- determined that the merger is advisable, and is fair to and in the best interests of MindArrow and its stockholders;
- approved the merger agreement, as amended;
- directed that the issuance of shares of MindArrow common stock in connection with the merger be submitted for consideration by MindArrow stockholders at a special meeting; and
- resolved to recommend that the MindArrow stockholders vote for the proposal to approve the merger and the issuance of shares of common stock in connection with the merger.

Among other things considered by the MindArrow board of directors in making this recommendation, the board requested the opinion of L.H. Friend, Weinress, Frankson & Preston, LLC, investment bankers, described below, and subject to the assumptions, considerations and limitations set forth in its opinion, that the exchange ratio provided for in the merger agreement is fair, from a financial point of view to MindArrow. The L.H. Friend opinion addresses the fairness of the merger to MindArrow and the MindArrow board of directors has determined that the merger is advisable and is fair to and in the best interests of MindArrow and its stockholders, based upon its consideration of the L.H. Friend opinion and the other factors described herein.

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In reaching its decision to approve the merger agreement, the MindArrow board of directors consulted with MindArrow s management, MindArrow s legal counsel regarding the legal terms of the merger agreement, representatives from East-West Capital Associates, a major stockholder of the company that assisted in due diligence, and MindArrow s financial advisors regarding the financial aspects of the merger and the fairness, from a financial point of view, of the exchange ratio. The factors that the MindArrow board of directors considered in reaching its determination include, but are not limited to, the following:

- the reasons for the merger set forth above;
- historical information concerning MindArrow s and Category 5 s respective businesses, prospects, financial performance, management and competitive position, including public reports concerning results of operations during the most recent fiscal year and fiscal quarter for each company filed with the Securities and Exchange Commission;
- management s view of the financial condition and businesses of the combined company giving effect to the merger;
- current financial market conditions and historical market prices, volatility and trading information with respect to the common stock of MindArrow and Category 5;
- the belief that the terms of the merger agreement, including the parties representations, warranties and covenants, and the conditions to their respective obligations, are reasonable;
- other strategic alternatives for MindArrow, including organic growth as an independent company, and presently available opportunities to enter into strategic relationships with third parties or to combine with third parties;
- the impact of the merger announcement on MindArrow customers, suppliers and employees;
- the oral presentation by, and discussion with, L.H. Friend and the written opinion of L.H. Friend as to the fairness of the exchange ratio from a financial point of view;
- the fact that MindArrow stockholders will have the opportunity to vote upon the proposal to approve the issuance of common stock in connection with the merger; and
- reports from management, legal and financial advisors with respect to the results of due diligence investigations of Category 5.

In addition, the MindArrow board of directors considered a variety of potentially negative factors in its deliberations concerning the merger, including but not limited to:

- the risks that the potential benefits of the merger might not be fully or immediately realized;
- possible difficulties in integrating the two organizations, which could delay or negate some of the expected benefits of the merger;
- the risk that, notwithstanding the long-term benefits of the merger, MindArrow s financial results and stock price might decline in the short term;
- the possibility that the merger might not be completed, or that completion might be unduly delayed, and the effect of public announcement of the merger on MindArrow s customers and partners;
- charges to be incurred in connection with the merger, including costs of integrating the two companies and transaction expenses arising from the merger; and
- various other risks associated with the merger and the businesses of the two companies, including those described in the section entitled Risk Factors in this joint proxy statement/prospectus.

The MindArrow board of directors concluded, however, that these negative factors could be managed or mitigated by MindArrow management, or were unlikely to have a material impact on the merger or the combined company, and that, overall, the potentially negative factors associated with the merger were outweighed by the potential benefits of the merger.

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The above discussion of the material factors considered by the MindArrow board of directors is not intended to be exhaustive, but does set forth the principal factors considered by the board of directors. The MindArrow board of directors collectively reached the unanimous conclusion to approve the merger agreement and the merger in light of the various factors described above and other factors that each member of the board felt were appropriate.

The MindArrow board of directors believes that the merger is advisable, and is fair to and in the best interests of MindArrow and its stockholders.

Category 5 s Reasons for the Merger and Factors Considered by the Category 5 Board of Directors

Category 5 s board of directors determined that the terms of the merger and the merger agreement, as amended, are advisable and fair to, and in the best interests of, Category 5 and its stockholders. Accordingly, Category 5 s board of directors has approved the merger agreement, as amended, and the consummation of the merger and recommends that Category 5 stockholders vote FOR approval of the merger agreement, as amended, and the merger.

In reaching its decision, Category 5 s board of directors identified several potential benefits of the merger, the most important of which included:

Category 5 s stockholders will have the opportunity to participate in the potential growth of the combined company after the merger;

The favorable balance of the significant benefits of being part of a combined company against the risks of continuing to be an independent company, especially in light of trends with respect to consolidation and competition in the Internet and e-commerce industries and particularly in light of Category 5 s relatively small size and limited resources;

The revenue and operations of the combined companies is anticipated to facilitate the attraction of financial resources and strategic relationships not currently available to Category 5 and the need for such resources and relationships in order to grow the business of Category 5;

The ability to achieve synergies with respect to business services, advertising and e-commerce relationships;

Giving Category 5 the opportunity to expand its channels of distribution of its products by giving it access to MindArrow s customers. Category 5 s board of directors considered favorably that the former Category 5 stockholders, as stockholders of MindArrow, would share these synergies and opportunities; and

The anticipated exchange ratio in the merger represented a premium of approximately 24% over the average closing price for Category 5 common stock over the 20-day trading period ending on July 12, 2002, the last trading day prior to the day the letter of intent between MindArrow and Category 5 was publicly announced.

The addition of MindArrow s independent directors and senior management team.

Category 5 s board of directors considered a number of potentially negative factors in its deliberation of the merger, including:

The risk to Category 5 s stockholders that the value to be received in the merger could decline significantly due to the fixed exchange ratio;

The risk that the synergies and opportunities in the merger will not be achieved;

The volatility of the stock price of MindArrow on the Nasdaq SmallCap Market;

The risk that the merger will not be completed, including the circumstances under which MindArrow could terminate the merger agreement and the circumstances under which Category 5 could be required to pay a termination fee to MindArrow;

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The potential adverse effects of the public announcement of the merger on:

Category 5 s sales and operating results,

Category 5 s ability to attract and retain key employees,

The progress of certain strategic initiatives, and

Category 5 s overall competitive position;

The risk that key technical, sales and management personnel might not remain employees of MindArrow or Category 5 after the merger closes;

The loss of control over the future operations of Category 5 following the merger;

The impact of the loss of Category 5 s status as an independent company on Category 5 s stockholders, employees, Web site visitors, business services clients, advertisers and sponsors;

The transaction costs expected to be incurred in connection with the merger; and

The other risks described under Risk Factors Risks Related to the Merger beginning on page 24.

Category 5 s board of directors consulted with Category 5 s senior management, as well as its legal counsel and financial adviser, in reaching its decision to approve the merger. Among the factors considered by Category 5 s board of directors were the following:

Historical information concerning MindArrow s and Category 5 s respective financial performance, results of operations, assets, liabilities, operations, technology, brand development, management and competitive position, including public reports covering the most recent fiscal year and fiscal quarter for each company filed with the SEC;

Category 5 s management s view of the financial condition, results of operations, assets, liabilities, businesses and prospects of MindArrow and Category 5 after giving effect to the merger;

Current market conditions and historical trading information with respect to MindArrow common stock and Category 5 common stock;

Comparable merger transactions in Category 5 s market and strategic alternatives to the transaction proposed by MindArrow available to Category 5;

The opinion of SBI USA, LLC dated July 12, 2002, including its related financial analyses, to the effect that, as of the date of the merger agreement and based upon and subject to the facts and assumptions set forth in the opinion (as described more fully in the text of the entire opinion attached as Appendix D to this document) that the exchange ratio is fair to the stockholders of Category 5 from a financial point of view;

The high costs that Category 5 had experienced in acquiring customers and the long term viability of certain of those methods and the experience to date with other methods of acquiring customers;

The difficulties Category 5 experienced in attracting needed capital;

The expected tax-free treatment to Category 5 s stockholders;

The ability of Category 5 s board of directors to enter into discussions with another party in response to an unsolicited superior offer to the merger if Category 5 s board of directors believed in good faith, after consultation with its legal counsel, that such action was required in order to comply with its fiduciary obligations;

The impact the merger might be expected to have on customers, suppliers and employees of Category 5; and

The principal terms of the merger agreement.

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After due consideration, Category 5 s board of directors concluded that the risks associated with the proposed merger were outweighed by the potential benefits of the merger.

Category 5 s board of directors does not intend the foregoing discussion of information and factors to be exhaustive, but believes the discussion to include all of the material factors that it considered. In view of the complexity and wide variety of information and factors, both positive and negative, that it considered, Category 5 s board of directors did not find it practical to quantify or otherwise assign relative or specific weights to the specific factors it considered in making its determination. The determination was made after taking into consideration all of the factors as a whole. In addition, individual members of Category 5 s board of directors may have given different weights to the different factors.

The Category 5 board of directors believes that the merger is advisable, and is fair to and in the best interests of, Category 5 and its stockholders.

Opinion of MindArrow s Financial Advisor

The following description of the opinion of L.H. Friend is qualified in its entirety by reference to the full text of the opinion as set forth in Appendix C and is incorporated by reference herein. The opinion is sometimes referred to in this proxy statement as the Fairness Opinion or the Opinion.

L.H. Friend provided to MindArrow s board of directors its opinion on June 28, followed by its written opinion and supplement on July 23, 2002 that, based upon and subject to the various factors and assumptions set forth in the Opinion, the exchange ratio was fair to MindArrow and to its stockholders from a financial point of view. The terms of the merger were determined pursuant to negotiations between Category 5 and MindArrow and not pursuant to recommendations of L.H. Friend. L.H. Friend s Opinion, and its presentation to MindArrow s board of directors, was only one of several factors taken into consideration by MindArrow s board of directors in making its determination to approve the merger. The Opinion was provided to MindArrow s board to assist it in connection with its consideration of the merger and does not constitute a recommendation to any holder of MindArrow s stock as to how to vote with respect to the merger.

The full text of the Opinion, which sets forth assumptions made, matters considered and limitations on the review undertaken, is attached as Appendix C to this proxy statement and is incorporated by reference herein. Stockholders are urged to read the Opinion carefully and in its entirety. The summary of the Opinion of L.H. Friend set forth in this proxy statement is qualified in its entirety by reference to the full text of the Opinion. L.H. Friend s Opinion is directed to MindArrow s board of directors. It only addresses the fairness of the merger from a financial point of view to MindArrow and its stockholders and does not constitute a recommendation to any stockholder of MindArrow as to how to vote.

L.H. Friend has advised MindArrow s board of directors expressly in its Opinion that L.H. Friend does not believe that any person (including a stockholder of MindArrow) other than the board of directors has the legal right to rely upon its Opinion to support any claims against L.H. Friend arising under applicable state law and that, should any such claims be brought against L.H. Friend by any such person, this assertion will be raised as a defense. Should a claim arise, the availability of such a defense would be resolved by a court of competent jurisdiction. Resolution of the question of the availability of such a defense, however, will have no effect on the rights and responsibilities of MindArrow s board of directors under applicable state law. Nor would the availability of such a state law defense to L.H. Friend have any effect on the rights and responsibilities of either L.H. Friend or MindArrow s board of directors under the federal securities laws. The summary of the L.H. Friend Opinion set forth in this proxy statement is qualified in its entirety by reference to the full text of the Opinion.

L.H. Friend is engaged in the investment banking business and, as such, L.H. Friend regularly engages in the valuation of businesses and the securities of businesses in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and other activities. MindArrow s board of directors selected L.H. Friend to serve as its financial advisor based on L.H. Friend s qualifications, expertise and familiarity with the businesses of MindArrow and Category 5. The terms of L.H. Friend s engagement by MindArrow are set forth in an engagement letter dated June 5, 2002.

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Other than its meetings with MindArrow, L.H. Friend was not authorized to solicit and did not solicit interest from any party with respect to a merger or acquisition of MindArrow.

In rendering its Opinion, among other things, L.H. Friend: (i) reviewed the draft Agreement and Plan of Merger dated July 12, 2002; (ii) reviewed MindArrow s S-1 Registration Statement dated November 29, 1999; MindArrow s Annual Reports on Form 10-K for the fiscal years ended September 30, 2001 and September 30, 2000; Quarterly Reports on Form 10-Q for the periods ended March 31, 2002 and December 31, 2001; MindArrow s Form 8-K dated June 12, 2002; and MindArrow s Definitive Proxy Statement dated February 12, 2002; (iii) reviewed audited financial statements of Category 5 for the six months ended June 30, 2001 and for the years ended December 31, 2000 and 1999, Category 5 s Quarterly Reports on Form 10-Q for the periods ended March 31, 2002, December 31, 2001 and September 30, 2001; (iv) reviewed audited financial statements for ePenzio, Inc. for the fiscal years ended December 31, 2000 and 1999; (v) reviewed certain internal financial statements and other financial and operating data concerning Category 5 prepared by the management of Category 5; (vi) examined certain financial projections dated April 10, 2002, of MindArrow on a stand-alone basis, as if the transaction had not occurred, as provided to L.H. Friend by MindArrow s management; (vii) examined certain financial projections dated June 25, 2002, provided to L.H. Friend by the management of Category 5; (viii) discussed the past and current operations and financial condition and the prospects of MindArrow with MindArrow s senior executives, and conducted further limited interviews with certain members of MindArrow s management; (ix) discussed the past and current operations and financial condition and the prospects of Category 5 with senior executives of Category 5, and conducted further limited interviews with certain members of Category 5 management; (x) reviewed the reported prices and trading history of MindArrow s common stock and Category 5 s common stock; (xi) compared the financial performance, financial projections and the prices and trading activity of MindArrow and of Category 5 with that of certain other comparable publicly-traded companies and their securities; (xii) reviewed the financial terms, to the extent publicly available, of certain comparable merger and acquisition transactions; (xiii) visited MindArrow s management; (xiv) visited Category 5 s headquarter facilities; and (xv) performed such other analyses and inquires and considered such other factors as it deemed appropriate.

