

Part III

Administrative, Procedural, and Miscellaneous

26 CFR 601.105: Examination of returns and claims for refund, credit or abatement; determination of correct tax liability
(Also: Part I §§ 362, 1.362-1, 351, 1.351-3, 1.358-6.)

Rev. Proc. 2011-35

BASIS IN STOCK ACQUIRED IN TRANSFERRED BASIS TRANSACTIONS

SECTION 1. PURPOSE

This revenue procedure provides procedures that a corporation (Acquiring) may use to establish its basis in stock of another corporation (Target) when it acquires the Target stock in a transferred basis transaction.

SECTION 2. BACKGROUND

The Internal Revenue Service has long held that the optimal method for establishing basis in stock acquired in a reorganization described in § 368(a)(1)(B) of the Internal Revenue Code (B reorganizations) is a survey of the surrendering Target shareholders. The Service has also long recognized that it will not be practical to survey all surrendering Target shareholders in all such cases, particularly where Target stock is publicly traded. To mitigate this concern, the Service published Rev. Proc. 81-70, 1981-2 C.B. 729, which provides survey procedures, as well as procedures for the use of statistical sampling and estimation of basis, for establishing basis in stock acquired in a B reorganization if a survey of all surrendering shareholders would not be practical or feasible.

Since the publication of Rev. Proc. 81-70, however, the operation of the securities market has changed significantly. Foremost among the changes has been the pervasive shift to the holding of stock in street name, that is, the holding

of stock by nominees, typically clearinghouses or other financial institutions, on behalf of their members or customers. Because these nominee holders are subject to confidentiality and other restrictions, it is often difficult, if not impossible, for corporations acquiring stock in a B reorganization to obtain the information necessary to establish basis in acquired stock using the procedures prescribed by Rev. Proc. 81-70. Furthermore, the difficulties associated with determining basis in stock acquired in a B reorganization can also be present when determining basis in stock acquired in any transferred basis transaction.

In 2004, the Service undertook a study of the need for revised and further guidance in the determination of basis of shares acquired in transferred basis transactions. See Notice 2004-44, 2004-2 C.B. 32. The comments received in response to Notice 2004-44 were reflected in Notice 2009-4, 2009-2 I.R.B. 251, which affirmed the intent to revise the general provisions of Rev. Proc. 81-70, described three basis-determination safe harbors under consideration, and requested comments. The basis-determination safe harbors in Notice 2009-4 were: a survey-based methodology for shares surrendered by or on behalf of reporting shareholders, an estimation model based on stock registry and trading data for shares surrendered by registered, nonreporting shareholders, and an estimation model based on public trading data for shares surrendered by nominee shareholders. Comments were received affirming the need for such guidance and suggesting various modifications to the safe harbor models.

This revenue procedure adopts the surveying and statistical sampling guidelines in Rev. Proc. 81-70, but updates and revises them to take current market practices into account. This revenue procedure also adopts the safe harbor methodologies described in Notice 2009-4, but modifies them to reflect the comments received, particularly regarding the need for a model that uses data more readily accessible to acquiring corporations. Finally, this revenue procedure expands the applicability of these provisions by permitting their use in any transferred basis transaction.

SECTION 3. OVERVIEW, GENERALLY APPLICABLE PROVISIONS

.01 In General. Section 4.0 of this revenue procedure sets forth procedures for four methodologies that taxpayers may use to determine basis in stock acquired in a transferred basis transaction. Section 4.01 provides procedures for surveying all surrendering Target shareholders to determine actual basis in surrendered shares. Section 4.02 provides procedures for the use of statistical sampling when a full survey is not feasible. Sections 4.03 and 4.04 provide estimation techniques that may be used in lieu of a full survey or statistical sampling when specified criteria are satisfied. Taxpayers may use one or more of these methodologies in any combination. If a taxpayer cannot or does not use the methodologies prescribed in this revenue procedure, basis in acquired Target shares may be established by such other methodologies as agreed by the Service and Acquiring.

Notwithstanding any provision of this revenue procedure, if Acquiring or the Service has or acquires (including by survey and by examining Target's books and records) knowledge of a surrendering shareholder's actual basis in a surrendered share, Acquiring's basis in the share is the surrendering shareholder's actual basis. For example, in many cases, if Target issued shares to employee plans or with respect to options, convertible stock, or convertible debt, the basis of the shares can be determined using Target's books and records. In those cases, Acquiring's basis in the shares will be the actual basis as determined using Target's books and records. However, the Service will not undertake its own survey of shareholders (other than, perhaps, reporting shareholders) for the purpose of obtaining actual knowledge of their basis.

In the absence of actual knowledge, the Service will not assert an alternative basis, or an alternative method for determining basis, to the extent a taxpayer determines basis in Target stock in compliance with this revenue procedure.

The Appendix to this revenue procedure sets forth an illustration of the application of the estimation and modeling provisions in Section 4.

.02 Definitions. For purposes of this revenue procedure, the following definitions apply:

(1) Registered shareholder. The term "registered shareholder" means any Target shareholder that surrendered Target shares held in certificated form at the time of the transferred basis transaction.

(2) Nominee shareholder. The term "nominee shareholder" means any surrendering Target shareholder (whether surrendering shares it held on its own account or on behalf of a customer, member, or other beneficial owner) that, at the time of the transferred basis transaction, was either –

(a) A participant or member of the Depository Trust Company (DTC), or such other clearinghouse determined by the Service to be substantially similar to the DTC, that holds securities positions on its own behalf or on behalf of its clients, participants, members, or other persons, or

(b) A person required to file an SEC Form 13F or such other reporting form determined by the Service to be substantially similar to the SEC Form 13F.

(3) Reporting shareholder. The term "reporting shareholder" means any surrendering Target shareholder that, immediately before the transferred basis transaction, was either--

(a) The registered or nominee shareholder of publicly traded Target shares representing at least five percent of the vote or the value of all outstanding Target shares (or, in the case of shares that were not publicly traded, one percent of the vote or value of all outstanding Target shares), or, if identified in a nominee survey or otherwise known to Acquiring, the beneficial owner of such amount of shares, or

(b) An officer or director of Target, or a plan that acquired Target stock for or on behalf of Target employees (such as an employee stock option or pension plan).

(4) Security Position Report (SPR). The term “Security Position Report” (SPR) means the securities position listings issued by the DTC and reporting the closing positions for securities held by DTC members. The term also includes similar publications of other clearinghouses, whether domestic or foreign, if it is established to the satisfaction of the Service that the publication is substantially similar to the DTC-issued SPR and the clearinghouse is substantially similar to the DTC.

