
**DECLARATION OF
TROY S. WATKINSON**

1 I, Troy S. Watkinson, hereby declare as follows:

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

4 2. I have been a Partner in the Tax Services practice of Deloitte & Touche LLP
5 ("D&T") since June 13, 2001. I previously practiced tax law for more than 10 years with the
6 law firms of Skadden, Arps, Slate, Meagher & Flom LLP and Miller & Chevalier. D&T is a
7 leading international firm specializing in assurance and advisory, tax and management consulting
8 services.
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10 3. I have been requested to give my opinion relating to the U.S. Federal income
11 tax treatment of a recipient ("Recipient") of a right to register a (.biz) domain name received
12 pursuant to the procedures used by NeuLevel, Inc. (Neulevel) to allocate (.biz) domain names
13 among competing applications as set forth on the page from the NeuLevel website
14 (www.Neulevel.biz) attached as Appendix A. Specifically, I have been asked to give my opinion
15 whether the Recipient would have income subject to U.S. Federal income tax upon the receipt of
16 such right.
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18 4. The provisions of the Internal Revenue Code of 1986, as amended (the
19 "IRC"), that determine the U.S. Federal income tax treatment of a Recipient are Sections 61 and
20 74. Section 61 of the IRC broadly defines gross income. Section 61 of the IRC provides, in
21 relevant part, that gross income means all income from whatever source derived. Section 74 of
22 the IRC specifically provides, in relevant part, that gross income includes amounts received as
23 prizes.
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25 5. The Internal Revenue Service (the "IRS") has addressed the U.S. Federal
26 income tax treatment of a recipient of certain rights under procedures similar to those described
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1 in Appendix A in Revenue Ruling 67-135, attached hereto as Appendix B. The ruling describes
2 a situation where periodically the public is offered the opportunity to lease oil and gas rights to
3 certain Federally owned lands administered by the Department of the Interior through the
4 Bureau of Land Management. The Bureau of Land Management posts available tracts of land.
5 Any citizen of the United States age 21 or older may file, on a drawing entry card, an offer to
6 lease a tract. Each offer must be accompanied by the payment of a filing fee and the payment of
7 the first year's rent. Where there is only one offer for a particular tract, the offer is accepted.
8 Where there are multiple offers, the lessee is selected by a drawing. The Bureau of Land
9 Management retains all filing fees -- even those paid by applicants not selected. (It refunds the
10 rental payments paid by applicants not selected.) The IRS found that the facts and
11 circumstances surrounding the issuance of the oil and gas leases indicate that the drawing is used
12 merely as an impartial method of selecting a lessee from among the qualified applicants. The
13 IRS thus ruled that the difference, if any, between the fair market value and the cost of a lease
14 obtained by a taxpayer under these circumstances is not a prize under the provisions of Section
15 74(a) of the IRC, and such difference is not includable in the taxpayer's gross income under
16 Section 61(a) of the IRC when the taxpayer obtains the lease.
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21 6. In my opinion, a Recipient should not have income subject to U.S. Federal
22 income tax upon the receipt of a right to register a (.biz) domain name pursuant to the
23 procedures described in Appendix A.

24 7. My opinion is based on (a) my review of the policies and procedures for the
25 allocation of (.biz) domain names, as set forth at Appendix A, the Memorandum of Under-
26 standing between the Department of Commerce and the Internet Corporation for Assigned
27 Names and Numbers, dated November 25, 1998 ("Memorandum of Understanding"), and the
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Department of Commerce, National Telecommunications and Information Administration
document entitled *Management of Internet Names and Addresses* (the "White Paper"), 63 FR
31741; (b) my understanding that the procedures described in Appendix A are in furtherance of
the governmental policies set forth in the Memorandum of Understanding and the White Paper,
and my understanding that the procedures described in Appendix A are an impartial method for
selecting a Registrant from among multiple applicants for (.biz) domain names; and (c) the IRC,
Revenue Ruling 67-135, other relevant tax authorities and facts which I consider to be relevant.

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8. 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.


TROY S. WATKINSON

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