In rendering its Opinion, L.H. Friend relied, without assuming responsibility for verification, upon the accuracy and completeness of all of the financial and other information reviewed by L.H. Friend for purposes of its Opinion. With respect to financial projections, estimates and analyses provided to L.H. Friend by Category 5 or MindArrow, L.H. Friend assumed that these projections, estimates and analyses were reasonably prepared on bases reflecting the best currently available estimates and judgments of MindArrow s management and the management of Category 5, as the case may be. In addition, L.H. Friend did not make any independent evaluation or appraisal of any assets or liabilities (contingent or otherwise) of MindArrow or of Category 5 and was not furnished with any such evaluation or appraisal. The analyses performed by L.H. Friend are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than suggested by these analyses. In its Opinion, L.H. Friend noted that among other things, its Opinion was necessarily based upon business, economic, market and other conditions as they existed and evaluated by L.H. Friend at the date of its Opinion. You are urged to read the Opinion in its entirety for assumptions made, matters considered and limits of the review by L.H. Friend.

L.H. Friend s Opinion, which focuses on the exchange ratio by MindArrow in the merger, was supported by, among other analyses, a contribution analysis, a historical exchange ratio analysis and a comparable company analysis.

(i) Contribution Analysis. A relative contribution analysis measures the relative contributions to items such as revenue and gross profit on a percentage basis of MindArrow and Category 5 to the proposed merger on a percentage basis. L.H. Friend examined the pro forma relative contributions to revenue, gross profit and cash for MindArrow and Category 5 for the twelve months ending September 30, 2001 through projected fiscal year ending September 30, 2003 based upon projections provided by MindArrow s management for fiscal

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years ending September 30th and based upon projections provided by Category 5 s management for fiscal years ending June 30th. The results of this analysis were as follows:

	Relative Contribution		Implied Exchange Ratio
	MindArrow	Category 5	
Revenue			
Year ended September 30, 2001 (actual)	16.6%	83.4%	10.40x
Year ending September 30, 2002 (projected)	18.5%	81.5%	9.05x
Year ending September 30, 2003 (projected)	21.0%	79.0%	7.72x
Cumulative	19.6%	80.4%	8.43x
Gross Profit			
Year ended September 30, 2001 (actual)	13.5%	86.5%	17.48x
Year ending September 30, 2002 (projected)	29.7%	70.3%	4.85x
Year ending September 30, 2003 (projected)	33.2%	66.8%	4.12x
Cumulative	27.9%	72.1%	5.29x
Cash			
Year ended September 30, 2001 (actual)	98.9%	1.1%	0.02x
Year ending September 30, 2002 (projected)	79.8%	20.2%	0.52x
Year ending September 30, 2003 (projected)	49.6%	50.4%	2.09x
Cumulative	55.6%	44.4%	1.64x

Utilizing a lower quartile representing the 25th percentile of the data range and an upper quartile representing the 75th percentile of the data range, the analysis, which was performed assuming no pro forma transaction adjustments or synergies, resulted in an implied exchange ratio range of 1.98x to 8.58x, as compared to the exchange ratio of 2.30x of a share of common stock for each share of Category 5 common stock as provided in the merger agreement. L.H. Friend noted that MindArrow was receiving a higher percentage of the combined entity than it is contributing with respect to the measures of revenue and gross profit.

(ii) Historical Exchange Ratio Analysis. L.H. Friend derived historical implied per share exchange ratios for MindArrow s stock and Category 5 by dividing the closing price per share of Category 5 common stock by the closing price per share of MindArrow s common stock for the 30-, 60-, 90-day and one-year intervals from July 13, 2001 to July 12, 2002 and compared these ranges to the exchange ratio provided in the merger agreement:

Interval of Time	Low Implied Exchange Ratio	High Implied Exchange Ratio	Average Implied Exchange Ratio
Last 30 Days	1.15x	2.56x	1.83x
Last 60 Days	1.15x	3.76x	2.27x
Last 90 Days	1.15x	6.89x	2.63x
Last Year	0.64x	6.89x	2.41x

The selected historical exchange ratios indicated an average implied exchange ratio range of 1.83x to 2.63x, as compared to the exchange ratio of 2.30x of a share of common stock for each share of Category 5 common stock as provided in the merger agreement.

(iii) Comparable Company Analysis. L.H. Friend compared and analyzed MindArrow on a stand-alone basis and Category 5 on a stand-alone basis with the market values and trading multiples of eleven selected publicly traded companies in the digital marketing, e-commerce and merchant services industries that L.H. Friend believed were reasonably comparable to MindArrow and to Category 5. The comparable companies consisted of Avenue A, Kana Software, 24/7 Real Media, Modem Media, ClickAction, Digital Impact, Traffix, L90, Digital Courier Technologies, Digital River, and CyberSource (collectively the Comparable Group). In examining these comparable companies, L.H. Friend calculated the Enterprise

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Value (EV) of each company (i.e., the market value of common equity, plus total interest bearing debt and liquidation value of outstanding preferred stock less cash and equivalents) as a multiple of its respective latest twelve-month (LTM) revenue, projected fiscal year 2002 and 2003 revenue. The share prices used in calculating the market values of common equity were based on the preceding 20-day average closing prices as of July 12, 2002. All historical data were derived from publicly available sources, from which L.H. Friend excluded all non-recurring and extraordinary items and all projected data were obtained from publicly available brokerage analysts estimates of revenue. Based on an analysis of the Comparable Group, L.H. Friend derived a selected range for each respective multiple based on the selected high-end multiple of the observed range and the low-end multiple of the observed range. The average of the observed range represents the adjusted mean, which excludes the high and low observations.

MindArrow. The comparable companies for MindArrow on a stand-alone basis included only those companies in the Comparable Group whose primary focus was digital marketing or e-commerce products and services. This group consisted of Avenue A, Kana Software, 24/7 Real Media, Modem Media, ClickAction, Digital Impact, Traffix, and L90. L.H. Friend s analysis of the comparable group for the combined entity yielded the following results:

	Comparable Group Multiple		
Revenue Multiple	**Low**	**Mean**	**High**
EV/LTM Revenue	0.04x	0.49x	0.91x
EV/2002E Revenue	0.03x	0.44x	0.81x
EV/2003E Revenue	0.02x	0.09x	0.43x

Category 5. L.H. Friend s analysis of the comparable companies for Category 5 on a stand-alone basis included the entire Comparable Group:

	Comparable Group Multiple		
Revenue Multiple	**Low**	**Mean**	**High**
EV/LTM Revenue	0.04x	0.52x	2.9x
EV/2002E Revenue	0.03x	0.54x	2.46x
EV/2003E Revenue	0.02x	0.35x	1.98x

L.H. Friend then compared the implied per share values for MindArrow s common stock to the implied per share values for Category 5 s common stock. Using a lower and upper quartile of the data range that excluded the low (-0.20x) and high (178.79x) observation as shown in the table below, this analysis resulted in an implied exchange ratio range of 3.43x to 30.70x, as compared to the exchange ratio of 2.30x of a share of common stock for each share of Category 5 common stock as provided in the merger agreement:

	Implied Exchange Ratio		
Revenue Multiple	**Low**	**Mean**	**High**
EV/LTM Revenue	0.00x	5.66x	53.18x
EV/2002E Revenue	(0.20)x	8.36x	178.79x
EV/2003E Revenue	1.21x	9.03x	52.37x

(iv) Selected Mergers and Acquisition Transactions. Using publicly available information, L.H. Friend reviewed the consideration paid in five selected acquisition transactions between two public companies in the digital marketing and e-commerce industries from 2000 through the present. Specifically, L.H. Friend reviewed the following transactions (collectively the Selected Transactions): the acquisition of Be Free, Inc. by Valueclick; MediaPlex, Inc. by Valueclick, Broadbase Software, Inc. by Kana Software; @plan.Inc. by DoubleClick; and Jupiter Communications, Inc. by Media Metrix. In examining these acquisitions, L.H. Friend calculated the Enterprise Value (EV) of the acquired company implied by each of these transactions as a multiple of LTM revenue. Based on an analysis of the Selected Transactions, L.H. Friend derived a selected range for each respective multiple based on the selected high-end multiple of the observed range and the low-end multiple of

the observed range. Using MindArrow s LTM results and Category 5 s results, L.H. Friend applied these multiples and estimated an implied common equity value range per share

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for MindArrow s common stock and for Category 5 s common stock. L.H. Friend then compared the implied per share values for MindArrow s common stock to the implied per share values for Category 5 s common stock to calculate an implied exchange ratio.

	Implied Exchange Ratio		
Revenue Multiple	Low	Mean	High
EV/LTM Revenue	0.39x	11.69x	134.71x

Using a lower and upper quartile of the data range, this analysis resulted in an implied exchange ratio range of 6.04x to 73.20x, as compared to the exchange ratio of 2.30x of a share of common stock for each share of Category 5 common stock as provided in the merger agreement.

(v) Stock Trading History. To provide contextual data and comparative market data, L.H. Friend reviewed the historical daily closing prices and trading activity of MindArrow s common stock and for Category 5 s common stock for the one-year period ending July 12, 2002 and for the six-month period ended July 12, 2002, and compared such closing stock prices with the closing stock prices of a composite group of twelve comparable publicly traded data security companies and the Nasdaq Composite Index. The eleven comparable publicly traded companies consisted of the Comparable Group. On July 12, 2002, MindArrow s common stock closed at a price of $0.65 and over the one-year period preceding that date ranged in price from $0.37 to $1.25 with a mean price of $0.73 and a standard deviation of $0.20. In comparison, on July 12, 2002, Category 5 s common stock closed at a price of $0.75 and over the one-year period preceding that date ranged in price from $0.75 to $5.00 with a mean price of $2.23 and a standard deviation of $0.97. For the six-month period preceding July 12, 2002, MindArrow s common stock ranged in price from $0.37 to $0.92 with a mean price of $0.59 and a standard deviation of $0.11. In comparison, over the same date range, Category 5 s common stock closing price ranged from $0.75 to $3.15 with a mean price of $2.10 and a standard deviation of $0.70. For the one-year and six-month periods ended July 12, 2002, MindArrow s trading volume averaged 26,008 shares and 26,572, respectively. Over the same period, Category 5 s trading volume averaged 6,556 and 5,565, respectively. This information was presented solely to provide MindArrow s board of directors with background information regarding the historical trading history and stock prices of MindArrow s common stock relative to MindArrow s peers and an appropriate index. This information is presented below:

Stock Trading History

	7/12/02 Closing Price	Period July 13, 2001 to July 12, 2002			
		Low	High	Mean	Standard Deviation
MindArrow	$0.65	$0.37	$1.25	$0.73	$0.20
Category 5	$0.73	$0.75	$5.00	$2.23	$0.97

	Period January 14, 2002 to July 12, 2002			
	Low	High	Mean	Standard Deviation
MindArrow	$0.37	$0.92	$0.59	$0.11
Category 5	$0.75	$3.15	$2.10	$0.70

The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant quantitative methods of financial analysis and the application of those methods to particular circumstances, and, therefore, such an opinion is not readily susceptible to a partial analysis or summary description. The summary of L.H. Friend s analyses set forth below does not purport to be a complete description of the presentation by L.H. Friend to MindArrow s board of directors. In arriving at its Opinion, L.H. Friend did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, L.H. Friend believes that its analyses and the summary set forth below must be considered as a whole, and that considering any portion of such analyses and summary of the factors considered, without considering all such analyses and factors, could create a misleading or incomplete view of the processes underlying the analyses set forth in the L.H. Friend presentation to MindArrow s board of directors and in the Opinion. Any estimates contained therein are not necessarily indicative of actual values, which may vary significantly.

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Estimates of the relative financial values of MindArrow or Category 5 do not purport to be appraisals or necessarily reflect the prices at which such companies may actually be sold. In addition, no assurance can be given as to the trading value of MindArrow s common stock upon consummation of the merger, which may differ materially from the recent trading prices of MindArrow s common stock. Because such matters are inherently uncertain, none of MindArrow, Category 5, L.H. Friend nor any other person assumes any responsibility for such matter.

No Comparable Group company nor any transaction utilized as a comparison in L.H. Friend s analyses is identical to MindArrow or the combined entity, or to the Merger. Mathematical analysis (such as determining the average or median) is not in itself a meaningful method of using comparable company or transaction data.

L.H. Friend was selected by MindArrow s board of directors based on L.H. Friend s qualifications, experience, expertise and reputation. As part of its investment banking business, L.H. Friend is regularly engaged in the investment banking business and, as such, L.H. Friend regularly engages in the valuation of businesses and the securities of businesses in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of securities, private placements and other transactions.

Pursuant to a letter agreement dated as of June 5, 2002, MindArrow has agreed to pay L.H. Friend a fee for its services referred to above including rendering its Opinion, and has agreed to reimburse L.H. Friend for its reasonable expenses incurred in connection with its engagement by MindArrow upon delivery of L.H. Friend s written Opinion. MindArrow has also agreed to indemnify L.H. Friend and its directors, officers, agents, employees, affiliates, and controlling persons against any losses, claims, or liabilities to which L.H. Friend becomes subject to in connection with its rendering of services, except those that arise from L.H. Friend s gross negligence or willful misconduct. L.H. Friend, in the ordinary course of business, has from time to time provided, and in the future may continue to provide, investment banking, financial advisory and other related services to MindArrow and/or MindArrow s affiliates, as the case may be, for which it has or will receive lees. In the ordinary course of business, L.H. Friend or its affiliates may trade in MindArrow s equity securities for its own accounts and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

Opinion of Category 5 s Financial Advisor

SBI USA, LLC has acted as the financial advisor to Category 5 in connection with the merger. On July 5, 2002, SBI USA, LLC reviewed its presentation with the Category 5 board of directors and delivered its oral opinion, subsequently confirmed in writing, on July 12, 2002, that as of such date and based upon and subject to the factors and assumptions set forth in the presentation, the exchange ratio was fair, from a financial point of view, to the holders of Category 5 common stock.

The full text of the written opinion which sets forth the assumptions made, procedures followed and matters considered by SBI USA, LLC is set forth as Appendix D to this joint proxy statement/prospectus, and Category 5 stockholders are urged to read the opinion in its entirety. The summary of the opinion as set forth in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion.

The opinion and presentation of SBI USA, LLC to the Category 5 board of directors, in connection with which SBI USA, LLC was requested to evaluate the fairness, from a financial point of view, of the exchange ratio to the holders of Category 5 common stock, was only one of many factors taken into consideration by the Category 5 board of directors in making its determination to approve the merger. No limitations were imposed by the Category 5 board of directors upon SBI USA, LLC with respect to the investigation made or the procedures followed by SBI USA, LLC in rendering its opinion.