(5) SEC Form 13F. The term “SEC Form 13F” means the reporting form filed by institutional investment managers pursuant to Section 13(f) of the Securities Exchange Act of 1934. The term also includes such other reporting form required to be filed by a foreign jurisdiction if it is established to the satisfaction of the Service that such filing is substantially similar to the SEC Form 13F.

(6) Master Securityholder File. The term “Master Securityholder File” means the official listing of individual securityholder accounts holding certificated shares, see 17 C.F.R. § 240.17Ad-9 (1983).

(7) Transferred basis transaction. The term “transferred basis transaction” means any transaction in which Acquiring’s basis in Target stock acquired in the transaction is determined by reference to the surrendering Target shareholders’ bases in their surrendered shares. Transferred basis transactions include B reorganizations, § 351 exchanges, and certain triangular reorganizations (see § 1.358-6(c)(2)(ii) of the Income Tax Regulations).

(8) Adjusted closing price. The term “adjusted closing price” means the price at which a share of stock closed on an established securities market on a specified date, adjusted to take stock splits into account.

SECTION 4. PROCEDURES

.01 Surveying. This Section 4.01 provides procedures for surveying surrendering Target shareholders to establish basis in the shares surrendered by or on behalf of such shareholders. The procedures of this Section 4.01 apply to

all surveys, whether done with respect to all acquired shares, with respect to a sample of acquired shares under the statistical sampling procedures described in Section 4.02, or with respect to shares that are surrendered by or on behalf of reporting shareholders when basis is estimated under Section 4.03 or Section 4.04.

(1) Timeliness requirement. All surveys under this Section 4.01 must be done timely. A survey will generally be considered to have been done timely if it is substantially completed within two years of the transferred basis transaction. However, see Section 7 of this revenue procedure for the application of this requirement to transferred basis transactions completed prior to June 20, 2011.

(2) Survey procedure. All surveys done pursuant to this Section 4.01 are to be done in accordance with the following—

(a) Identifying the Target shareholders to be surveyed. Acquiring first identifies the surrendering shareholders that will be included in the survey. For this purpose, Acquiring may use Target's books and records, or such other information as is appropriate and available, including, for example, the Master Securityholder Files maintained by the stock transfer agent, or Securities Exchange Commission (SEC) filings, including Schedule 13 series and SPR data.

In general, Acquiring must survey all registered and nominee shareholders that surrendered Target stock in the transferred basis transaction. In addition, Acquiring must survey all other reporting shareholders identified by survey or otherwise. However, Acquiring need not survey--

(i) Any shareholder that is not a member of the survey sample and that surrendered Target stock the basis of which is to be determined under the statistical sampling method described in Section 4.02,

(ii) Any registered shareholder that is not a reporting shareholder and that surrendered Target stock the basis of which is to be determined under the estimation methodology described in Section 4.03, or

(iii) Any nominee shareholder that is not a reporting shareholder and that surrendered Target stock the basis of which is to be determined under the estimation methodology described in Section 4.04.

(b) Conducting the survey. Once the survey subjects are identified, Acquiring begins the survey process by sending a letter to the last known address of each such shareholder, asking the shareholder to disclose the number of Target common and preferred shares surrendered, the shareholder's aggregate basis (by class) of those shares, and whether the shareholder held the shares as the beneficial or nominee owner. The letter must state the purpose for

requesting the information, explain how basis is determined, and explain the importance of responding timely and accurately. In addition, the letter must request that—

(i) Any surrendering shareholder that was a beneficial owner provide the identity and contact information of any nominee holder of its surrendered share or shares; and

(ii) Any surrendering shareholder that was a nominee owner either:

(A) Provide the identity and contact information of the beneficial owner or owners of the shares it surrendered;

(B) Provide the aggregate number of common and preferred shares that it surrendered and the aggregate basis (by class) of those shares; or

(C) Forward the request for information (in a form provided by Acquiring) to the beneficial owners of its surrendered shares, requesting that such owners provide the basis information either directly to Acquiring or to the nominee (who would then provide the information to Acquiring).

After 30 days, Acquiring must make at least two additional attempts to contact all shareholders that failed to respond to the initial survey letter. This follow-up contact may be made by telephone, email, and/or such other means as appropriate and available.

(3) Allowable basis. The basis reported by surveyed shareholders will be deemed to be the surrendering shareholder's actual basis, and Acquiring's basis will therefore be the basis reported by such shareholders, unless the reported basis--

(i) Differs from the actual basis known by Acquiring or the Service, in which case Acquiring's basis will be such actual basis, or

(ii) Is inaccurate on its face and differs significantly from the trading prices of the shares at any time within a week of the date they were acquired in a cost-basis transaction. In such a case, the shareholder is considered to have failed to respond to the survey.

If a shareholder surveyed in accordance with this Section 4.01 fails to respond to Acquiring's request for basis information within 30 days of Acquiring's second follow-up attempt, Acquiring may determine its basis in a share or shares surrendered by or on behalf of the shareholder using such other procedures in this revenue procedure as are applicable.

.02 Statistical Sampling. This Section 4.02 provides procedures for the use of standard statistical sampling techniques to establish basis in Section 4.02 Eligible Shares (as defined in Section 4.02(1)) when the administrative cost of surveying all surrendering shareholders is unreasonably high. Factors that determine whether administrative cost is unreasonably high include the time, burden, and financial cost of conducting a full survey. The administrative cost of surveying every surrendering Target shareholder is presumed unreasonably high if, immediately before the transaction, Target stock was traded on an established securities market (within the meaning of § 1.7704-1(b) of the Procedure and Administration Regulations). Under this Section 4.02, Acquiring's basis in each Section 4.02 Eligible Share is determined in accordance with the following--

(1) Section 4.02 Eligible Share. The term "Section 4.02 Eligible Share" means any Target share—

- (a) The actual basis of which is not known, and
- (b) That is not surrendered by or on behalf of a reporting shareholder.

(2) Statistical sampling procedure. To satisfy the requirements of this Section 4.02—

(a) Statistical sampling is done separately for common and preferred shares.

(b) No reporting shareholders may be included in a sample to be surveyed.

(c) All shareholders in the sample must be surveyed under procedures described in Section 4.01, and

(d) The statistical sampling procedures used must comply with standard statistical sampling procedures recognized by the Service. The use of statistical sampling has been provided for in several items of published guidance. See, for example, Rev. Proc. 2004-29, 2004-1 C.B. 918 (statistical sampling methodology for use in establishing the amount of substantiated meal and entertainment expenses that are excepted from the 50% deduction disallowance under section 274(n)(1)); Rev. Proc. 2007-35, 2007-1 C.B. 1349 (addressing when statistical sampling may be used for purposes of section 199 of the Code (income attributable to domestic production activities)); Rev. Proc. 2002-55, 2002-2 C.B. 435 (permitting external auditors of qualified intermediaries to use statistical sampling); and Rev. Proc. 72-36, 1972-2 C.B. 771 (setting forth statistical sampling guidelines for determining the redemption rate of trading stamps).

