

More Spinoffs, a Merger and a Reverse Stock Split

The AT&T-SBC Merger, Part 3

by Matt Willms

Editor's note:

This article from Matt Willms is the third of a three-part series on record-keeping issues regarding the merger between AT&T and SBC (Part 1 ran in the December 2005 issue and Part 2 in the January 2006 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 parts 1 and 2

of this series, we dissected three of AT&T's past stock splits, as well as the divestiture of the seven regional Bell operating companies and two corporate spinoffs. Shown in Table 1 is the current status of our working example, adjusted for all prior activity reviewed in this series.

This article will now review the spinoff of AT&T Wireless in 2001, the spinoff of AT&T Broadband and subsequent Comcast merger in 2002, and the company's 1-for-5 reverse stock split in 2002.

We'll continue with our working example to illustrate the adjustment to shares held.

Spinoff of AT&T Wireless

On July 9, 2001, AT&T issued a spinoff of AT&T Wireless. This spinoff was similar to prior spinoffs we've reviewed. As a result of this activity, AT&T shareholders received 0.3218 shares of AT&T Wireless for every share of AT&T owned. Investors also received cash for any fractional shares they held.

In this corporate action, the tax basis of AT&T shares was 77.66 percent of the tax basis before the

spinoff. The remaining 22.34 percent was allocated to shares investors received of AT&T Wireless.

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 action (see Table 2). 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.

Basis Date	Number of AT&T Shares	AT&T Tax Basis
1/5/59	180	\$882.41
3/5/59	270	\$1,430.61
Totals	450	\$2,313.02

Notice in Table 2 that while the quantity of 450 shares has remained the same, the tax basis of our AT&T shares has been reduced to just 77.66 percent of the value before the spinoff

Basis Date	Number of AT&T Shares	AT&T Tax Basis	Spinoff Adjustment Factor	AT&T Tax Basis
1/5/59	180	\$882.41	x 0.7766 =	\$685.28
3/5/59	270	\$1,430.61	x 0.7766 =	\$1,111.01
Totals	450	\$2,313.02		\$1,796.29

Basis Date	Number of AT&T Shares	AT&T Tax Basis	Spinoff Adjustment Factor	AT&T Tax Basis
1/5/59	180	\$685.28	x 0.374 =	\$256.29
3/5/59	270	\$1,111.01	x 0.374 =	\$415.52
Totals	450	\$1,796.29		\$671.81

Basis Date	Number of AT&T Shares	Adjustment Factor	Number of New AT&T Shares	AT&T Tax Basis
1/5/59	180	x 0.20 =	36	\$256.29
3/5/59	270	x 0.20 =	54	\$415.52
Totals	450	Totals =	90	\$671.81

(\$2,313.02 x 0.7766 = \$1,796.29). The remaining tax basis would have been allocated to AT&T Wireless as part of the spinoff (\$2,313.02 - \$1,796.29 = \$516.73).

Broadband Spinoff, Comcast Merger

On Nov. 18, 2002, AT&T spun-off AT&T Broadband, which immediately merged with Comcast Corporation. As a result of this spinoff, AT&T shareholders received a share of AT&T Broadband for every share of AT&T owned. Immediately thereafter, investors received 0.3235 shares of Comcast for each share of AT&T Broadband owned. They also received cash in lieu of any fractional shares of stock held.

In this dual corporate action, the tax basis retained by AT&T shareholders was 37.4 percent (see Table 3). The remaining 62.6 percent was allocated to shares received of Comcast Corporation.

As in the spinoff of AT&T Wireless, the number of shares owned in

AT&T remains the same, but the tax basis has again been adjusted to account for the AT&T Broadband spinoff and Comcast merger. Our total AT&T tax basis is now \$671.81. The remaining tax basis has been allocated to Comcast (\$1,124.48).

Reverse Stock Split

Also on Nov. 18, 2002, AT&T issued a reverse 1-for-5 stock split. While your tax basis remains the same, the number of shares owned is reduced in this case by the reverse split ratio. Continuing with our example, we need to reduce AT&T shares owned by a factor of 1-for-5.

Notice in Table 4 that our total shares now owned in AT&T stock has been reduced to 90 shares to reflect the 1-for-5 split. Our aggregate cost basis has remained the same, however.

This concludes the final part of this series reviewing the history of AT&T corporate activity that has affected the tax basis (cost basis) of your shares. Over the last three discus-

sions, we've provided an example of how an original aggregate cost basis investment of \$11,835 in AT&T shares has been adjusted because of various corporate actions to just \$671.81.

Without a system of detailed record keeping, many investors will find it quite difficult to properly account for their AT&T tax basis. Investment software, such as BetterInvesting Portfolio Manager (formerly known as Portfolio Record Keeper) simplifies the tax basis adjustments required for AT&T history.

We hope you found this series helpful for organizing your AT&T investment records in light of its merger with SBC. You can learn more about AT&T's history by visiting the investor relations area of the company's website (www.att.com). **B**

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