SBI USA, LLC s opinion should be read carefully and in its entirety. It is directed only to the fairness, from a financial point of view, of the exchange ratio to the holders of Category 5 common stock, and it does not address the underlying business decision of Category 5 to effect the merger or constitute a recommendation to any Category 5 stockholder as to how such holder should vote with respect to the merger. It also does not constitute an opinion or imply any conclusion of SBI USA, LLC as to what the value of the Category 5 common stock actually will be when issued pursuant to the merger or the price at which Category 5 common

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stock will trade following the announcement or completion of the merger, which may vary. In connection with its opinion, SBI USA, LLC neither determined the amount of consideration to be paid, nor recommended the amount of consideration to be paid, in connection with the merger.

In connection with rendering its opinion, SBI USA, LLC reviewed selected publicly available business and financial information concerning Category 5 and MindArrow as well as financial forecasts that were provided to SBI USA, LLC by Category 5 and MindArrow, respectively. SBI USA, LLC discussed the business, operations and prospects of Category 5 and MindArrow, as well as other matters it believed relevant to its inquiry, with officers and employees of Category 5 and MindArrow, respectively. SBI USA, LLC also considered such other information, analyses, strategic considerations, investigations and financial, economic and market criteria that it deemed appropriate.

In its review and analysis and in arriving at its opinion, SBI USA, LLC assumed and relied upon, without assuming any responsibility for independent verification, the accuracy and completeness of the financial and other information reviewed by SBI USA, LLC. With respect to the financial forecasts of Category 5 and MindArrow, SBI USA, LLC assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the respective managements of Category 5 and MindArrow as to the future financial performance of Category 5 and MindArrow, respectively, and SBI USA, LLC expressed no opinion with respect to such forecasts or the assumptions on which such forecasts were based. SBI USA, LLC also assumed that the merger would be consummated in accordance with the terms of the merger agreement and the other agreements entered into in conjunction with the merger. SBI USA, LLC did not make or assume any responsibility for making or obtaining any independent evaluations or appraisals of any of the assets or liabilities (contingent or otherwise) of Category 5 or MindArrow. SBI USA, LLC s opinion is necessarily based upon conditions as they existed and could be evaluated on the date of its opinion.

In connection with rendering its opinion to the Category 5 board of directors, SBI USA, LLC performed several financial analyses which it presented to the Category 5 board of directors, the material portions of which are summarized below. SBI USA, LLC believes that its analyses must be considered as a whole and that selecting portions of such analyses and the factors it considered, without considering all such analyses and factors, could create an incomplete view of the analyses and the process underlying its opinion. While the conclusions reached in connection with each analysis were considered carefully by SBI USA, LLC in arriving at its opinion, SBI USA, LLC made various subjective judgments in arriving at its opinion and did not consider it practicable to, nor did it attempt to, assign relative weights to the individual analyses and specific factors considered in reaching its opinion.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. In addition, the process of preparing a fairness opinion necessarily requires a broad range of subjective judgments with respect to appropriate comparable companies, appropriate multiples of various selected financial data and other financial and other factors. Analyses and estimates of the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities actually may be sold. The range of implied exchange ratios or implied multiples for any particular analysis should not be taken to be the view of SBI USA, LLC of the actual exchange ratios or multiples of Category 5 or MindArrow.

The following is a summary of the material financial analyses used by SBI USA, LLC in connection with providing its opinion to the Category 5 board of directors. Several of the summaries below include information presented in tabular format. In order to understand fully such financial analyses used by SBI USA, LLC, the tables must be read with the text of each summary. The tables alone do not constitute a complete description of the financial analyses.

Category 5 and MindArrow Valuation Analysis

SBI USA, LLC derived implied exchange ratios and implied multiples for Category 5 and MindArrow by using three principal valuation methodologies: discounted cash flow analysis, comparable company analysis and comparable transaction analysis. The discounted cash flow analysis places a value on the entity based on the present value of future cash flows. Comparable transaction analysis derives value based on multiples from

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previously similar transactions. Comparable company analysis analyzes a business operating performance and outlook relative to a group of publicly traded peer companies. No public company used in the comparable company analysis is identical to Category 5 or MindArrow. Accordingly, any analysis of publicly traded comparable companies is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved and other factors that could affect the public trading multiple of the companies or company to which they are being compared.

Valuation

Acquisition Method	
Consideration Stock	100%
Number of shares offered	41,582
Exchange ratio	2.3
Implied CFVT price per share	$ 1.27
Market value of shares issued to CFVT	$22,454
Market cap (pre merger) basic	$15,130

Discounted Cash Flows

Terminal Value Methodology	Indicated Value	Weighting	Weighted Value
Revenue multiple	$24,617	40%	$ 9,847
Free cash flow multiple	$27,150	60%	$16,290
Fair market value control basis		100%	$26,137
Discount to market	Range	10%	$23,523
		20%	$20,909
Shares Outstanding MindArrow			34,022
Per Share Value	Range		$ 0.69
			$ 0.61

Assessing a value to MindArrow based on the present value of future cash flows would indicate a per share value of $0.61 to $0.69. This analysis only considers the cash flows of MindArrow, and not the combined cash flows of the combined entity. As the target acquisition swap price is $1.27, the discounted cash flows valuation would imply an exchange ratio of 1.84 to 2.08.

Comparable Company Analysis

SBI USA, LLC compared selected publicly available financial and operating information of Category 5 and MindArrow with corresponding data of the following eight companies that SBI USA, LLC believed to be appropriate:

DoubleClick

Cross Media Marketing

Engage

ValueClick

Traffix

Digital Impact

ClickAction

24/7 Real Media

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Multiple Methodology	Indicated Value	Weighting	Weighted Value
Forecast 2002 revenue	$ 9,170	50%	$ 4,585
Forecast 2003 revenue	$ 17,736	50%	$ 8,868
Forecast 2002 earnings*	$(60,550)	0%	$
Forecast 2003 earnings*	$(21,525)	0%	$
Fair market value control basis		100%	$13,453
Discount to market	Range	10%	$12,108
		20%	$10,763
Shares Outstanding MindArrow			34,022
Per Share Value	Range		$ 0.36
			$ 0.32

Assessing a value to MindArrow based on multiples of revenue and earnings would indicate a per share value of $0.32 to $0.36. This analysis only considers the cash flows of MindArrow, and not the combined cash flows of the combined entity. As the target acquisition swap price is $1.27, the discounted cash flows valuation would imply an exchange ratio of 3.52 to 3.96. The At Deal multiples for MindArrow compare favorably to the multiples for the comparable companies and Category 5.

Comparable Transaction Analysis

Multiple Methodology	Indicated Value	Weighting	Weighted Value
LTM Revenue Multiple Paid	$8,477	100%	$ 8,477
LTM Earnings Multiple Paid	na	0%	na
Fair market value control basis			$ 8,477
Shares Outstanding MindArrow			34,022
Per Share Value			$ 0.25

Through comparable transaction analysis, the above analysis arrives at a per share value of $0.25. Again, as the agreement calls for a $1.27 valuation, this would imply an exchange ratio of 5.08.

Weighted Average

Valuation Methodology	Indicated Value	Weighting	Weighted Value
Discounted cash flow analysis	$26,137	70%	$18,296
Comparable company analysis	$13,453	20%	$ 2,691
Transaction Analysis	$ 8,477	10%	$ 848
Fair market value		100%	$21,834
Discount to market	Range	10%	$19,651
		20%	$17,467
Shares Outstanding MindArrow			34,022
Per Share Value	Range		$ 0.58
			$ 0.51

SBI USA, LLC applied a weighted average on the complete valuation to arrive at an overall firm valuation of MindArrow. Based on all valuation methodologies and the weight each method received, the per share value range arrived at is $0.58 to $0.51. Under this conclusion, and based on the target price of $1.27 per share, the exchange ratio would range from 2.19 to 2.49.

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SBI USA, LLC, the US investment banking subsidiary of Softbank Investment Group, regularly engages in the valuation of companies and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, and corporate, estate and other purposes. Category 5 retained SBI USA, LLC as a financial advisor because of its reputation, expertise in the valuation of companies and substantial experience in transactions such as the merger.

Pursuant to the terms of SBI USA, LLC s engagement, Category 5 agreed to pay SBI USA, LLC a customary fee upon the written delivery of the fairness opinion and upon completion of the merger. Additionally, Category 5 has agreed to reimburse SBI USA, LLC for reasonable out-of-pocket expenses, including, without limitation, reasonable fees and expenses of SBI USA, LLC s legal counsel. Category 5 has also agreed to indemnify SBI USA, LLC and related persons against liabilities, including liabilities under the federal securities laws, related to or arising out of its engagement. In the ordinary course of cts business, SBI USA, LLC may actively trade the securities of Category 5 and MindArrow for its own account and the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

Shelly Singhal, a managing director of SBI USA, LLC has been a director of Category 5 since February 2002. SBI USA, LLC is the successor in interest of SBI E2-Capital (USA), Ltd. and is a subsidiary of SBI E2-Capital (HK) Limited, of which Mr. Singhal is Executive Vice President. SBI E2-Capital (HK) Limited, is a stockholder of MindArrow. SBI E2-Capital (USA) Ltd. provided significant financial advisory services to Category 5 prior to the proposed merger with MindArrow Acquisition Corp. SBI USA, LLC will receive a $20,000 referral fee from L.H. Friend, MindArrow s financial advisor in connection with the merger.

Interests of MindArrow and Category 5 Directors, Officers, and their Associates in the Merger

Certain current and former executive officers, directors, and members of the boards of both MindArrow and Category 5, and their associates, have interests in the merger that differ from the interests of other stockholders generally. Both boards were aware of these interests and considered them, among other matters, in approving the merger agreement, and the August 9, 2002 amendment to the merger agreement, and the transactions contemplated thereby.

Interests of Certain Persons in the Merger

In considering the recommendation of the MindArrow and Category 5 boards of directors to approve and adopt the merger, stockholders of MindArrow and Category 5 should be aware that some current and former members of the management and the boards of directors of MindArrow and Category 5, and their associates, have interests in the merger that are different from, or in addition to, the interests of stockholders of MindArrow and Category 5 generally.

Stock Ownership

As of August 16, 2002, directors and officers of MindArrow held an aggregate of approximately 19% of outstanding shares of MindArrow common stock and the current and former directors and executive officers of Category 5 held an aggregate of approximately 64.2% of all outstanding shares of Category 5 common stock.

Stock Options

Pursuant to the merger agreement, each outstanding option to acquire Category 5 common stock (each a Category 5 option) will be automatically converted into an option to acquire shares of MindArrow common stock. The number of shares of MindArrow common stock to be subject to each converted option will be equal to the number of shares of Category 5 common stock subject to the original option immediately prior to the merger multiplied by 2.3 (the exchange ratio) at an exercise price per share equal to the exercise price for each such share of Category 5 common stock subject to such option divided by 2.3 (the exchange ratio). Following such conversion, all other terms and conditions governing each converted Category 5 option will continue to apply. The value of such converted options will depend on the market price of MindArrow common stock following completion of the transactions. As of August 9, 2002, the following current and

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former officers and directors of Category 5 held the following number of Category 5 options, which are convertible into options to acquire the following number of shares of MindArrow common stock:

Name	Pre-Merger Exercise Price	Number of Category 5 Shares	Post-Merger Exercise Price	Post-Merger Number of MindArrow Shares
Edward P. Mooney	$0.25	200,000	$0.1087	460,000
William C. Gibbs	$0.25	700,000	$0.1087	1,610,000
Mitchell Edwards	$0.25	596,562	$0.1087	1,372,093
Shelly Singhal	$1.13	50,000	$0.4913	115,000
Tyler Thompson	$2.50	100,000	$1.0869	230,000
Troy Kearl	$2.50	100,000	$1.0869	230,000
Matthew Green	$0.25	100,000	$0.1087	230,000
Jade B. Millington	$0.25	50,000	$0.1087	115,000

In addition, any unvested portion of the foregoing stock options held by William C. Gibbs, Mitch Edwards, Edward P. Mooney and Shelly Singhal will become immediately vested at the effective time of the merger. See the discussion under the section entitled The Merger Agreement Treatment of Stock Options.

Employment Agreements.

Effective upon the completion of the merger, MindArrow intends to enter into employment agreements with the following officers of Category 5 or its subsidiaries in the positions and for the terms indicated:

Name	Position	Term
Paul Anderson	President of Bring It Home, Inc.	December 31, 2002
Tyler Thompson	Executive Vice President of Sales and Marketing of the Surviving Company	December 31, 2004
Troy Kearl	Vice President of Research and Development of the Surviving Company	December 31, 2002
Matthew Green	Vice President of Finance of the Surviving Company	December 31, 2003
Jade B. Millington	Vice President of Banking of the Surviving Company	December 31, 2002
Brad Crawford	Chief Operating Officer of Bring It Home, Inc.	December 31, 2002

SBI USA, LLC

Pursuant to an engagement letter dated July 2, 2002, as amended effective July 2, 2002, among Category 5 and SBI USA, LLC, in the event Category 5 merges or otherwise effects a corporate reorganization with MindArrow, Category 5 must pay to SBI USA, LLC a cash fee equal to $175,000 payable as follows: (i) $25,000 in cash on July 2, 2002, (ii) $50,0000 in cash by July 15, 2002, and (iii) $100,000 in cash upon the later of delivery of the fairness opinion and closing of the merger agreement. Category 5 must also reimburse SBI USA, LLC for all expenses incurred in connection with MindArrow transaction, which are capped at $25,000. As of the date hereof, amounts received by SBI USA, LLC under this engagement letter are approximately $25,000.

Shelly Singhal, a managing director of SBI USA, LLC has been a director of Category 5 since February 2002. SBI USA, LLC is the successor in interest of SBI E2-Capital (USA), Ltd., of which Mr. Singhal was previously a managing director, and a subsidiary of SBI E2-Capital (HK) Limited, of which Mr. Singhal is Executive Vice President. SBI E2-Capital (HK) Limited holds 75,000 shares of MindArrow common stock. SBI E2-Capital (USA) Ltd. provided significant financial advisory services to Category 5 prior to the

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proposed merger with MindArrow Acquisition Corp. Mr. Singhal and certain associates of Mr. Singhal hold 75,000 shares of MindArrow common stock. SBI USA, LLC will receive a $20,000 referral fee from L.H. Friend, MindArrow s financial advisor in connection with the merger.

Indemnification

MindArrow has agreed to indemnify current and prior officers and directors of Category 5 for their acts and omissions as officers and directors of Category 5 prior to the merger to the same extent MindArrow currently provides such indemnification to its own officers and directors, and to provide and maintain insurance coverage for such purposes for a period of at least three years after the closing of the merger. MindArrow maintains liability insurance for all of its directors and executive officers in amounts that it deems adequate.

