
**DECLARATION OF
GERARD DAVIES**

1 I, Gerard Davies, hereby declare as follows:

2 1. I have personal knowledge of the statements set forth in this affidavit and, if
3 called upon as a witness in a court of law, could competently testify thereto.

4 2. I am a Partner in the Dispute Consulting Services practice of Deloitte &
5 Touche LLP ("D&T"). I previously was a Partner in the Audit and Assurance practice of D&T
6 and have been with the firm for 31 years. D&T is a leading international firm specializing in
7 assurance and advisory, tax and management consulting services. Throughout my career, I
8 have regularly opined on compliance with generally accepted accounting principles.

9 3. I have been requested to review the professional accounting literature related
10 to the accounting in effect currently for receiving the right to register an internet domain name.
11 Specifically, I have been asked to give my opinion as to the appropriate accounting treatment
12 for the following situation: a company applies for and subsequently receives the right to register
13 an internet domain name.

14 4. United States of America's Generally Accepted Accounting Principles
15 ("GAAP") are a widely accepted set of rules, conventions, standards, and procedures for
16 reporting financial information in the United States of America. Since 1973, GAAP has been
17 principally established by the Financial Accounting Standards Board ("FASB"), an independent
18 agency, and other entities such as the Securities and Exchange Commission. Prior to that time,
19 GAAP was principally established by the FASB's predecessor organizations, the American
20 Institute of Certified Public Accountants, Accounting Principles Board ("APB") and
21 Committee on Accounting Procedure. All publicly held companies and the majority of
22 privately owned companies in the United States are expected to follow GAAP. The FASB
23 establishes GAAP by issuing formal pronouncements and interpretations of pronouncements.
24 FASB's Emerging Issues Task Force ("EITF"), an accounting industry user group, develops
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1 principles of accounting for new and unusual accounting issues which are generally more
2 narrowly defined than the FASB statements.

3 5. GAAP incorporates the consensus among accountants at a particular time
4 concerning the economic resources and obligations that should be recorded as assets and
5 liabilities, when changes in them should be recorded, how the recorded assets and liabilities and
6 changes in them should be measured (e.g., cost versus fair value), what information should be
7 reported to the public and how it should be disclosed. The economic activities and resources of
8 an entity are initially measured by the exchange price of a transaction at the time the transaction
9 occurs. Usually the exchange price (the historical cost) is retained in the accounting records as
10 the value of an item until the item is consumed, sold, or liquidated and removed from the
11 records. That is, recognition of gains and losses resulting from the value changes of assets and
12 liabilities is generally delayed until another exchange has taken place. The rationale behind the
13 use of historical cost (as opposed to other valuation methods such as current market value or
14 appraised value) is that it is reliable, and that source documents are usually available to
15 substantiate the recorded costs. Also, historical cost provides evidence that an independent
16 buyer and seller were in agreement on the value of the exchanged good or service at the time of
17 the transaction and this has the qualities of representational faithfulness, neutrality, and
18 verifiability. In recent years, GAAP has made certain exceptions to this historical cost
19 approach, generally for investment assets and derivatives, and such exceptions are explicitly
20 documented in GAAP.

21 6. EITF No. 00-2, *Accounting for Web Site Development Costs* ("EITF 00-2"),
22 specifically establishes standards for the accounting for various aspects of developing a web
23 site, including costs to "obtain and register an Internet domain name." Paragraph 4 of EITF
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1 00-2 indicates that costs incurred during the "Planning Stage" of web site development activity
2 should not be capitalized but expensed as incurred. "Planning Stage" activities are
3 distinguished from "Web Site Application and Infrastructure Development Stage" activities as
4 being comparatively conceptual in nature, including such tasks as preparing business plans,
5 determining the required technology for implementing the business, and identification of
6 resources and tools required for web site development. However, EITF 00-2 considers the
7 activity of obtaining and registering a domain name to be generally or typically part of "Web
8 Site Application and Infrastructure Development Stage" activities. It indicates that companies
9 should "generally, capitalize pursuant to paragraph 24 of APB 17" such costs.

12 7. Accounting Principles Board No. 17, *Intangible Assets* ("APB 17"),
13 establishes accounting standards for the acquisition and amortization of identifiable and un-
14 identifiable intangibles. Paragraphs 24 and 25 of APB 17 state, in part, "the Board concludes
15 that a company should record as assets the costs of intangible assets acquired from other
16 enterprises or individuals." "Intangible assets acquired singly should be recorded at cost at date
17 of acquisition. Cost is measured by the amount of cash disbursed, the fair value of other assets
18 distributed, the present value of amounts to be paid for liabilities incurred, or the fair value of
19 consideration received for stock issued as described in paragraph 67 of APB Opinion No. 16."
20 In other words, if a company pays a cash fee for the right to register a domain name, and
21 subsequently receives the right to that domain name, it should record that fee, which was the
22 cost of obtaining that right, as an intangible asset.

25 8. Based on the accounting literature reviewed, in my opinion, the appropriate
26 accounting treatment upon receipt of the right to register a web site domain name would be to
27 record the actual cost of obtaining that right as an intangible asset.
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9. I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 14 day of September, 2001 in Philadelphia, PA.


GERARD DAVIES

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