If the Service determines that Acquiring's sampling procedure fails to comply with accepted statistical sampling procedures, Acquiring will have an

opportunity to recompute the estimate (Sample Basis Estimate), expand the sample, or make such other adjustments to the basis calculation as necessary to comply with standard statistical sampling procedures. Alternatively, Acquiring may determine its basis in Target stock using such other procedures in this revenue procedure as are applicable.

(3) Allowable basis. Acquiring's allowable basis in each Section 4.02 Eligible Share will be a valid estimate (Sample Basis Estimate) computed at the least advantageous 95% one-sided confidence limit. The "least advantageous" confidence limit is either the upper or lower limit that results in the least benefit to Acquiring. If the relative precision, as described in Section 4.02(4) of this revenue procedure, does not exceed 10%, the Sample Basis Estimate may be used as the basis for each Section 4.02 Eligible Share. For purposes of determining basis under this revenue procedure, where the relative precision is less than 15% and greater than 10%, Allowable Basis is an amount between the least advantageous 95% one-sided confidence limit and the Sample Basis Estimate, determined as follows:

Sample Basis Estimate - (Relative Precision - .10) / .05 * (Sample Basis Estimate - Least Advantageous 95% One-Sided Confidence Limit)

(4) Calculating the relative precision for each estimator. The relative precision for each estimator is commonly calculated by dividing the relative precision at the 95% one-sided confidence limit (sometimes referred to as the sampling error) of the Sample Basis Estimate by the estimator. Where a Sample Basis Estimate may be calculated using either a corrected value or difference perspective, as in the case of Ratio and Regression methods or solely a corrected value perspective as in the case of a Mean method, the test will be applied on the basis of a difference perspective. In such cases the numerator of the calculation is the sampling error of the adjustment and the denominator the Sample Basis Estimate of the adjustment.

.03 Estimation Procedure for shares surrendered by registered shareholders and certain reporting shareholders. This Section 4.03 provides procedures for determining basis of Section 4.03 Eligible Shares (as defined in Section 4.03(1)) using data from the Master Securityholder Files. Under this Section 4.03, Acquiring's basis in each Section 4.03 Eligible Share is determined in accordance with the following--

(1) Section 4.03 Eligible Share. The term "Section 4.03 Eligible Share" means any Target share –

(a) The actual basis of which is not known, and

(b) That was surrendered by a registered shareholder--

(i) That is not a reporting shareholder, or

(ii) That is a reporting shareholder that was surveyed and that failed to respond to the survey.

(2) Estimation procedure. Under this Section 4.03, Acquiring's basis in each Section 4.03 Eligible Share is determined in accordance with the following--

(a) Establishing initial estimated basis of each Section 4.03 Eligible Share. The initial estimated basis of each Section 4.03 Eligible Share is determined by treating the shareholder who surrendered the share as acquiring the share by purchase for the adjusted closing price on the date that the shareholder was issued its stock certificate. However, any amount so determined must be adjusted or revised to take into account any extraordinary issuance event. For this purpose, an extraordinary issuance event is any transaction or event that could have caused the basis of a share to be materially different from the adjusted closing price on its issuance date, including but not limited to the following--

(i) On or about the date a stock certificate was issued to a surrendering Target shareholder, another certificate held by the same shareholder was cancelled. In such case, to the extent that the number of shares issued is less than or equal to the number of shares cancelled, the adjusted closing price for such newly issued shares will not be the adjusted closing price on the date the new certificate was issued, but, instead, the adjusted closing price on the date the earlier certificate was issued. If a cancelled certificate was originally issued concurrently with the cancellation of another certificate, the adjusted closing price is that on the date of the earlier (or earliest) issuance.

(ii) A share was acquired in a tax-free stock split or as a stock dividend by the shareholder who surrendered the share. In such case, the share will be assigned a proportionate amount of the basis of the original share determined under the applicable provisions of the Code and regulations. Or,

(iii) A share was acquired in a prior tax-free exchange by the shareholder who surrendered the share. In such case, the share will be assigned a basis determined under the applicable provisions of the Code and regulations (including the provisions of this revenue procedure).

(b) Adjusting initial estimated basis. The initial estimated basis of each Section 4.03 Eligible Share determined under Section 4.03(2)(a) must be adjusted for all subsequent transactions and events that would require an adjustment to basis under the Code (for example, to take into account distributions under § 301(c)(2)).

(3) Allowable basis. Acquiring's basis in each Section 4.03 Eligible Share is the initial estimated basis for the share determined under Section 4.03(2)(a) and adjusted as required by Section 4.03(2)(b).

.04 Estimation procedure for shares surrendered by nominees. This Section 4.04 provides procedures for determining the basis of Section 4.04 Eligible Shares (as defined in Section 4.04(1)(a)) using data from Target Security Position Reports (SPRs) or from SEC Form 13F filings (but not both). Under this Section 4.04, Acquiring's basis in each Section 4.04 Eligible Share is determined in accordance with the following--

(1) Definitions. For purposes of this Section 4.04, the following definitions apply--

(a) Section 4.04 Eligible Share. The term "Section 4.04 Eligible Share" means any Target share—

(i) The actual basis of which is not known, and

(ii) That was surrendered by a nominee shareholder—

(A) That is not a reporting shareholder, or

(B) That is a reporting shareholder that was surveyed and failed to respond to the survey.

(b) Data Collection Period. The "Data Collection Period" is the period of time—

(i) Beginning on the later of –

(A) The first day of Target's first taxable year, and

(B) Either –

(1) the later of the first date that the shares to be modeled are publicly traded and the date that is seven years before the date of the transferred basis transaction if Acquiring is estimating basis using Target's SPR data, or

(2) the date that is ten years before the date of the transferred basis transaction if Acquiring is estimating basis using SEC Form 13F data, and

(ii) Ending on the date of the transferred basis transaction.

(c) Measuring Date. The term “Measuring Date” means any date with respect to which data is to be collected. The Measuring Dates are:

(i) If SPR data is being used to estimate basis, each Friday in the Data Collection Period on which SPR data was published or, if SPR data is not published on a Friday in a particular week, then the last date prior to that Friday on which SPR data was published, provided that such data is available from the DTC as of the date of the transferred basis transaction, and

(ii) If SEC Form 13F data is being used to estimate basis, each date in the Data Collection Period on which SEC Forms 13F are filed.