Warrants

Certain officers and directors of Category 5 are affiliates of entities and/or individuals who hold Category 5 warrants that will be assumed by MindArrow in connection with the merger.

Convertible Notes

Certain officers and/or directors of Category 5 are affiliates of entities and/or individuals who hold Category 5 promissory notes that will be assumed by MindArrow following the merger. Following the merger, those convertible notes still outstanding will be convertible into shares of MindArrow common stock. Holders of such outstanding convertible notes will be entitled to receive that number of shares of MindArrow common stock that such holders would have received had such holders converted their notes into Category 5 common stock immediately prior to the merger.

Directors and Officers Option Grants

Directors and officers of both MindArrow and Category 5 may receive options to purchase MindArrow common stock pursuant to the MindArrow Systems, Inc. 1999 Stock Option Plan and the 2000 Stock Incentive Plan.

Post-Merger Board of Directors of MindArrow

MindArrow has agreed to appoint two of Category 5 s current directors, Paul Anderson and Tyler Thompson, to its board of directors upon the closing of the merger. MindArrow s board of directors intends to accomplish this by increasing the size of its board to nine individuals effective upon the merger, and appointing Messrs. Anderson and Thompson to fill the two new vacancies until the next annual meeting of MindArrow stockholders. Therefore, following the merger it is expected that the board of directors of MindArrow will consist of Merv Adelson, Paul Anderson, Bruce Maggin, Joseph N. Matlock, Jr., Joel Schoenfeld, Bruce Stein, Tyler Thompson and Robert I. Webber. Thomas Quick, a former director of MindArrow, resigned from the board for personal reasons effective July 25, 2002.

Effective Time

The Merger shall become effective upon the later of the filing of a certificate of merger with the Secretary of State of the State of Delaware and the filing of articles of merger with the Secretary of State of the State of Nevada, or at such later time as agreed in writing and specified in such certificate and/or articles of merger. The filing of the certificate and articles of merger is required as soon as practicable following the closing of the merger, which shall occur no later than two business days after the satisfaction or waiver of the closing conditions set forth in the merger agreement.

Other Effects of the Merger; De-listing and De-registration of Category 5 Shares

After the merger, Category 5 stockholders will become stockholders of MindArrow. The rights of all such stockholders will be governed by the Amended and Restated Certificate of Incorporation and bylaws of

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MindArrow. For a description of the difference between the rights of MindArrow and Category 5 stockholders, see Comparison of Rights of MindArrow Stockholders and Category 5 Stockholders.

If the merger is consummated, shares of Category 5 common stock will cease to be listed on the National Association of Securities Dealers OTC Electronic Bulletin Board. In addition, Category 5 will de-register the Category 5 common stock under the Exchange Act and, accordingly, will no longer be required to file periodic reports pursuant to the Exchange Act.

Appraisal Rights

Pursuant to Sections 92A.300 to 92A.500, inclusive, of the Nevada Revised Statutes, Category 5 stockholders who follow the procedures specified in Sections 92A.420 and 92A.440 of the Nevada Revised Statutes are entitled to dissent from the merger and obtain payment of the fair value of their Category 5 shares as of the effective time of the merger, in place of the consideration that the holder would otherwise receive in the merger. In order to exercise appraisal rights, a Category 5 stockholder must demand and perfect the rights in accordance with Sections 92A.420 and 92A.440 of the Nevada Revised Statutes. The following is a summary of Sections 92A.400 to 92A.500, inclusive, and is qualified in its entirety by reference to Sections 92A.300 to 92A.500, inclusive, a copy of which is attached hereto as Appendix E and is incorporated by reference herein. Category 5 stockholders should carefully review Sections 92A.300 to 92A.500, inclusive, as well as information discussed below to evaluate and, if they wish, perfect their rights to appraisal.

If a holder of Category 5 common stock elects to exercise the right to an appraisal under Section 92A.420 of the Nevada Revised Statutes, such stockholder must:

File with Category 5, prior to the Category 5 special meeting, a written notice of the stockholder s intent to demand payment for his or her shares if the merger is effectuated; and

Not vote in favor of the merger or to adopt the merger agreement.

All notices of intent to demand appraisal rights should be addressed to: Category 5 Technologies, Inc., 2755 East Cottonwood Parkway, Suite 450, Salt Lake City, Utah 84121, Attn: Corporate Secretary, before the vote is taken on the merger agreement at the Category 5 special meeting, and should be executed by, or on behalf of, the holder of record. Such demand reasonably must inform Category 5 of the identity of the stockholder and that such stockholder intends to demand appraisal of such stockholder s shares. A Category 5 stockholder who elects to exercise appraisal rights under Sections 92A.420 and 92A.440 is called a dissenter.

Within ten (10) days after the effective time of the merger, Category 5 must provide written notice of the effective time to each holder of Category 5 common stock who has satisfied the requirements of Section 92A.420 of the Nevada Revised Statutes. This dissenter s notice will (1) state where the demand for payment by the dissenter must be sent and where and when certificates for Category 5 shares must be deposited; (2) include a form for demanding payment which includes the date of the first announcement to the news media or to the Category 5 stockholders of the terms of the merger and which requires the dissenter to certify whether he or she acquired beneficial ownership of the shares before that date; (3) indicate the deadline by which Category 5 must receive the demand for payment from the dissenter (which may not be less than thirty nor more than sixty days after the date the dissenter s notice is delivered to the dissenter); and (4) be accompanied by a copy of Sections 92A.300 to 92A.500, inclusive.

A dissenter to whom a dissenter s notice is sent must perfect his or her appraisal rights by (1) demanding payment for his or her Category 5 shares; (2) certifying whether he or she acquired beneficial ownership of the shares before the date of the first announcement to the news media or to the Category 5 stockholders of the terms of the merger; and (3) depositing all certificates representing the shares of Category 5 beneficially owned by the dissenter in accordance with the terms of the dissenter s notice. Any dissenter who fails to demand payment, or deposit his or her certificates at the designated location, on or before the deadline indicated in the dissenter s notice, is not entitled to payment for his or her shares.

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Within thirty (30) days after Category 5 has received a dissenter s timely demand for payment, Category 5 must pay such dissenter the amount Category 5 estimates to be the fair value of the dissenter s shares, plus accrued interest. Fair value is defined as the value of the shares immediately before the effectuation of the merger, as determined by the Category 5 board, excluding appreciation or depreciation in anticipation of the merger, unless exclusion would be inequitable. This payment must be accompanied by (1) Category 5 s balance sheet as of June 30, 2002, a statement of income for the twelve months ended June 30, 2002, a statement of changes in the stockholders equity for the twelve months ended June 30, 2002 and any interim financial statements; (2) a statement of Category 5 s estimate of the fair value of the shares; (3) an explanation as to how that interest was calculated; (4) a statement of the dissenter s rights to notify Category 5 of his or her own estimate and his or her rights to demand payment of the difference between the dissenter s estimate and the amount paid by Category 5; and (5) a copy of Sections 92A-.300 to 92A-.500, inclusive.

Within thirty (30) days after a dissenter has received payment and the information described in the preceding paragraph, the dissenter is entitled to notify Category 5 in writing of the dissenter s own estimate of the value of his or her shares and the amount of interest due, and to demand payment of the difference between the amount paid by Category 5 and the dissenter s estimate, plus the interest due, if the dissenter believes that amount paid by Category 5 is less than the fair value of his or her shares or that the interest due is incorrectly calculated.

If a demand for payment described in the prior paragraph remains unsettled, Category 5 must commence a proceeding within sixty (60) days after receiving the dissenter s demand for payment, petitioning the court to determine the fair value of the shares and accrued interest for all dissenters whose demands remain unsettled. The court may appoint one or more persons as appraisers to receive evidence and recommend a decision on the question of fair value of the shares. Each dissenter who is a party to the action is entitled to the amount, if any, by which the court finds the fair value of his or her shares, plus interest, exceeds the amount paid by Category 5.

The costs of a proceeding described in the prior paragraph, including the compensation and expenses of the appraisers appointed by the court, must be paid by Category 5, unless the court determines that all or some of the costs should be assessed against all or some of the dissenters, to the extent that the court finds that such dissenters acted arbitrarily, vexatiously or in bad faith in demanding payment. Moreover, the court may assess the legal fees and expenses of the dissenters against Category 5 if the court finds that Category 5 did not substantially comply with the requirements set forth in Sections 92A-.300 to 92A-.500, inclusive, or against Category 5 or one or more of the dissenters if the court finds that Category 5 or such dissenters acted arbitrarily, vexatiously or in bad faith with respect to the rights provided in Sections 92A-.300 to 92A-.500, inclusive. Finally, if the court determines that services of counsel for a particular dissenter were of substantial benefit to other dissenters and the fees for those services are not assessed against Category 5 by the court, the court may order that those fees be paid out of the amounts awarded to those dissenters so benefited.

After the effective time of the merger, no dissenting stockholder shall have any rights of a Category 5 stockholder with respect to such holder s shares for any purpose, except to receive payment to which Category 5 stockholders of record as of a date prior to the effective time are entitled, if any. If no demand for payment by a dissenter is filed with Category 5 prior to the deadline set forth in the dissenter s notice, then the right of such dissenting stockholder to an appraisal will cease and such dissenting stockholder will be entitled to receive only the shares of common stock of MindArrow Systems as provided in the merger agreement.

The foregoing is only a summary of Sections 92A.300 to 92A.500, inclusive, of the Nevada Revised Statutes and is qualified in its entirety by reference to the full text of Sections 92A.300 to 92A.500, inclusive, which is included in Appendix E.

Accounting Treatment of the Merger

The merger will be accounted for using the purchase method of accounting in accordance with United States generally accepted accounting principles, with Category 5 being treated as the acquirer for accounting purposes, a reverse acquisition . Under this method of accounting, any excess of the estimated purchase

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price over the fair value will be allocated to intangible assets, which will be identified and evaluated for realizability. Any remaining excess of the estimated purchase price will be allocated to goodwill, which will be evaluated periodically for impairment.

Regulatory Matters

Antitrust

MindArrow and Category 5 do not believe the merger is subject to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the rules promulgated thereunder by the Federal Trade Commission, which prevent certain transactions from being completed until required information and materials are furnished to the Antitrust Division of the Department of Justice and the Federal Trade Commission and waiting periods end or expire.

State Takeover Laws

A number of states throughout the United States, including Nevada where Category 5 is incorporated, have enacted takeover statutes that purport, in varying degrees, to be applicable to attempts to acquire securities of corporations that are incorporated or have assets, stockholders, executive offices or places of business in those states. To the extent that certain provisions of certain of these state takeover statutes purport to apply to the merger, MindArrow and Category 5 believe that, except in the case of Nevada Revised Statutes Section 78.438, such laws conflict with federal law and constitute an unconstitutional burden on interstate commerce.

The board of directors of Category 5 has taken all action required to render the business combination provisions of Nevada Revised Statutes 78.438 inapplicable to the merger and the transactions contemplated by the merger agreement. Other than as described in this joint proxy statement/prospectus, neither MindArrow nor Category 5 has attempted to comply with any state takeover statutes in connection with the merger. MindArrow and Category 5 reserve the right to challenge the validity or applicability of any state law allegedly applicable to the merger, and nothing in this joint proxy statement/prospectus nor any action taken in connection herewith is intended as a waiver of that right. In the event that it is asserted that one or more state takeover statutes apply to the merger, and it is not determined by an appropriate court that such statute or statutes do not apply or are invalid as applied to the merger, as applicable, MindArrow may be required to file certain documents with, or receive approvals from, the relevant state authorities, and MindArrow might be prevented from or delayed in consummating the merger. In such case, MindArrow may not be obligated to complete the merger.

Material Federal Income Tax Consequences

The following are certain United States federal income tax considerations of the merger generally applicable to the Category 5 stockholders. The following discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), the regulations promulgated under the Code, and existing administrative interpretations and court decisions, all of which are subject to change, possibly with retroactive effect. Any such change could affect the continuing validity of the following discussion. This discussion does not address all aspects of United States federal income taxation that may be important to you in light of your particular circumstances or if you are subject to special rules, such as rules relating to:

- stockholders who are neither citizens nor residents of the United States or that are partnerships, foreign corporations or foreign estates or trusts;
- financial institutions;
- tax-exempt organizations;
- insurance companies;
- dealers in securities;

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traders in securities that elect to use a mark-to-market method of accounting;

stockholders who acquired their Category 5 stock pursuant to the exercise of options or similar derivative securities, through a tax-qualified retirement plan or otherwise as compensation; and

stockholders who hold their Category 5 stock as part of a hedge, straddle or other risk reduction, constructive sale or conversion transaction.

If a partnership holds Category 5 common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding Category 5 common stock, you should consult your tax advisor regarding the tax consequences of the merger to you.

In addition, we do not discuss the tax consequences of the merger under foreign, state or local tax laws, the tax consequences of transactions effectuated prior or subsequent to, or concurrently with, the merger, whether or not any such transactions are undertaken in connection with the merger, including without limitation any transaction in which Category 5 stock is acquired or shares of MindArrow common stock are disposed of, or the tax consequences to holders of options, warrants or similar rights to acquire Category 5 common stock. This discussion assumes you hold your shares of Category 5 stock as capital assets within the meaning of Section 1221 of the Code (generally, as an investment). Category 5 stockholders are urged to consult their own tax advisors as to the specific tax consequences of the merger, including the applicable federal, state, local and foreign tax consequences to them of the merger.

It is intended that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code. Category 5 s obligation to complete the merger is conditioned on, among other things, Category 5 s receipt of an opinion dated the Closing Date from Snell & Wilmer LLP, counsel to Category 5, and MindArrow s obligation to complete the merger is conditioned on, among other things, MindArrow s receipt of an opinion dated the Closing Date from Morrison & Foerster LLP, counsel to MindArrow, in each case to the effect that the merger will be treated as a reorganization qualifying under the provisions of Section 368(a) of the Code. The opinions of Snell & Wilmer LLP and Morrison & Foerster LLP will be based on then-existing law, will assume the absence of changes in existing facts and will rely on customary assumptions and representations contained in certificates executed by officers of Category 5 and MindArrow, dated on or before the completion of the merger, which shall not have been withdrawn or modified in any material respect as of the effective time of the merger.

