

TEdec Topics

- a monthly news flash for September 2010

Spin offs / Split ups and other Capital Changes

A capital change that frequently appears on your brokerage firm monthly statement is a Corporate Spin Off or Split Up. This occurred in July 2010 when **Verizon Communications Inc (Verizon)** spun off shares of **Frontier Communications Corporation (Frontier)**. Actually, the transaction was: Verizon spun off shares of New Communications Holdings Inc. (Spinco) and then Spinco merged into Frontier. As a result of the spin off and merger, shareholders of Verizon received shares of Frontier, and are required to allocate their aggregate tax basis (and for trusts and estates their fiduciary carry value) between the shares of Verizon and the shares of Spinco/Frontier.

Get the necessary information:

A. The first step is to get the basic information necessary to enter the data concerning the transaction. Part of this information (but only part) is found on the monthly activity pages of your brokerage firm monthly statement. The brokerage firm statement will tell you that there was a receipt of additional shares, may identify the transaction as a spinoff, and may identify that the trust/estate received cash in lieu for fractional shares.

B. The next step is to get the capital change information for this transaction. This can be obtained from the information provided by the parent company (Verizon). Go to the website of the parent company-> to that part of the website dealing with shareholder relations and search for the tax basis information for the transaction involved. The information provided in this case was accompanied with a disclaimer that it was not tax advice, but did provide IRS approved various methods of allocating FCV and Tax Basis. In the case study today we are choosing to allocate the FCV and tax basis based upon the opening trading prices of Verizon and Frontier on the NYSE on the first regular trading day (July 2, 2010) following the spin-off/merger.

C. The Exchange: For each share of Verizon, shareholders received 1 share of Spinco. And then at the merger, 4.165977 shrs of Spinco were exchanged for 1 share of Frontier. In other words, for every 4.165977 shares of Verizon, the trust/estate received 1 share of Frontier. The trust/estate owned 230 shrs of Verizon, and therefore received 55.2091 shares of Frontier.

C. The next task is to **allocate the FCV and Tax Basis**. Based upon the opening trade on July 2, 2010, the following is the allocation:

	Verizon	Frontier
Opening trade on July 2, 2010	\$27.05	\$7.45
Percent allocated	93.7989%	6.2011%

We recommend that you print out a CTR (Completrac Transaction Report) for the parent entity (Verizon) and on that printout apply your percentages so that you have exact dollar values for the transaction. The values allocated are as follows:

	Tax Basis	FCV
Verizon before transaction	7,391.63	7,391.63
Allocated to Frontier @ 6.2011%	458.36	458.36
Remaining with Verizon @ 93.7989%	6,933.26	6,933.26

Enter the transactions in TEdec:

D. The next step is to **enter the information into TEdec** => Capital Change -> Allocate FCV and Tax Basis and receive the shares of Frontier, including the fractional shares (55.2191 shrs).

E. The final step is to **sell the fractional shares** of Frontier -> the .2091 shares that were sold for the cash in lieu of \$1.48 that was reflected as cash received on your statement.

TEdec University Password for September 2010. The TEdec Web page now includes under Support an option for TEdec University. This is where you will find (1) recordings of "How to" by topic and by reference to the TEdec Tutorial, and (2) recordings of the TEdec User Webinars. TEdec users (with a current SMA) will need to sign in. The User Name is always TEdec and the Password (which changes monthly) for this month is **Michael26**. Please take a look at TEdec University — you will be glad you did!

Free User Webinar → TEdec has scheduled a **Free User Webinar** for **Tuesday, September 28, 2010** at **9:00 a.m. and 4:00 p.m.** EST, each lasting approximately 30 minutes in length. We will highlight the subject of this month's *TEdec Topics*. Call TEdec support for your Webinar reservation. Space is limited, so call today! You'll be glad you did! We look forward to having you join our next user Webinar!

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