(2) Estimation procedure. The estimation of basis under this Section 4.04 is done separately for common and preferred shares, and estimations are made as follows—

(a) Identifying modeled shareholders. Acquiring first identifies the surrendering shareholders to be included in the estimation model (the modeled shareholders), and each such shareholder’s first and last Measuring Date. For this purpose--

(i) If SPR data is being used to estimate basis, the modeled shareholders are all surrendering shareholders identified on an SPR published at any time during the Data Collection Period (SPR modeled shareholder). With respect to each SPR modeled shareholder—

(A) The shareholder’s first Measuring Date is the first date on which the shareholder is continuously identified on Target SPRs, and

(B) The shareholder’s last Measuring Date is the last date for which Target SPR data is available.

(ii) If SEC Form 13F data is being used to estimate basis, the modeled shareholders are all surrendering shareholders that filed an SEC Form 13F at any time during the Data Collection Period (SEC modeled shareholders). With respect to each SEC modeled shareholder—

(A) The shareholder’s first Measuring Date is the first date on which the shareholder is identified in the SEC Form 13F data as holding Target shares, and

(B) The shareholder’s last Measuring Date is the last date on which the shareholder filed an SEC Form 13F.

(b) Establishing each modeled shareholder’s aggregate initial estimated basis. Each modeled shareholder is treated as purchasing the shares it is

identified as holding on its first Measuring Date for an amount equal to the volume-weighted average adjusted closing prices for the period—

(i) Beginning on the later of the date that is three months prior to the shareholder's first Measuring Date and the date that is Target's first day of its first taxable year, and

(ii) Ending on the modeled shareholder's first Measuring Date. This is the modeled shareholder's aggregate initial estimated basis.

(c) Adjusting each modeled shareholder's initial estimated basis. Each modeled shareholder's initial estimated basis is adjusted by treating the shareholder as having purchased shares to the extent of any increase, and having sold shares to the extent of any decrease, in the number of Target shares that the shareholder holds on the next Measuring Date for which data is available (the next date for which Acquiring has a Target SPR in the case of an SPR modeled shareholder, and the next date that the shareholder made an SEC Form 13F filing in the case of an SEC modeled shareholder). All deemed purchases are treated as having been made for an amount equal to the volume-weighted average of the adjusted closing prices for the period between the modeled shareholder's immediately preceding Measuring Date and the next Measuring Date for which data is available; all deemed sales are treated as having been made on the average cost method. The process is repeated for every Measuring Date until the shareholder's aggregate adjusted estimated basis is determined as of its last Measuring Date.

Each modeled shareholder's aggregate adjusted basis on its last Measuring Date is divided by the total number of shares held by the shareholder on that date to determine the shareholder's per share final estimated basis.

For purposes of the model, each Target share actually surrendered by a modeled shareholder is deemed to have a basis equal to the surrendering shareholder's per share final estimated basis.

(d) Section 4.04 per share modeled basis. The deemed bases of all shares actually surrendered by modeled shareholders are combined and the total is divided by the number of shares actually surrendered by those shareholders. The result is the per share modeled basis.

(3) Allowable basis. Acquiring's basis in each Section 4.04 Eligible Share is determined in accordance with the following--

(i) If SPR data is used to compute the Section 4.04 per share modeled basis, Acquiring's basis in each Section 4.04 Eligible Share is equal to the Section 4.04 per share modeled basis multiplied by the percentage of Measuring Dates in the Data Collection Period for which SPR data is obtained.

Thus, if there are 60 Measuring Dates in the Data Collection Period and Acquiring obtained SPR data for only 54 of those Measuring Dates, Acquiring's basis in each Section 4.04 Eligible Share is an amount equal to 90 percent (54/60) of the Section 4.04 per share modeled basis. Further, appropriate adjustments will be made if the Service determines that SPRs not included in the determination represent material omissions.

(ii) If SEC Form 13F data is used to compute the Section 4.04 per share modeled basis, Acquiring's basis in each Section 4.04 Eligible Share is equal to the Section 4.04 per share modeled basis multiplied by 75 percent.

SECTION 5. REPORTING REQUIREMENTS

Taxpayers acquiring stock in transferred basis transactions described in this revenue procedure are deemed to satisfy the reporting requirements of §§ 1.351-3 and 1.368-3 if they include a statement on or with the timely filed original return for the taxable year of the transferred basis transaction that identifies the transferred basis transaction and states that a basis study is pending with respect to the acquired stock. However, to satisfy the requirements of those sections in such cases, the taxpayer must include complete statements as required under those regulations, with basis amounts determined pursuant to the study or otherwise under this revenue procedure, on or with a timely filed original return for a tax year that is no later than the tax year that includes the date that is two years after the date of the transferred basis transaction. See Section 7 of this revenue procedure for the application of this requirement to transferred basis transactions prior to June 20, 2011. This Section 5 applies to all transferred basis transactions without regard to whether basis is determined under Section 4 of this revenue procedure.

SECTION 6. PRE-FILING AGREEMENTS

The determination of whether a basis study is done in compliance with one of the procedures described in Section 4 of this revenue procedure may be the subject of a pre-filing agreement.

SECTION 7. EFFECTIVE DATE, EFFECT ON OTHER DOCUMENTS

This revenue procedure is effective with respect to transferred basis transactions completed on or after June 20, 2011. However, taxpayers may use this revenue procedure with respect to transferred basis transactions completed prior to June 20, 2011; in such cases, surveys will be considered timely if substantially completed, and reporting requirements will be considered satisfied if filed, on or before June 20, 2013.

Rev. Proc. 81-70 and Notice 2009-4 are obsoleted with respect to transferred basis transactions completed on or after June 20, 2011.

APPENDIX

EXAMPLE, PART 1:

DETERMINATION OF BASIS USING STOCK REGISTRY, CORPORATE BOOKS AND RECORDS, MARKET TRADING DATA, AND SEC FORM 13F FILING DATA

On January 1, Year 1, Target was formed. On February 2, Year 3, Acquiring acquired all 1000 outstanding shares of Target publicly traded common stock and all 100 outstanding shares of Target nonvoting preferred stock in a transferred basis transaction. The nonvoting preferred stock is not publicly traded and, at the time of the transferred basis transaction, represents 2 percent of the value of Target. Immediately after the transaction, Acquiring collected information to establish its basis in the acquired shares. Acquiring will use the survey and estimation methods provided in this revenue procedure. Note that, to simplify computations, all decimals (other than those related to individual shares) are rounded to the second place.