Assuming that the merger does qualify as a reorganization for federal tax purposes, following are the material United States federal income tax consequences of the merger to Category 5 stockholders who do not exercise appraisal rights in connection with the merger, and to Category 5 and MindArrow:

Category 5 stockholders will not recognize any gain or loss upon their receipt of MindArrow common stock in the merger, except on any cash received for a fractional share of MindArrow common stock;

the aggregate tax basis of the MindArrow common stock and the contingent warrant received by a Category 5 stockholder in the merger, including any fractional shares of MindArrow common stock a Category 5 stockholder is deemed to receive, will be the same as the aggregate tax basis of the Category 5 common stock surrendered in exchange therefor;

the holding period of the MindArrow common stock received by a Category 5 stockholder in the merger will include the period for which the Category 5 common stock surrendered in exchange therefor was considered to be held;

any cash payment received by a Category 5 stockholder for a fractional share of MindArrow common stock will be treated as if such fractional share had been issued in the merger and then redeemed by MindArrow. A Category 5 stockholder generally will recognize gain or loss with respect to such cash payment, measured by the difference, if any, between the amount of cash received and the holder s basis in such fractional share; and

MindArrow and Category 5 will not recognize gain or loss solely as a result of the merger.

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It is unclear whether the contingent warrant should be treated for tax purposes as a contingent warrant or as a contingent issuance of the MindArrow stock to which the warrant relates. In either case, assuming the merger qualifies as a reorganization, a Category 5 stockholder will not recognize taxable gain or loss as a result of the receipt or the exercise of the contingent warrant. However, the tax basis and holding period for the warrant and the MindArrow stock to which the warrant relates may differ depending on the tax characterization of the warrant. We suggest you consult your tax advisor regarding the tax treatment and consequences of the contingent warrant.

Neither MindArrow nor Category 5 will request a ruling from the Internal Revenue Service in connection with the merger. The tax opinions referred to above will not bind the Internal Revenue Service and will not prevent the Internal Revenue Service from successfully asserting a contrary opinion. If the Internal Revenue Service successfully challenges the status of the merger as a reorganization, Category 5 stockholders would recognize taxable gain or loss with respect to each share of Category 5 common stock surrendered. The timing and amount of such gain is not clear under current law because of the contingent warrant. You should consult your tax advisor regarding the tax consequences to you if the merger does not qualify as a reorganization.

Even if the merger qualifies as a reorganization, Category 5 stockholders could recognize gain to the extent that shares of MindArrow common stock or the contingent warrant are considered to be received in exchange for services or for property other than solely Category 5 common stock. All or a portion of such gain may be taxable as ordinary income. Gain may also have to be recognized to the extent that Category 5 stockholders are treated as receiving, directly or indirectly, consideration other than MindArrow common stock and the contingent warrant in exchange for their Category 5 common stock. Regardless of the status of the merger as a reorganization, if you exercise appraisal rights in connection with the merger and receive cash payment for all of your shares of Category 5 stock, you generally will recognize capital gain or loss, which will be long-term capital gain or loss if you have held your shares of Category 5 stock for more than one year at the time of payment. You should consult your tax advisor regarding the tax consequences to you if you exercise appraisal rights in connection the merger and receive cash for your Category 5 stock.

The foregoing discussion is not intended to be a complete analysis or description of all potential United States federal income tax consequences of the merger. In addition, the discussion does not address tax consequences which may vary with, or are contingent on, your individual circumstances. Moreover, the discussion does not address any non-income tax or any foreign, state or local tax consequences of the merger. Accordingly, you are strongly urged to consult with your tax advisor to determine the particular United States federal, state, local or foreign income or other tax consequences to you of the merger.

HOLDERS OF CATEGORY 5 COMMON STOCK ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING THE APPLICABILITY AND EFFECT OF FEDERAL, STATE, LOCAL, AND FOREIGN INCOME AND OTHER TAX LAWS IN THEIR PARTICULAR CIRCUMSTANCES.

Resale Restrictions

MindArrow common stock issued in the merger will not be subject to any restrictions on transfer arising under the Securities Act of 1933, as amended, except for shares issued to any Category 5 stockholder who may be deemed to be an affiliate of Category 5 or MindArrow for purposes of Rule 145 under the Securities Act. Each such affiliate receiving MindArrow shares in the merger will agree not to transfer any MindArrow common stock received in the merger except in compliance with the resale provisions of Rule 145 under the Securities Act of 1933 or as otherwise permitted under the Securities Act of 1933. This proxy statement/prospectus does not cover resales of MindArrow common stock received by any person upon completion of the merger, and no person is authorized to make any use of this proxy statement/prospectus in connection with any such resale.

Dividend Policy

Since they began publicly trading, neither MindArrow nor Category 5 has ever paid dividends to its stockholders, nor does MindArrow expect to pay dividends in the foreseeable future.

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Reverse Stock Split

In accordance with the requirements of the merger agreement, MindArrow s stockholders are being asked to approve a reverse stock split in a ratio no greater than one for ten, effective immediately after completion of the merger with Category 5. The purpose for the proposed reverse stock split is to attempt to increase the market price of MindArrow s common stock following the merger in order to meet the minimum requirements for continued listing of MindArrow s common stock on the Nasdaq SmallCap Market following the merger. The reverse stock split will be accomplished by filing an amendment to MindArrow s Amended and Restated Certificate of Incorporation effecting the reverse split, which will become effective immediately after the merger with Category 5.

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THE MERGER AGREEMENT

The following is a summary of the material provisions of the merger agreement, dated as of July 12, 2002, as amended effective August 9, 2002, among MindArrow, Category 5 and MindArrow Acquisition Corp., a copy of which is attached as Appendix A to this joint proxy statement/ prospectus and incorporated by reference herein. MindArrow and Category 5 stockholders should read carefully the merger agreement, as amended. The following summary is qualified in its entirety by reference to the text of the merger agreement and the amendment thereto.

General

The merger agreement provides that, following the approval and adoption of the merger by the stockholders of both MindArrow and Category 5 and the satisfaction or waiver of the other conditions to the merger:

Category 5 will merge with and into MindArrow Acquisition Corp., and

Category 5 will cease to exist and MindArrow Acquisition Corp. will continue as the surviving corporation and as a wholly owned subsidiary of MindArrow following the merger.

As a result of the merger, and as of the effective time of the merger, MindArrow Acquisition Corp. will succeed to and assume all of the rights and obligations of Category 5, in accordance with Delaware General Corporation Law.

Completion and Effectiveness of the Merger

The merger agreement provides that, subject to the requisite approval of the stockholders of both MindArrow and Category 5 and the satisfaction or waiver of other conditions, the merger will be consummated upon the later of (i) the filing of a certificate of merger and any other appropriate documents, in accordance with the relevant provisions of the Delaware General Corporation Law, with the Secretary of State of the State of Delaware and (ii) the filing of articles of merger and any other appropriate documents, in accordance with relevant provisions of the Nevada Revised Statutes, with the Secretary of State of the State of Nevada.

Conversion of Shares of Category 5 Common Stock

Upon the consummation of the merger:

Each share of Category 5 common stock issued and outstanding immediately prior to the merger, other than shares held by Category 5, MindArrow or their subsidiaries, or shares held by stockholders who exercise their appraisal rights, will be converted into and become exchangeable for the right to receive (i) 2.3 shares of MindArrow common stock and (ii) a warrant to purchase 0.5 shares of MindArrow common stock, which shall be exercisable at $0.01 per share and which shall vest upon the achievement by Category 5 s ePenzio division of an EBITDA of at least $8.7 Million for the twelve months ended June 30, 2003 (EBITDA being defined as net income calculated in accordance with generally accepted accounting principles, plus interest, taxes depreciation and amortization) pursuant to the terms of that certain Master Contingent Warrant Agreement, attached as Exhibit E to the merger agreement. Such contingent warrants shall expire twelve months after vesting. In the event of changes in MindArrow common stock prior to the merger, such as stock dividends or stock splits, the exchange ratio will be appropriately adjusted; and

Each share of common stock of MindArrow Acquisition Corp. outstanding immediately prior to the merger will be converted into one share of common stock of the surviving corporation.

No fractional shares of MindArrow common stock will be issued in the merger. A holder of Category 5 common stock who would otherwise be entitled to receive fractional shares of MindArrow common stock as a result of the merger will receive, in lieu of fractional shares, cash in an amount equal to the closing price per share of MindArrow common stock on the date of the merger multiplied by the fraction to which the holder

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would otherwise be entitled. MindArrow will make available to an exchange agent appointed by MindArrow, from time to time, sufficient cash amounts to satisfy payment for fractional shares and the exchange agent will distribute such proceeds, without interest, to the holders of the fractional interests.

Treatment of Stock Options

Upon the consummation of the merger, subject to certain conditions and limitations contained in the merger agreement, each outstanding option to purchase shares of Category 5 common stock will by virtue of the merger be assumed by MindArrow and the holders of such assumed options will be entitled to purchase a number of shares of MindArrow common stock equal to the number of shares of Category 5 common stock subject to the original option multiplied by 2.3 (the exchange ratio) and then:

In the case of any incentive stock option for U.S. federal income tax purposes, truncated to the nearest whole share, and

In the case of all other options, rounded up to the nearest whole share.

The exercise price per share of MindArrow common stock under the assumed option will be equal to the former exercise price per share of Category 5 common stock under the option immediately prior to the merger divided by 2.3 (the exchange ratio), and then;

In the case of any incentive stock option, rounded up to the nearest penny, and

In the case of all other options, truncated to the nearest penny.

All other terms of the options, including the vesting schedule, will remain unchanged. However, prior to the merger, Category 5 must obtain those waivers and/or consents necessary to ensure that no option which entitles its holder to acquire 15,000 or more shares of Category 5 common stock will become fully vested and exercisable as a result of the consummation of the merger, with the exception of those options granted to the following current or former directors and/or executive officers of Category 5: William C. Gibbs, Shelly Singhal, Edward P. Mooney and Mitchell Edwards.

The vesting and conversion of any option to purchase shares of Category 5 common stock that is deemed to be an incentive stock option may involve further adjustment for the conversion to comply with certain U.S. federal income tax laws. Acceleration of the vesting of the options of Category 5 may in some circumstances cause certain tax implications to the option holder. All other terms of the options, including the vesting schedule, will remain unchanged. Category 5 stockholders are urged to consult with their own tax advisors regarding options to purchase Category 5 stock that they currently hold.

Treatment of Warrants

Upon the consummation of the merger, each outstanding warrant to purchase shares of Category 5 common stock shall be assumed by MindArrow. The number of shares of MindArrow common stock subject to the Category 5 warrants shall be determined by multiplying the number of shares of Category 5 common stock subject to the warrants by 2.3 (the exchange ratio). The exercise price under the warrants shall be determined by dividing the exercise price per share of the Category 5 common stock warrants by 2.3 (the exchange ratio). All other terms of the Category 5 warrants shall remain unchanged. Upon the exercise of any assumed warrant prior to the expiration date of all contingent warrants described above under the heading Conversion of Shares of Category 5 Common Stock, the holder of such assumed warrant shall also receive a contingent warrant to purchase that number of shares of MindArrow common stock that such holder would have received had the holder exercised the assumed warrant immediately prior to the merger. No contingent warrants shall be issued upon the exercise of an assumed warrant after the expiration date of all contingent warrants. Prior to the merger, Category 5 must obtain those waivers and/or consents necessary to ensure that no warrant which entitles its holder to acquire 15,000 or more shares of Category 5 common stock will become fully vested and exercisable as a result of the consummation of the merger, with the exception of those warrants, if any, held by the following current or former directors and/or executive officers of Category 5: William C. Gibbs, Shelly Singhal, Edward P. Mooney and Mitchell Edwards.

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Exchange Procedures

As soon as reasonably practical after the merger, MindArrow s appointed exchange agent will mail a letter of transmittal and instructions to each record holder of certificates that, immediately prior to the merger, represented outstanding shares of Category 5 common stock that were converted to MindArrow common stock and a warrant to purchase MindArrow common stock in the merger. After receipt of the transmittal form, each holder should surrender his, her or its Category 5 stock certificates to the exchange agent, together with the letter of transmittal duly executed and completed in accordance with the instructions provided by the exchange agent. Upon surrender of the certificates to and acceptance of the certificates by the exchange agent, each holder will be entitled to receive:

Certificates of MindArrow common stock evidencing the whole number of shares of MindArrow common stock to which the holder is entitled;

A certificate representing the contingent warrant to purchase that number of shares of MindArrow common stock which the holder is entitled to purchase; and

A check in the amount equal to any cash that the holder has the right to receive pursuant to the merger agreement, including cash in lieu of any dividends and other distributions with respect to the shares represented by the MindArrow stock certificates and cash in lieu of fractional shares. No interest will be paid on any merger consideration.

If any shares of MindArrow common stock are to be issued in a name other than that in which the certificate(s) representing Category 5 common stock surrendered in exchange for shares of MindArrow common stock is registered, the certificates surrendered must be properly endorsed or otherwise be in proper form for transfer and the person requesting the exchange must provide to the appointed exchange agent proper evidence that any applicable stock transfer taxes have been paid or are not applicable.

No holder of a certificate(s) will be entitled to receive any dividend or other distribution from MindArrow until the holder surrenders his, her or its Category 5 stock certificate(s) for a certificate representing shares of MindArrow common stock and a certificate representing the contingent warrant to purchase MindArrow common stock. Upon surrender, the holder will receive the amount of any dividends or other distributions that, after the consummation of the merger, became payable with respect to the number of whole shares of MindArrow common stock into which the shares of Category 5 common stock were converted. No interest will be paid on any dividends or other distributions.

Any portion of the merger consideration, including any certificates of MindArrow common stock, any certificates representing the contingent warrant to purchase MindArrow common stock, any dividends or distributions, or any cash owed in lieu of fractional shares of MindArrow common stock, that has not been distributed to the holders of Category 5 common stock within 12 months after the merger will be delivered to the surviving corporation. At the end of that 12 month period, any holders who have not surrendered their certificates in accordance with the relevant provisions of the merger agreement may look only to the surviving corporation and MindArrow for payment of their claims for any merger consideration and any dividends or distributions with respect to the shares of MindArrow common stock to which they are entitled.

None of MindArrow, MindArrow Acquisition Corp., Category 5 or MindArrow s appointed exchange agent, or any of their respective directors, officers, employees or agents, will be liable in respect of any merger consideration delivered to a public official under applicable abandoned property, escheat or similar law.

