

Spinning off Lucent and NCR

The AT&T-SBC Merger, Part 2

by Matt Willms

Editor's note:

This article from Matt Willms is the second of a three-part series on record-keeping issues regarding the pending merger between AT&T and SBC (Part 1 ran in the December 2005 issue). This series reviews the history of AT&T corporate activity that has affected the tax basis (or cost basis) of AT&T shares. Without this history of events properly adjusted to your original AT&T cost basis, your SBC basis won't be correct.

In Part 1 of this series, we demonstrated how to record two of AT&T's past stock splits and the divestiture of the seven regional Bell operating companies. Shown in Table 1 is the current status of our working example, adjusted for all activity reviewed last month.

We'll now discuss the mechanics of spinning off both Lucent Technologies and NCR in 1996 and how the AT&T cost basis is adjusted. We'll also apply the 1999 3-for-2 stock split. We'll continue using the working examples used in Part 1 to illustrate the adjustment to shares held.

Lucent Spinoff

On Sept. 30, 1996, Lucent Technologies was spun off by AT&T. AT&T shareholders received .324084 shares of Lucent Technologies for every share of AT&T owned.

Investors also received cash in lieu of any fractional shares of stock held. In this corporate action, the tax basis of AT&T shares was 72.01 percent of the tax basis before the spinoff. The remaining 27.99 percent was allocated to shares investors received of Lucent Technologies.

Recall that since we originally acquired two lots of AT&T on different dates with different costs, each lot will require its own adjustment for the spinoff (see Table 2).

Table 1: After 1959 Stock Splits and 1984 Divestiture

| Basis Date | Number of AT&T Shares | AT&T Tax Basis |
|------------|-----------------------|----------------|
| 1/5/59 | 120 | \$1,286.78 |
| 3/5/59 | 180 | \$2,086.20 |
| Totals | 300 | \$3,372.98 |

Table 2: Adjusting Each Lot for the Lucent Spinoff

| Basis Date | Number of AT&T Shares | AT&T Tax Basis | | Spinoff Adjustment Factor | | AT&T Tax Basis |
|------------|-----------------------|----------------|---|---------------------------|---|----------------|
| 1/5/59 | 120 | \$1,286.78 | x | 0.7201 | = | \$926.61 |
| 3/5/59 | 180 | \$2,086.20 | x | 0.7201 | = | \$1,502.27 |
| Totals | 300 | \$3,372.98 | | | | \$2,428.88 |

Table 3: Adjusting Each Lot for the NCR Spinoff

| Basis Date | Number of AT&T Shares | AT&T Tax Basis | | Spinoff Adjustment Factor | | AT&T Tax Basis |
|------------|-----------------------|----------------|---|---------------------------|---|----------------|
| 1/5/59 | 120 | \$926.61 | x | 0.9523 | = | \$882.41 |
| 3/5/59 | 180 | \$1,502.27 | x | 0.9523 | = | \$1,430.61 |
| Totals | 300 | \$2,428.88 | | | | \$2,313.02 |

Table 4: The 1999 Stock Split

| Basis Date | Number of AT&T Shares | x | Adjustment Factor | = | Number of New AT&T Shares | AT&T Tax Basis |
|------------|-----------------------|---|-------------------|---|---------------------------|----------------|
| 1/5/59 | 120 | x | 1.50 | = | 180 | \$882.41 |
| 3/5/59 | 180 | x | 1.50 | = | 270 | \$1,430.61 |
| | | | Totals | | 450 | \$2,313.02 |

If your shares were acquired through a dividend reinvestment or direct investment plan, you would need to calculate a separate tax basis for each group of AT&T shares.

Notice in Table 2 that while the quantity of 300 shares hasn't changed, the tax basis of our AT&T shares has been reduced to just 72.01 percent of the original value ($\$3,372.98 \times 0.7201 = \$2,428.88$). The remaining tax basis would have been allocated to Lucent Technologies as part of the spinoff ($\$3,372.98 - \$2,428.88 = \$944.10$).

Spinoff of NCR

On Dec. 31, 1996, AT&T spun off NCR Corp. As a result AT&T shareholders received .0625 shares of NCR for every share of AT&T owned. Investors also received cash in lieu of any fractional shares of stock held. The tax basis of AT&T shares was 95.23 percent of the tax basis before the spinoff (see Table 3). The remaining 4.77 percent was allocated to shares received of NCR.

As in the spinoff of Lucent Technologies, the shares owned in AT&T remains the same, but the tax basis has again been adjusted to account for the NCR spinoff. Our total AT&T tax basis is now \$2,313.02. The remaining tax basis of \$115.86 would have been allocated to NCR Corp.

1999 Stock Split

On April 15, 1999, AT&T issued a 3-for-2 stock split. A stock split is simply a corporate action exchanging a certain number of shares for each share held. While your tax basis remains the same, the number of shares owned is increased by the split ratio. Continuing with our example, we need to increase AT&T shares owned by a factor of 3 for 2 (see Table 4).

Our total shares now owned in AT&T stock has increased to 450 shares to reflect the 3-for-2 split.

Our aggregate cost basis has remained the same. Investment software, such as BetterInvesting Portfolio Manager (formerly known as Portfolio Record Keeper), simplifies the tax basis adjustments required for AT&T history.

You can learn more about AT&T's history by visiting the investor relations area at the company's website (www.att.com). Next month we'll

review the spinoffs of AT&T Wireless and AT&T Broadband, the subsequent Comcast merger and the 1-for-5 reverse stock split in 2002. ■

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