DATA COLLECTION:

1. From the stock registry, publicly available records (trading prices), and its own books and records, Acquiring collected the following information:

Shareholder	Issue date	Issue price		Shares issued and surrendered
Preferred shares				
Officer	1/1/Y1	No amount recorded		20
Employee Plan1	4/1/Y1	\$10/share		30
Employee Plan2	4/1/Y2	\$36/share		50
Total preferred shares surrendered by registered shareholders				100
Shareholder	Issue date	Adjusted closing price on issue date	High/Low trading price within one week of issue date	Shares issued and surrendered
Common shares				
Individual A	1/1/ Y1	\$ 9/share	\$7-12/share	10
Individual B	1/1/ Y1	\$ 9/share	\$7-12/share	10
Individual C	1/1/ Y2	\$12/share	\$8-13/share	50
Individual D	1/1/ Y2	\$12/share	\$8-13/share	50
Individual E	1/1/ Y2	\$12/share	\$8-13/share	50
Director A	1/1/ Y2	\$12/share	\$8-13/share	30

Private Placement	1/1/ Y2	\$12/share	\$8-13/share	50
Total common shares surrendered by registered shareholders				250

Target's books and records also indicate:

a. There was a \$5 distribution declared on each preferred share outstanding on 4/15/Y1. The distributions were made to Officer (\$100) and to Employee Plan1 (\$150) on 5/1/Y1. For the year of the distribution, Target had no earnings and profits.

b. On or about 1/1/Y2, the date that a certificate was issued to Individual C for 50 shares, a certificate issued on 1/1/Y1 to Individual C for 25 shares was cancelled.

2. From SEC Form 13F Filings, publicly available trading information, and its own books and records, Acquiring collected the following information regarding the ownership of its common shares held by nominees:

Nominee shareholder	SEC Form 13F Filing date	Shares reported	Vol Wtd Avg adjusted closing price*	High/low trading price in quarter	Shares surrendered
Nominee1	Y1: 1 st quarter	30	8	\$5-14/ share	250
	Y1: 2 nd quarter	45	10	\$5-14/ Share	
	Y1: 3 rd quarter	120	11	\$5-14/ Share	
	Y1: 4 th quarter	160	12	\$5-14/ share	
	Y2: 1 st quarter	200	10	\$6-15/ share	
	Y2: 2 nd quarter	150	12	\$6-15/ share	
	Y2: 3 rd quarter	200	14	\$6-15/ share	
	Y2: 4 th quarter	200	16	\$6-18/ share	
Nominee2	Y1: 1 st quarter	No Form13F filed	8	\$5-14/ share	
	Y1: 2 nd quarter	250	10	\$5-14/ Share	
	Y1: 3 rd quarter	250	11	\$5-14/	

	quarter			Share	
	Y1: 4 th quarter	200	12	\$5-14/ share	
	Y2: 1 st quarter	200	10	\$6-15/ share	
	Y2: 2 nd quarter	300	12	\$6-15/ share	
	Y2: 3 rd quarter	300	14	\$6-15/ share	
	Y2: 4 th quarter	150	16	\$6-18/ share	175
Nominee3	Y1: 1 st quarter	No Form13F filed	8	\$5-14/ share	
	Y1: 2 nd quarter	No Form13F filed	10	\$5-14/ Share	
	Y1: 3 rd quarter	75	11	\$5-14/ Share	
	Y1: 4 th quarter	75	12	\$5-14/ share	
	Y2: 1 st quarter	No Form13F filed	10	\$6-15/ share	
	Y2: 2 nd quarter	100	12	\$6-15/ share	
	Y2: 3 rd quarter	135	14	\$6-15/ share	
	Y2: 4 th quarter	150	16	\$6-18/ share	100
Nominee4	Y1: 1 st quarter	50	8	\$5-14/ share	
	Y1: 2 nd quarter	50	10	\$5-14/ Share	
	Y1: 3 rd quarter	100	11	\$5-14/ Share	
	Y1: 4 th quarter	No Form13F filed	12	\$5-14/ share	
	Y2: 1 st quarter	100	10	\$6-15/ share	
	Y2: 2 nd quarter	150	12	\$6-15/ share	
	Y2: 3 rd quarter	200	14	\$6-15/ share	
	Y2: 4 th quarter	No	16	\$6-18/ share	

	quarter	Form13F filed		share	100
Nominee5	Y1: 1 st quarter	No Form13F filed	8	\$5-14/ share	125
	Y1: 2 nd quarter	No Form13F filed	10	\$5-14/ Share	
	Y1: 3 rd quarter	No Form13F filed	11	\$5-14/ Share	
	Y1: 4 th quarter	50	12	\$5-14/ share	
	Y2: 1 st quarter	50	10	\$6-15/ share	
	Y2: 2 nd quarter	No Form13F filed	12	\$6-15/ share	
	Y2: 3 rd quarter	200	14	\$6-15/ share	
	Y2: 4 th quarter	250	16	\$6-18/ share	

* the volume weighted average adjusted closing price applicable with respect to the first Measuring Date is determined for the period beginning on the later of Target's first day of its first tax year and the day that is three months prior to the first Measuring Date; the volume weighted average adjusted closing price applicable to all subsequent Measuring Dates is determined for the period between Measuring Dates.

DATA ANALYSIS:

IDENTIFYING APPLICABLE BASIS DETERMINATION METHODS

Shareholder	Reporting shareholder status	Survey required	Eligible procedure(s)
Preferred shares (not publicly traded, one percent standard applies):			
Officer	Reporting shareholder (<1% vote and value, but specified relationship); issue price not recorded	Yes	4.01
Employee Plan1	Reporting shareholder (<1% vote and value, but specified relationship); issue price recorded	No	None, actual basis known
Employee Plan2	Reporting shareholder (1% of value and specified relationship); issue price recorded	No	None, actual basis known

Common shares (publicly traded, five percent standard applies):			
Individual A	Not reporting shareholder (<5% vote and value, no specified relationship)	No	4.01 or 4.03
Individual B	Not reporting shareholder (<5% vote and value, no specified relationship)	No	4.01 or 4.03
Individual C	Reporting shareholder (5% vote)	Yes	4.01; 4.03 if surveyed and no response
Individual D	Reporting shareholder (5% vote)	Yes	4.01; 4.03 if surveyed and no response
Individual E	Reporting shareholder (5% vote)	Yes	4.01; 4.03 if surveyed and no response
Director A	Reporting shareholder (<5% vote and value but specified relationship)	Yes	4.01; 4.03 if surveyed and no response
Private Placement	Reporting shareholder (5% vote)	Yes	4.01; 4.03 if surveyed and no response
Nominee1	Reporting shareholder (5% vote and value)	Yes	4.01; 4.04 if surveyed and no response
Nominee2	Reporting shareholder (5% vote and value)	Yes	4.01; 4.04 if surveyed and no response
Nominee3	Reporting shareholder (5% vote and value)	Yes	4.01; 4.04 if surveyed and no response
Nominee4	Reporting shareholder (5% vote and value)	Yes	4.01; 4.04 if surveyed and no response
Nominee5	Reporting shareholder (5% vote and value)	Yes	4.01; 4.04 if surveyed and no response