CATEGORY 5 STOCKHOLDERS SHOULD NOT SEND THEIR CATEGORY 5 STOCK CERTIFICATES TO MINDARROW OR CATEGORY 5 AT THIS TIME. CATEGORY 5 STOCK CERTIFICATES WILL ONLY BE EXCHANGED FOR CERTIFICATES REPRESENTING SHARES OF MINDARROW COMMON STOCK AND A CONTINGENT WARRANT TO PURCHASE MINDARROW COMMON STOCK FOLLOWING THE CONSUMMATION OF THE MERGER IN ACCORDANCE WITH INSTRUCTIONS WHICH CATEGORY 5 OR MINDARROW S APPOINTED EXCHANGE AGENT WILL SEND TO CATEGORY 5 STOCKHOLDERS AFTER THE MERGER.

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Directors and Officers

The board of directors of MindArrow Acquisition Corp., the surviving corporation after the merger, will consist of Paul Anderson, currently a director and executive officer of Category 5, and Robert I. Webber, currently a director and executive officer of MindArrow. The officers of the surviving corporation after the merger will be Mr. Anderson and Mr. Webber who will serve in those positions selected by the surviving corporation s board of directors immediately following the merger.

Each director and officer of the surviving corporation will hold office from the effective time of the merger until his or her respective successor is duly elected or appointed and qualified in the manner provided in the charter or bylaws of the surviving corporation, or as otherwise provided by the Delaware General Corporation Law.

Certificate of Incorporation and Bylaws

The certificate of incorporation of MindArrow Acquisition Corp. in effect immediately prior to the merger will be the certificate of incorporation of the surviving corporation, until it is amended in accordance with its terms or as provided by the Delaware General Corporation Law. Immediately following the merger, the certificate of incorporation of the surviving corporation will be amended to provide that the name of the surviving corporation will be Category 5 Technologies, Inc. The bylaws of MindArrow Acquisition Corp. in effect immediately prior to the merger will be the bylaws of the surviving corporation until they are amended in accordance with their terms or as provided by the Delaware General Corporation Law.

Representations and Warranties

The merger agreement contains various customary representations and warranties of Category 5 relating to, among other things:

The organization, standing under applicable law and similar corporate matters of Category 5 and its subsidiaries;

The capital structure of Category 5 and its subsidiaries;

Authorization, execution, delivery, performance and enforceability of the merger agreement;

Completeness and accuracy of documents filed by Category 5 with the Securities and Exchange Commission, including its financial statements;

The absence of undisclosed liabilities of Category 5 and each of its subsidiaries;

The absence of material changes or events relating to Category 5 and its subsidiaries;

The accuracy of information supplied by Category 5 in connection with this joint proxy statement/ prospectus and the registration statement of which it is a part;

Regulatory consents or approvals required in connection with the merger;

The absence of any material violation of the charter or bylaws of Category 5 and its subsidiaries, any material agreement to which Category 5 or any of its subsidiaries is a party or any applicable law, rule or regulation entered by a governmental entity, which violation would prevent or materially delay the performance of the merger agreement by Category 5 or would reasonably be expected to have a Material Adverse Effect (as such term is defined further below) on Category 5 or its subsidiaries, taken as a whole;

Real property owned or leased by Category 5 or its subsidiaries;

The absence of any pending or threatened litigation against Category 5 or any of its subsidiaries or against an officer, director or employee of Category 5 or its subsidiaries which is reasonably expected to have, individually or in the aggregate, a Material Adverse Effect on Category 5 and its subsidiaries taken as a whole or which may give rise to a claim for indemnification;

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Possession of and compliance with required governmental and regulatory permits and licenses;

Employee arrangements and benefit plans;

Labor matters;

Environmental matters;

Tax matters;

The absence of unlawful payments, contributions, gifts or expenditure made or received by Category 5, its subsidiaries, or any director, officer or employee of Category 5 or any of its subsidiaries;

Material contracts;

Subsidies between or among Category 5 or any of its subsidiaries and any governmental entity or other person;

Intellectual property owned, controlled, licensed or used by Category 5 or its subsidiaries;

Receipt by Category 5 of an opinion from SBI USA, LLC, its financial advisor;

The absence of any broker s, finder s or investment banker s fees owed in connection with the merger, except for that of SBI USA, LLC; and

Exemption of the merger agreement from the Nevada takeover statutes.

The merger agreement also contains various representations and warranties of MindArrow and MindArrow Acquisition Corp. relating to, among other things:

The organization, standing under applicable law and similar corporate matters of MindArrow and its subsidiaries;

The capital structure of MindArrow and its subsidiaries;

Authorization, execution, delivery, performance and enforceability of the merger agreement;

Completeness and accuracy of documents filed by MindArrow with the Securities and Exchange Commission, including its financial statements;

The absence of undisclosed liabilities of MindArrow and each of its subsidiaries;

The absence of material changes or events relating to MindArrow and its subsidiaries;

The accuracy of information supplied by MindArrow and MindArrow Acquisition Corp. in connection with this joint proxy statement/ prospectus and the registration statement of which it is a part;

Regulatory consents or approvals required in connection with the merger;

The absence of any material violation of the charter or bylaws of MindArrow and its subsidiaries, any material agreement to which MindArrow or any of its subsidiaries is a party or any applicable law, rule or regulation entered by a governmental entity, which violation would prevent or materially delay the performance of the merger agreement by MindArrow or would reasonably be expected to have a Material Adverse Effect on MindArrow or its subsidiaries, taken as a whole;

Real property owned or leased by MindArrow or its subsidiaries;

The absence of any pending or threatened litigation against MindArrow or any of its subsidiaries or against any officer, director or employee of MindArrow which is reasonably expected to have, individually or in the aggregate, a Material Adverse Effect on MindArrow and its subsidiaries taken as a whole or which may give rise to a claim for indemnification;

Possession and compliance with required governmental and regulatory permits and licenses;

Employee arrangements and benefit plans;

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Labor matters;

Environmental matters;

Tax matters;

The absence of unlawful payments, contributions, gifts or expenditures made or received by MindArrow, its subsidiaries, or any director, officer or employee of MindArrow or any of its subsidiaries;

Material contracts;

Subsidies between or among MindArrow and any of its subsidiaries and any governmental entity or other person;

Intellectual property owned, licensed or used by MindArrow or its subsidiaries;

Receipt by MindArrow of an opinion from L.H. Friend, Weinress, Frankson & Presson, LLC, its financial advisor;

The absence of any liability or obligation or engagement in any business activity by MindArrow Acquisition Corp., except in connection with the merger agreement;

The absence of any broker s, finder s or investment banker s fees owed in connection with the merger, except for that of L.H. Friend; and

Exemption of the merger agreement from the Delaware takeover statutes.

Conduct of Business Before Completion of the Merger

Category 5 has agreed that from the date of the merger agreement until the merger is consummated, neither Category 5 nor its subsidiaries will take certain actions unless approved by MindArrow, unless otherwise provided in the merger agreement, or unless disclosed by Category 5 in its disclosure schedules to the merger agreement, including:

Amend their charter or bylaws;

Authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver any stock of any class or any other securities convertible into or exchangeable for any stock or any equity equivalents except for grants of stock options to new officers, employees or agents hired in the ordinary and usual course of business consistent with past practice or the issuance of Category 5 common stock pursuant to outstanding stock options;

Split, combine or reclassify any shares of their capital stock;

Declare, set aside or pay any dividend or other distribution in respect of their capital stock;

Make any other actual, constructive or deemed distribution in respect of any shares of their capital stock or otherwise make payments to stockholders in their capacity as stockholders;

Redeem, repurchase or otherwise acquire any of their securities or any securities of any of their subsidiaries;

Adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of Category 5 or any of its subsidiaries;

Alter through merger, liquidation, reorganization, restructuring or in any other fashion the corporate structure or ownership of any subsidiary of Category 5;

Incur or assume any long-term or short-term debt or issue any debt securities except in the ordinary and usual course of business consistent with past practice or in connection with any permitted acquisition or capital expenditures;

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Assume, guarantee, endorse or otherwise become liable or responsible for the obligations of any other person, except in the ordinary and usual course of business consistent with past practice or with respect to obligations of a wholly-owned subsidiary of Category 5;

Make any loans, advances or capital contributions to, or investments in, any other person, other than in connection with a permitted acquisition, to the wholly owned subsidiaries of Category 5, customary loans or advances to employees in the ordinary and usual course of business consistent with past practice or extensions of credit to customers in the ordinary and usual course of business consistent with past practice;

Pledge or otherwise encumber shares of capital stock of Category 5 or its subsidiaries;

Mortgage or pledge any of its material tangible or intangible assets or create or suffer to exist any lien or security interest upon those assets other than in the ordinary and usual course of business consistent with past practice;

Increase in any manner the compensation or fringe benefits of any director, officer or employee except in the ordinary and usual course of business consistent with past practice or pay any benefit not required by any plan and arrangement as in effect as of the date of the merger agreement, including the granting of any completion bonuses or change of control payments in respect of the merger;

Except in the ordinary and usual course of business consistent with past practice, promote or change the classification or status of or hire any employee or individual;

Make any contributions or other deposits to any trust that is not qualified under Section 501(a) of the Internal Revenue Code;

Acquire, sell, lease or dispose of any material assets outside the ordinary and usual course of business consistent with past practice or any assets which in the aggregate are material to Category 5 and its subsidiaries taken as a whole, other than extensions or renewals in the ordinary and usual course of business consistent with past practice;

Except as may be required as a result of a change in law or in generally accepted accounting principles, materially change any of their accounting principles or practices;

Revalue in any material respect any of their assets, including writing down the value of inventory or writing off notes or accounts receivable other than in the ordinary and usual course of business consistent with past practice or as required by generally accepted accounting principles;

Acquire, by merger, consolidation or acquisition of stock or assets, any corporation, partnership or other business organization or division of them or any equity interest in them;

Enter into any material contract or agreement, other than in the ordinary and usual course of business consistent with past practice, or amend in any material respect any material contracts or agreements;

Authorize any new capital expenditure or expenditures which are not provided for in Category 5 s current capital expenditure plan and which, individually, is in excess of $25,000 or, in the aggregate, are in excess of $50,000;

Enter into or amend any contract, agreement, commitment or arrangement providing for the taking of any action that would be prohibited by the merger agreement;

Make or revoke any material tax election, or settle or compromise any material tax liability, or change, or make a request to any taxing authority to change, any aspect of Category 5 s or any of its subsidiaries method of accounting for tax purposes;

Pay, discharge or satisfy any material claims, liabilities or obligations, other than the payment, discharge or satisfaction in the ordinary and usual course of business consistent with past practice or in accordance with their terms of liabilities reflected, or reserved against, in the consolidated financial statements of Category 5 and its subsidiaries or incurred since the date of those financial statements or

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waive the benefits of, or agree to modify in any manner, any confidentiality, standstill or similar agreement to which Category 5 or any of its subsidiaries is a party;

Settle or compromise any pending or threatened suit, action or claim relating to the transactions contemplated by the merger agreement;

Enter into any agreement or arrangement that limits or otherwise restricts Category 5 or any of its subsidiaries or any of their successors or that could, after the merger, limit or restrict the surviving corporation and its affiliates, including MindArrow or any of its successors, from engaging or competing in any line of business or in any geographic area;

Fail to comply in any material respect with any law applicable to Category 5, its subsidiaries or their respective assets;

Enter into any direct or indirect arrangements for financial subsidies from governmental entities;

Adopt, enter into, amend, alter or terminate, partially or completely, any of Category 5 s benefit plans or employee arrangements except as contemplated by the merger agreement or to the extent required by applicable law;

Enter into any contract with an officer, director, employee, agent, or other similar representative of Category 5 or any of its subsidiaries that is not terminable, without penalty or other liability, upon not more than 60 calendar days notice;

With certain exceptions set forth in the merger agreement, take, propose to take, or agree to take, any of the foregoing actions or any action which would make any of the representations or warranties of Category 5 contained in the merger agreement materially untrue, incomplete or incorrect; or

With certain exceptions set forth in the merger agreement, take any action that would or would reasonably be expected to prevent, impair or materially delay the ability of Category 5 or MindArrow to consummate the transactions contemplated by the merger agreement.

MindArrow has agreed that, from the date of the merger agreement until the merger is consummated, neither MindArrow nor its subsidiaries will take certain actions unless approved by Category 5, unless otherwise provided in the merger agreement, or unless disclosed by MindArrow in its disclosure schedules to the merger agreement, including:

Amend their charter or bylaws;

Authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver any stock of any class or any other securities convertible into or exchangeable for any stock or any equity equivalents except for grants of stock options to new officers, employees or agents hired in the ordinary and usual course of business consistent with past practice or the issuance of MindArrow common stock pursuant to outstanding stock options;

Split, combine or reclassify any shares of their capital stock;

Declare, set aside or pay any dividend or other distribution in respect of their capital stock;

Make any other actual, constructive or deemed distribution in respect of any shares of their capital stock or otherwise make payments to stockholders in their capacity as stockholders;

Redeem, repurchase or otherwise acquire any of their securities or any securities of any of their subsidiaries;

Adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of MindArrow or any of its subsidiaries;

Alter through merger, liquidation, reorganization, restructuring or in any other fashion the corporate structure or ownership of any subsidiary of MindArrow;

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Incur or assume any long-term or short-term debt or issue any debt securities except in the ordinary and usual course of business consistent with past practice or in connection with any permitted acquisition or capital expenditures;

Assume, guarantee, endorse or otherwise become liable or responsible for the obligations of any other person except in the usual and ordinary course of business consistent with pact practice or with respect to obligations of a wholly-owned subsidiary;

Make any loans, advances or capital contributions to, or investments in, any other person, other than in connection with a permitted acquisition, to the wholly owned subsidiaries of MindArrow, customary loans or advances to employees of MindArrow in the ordinary and usual course of business consistent with past practice or extensions of credit to customers in the ordinary and usual course of business consistent with past practice;

Pledge or otherwise encumber shares of capital stock of MindArrow or its subsidiaries;

Mortgage or pledge any of its material tangible or intangible assets or create or suffer to exist any lien or security interest upon those assets other than in the ordinary and usual course of business consistent with past practice;

Increase in any manner the compensation or fringe benefits of any director, officer or employee except in the ordinary and usual course of business consistent with past practice or pay any benefit not required by any plan and arrangement as in effect as of the date of the merger agreement, including the granting of any completion bonuses or change of control payments in respect of the merger;

Except in the ordinary and usual course of business consistent with past practice, promote or change the classification or status of or hire any employee or individual;

Make any contributions or other deposits to any trust that is not qualified under Section 501(a) of the Internal Revenue Code;

Acquire, sell, lease or dispose of any material assets outside the ordinary and usual course of business consistent with past practice or any assets which in the aggregate are material to MindArrow and its subsidiaries taken as a whole, other than extensions or renewals in the ordinary and usual course of business consistent with past practice;