BASIS DETERMINATIONS UNDER SECTION 4.01 (SURVEY METHOD)

Acquiring conducted a survey of the following shareholders. The survey complied with the procedures of Section 4.01(2)(b). The following summarizes the results of the survey:

Shareholder surveyed	Shareholder's Response/Basis	Allowable basis from survey	Eligible for other procedure?
Preferred shares:			
Officer	No response	None	No, insufficient data

			for models
Employee Plan1	\$4.50/share for 30 preferred shares; In addition, Employee Plan1 reported it owned 50 common shares surrendered by Nominee 1 (\$12/share)	None for preferred (actual = \$10 - 5= \$5); As reported (\$12/share) for common	No
Common shares:			
Individual A	\$13/share	As reported (\$13/share)	No
Individual C	No response	None	Yes, Section 4.03
Individual E	\$40/share (nonresponsive, \$40 inaccurate on its face)	None	Yes, Section 4.03
Director A	\$1/share (nonresponsive, \$1 inaccurate on its face)	None	Yes, Section 4.03
Private Placement	No response	None	Yes, Section 4.03
Nominee1	No response	None	Yes, Section 4.04
Nominee2	\$65/share (nonresponsive, \$65 inaccurate on its face)	None	Yes, Section 4.04
Nominee4	No response	None	Yes, Section 4.04
Nominee5	No response	None	Yes, Section 4.04

Notes:

Officer. Although Acquiring surveyed Officer and received no response, Acquiring cannot determine basis in the shares surrendered by Officer by the methods described in Section 4.03 and Section 4.04 because the requisite market information is not available.

Employee Plans. Because Acquiring had knowledge of actual basis (issue price was recorded in the register), Acquiring's basis is the actual basis of the shares (\$10, reduced by the \$5/share "section 301(c)(2)" distribution, or \$5), notwithstanding that Employee Plan1 reported a basis of \$4.50 in the shares. Although Acquiring was not required to survey Employee Plan1, because it did and Employee Plan1 reported that, in addition to the preferred shares, it also beneficially owned 50 of the shares of common stock held by Nominee1, the basis of each of those 50 common shares is the \$12/share basis reported by Employee Plan1 (even though all of Nominee1's trading activity, including with

respect to the 50 shares held on behalf of Employee Plan1, will be taken into account in modeling basis in Section 4.04).

Individual A. Although Acquiring was not required to survey Individual A in order to use the estimation method in Section 4.03, Acquiring did survey Individual A and Individual A responded to the survey. Accordingly, the basis in the shares surrendered by Individual A is Individual A's reported basis of \$13 per share, notwithstanding that the basis determined under Section 4.03 would only be \$9/share for those shares.

Individual B. Acquiring does not have an actual basis for Individual B and was not required to survey Individual B in order to use the estimation method in Section 4.03. Accordingly, Acquiring may determine the basis of Individual B's shares using the estimation method in Section 4.03.

Individual C. Individual C, a reporting shareholder, was surveyed but did not respond. Accordingly, Acquiring may determine the basis of Individual C's shares using the estimation method in Section 4.03.

Individual D. Individual D, a reporting shareholder was not surveyed. As a result, Acquiring has not satisfied the requirements for using the estimation procedures in this revenue procedure and, thus, cannot establish the bases of those shares under this revenue procedure. However, Acquiring may establish its bases in those shares under such other method as agreed to by the Service.

Individual E and Director A. Individual E and Director A, both reporting shareholders, were surveyed and responded. However, the survey responses given by Individual E (\$40/share) and Director A (\$1/share) are inaccurate on their faces because they differ significantly from the high/low trading prices within a week of their acquisition by the surrendering shareholders (\$8-\$13/share), and thus Individual E and Director A are considered to have not responded to the survey and the reported bases are disregarded. Acquiring may therefore establish its bases in those shares using the procedures in Section 4.03.

Nominee shareholders. All five of the nominee shareholders are reporting shareholders and must therefore be surveyed in order to determine the bases of their surrendered shares under the modeling procedure of Section 4.04. Acquiring surveyed all the nominee shareholders except Nominee3. Nominee1, Nominee4, and Nominee5 failed to respond. Further, although Nominee2 responded, its response was inaccurate on its face (\$65/share) and so Nominee2 is considered also to have not responded. As a result, Acquiring has generally satisfied the requirements to determine its bases in the shares surrendered by Nominee1, Nominee2, Nominee4, and Nominee5 under Section 4.04. However, with respect to Nominee1, Acquiring received survey information on the basis of 50 common shares it held and surrendered on behalf of Employee Plan1, and so 50 of the shares surrendered by Nominee1 will have a basis equal to the

reported basis. Because Nominee3 was not surveyed, Acquiring has not satisfied the requirements for using the estimation procedures in this revenue procedure and so cannot use these procedures to determine the bases of those shares. However, Acquiring may establish its bases in the shares surrendered by Nominee3 under such other method as agreed to by the Service. Note that, although the bases of 50 shares surrendered by Nominee1 and all the shares surrendered by Nominee3 are not determined under Section 4.04, all the trading information collected with respect to Nominee1 and Nominee3 is included in the modeling computations.

BASIS DETERMINATIONS UNDER SECTION 4.03

Even though Individual C, Individual E, Director A, and Private Placement were reporting shareholders, Acquiring surveyed them, they failed to respond, and Acquiring has knowledge of the issue date of shares issued to such shareholders. Thus, the shares they surrendered are Section 4.03 Eligible Shares. The bases in the Section 4.03 Eligible Shares are computed as follows (rounding numbers other than “per share” numbers):

Surrendering shareholder	Adjusted closing price on issue date	Number of shares surrendered	Allowable basis
Common shares:			
Individual B	\$ 9	10	\$90
Individual C	\$ 9	25	\$225
	\$12	25	\$300
Individual E	\$12	50	\$600
Director A	\$12	30	\$360
Private Placement	\$12	50	\$600

Note: In determining the basis of Individual C’s 50 shares, Acquiring must take into account the cancellation of a certificate for 25 shares (issued to Individual C on 1/1/Y1) on the same day that the certificate for 50 shares was issued to Individual C. Individual C is treated as surrendering 25 shares with a basis equal to the closing price on 1/1/Y1 and 25 shares with a basis equal to the closing price on 1/1/Y2.