Except as may be required as a result of a change in law or in generally accepted accounting principles, materially change any of their accounting principles or practices;

Revalue in any material respect any of their assets, including writing down the value of inventory or writing off notes or accounts receivable other than in the ordinary and usual course of business consistent with past practice or as required by generally accepted accounting principles;

Acquire, by merger, consolidation or acquisition of stock or assets, any corporation, partnership or other business organization or division of them or any equity interest in them;

Enter into any material contract or agreement, other than in the ordinary and usual course of business consistent with past practice, or amend in any material respect any material contracts or agreements;

Authorize any new capital expenditure or expenditures which are not provided for in MindArrow s current capital expenditure plan and which, individually, is in excess of $25,000 or, in the aggregate, are in excess of $50,000;

Enter into or amend any contract, agreement, commitment or arrangement providing for the taking of any action that would be prohibited by the merger agreement;

Make or revoke any material tax election, or settle or compromise any material tax liability, or change, or make a request to any taxing authority to change, any aspect of MindArrow s or any of its subsidiaries method of accounting for tax purposes;

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Pay, discharge or satisfy any material claims, liabilities or obligations, other than the payment, discharge or satisfaction in the ordinary and usual course of business consistent with past practice or in accordance with their terms of liabilities reflected, or reserved against, in the consolidated financial statements of MindArrow and its subsidiaries or incurred since the date of those financial statements or waive the benefits of, or agree to modify in any manner, any confidentiality, standstill or similar agreement to which MindArrow or any of its subsidiaries is a party;

Settle or compromise any pending or threatened suit, action or claim relating to the transactions contemplated by the merger agreement;

Enter into any agreement or arrangement that limits or otherwise restricts MindArrow or any of its subsidiaries or any of their successors or that could, after the merger, limit or restrict the surviving corporation and its affiliates, including MindArrow or any of its successors, from engaging or competing in any line of business or in any geographic area;

Fail to comply in any material respect with any law applicable to MindArrow, its subsidiaries or their respective assets;

Enter into any direct or indirect arrangements for financial subsidies from governmental entities;

Adopt, enter into, amend, alter or terminate, partially or completely, any of MindArrow s benefit plans or employee arrangements except as contemplated by the merger agreement or to the extent required by applicable law;

Enter into any contract with an officer, director, employee, agent, or other similar representative of MindArrow or any of its subsidiaries that is not terminable, without penalty or other liability, upon not more than 60 calendar days notice;

With certain exceptions set forth in the merger agreement, take, propose to take, or agree to take, any of the foregoing actions or any action which would make any of the representations or warranties of MindArrow contained in the merger agreement materially untrue, incomplete or incorrect; or

With certain exceptions set forth in the merger agreement, take any action that would reasonably be expected to impair or delay the ability of Category 5 or MindArrow to consummate the transactions contemplated by the merger agreement.

Conditions to the Completion of the Merger

The respective obligations of MindArrow, Category 5 and MindArrow Acquisition Corp. to consummate the merger are subject to the satisfaction or waiver of certain conditions, including that:

The stockholders of MindArrow and Category 5 have approved the merger;

There is no law of any governmental entity of injunction issued by a court of competent jurisdiction in effect restraining, enjoining or otherwise preventing consummation of the merger and no governmental entity shall have instituted any proceeding which continues to be pending seeking any such law;

There is no pending or threatened litigation regarding the merger agreement or the transactions contemplated thereby; and

The Securities and Exchange Commission has declared the registration statement, of which this joint proxy statement/ prospectus is a part, effective and the registration statement is still effective at the time of the merger, with no stop order suspending its effectiveness having been issued and no action, suit, proceeding or investigation by the Securities and Exchange Commission or any state securities administrator to suspend its effectiveness having been initiated and which is continuing.

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The obligations of MindArrow and MindArrow Acquisition Corp. to consummate the merger are further subject to satisfaction or waiver of the following conditions:

The representations and warranties of Category 5 contained in the merger agreement shall have been true upon execution of the merger agreement and on and as of the date of the merger as though made on and as of that date, except where the failure to be true, individually or in the aggregate, has not had and is not reasonably expected to have a Material Adverse Effect on Category 5 and its subsidiaries taken as a whole;

Category 5 has performed or complied in all material respects with all agreements and conditions contained in the merger agreement required to be performed or complied with by it prior to or at the time of the merger;

Category 5 has delivered to MindArrow a certificate, dated the date of the merger, signed by the President or any Vice President of Category 5, certifying as to the fulfillment of the conditions specified in the preceding two bullets;

MindArrow has received an opinion of its counsel, Morrison & Foerster LLP, dated the date of the merger to the effect that:

(1) The merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code; and

(2) Each of MindArrow, MindArrow Acquisition Corp. and Category 5 will be a party to the reorganization within the meaning of Section 368(b) of the Code;

All authorizations, consents or approvals of any governmental entity, required in connection with the execution and delivery of the merger agreement and the performance of the obligations under the merger agreement have been obtained, without any limitation, restriction or condition that is reasonably expected to have a Material Adverse Effect on Category 5 and its subsidiaries taken as a whole, or if such effect were applied to MindArrow Acquisition Corp. and its subsidiaries would not reasonably be expected to have a Material Adverse Effect on MindArrow and its subsidiaries taken as a whole, except for any authorizations, consents or approvals, the failure of which to have been obtained would not reasonably be expected to have a Material Adverse Effect on Category 5 and its subsidiaries taken as a whole, or if such effect were applied to MindArrow Acquisition Corp. and its subsidiaries, would not reasonably be expected to have a Material Adverse Effect on MindArrow and its subsidiaries taken as a whole;

All authorizations, consents or approvals of any third parties (other than those specified in the preceding paragraph) and identified in Category 5 s disclosure schedule to the merger agreement, as required for Category 5 to consummate the merger and other transactions contemplated by the merger agreement, shall have been obtained, except for those authorizations, consents and approvals, the failure of which to obtain is not reasonably expected to have a Material Adverse Effect on Category 5 and its subsidiaries taken as a whole, or, were such effect applied to MindArrow Acquisition Corp and its subsidiaries, would not be reasonably expected to have a Material Adverse Effect on MindArrow and its subsidiaries;

Holders of no more than 5% of the outstanding shares of Category 5 common stock shall have elected appraisal rights under the Nevada Revised Statutes;

MindArrow shall have received an opinion from Category 5 s legal counsel, Snell & Wilmer, L.L.P., dated the date of the merger, regarding the due authorization of the execution and performance of the merger agreement and the merger by Category 5, the enforceability of the merger agreement and merger, and the lack of conflict with Category 5 s articles of incorporation and bylaws; and

Category 5 shall have obtained all consents and waivers necessary, and shall have taken such other actions as may be reasonably determined by MindArrow to be necessary, to ensure that no outstanding option or warrant issued by Category 5 which entitles the holder to purchase at least 15,000 shares of

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Category 5 common stock will become fully vested and exercisable as a result of the merger, and that no payments shall accrue or become due and payable as a result of the merger, pursuant to certain employment agreements to which Category 5 is a party, with the exception of those options granted to, and Category 5 employment agreements with, the following current or former directors and/or executive officers of Category 5: William C. Gibbs, Shelly Singhal, Edward P. Mooney and Mitchell Edwards.

The obligations of Category 5 to consummate the merger are further subject to satisfaction or waiver of the following conditions:

The representations and warranties of MindArrow and MindArrow Acquisition Corp. contained in the merger agreement shall have been true upon execution of the merger agreement and on and as of the date of the merger as though made on and as of that date, except where the failure to be true, individually or in the aggregate, has not had or is not reasonably expected to have, a Material Adverse Effect on MindArrow and its subsidiaries taken as a whole;

MindArrow has performed or complied in all material respects with all agreements and conditions contained in the merger agreement required to be performed or complied with by it prior to or at the time of the merger;

MindArrow has delivered to Category 5 a certificate, dated the date of the merger, signed by the President or any Vice President of MindArrow, certifying as to the fulfillment of the conditions specified in the preceding two bullets;

Category 5 has received an opinion of its counsel, Snell & Wilmer L.L.P., dated the date of the merger, to the effect that:

(1) the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

(2) each of MindArrow, MindArrow Acquisition Corp. and Category 5 will be a party to the reorganization within the meaning of Section 368(b) of the Code;

All authorizations, consents or approvals of any governmental entity, required in connection with the execution and delivery of the merger agreement and the performance of the obligations under the merger agreement have been obtained, without any limitation, restriction or condition that is reasonably expected to have a Material Adverse Effect on MindArrow and its subsidiaries taken as a whole, or if such effect were applied to MindArrow and its subsidiaries giving effect to the merger, would not reasonably be expected to have a Material Adverse Effect on MindArrow and its subsidiaries (including the corporation surviving the merger) taken as a whole, except for any authorizations, consents or approvals, the failure of which to have been obtained would not reasonably be expected to have a Material Adverse Effect on Category 5 and its subsidiaries taken as a whole, or if such effect were applied to MindArrow and its subsidiaries, giving effect to the merger, would not reasonably be expected to have a Material Adverse Effect on MindArrow and its subsidiaries (including the corporation surviving the merger) taken as a whole;

All authorizations, consents or approvals of any third parties (other than those specified in the preceding paragraph) identified in MindArrow s disclosure schedule to the merger agreement, required for MindArrow to consummate the merger and other transactions contemplated by the merger agreement, shall have been obtained, except for those authorizations, consents and approvals, the failure of which to obtain is not reasonably expected to have a Material Adverse Effect on MindArrow and its subsidiaries taken as a whole, or, were such effect applied to MindArrow giving effect to the merger, would not reasonably be expected to have a Material Adverse Effect on MindArrow and its subsidiaries (including the corporation surviving the merger) taken as a whole;

Category 5 shall have received an opinion from MindArrow s legal counsel, Morrison & Foerster LLP, dated the date of the merger regarding the due authorization of the execution and performance of the

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merger agreement and the merger by MindArrow, the enforceability of the merger agreement and the lack of conflict with MindArrow s certificate of incorporation and bylaws;

MindArrow will have a minimum of one million five hundred thousand dollars ($1,500,000) in cash on hand;

MindArrow will have executed and/or assumed employment agreements with certain Category 5 executive officers and other employees;

MindArrow shall have taken all action necessary to constitute and/or elect as directors of MindArrow the following individuals: Merv Adelson, Paul Anderson, Bruce Maggin, Joseph N. Matlock, Jr., Joel Schoenfeld, Bruce Stein, Tyler Thompson and Robert I. Webber;

MindArrow s stockholders will have approved the proposal herein authorizing the MindArrow board of directors to (i) effectuate a reverse split of the MindArrow outstanding common stock by a ratio of up to 1 for 10, or (ii) to abandon the reverse split at the discretion of the MindArrow board of directors; and

MindArrow and every other party thereto shall have terminated certain stockholder rights agreements to which MindArrow is a party, and MindArrow shall have obtained the consents and waivers necessary, and shall have taken such other actions as may be reasonably determined by Category 5 to be necessary, to ensure that (i) no outstanding option or warrant issued by MindArrow which entitles the holder to purchase at least 15,000 shares of MindArrow common stock will become fully vested and exercisable as a result of the merger, and that no payment shall accrue or become due and payable as a result of the merger, pursuant to certain employment agreements to which MindArrow is a party, (ii) no rights to receive payments under a certain promissory note issued by MindArrow shall accrue or accelerate, and (iii) no rights to anti-dilution protection under a certain warrant to purchase MindArrow common stock shall be triggered, as a result of consummation of the merger.

Material Adverse Effect is defined as, with respect to any party, any material adverse effect on:

The assets, properties, financial condition or results of operations of that party and its subsidiaries taken as a whole, other than any change, circumstance, effect or development:

(1) Relating to the Internet-based software and services industry or economy in general, except where such change, circumstance, effect or development in the Internet-based software and services industry or economy in general occurs in the location in which that party operates or owns assets and materially and disproportionately impacts that party;

(2) Arising out of or resulting from actions contemplated by the parties in connection with, or which is attributable to, the announcement of the merger agreement and the transactions contemplated by the merger agreement, including loss of customers, suppliers or employees or the delay or cancellation of orders for products; or

(3) Any stockholder litigation or litigation by any governmental entity, in each case brought or threatened against the party or against any member of its board of directors in respect of the merger agreement or the transactions contemplated by the merger agreement;

provided that any change in the market price or trading volume of Category 5 common stock or MindArrow common stock shall not, in and of itself, constitute a Material Adverse Effect.

The ability of that entity to consummate the transactions contemplated by the merger agreement.

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Additional Covenants of MindArrow and Category 5

Each of MindArrow, MindArrow Acquisition Corp. and Category 5 also agreed, among other things and subject to various conditions and exceptions, that:

MindArrow and Category 5 will have jointly prepared and (a) filed this joint proxy statement/prospectus in connection with the vote of the stockholders of MindArrow and Category 5 in respect of the merger and related matters, and in connection with the vote of the MindArrow stockholders in respect of the issuance of the shares of MindArrow common stock and warrants in connection with the merger, and (b) MindArrow will file with the Securities and Exchange Commission a registration statement, of which this joint proxy statement/prospectus is a part, in connection with the registration under the Securities Act of the shares of MindArrow common stock, the contingent warrants to purchase MindArrow common stock and the shares of MindArrow common stock underlying the contingent warrants to be issued by MindArrow in connection with the merger;

Each of MindArrow and Category 5 will use commercially reasonable efforts to deliver to the other party an independent auditors letter dated as of the effective date of the registration statement of which this joint proxy statement/prospectus is a part, customary in scope and substance for letters delivered by independent public accountants in connection with such registration statements;

Category 5 will:

(1) Hold a special meeting of its stockholders as soon as practicable after the effective date of the registration statement of which this joint proxy statement/prospectus is a part for the purpose of voting on the approval and adoption of the merger agreement, the merger and related matters; and

(2) Solicit proxies from its stockholders to obtain the requisite vote for that approval;

MindArrow will:

(1) Hold a special meeting of its stockholders as soon as practicable after the effective date of the registration statement of which this joint proxy statement/prospectus is a part for the purpose of:

(a) Voting on the approval and adoption of the merger agreement, the merger, and the issuance of MindArrow common stock and warrants in connection with the merger; and

(b) Approving the proposal herein authorizing the MindArrow board of directors to effectuate a reverse split of the outstanding shares of MindArrow common stock.