BASIS DETERMINATIONS UNDER SECTION 4.04 (FORM 13F DATA)

Acquiring’s bases in Section 4.04 Eligible Shares are computed as follows:

Surrendering shareholder	Filing date	Shares reported	Vol wtd avg adj closing price	Modeled basis (Initial estimated basis adjusted each measuring date for increases and	Deemed basis in surrendered shares

			for period	decreases in reported holdings)	
Nominee1	Y1: 1 st quarter	30	8	<u>Initial estimated basis:</u> 30 shares reported x \$8 vol wtd avg closing price per share = <u>\$240</u>	
	Y1: 2 nd quarter	45	10	Reported shares increased (30 to 45): 15 shs @\$10/sh = \$150 <u>Adjusted estimated basis:</u> <u>\$240+\$150 = \$390</u>	
	Y1: 3 rd quarter	120	11	Reported shares increased (45 to 120): 75 shs @\$11/sh = \$825 <u>Adjusted estimated basis:</u> <u>\$390+825=\$1215</u>	
	Y1: 4 th quarter	160	12	Reported shares increased (120 to 160): 40 shs @\$12/sh = \$480 <u>Adjusted estimated basis:</u> <u>\$1215+480=\$1695</u>	
	Y2: 1 st quarter	200	10	Reported shares increased (160 to 200): 40 shs @\$10/sh = \$400 <u>Adjusted estimated basis:</u> <u>\$1695+400=\$2095</u>	
	Y2: 2 nd quarter	150	12	Reported shares decreased (200 to 150): Average cost of shares: \$2095/200=\$10.48/sh; 50shs @\$10.48/sh=\$524 <u>Adjusted estimated basis:</u> <u>\$2095-524=\$1571</u>	
	Y2: 3 rd quarter	200	14	Reported shares increased (150 to 200): +50 shs @\$14/sh = \$700 Adjusted estimated basis <u>\$1571+700=\$2271</u>	
	Y2: 4 th quarter	200	16	No change in holdings.	
<p>\$2271 aggregate adjusted estimated basis/ 200 shares = \$11.36 per share final estimated basis</p> <p>250 shares surrendered x \$11.36 per share final estimated basis = \$2840 deemed basis in surrendered shares</p>					
					\$2840

Nominee2	Y1: 1 st quarter	No 13F filed	8		
	Y1: 2 nd quarter	250	10	<u>Initial estimated basis:</u> 250 shares reported x \$10 vol wtd avg closing price per share = \$2500	
	Y1: 3 rd quarter	250	11	No change in holdings.	
	Y1: 4 th quarter	200	12	Reported shares decreased (250 to 200): Average cost of shares: \$2500/250=\$10; 50 shs @\$10/sh = \$500 <u>Adjusted estimated basis:</u> \$2500-500=\$2000	
	Y2: 1 st quarter	200	10	No change in holdings.	
	Y2: 2 nd quarter	300	12	Reported shares increased (200 to 300): +100shs @\$12/sh=\$1200 <u>Adjusted estimated basis:</u> \$2000+1200=\$3200	
	Y2: 3 rd quarter	300	14	No change in holdings.	
	Y2: 4 th quarter	150	16	Reported shares decreased (300 to 150): Average cost of shares: \$3200/300=\$10.67; 150shs@\$10.67/sh=\$1601 <u>Adjusted estimated basis:</u> \$3200-1601=\$1599	
\$1600 aggregate adjusted estimated basis /150 shares = \$10.67 per share final estimated basis:					
175 shares surrendered x \$10.66 per share final estimated basis = \$1867 deemed basis in surrendered shares					\$1867
Nominee3	Y1: 1 st quarter	No 13F filed	8		
	Y1: 2 nd quarter	No 13F filed	10		
	Y1: 3 rd quarter	75	11	<u>Initial estimated basis:</u> 75 shares reported x \$11 vol wtd avg closing price per share = \$825	
	Y1: 4 th quarter	75	12	No change in holdings.	

	quarter				
	Y2: 1 st quarter	No 13F filed	10	No change in holdings.	
	Y2: 2 nd quarter	100	12	Reported shares increased (75 to 100) +25 shs @\$12/sh = \$300 <u>Adjusted estimated basis:</u> \$825+300=\$1125	
	Y2: 3 rd quarter	135	14	Reported shares increased (100 to 135) +35 shs @\$14/sh = \$490 <u>Adjusted estimated basis:</u> \$1125+490=1615	
	Y2: 4 th quarter	150	16	Reported shares increased (135 to 150): +15 shs @\$16/sh = \$240 <u>Adjusted estimated basis:</u> \$1615+240=1855	
\$1855 aggregate adjusted estimated basis /150 shares = \$12.37 per share final estimated basis					
100 shares surrendered x \$12.37 per share final estimated basis = \$1237 deemed basis in surrendered shares					\$1237
Nominee4	Y1: 1 st quarter	50	8	<u>Initial estimated basis:</u> 50 shares reported x \$8 vol wtd avg closing price per share = \$400	
	Y1: 2 nd quarter	50	10	No change in holdings.	
	Y1: 3 rd quarter	100	11	Reported shares increased (50 to 100): +50 shs @\$11/sh = \$550 <u>Adjusted estimated basis:</u> \$400+550=\$950	
	Y1: 4 th quarter	No 13F filed	12	No change in holdings.	
	Y2: 1 st quarter	100	10	No change in holdings.	
	Y2: 2 nd quarter	150	12	Reported shares increased (100 to 150): +50 shs @\$12/sh = \$600 <u>Adjusted estimated basis:</u> \$950+600=\$1550	
	Y2: 3 rd quarter	200	14	Reported shares increased (150 to 200): +50 shs @\$14/sh = \$700 <u>Adjusted estimated basis:</u>	

				$\$1550+700=\underline{\$2250}$	
	Y2: 4 th quarter	No 13F filed	16	No change in holdings.	
$\$2250$ aggregate adjusted estimated basis/200shares = $\$11.25$ per share final estimated basis:					
100 shares surrendered x $\$11.25$ per share final estimated basis:= $\$1125$ deemed basis in surrendered shares					$\$1125$
Nominee5	Y1: 1 st quarter	No 13F filed	\$8		
	Y1: 2 nd quarter	No 13F filed	\$10		
	Y1: 3 rd quarter	No 13F filed	\$11		
	Y1: 4 th quarter	50	\$12	<u>Initial estimated basis:</u> 50 shares reported x \$12 vol wtd avg closing price per share = \$600	
	Y2: 1 st quarter	50	\$10	No change in holdings.	
	Y2: 2 nd quarter	No 13F filed	\$12	No change in holdings.	
	Y2: 3 rd quarter	200	\$14	Reported shares increased (50 to 200): +150 shs @ \$14 = \$2100 <u>Adjusted estimated basis:</u> \$600 + 2100=\$2700	
	Y2: 4 th quarter	250	\$16	Reported shares increased (200 to 250): +50 @ \$16 = \$800 <u>Adjusted estimated basis:</u> \$2700 + 800 = \$3500	
$\$3500$ aggregate adjusted estimated basis/250 shares = $\$14$ per share final estimated basis					
125 shares surrendered x $\$14$ per share final estimated basis= $\$1750$ deemed basis in surrendered shares					$\$1750$