(2) Solicit proxies from its stockholders to obtain the requisite vote in items (a) and (b) above;

The Category 5 board of directors will recommend approval and adoption of the merger agreement and the merger by Category 5 stockholders and, except as expressly permitted in the merger agreement, will not withdraw, amend or modify in a manner adverse to MindArrow such recommendation, or announce publicly its intention to do so;

The MindArrow board of directors will recommend approval and adoption of the merger agreement and the merger by MindArrow stockholders and, except as expressly permitted in the merger agreement, will not withdraw, amend or modify in a manner adverse to Category 5 such recommendation, or announce publicly its intention to do so;

Each party will use commercially reasonable efforts to take, or cause to be taken, all actions and do, or cause to be done, all things necessary, proper or advisable under applicable laws, including antitrust laws, to consummate the merger;

Category 5 will inform MindArrow of any litigation brought against Category 5 or its directors relating to the merger and will consult with and obtain MindArrow s prior written consent before entering into any settlement or compromise of any such litigation;

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MindArrow will inform Category 5 of any litigation brought against MindArrow or its directors relating to the merger and will consult with and obtain Category 5 s prior written consent before entering into any settlement or compromise of any such litigation;

Each party will consult with each of the others before issuing any press release or otherwise making any public statements in respect of the merger;

MindArrow Acquisition Corp., as the corporation surviving the merger, has agreed, and MindArrow has agreed to cause the surviving corporation, to indemnify current and former officers, directors and employees of Category 5 and its subsidiaries against all losses, expenses, claims, damages, costs or liabilities or amounts that are paid in settlement, in connection with any claim, action, suit, proceeding or investigation arising out of actions or omissions occurring at or prior to the effective time of the merger that are in whole or in part based on, or arising out of the fact that such person is or was an officer, director or employee of Category 5, in the same manner and on the same terms and conditions as MindArrow is currently obligated to indemnify each of its directors, officers or employees, and for a period of three years following the merger either MindArrow Acquisition Corp. or MindArrow will maintain directors and officers liability insurance for the benefit of such current and former officers, directors and employees of Category 5 that is the same as, or substantially similar to, directors and officers liability insurance maintained by MindArrow for the benefit of its directors and officers;

Each party will give prompt notice to each of the others of the occurrence of particular events that would cause the conditions to the completion of the merger described elsewhere in this joint proxy statement/prospectus to fail to be satisfied;

Each party will, and will cause its respective subsidiaries to, use commercially reasonable efforts to cause the merger to qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

MindArrow shall assume all options issued by Category 5 and outstanding just prior to the merger;

At the time of the merger, employees of Category 5 and its domestic subsidiaries shall become employees of MindArrow Acquisition Corp., and employees of Category 5 s foreign subsidiaries shall remain employees of such subsidiaries;

As soon as administratively convenient following the merger, all former Category 5 employees and those of its subsidiaries will be eligible to participate in MindArrow s employee benefit plans and, until such time, the corporation surviving the merger shall honor the obligations of Category 5 and its subsidiaries pursuant to Category 5 s and its subsidiaries existing employee benefit plans;

At the time of the merger, MindArrow shall enter into or assume employment agreements with certain executive officers and other employees of Category 5 and its subsidiaries;

Category 5 will, at MindArrow s request, terminate the Category 5 401(k) plan and 100% vesting of participants accounts in the plan as of the date Category 5 employees become eligible to participate in MindArrow s employee benefit plans and also seek a determination letter of termination from the IRS regarding the qualified status of such 401(k) plan;

Whether or not the merger is completed, each party agrees to bear its own expenses in connection with the merger, provided that:

(1) Each party will share equally in any expenses incurred in connection with the filing, printing and mailing of this joint proxy statement/prospectus; and

(2) Each party may be responsible for the payment of termination fees;

MindArrow will take all action necessary to cause MindArrow Acquisition Corp. to perform its obligations under the merger agreement and to consummate the merger on the terms and conditions set forth in the merger agreement;

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MindArrow shall increase the maximum size of its board of directors from seven members to nine members prior to the closing;

The MindArrow board of directors at the closing shall consist of Merv Adelson, Paul Anderson, Bruce Maggin, Joseph N. Matlock, Jr., Joel Schoenfeld, Bruce Stein, Tyler Thompson and Robert I. Webber;

As soon as reasonably practicable following the merger, MindArrow shall register on a Form S-8 for public resale, and with all states as required by applicable state blue sky laws, all shares of MindArrow common stock underlying each option issued by Category 5 and assumed by MindArrow pursuant to the merger;

MindArrow stockholders shall have approved the proposal authorizing the MindArrow board of directors to (i) effectuate a reverse split of the outstanding shares of MindArrow common stock by a ratio of up to 1 for 10 (with the MindArrow board of directors to determine the actual ratio as needed to comply with the minimum continuing listing standards of the Nasdaq SmallCap Market), or (ii) to abandon the reverse split at the discretion of the MindArrow board of directors;

On or before the date of the merger, MindArrow will have obtained customary director and officer insurance providing claims coverage of a minimum of $2,000,000 per claim;

Category 5 shall have obtained all consents and waivers necessary, and shall have taken such other actions as may be reasonably determined by MindArrow to be necessary, to ensure that (i) no outstanding option or warrant issued by Category 5 which entitles the holder to purchase at least 15,000 shares of Category 5 common stock will become fully vested and exercisable as a result of the merger and (ii) no payments shall accrue or become due and payable as a result of the merger, pursuant to certain employment agreements to which Category 5 is a party, with certain exceptions set forth in the merger agreement and described elsewhere in this joint proxy statement/prospectus;

MindArrow and every other party thereto shall have terminated all stockholder rights agreements to which MindArrow is a party (with the exception of its agreement with East-West Capital Associates, Inc. dated June 12, 2002), and MindArrow shall have obtained the consents and/or waivers necessary to ensure that (i) no outstanding option or warrant issued by MindArrow which entitle the holder to purchase at least 15,000 shares of MindArrow common stock will become fully vested and exercisable as a result of the merger and that no payment shall accrue or become due and payable as a result of the merger, pursuant to certain employment agreements to which MindArrow is a party, (ii) no rights to receive payments under a certain promissory note issued by MindArrow shall accrue or accelerate, and (iii) no rights to anti-dilution protection under a certain warrant to purchase MindArrow common stock shall be triggered, as a result of consummation of the merger;

If any state takeover statute becomes applicable to the merger, each of MindArrow and Category 5 will take all actions necessary so that the merger may be consummated as promptly as practicable and will otherwise act to eliminate or minimize the effects of any state takeover statute on the merger;

Category 5 shall deliver to MindArrow a voting agreement executed by certain stockholders holding an aggregate of at least 50% of the outstanding Category 5 common stock, pursuant to which such stockholders shall agree to vote their Category 5 stock in favor of the merger agreement and the merger;

MindArrow shall receive a voting agreement executed by certain stockholders of MindArrow holding an aggregate of at least 50% of the outstanding MindArrow common stock, pursuant to which such stockholders shall agree to vote their MindArrow stock in favor of the merger, issuance of shares of MindArrow common stock and warrants in connection with the merger, and in favor of the reverse stock split;

Category 5 will provide, and will cause its respective subsidiaries to provide, MindArrow and MindArrow Acquisition Corp. and their authorized representatives reasonable access to all employees,

plants, offices, warehouses and other facilities and to all books and records of Category 5 and its subsidiaries; and

MindArrow will provide, and will cause its respective subsidiaries to provide, Category 5 and its authorized representatives reasonable access to all employees, plants, offices, warehouses and other facilities and to all books and records of MindArrow and its subsidiaries.

Each of MindArrow and Category 5 has also further agreed not to, not to permit its subsidiaries to, nor to authorize or permit any officer, director, employee, investment banker, attorney, accountant or other advisor or representative of MindArrow or Category 5, as applicable, or of any of its subsidiaries to, directly or indirectly:

(1) Solicit, initiate or encourage the submission of any Acquisition Proposal (as defined below); or

(2) Participate in any discussions or negotiations regarding, or furnish to any person any non-public information in respect of, or knowingly take any other action to facilitate, any Acquisition Proposal or any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any Acquisition Proposal.

However, in response to an unsolicited Acquisition Proposal, the board of directors of MindArrow or Category 5, as appropriate, may take any of the actions described in (2) above with respect to any person that makes an unsolicited bona fide Acquisition Proposal if, and only to the extent that:

(1) The special meeting of MindArrow or Category 5 stockholders, as appropriate, to approve the merger has not occurred;

(2) The MindArrow or Category 5 board of directors, as appropriate, after consultation with outside legal counsel, determines in good faith that the failure to take such action would be inconsistent with its fiduciary duties to its stockholders under applicable law;

(3) The MindArrow or Category 5 board of directors, as appropriate, determines in good faith that the Acquisition Proposal is reasonably likely to lead to a transaction that, if accepted, is reasonably likely to be consummated taking into account all legal, financial, regulatory and other aspects of the proposal and the person making the proposal, and believes in good faith, after consultation with its financial advisor, based on the information available to such board at the time, that the Acquisition Proposal would, if consummated, result in a transaction more favorable to MindArrow s or Category 5 s stockholders, as appropriate, than the merger (any such Acquisition Proposal that the board of directors has determined to be more favorable to stockholders than the merger is referred to as a Superior Proposal); and

(4) Prior to taking action, MindArrow or Category 5, as appropriate:

(a) provides reasonable notice to the other party that it is taking action; and

(b) receives from the person making the Acquisition Proposal an executed confidentiality/ standstill agreement in reasonably customary form and containing terms at least as stringent as those contained in the confidentiality agreement entered into between MindArrow and Category 5 in connection with the merger.

MindArrow or Category 5, as appropriate, will notify the other party of its receipt of any Acquisition Proposal as promptly as practicable. Each of MindArrow and Category 5 has also agreed to terminate any existing activities, discussions or negotiations with any parties conducted before the date of the merger agreement in respect of any possible Acquisition Proposal.

Subject to certain exceptions, neither MindArrow s nor Category 5 s board of directors will withdraw or modify, or propose to withdraw or modify, in a manner adverse to the other party, its approval or recommendation of the merger unless the MindArrow or Category 5 board of directors, as appropriate, after consultation with outside legal counsel, determines in good faith that the failure to take such action would be inconsistent with its fiduciary duties to its company s stockholders under applicable law. Neither the MindArrow nor the Category 5 board of directors may approve or recommend, and in connection with that

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approval or recommendation withdraw or modify its approval or recommendation of the merger, an Acquisition Proposal unless it is a Superior Proposal and the board of directors has:

(1) First consulted with outside legal counsel and determined that the failure to take such action would be inconsistent with its fiduciary duties to its company s stockholders under applicable law; and

(2) Notified the other party of the Acquisition Proposal and provided the other party with the opportunity to make adjustments to the merger agreement which would enable MindArrow and Category 5 to consummate the merger, as more specifically provided in the merger agreement.

Acquisition Proposal means any inquiry, offer or proposal regarding any of the following, other than the transactions contemplated by the merger agreement, involving either MindArrow or Category 5 or any of their respective subsidiaries:

Any merger, consolidation, share exchange, recapitalization, business combination, asset sale or other similar transaction;

Any sale, lease, exchange, mortgage, pledge, transfer or other disposition of all or substantially all the assets of either MindArrow or Category 5 and its subsidiaries, taken as a whole, in a single transaction or series of related transactions;

Any tender offer or exchange offer for 20% or more of the outstanding capital stock of MindArrow or Category 5 or the filing of a registration statement under the Securities Act in connection with any such tender or exchange offer; or

Any public announcement of a proposal, plan or intention to do any of the foregoing or any agreement to engage in any of the foregoing.

Termination of the Merger Agreement

Termination by either Category 5 or MindArrow

The merger agreement may be terminated, and the merger abandoned by action of the MindArrow and Category 5 boards of directors, at any time prior to the merger, by mutual written consent of MindArrow and Category 5, whether before or after approval of the merger by the MindArrow and Category 5 stockholders. The merger agreement may also be terminated by either the Category 5 or MindArrow board of directors if:

The merger is not consummated by October 31, 2002; except that either Category 5 or MindArrow may extend the termination date by written notice to the other if it reasonably determines in good faith that additional time is necessary in connection with obtaining any required governmental consent or approval, provided that the termination date may not be extended beyond November 30, 2002;

The required approval of the stockholders of either Category 5 or MindArrow of the merger and the merger agreement has not been obtained at the special meeting of MindArrow or Category 5, as appropriate, or any adjournment or postponement of the special meeting;

The required approval of the MindArrow stockholders of the remaining proposals set forth in this joint proxy statement/ prospectus has not been obtained at the special meeting of MindArrow or any adjournment or postponement of the special meeting;

Any law, injunction, order or other action permanently restraining, enjoining or otherwise prohibiting the consummation of the merger is in effect and has become final and non-appealable;

Any governmental entity has failed to issue an order, decree or ruling or to take any other action which is necessary to fulfill the following conditions to the consummation of the merger, and such denial of a request to issue such order, decree or ruling or to take such other action is final and non-appealable:

(1) No law has been adopted by a governmental entity or injunction, order or other action has been entered by a court or other governmental entity preventing the merger, and no proceeding with respect to any such law, injunction, order or other action is pending; and

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(2) All governmental authorizations, consents and approvals required by the merger agreement have been obtained without limitation, restriction or condition likely to have a Material Adverse Effect on MindArrow or Category 5, as appropriate.

However, the right of either party to terminate the merger agreement is not available to a party that has breached, in any material respect, its obligations to consummate the merger set forth in the merger agreement in any manner that has proximately contributed to the failure of the merger to be consummated.

Termination by Category 5

The merger agreement may be terminated, and the merger abandoned, by Category 5 at any time prior to the merger if each of the following occurs:

The Category 5 special meeting has not been held and completed;

Category 5 s board of directors authorizes Category 5, subject to complying with the terms of the merger agreement, to enter into a binding written agreement concerning a transaction that constitutes a Superior Proposal and Category 5 notifies MindArrow in writing that it intends to enter into that agreement, attaching the most current version of that agreement to the notice; and

During the three business day period after that notice:

(1) Category 5 negotiates with, and causes its financial and legal advisors to negotiate with, MindArrow to attempt to make adjustments in the terms and conditions of the merger agreement as would enable Category 5 to proceed with the transactions contemplated by the merger agreement;

(2) Category 5 s board of directors concludes, after considering the results of these negotiations, that the Superior Proposal giving rise to Category 5 s notice continues to be a Superior Proposal; and

(3) Contemporaneously with such termination, Category 5 pays to MindArrow the termination fees required by the merger agreement.

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