Computation of Section 4.04 per share modeled basis (common shares):

Nominee shareholder	Per share final estimated basis	Surrendered shares	Deemed basis in surrendered shares
Nominee1	11.36	250	\$2840
Nominee2	10.67	175	\$1867
Nominee3	12.37	100	\$1237

Nominee4	11.25	100	\$1125
Nominee5	14.00	125	\$1750
Total deemed basis in surrendered shares			\$8819
Total number of surrendered shares			750
Section 4.04 per share modeled basis			\$11.76
Section 4.04 per share modeled basis x 75% = Allowable basis for each Section 4.04 Eligible Share			\$8.82

ALLOCATION OF ALLOWABLE BASIS
TO SECTION 4.04 ELIGIBLE SHARES

Surrendering shareholder	Allowable basis per share	Surrendered Section 4.04 Eligible shares	Total allowable basis
Nominee1	\$8.82	200	\$1764
Nominee2	\$8.82	175	\$1544
Nominee3	\$8.82	0	0
Nominee4	\$8.82	100	\$882
Nominee5	\$8.82	125	\$1103

Notes:

Nominee1. As noted above, the basis of 50 of the 250 shares surrendered by Nominee1 was reported by Employee Plan1 and so was not determined under the Section 4.04 model.

Nominee3. As noted above, Acquiring did not satisfy the requirements to determine its basis in the shares surrendered by Nominee3 under this revenue procedure. Thus, there is no basis allowable under the model; however, Acquiring may establish its bases in those shares under such other method as agreed to by the Service.

SUMMARY
BASIS DETERMINED UNDER REVENUE PROCEDURE
(SEC FORM 13F FILING DATA)

Surrendering shareholder	Applicable method	Allowable basis	Shares surrendered	Total allowable basis under revenue procedure
Preferred shares (100 outstanding):				
Officer	Cannot be	TBD under	20	\$0

	established under this revenue procedure	procedures as agreed to by Service		
Employee Plan1	Actual, as determined by Target's records	\$5/share (\$10 issue price, less \$5 §301(c)(2) distribution)	30	\$150
Employee Plan2	Actual, as determined by Target's records	\$36/share	50	\$1800
Total basis in preferred shares				\$1950
Common shares (1000 outstanding):				
Employee Plan1	As reported in survey, 4.01	\$12/share	50	\$600
Individual A	As reported in survey, 4.01	\$13/share	10	\$130
Individual B	4.03	\$ 9/share	10	\$90
Individual C	4.03	\$9/share \$12/share	25 25	\$525
Individual D	Cannot be established under this revenue procedure	TBD under procedures as agreed to by Service	50	\$0
Individual E	4.03	\$12/share	50	\$600
Director A	4.03	\$12/share	30	\$360
Private Placement	4.03	\$12/share	50	\$600
Nominee1	4.04	\$8.82/share	200	\$1764
Nominee2	4.04	\$8.82/share	175	\$1544
Nominee3	Cannot be established under this revenue procedure	TBD under procedures as agreed to by Service	100	\$0
Nominee4	4.04	\$8.82/share	100	\$882
Nominee5	4.04	\$8.82/share	125	\$1103
Total basis in common shares				\$8,198
Total number of shares (preferred plus common) surrendered				1100
Total basis in all shares				\$10,148

EXAMPLE PART 2:

DETERMINATION OF BASIS USING
STOCK REGISTRY, BOOKS AND RECORDS,
AND SPR DATA

Assume that the facts are the same as in Example 1, except that Acquiring uses data from Target's SPRs instead of the SEC Form 13F filings. Further, Acquiring obtains 100 of the 109 SPRs that were published during the data collection period and that were available from the DTC as of the date of the transaction (the missing SPRs are not a material omission); the first SPR obtained by Acquiring that shows Target stock ownership was published in Week 4; the only other SPRs that show movement in Target holdings were published in Weeks 21, 34, 48, 60, 72, 80, and 104. (Note that, to simplify the illustration, the SPR dates correspond to the SEC Form 13F filing dates in the Part 1 of this example; thus, the numbers of shares reported (and their volume weighted average adjusted closing price) on the first SEC Form 13F filing correspond to those on the Week 4 SPR, the second SEC Form 13F filing numbers (and prices) to those in SPR Week 21, and so forth; where no SEC Form 13F was filed, the shares reported are zero; the number of shares surrendered are unchanged.) The determination of the Section 4.04 modeled basis using SPR data is done as follows:

Surrendering shareholder	Date of SPR	Shares listed on SPR	Vol wtd avg closing price for period*	Modeled basis (Initial estimated basis adjusted each measuring date for increases and decreases in reported holdings)	Deemed basis in surrendered shares
Nominee1	Week 4	30	8	<u>Initial estimated basis:</u> 30 shares reported x \$8 vol wtd avg closing price per share = <u>\$240</u>	
	Week21	45	10	Reported shares increased (30 to 45): 15 shs @\$10/sh = \$150 <u>Adjusted estimated basis:</u> \$240+\$150 = <u>\$390</u>	
	Week34	120	11	Reported shares increased (45 to 120): 75 shs @\$11/sh = \$825 <u>Adjusted estimated basis:</u> \$390+825= <u>\$1215</u>	
	Week48	160	12	Reported shares increased (120 to 160): 40 shs @\$12/sh = \$480 <u>Adjusted estimated basis:</u> \$1215+480= <u>\$1695</u>	
	Week60	200	10	Reported shares increased (160 to 200): 40 shs @\$10/sh = \$400 <u>Adjusted estimated basis:</u> \$1695+400= <u>\$2095</u>	
	Week72	150	12	Reported shares decreased (200 to 150): Average cost of shares: \$2095/200=\$10.48/sh; 50shs @\$10.48/sh=\$524 <u>Adjusted estimated basis:</u>	

				\$2095-524=\$1571	
	Week80	200	14	Reported shares increased (150 to 200): +50 shs @\$14/sh = \$700 Adjusted estimated basis \$1571+700=\$2271	
	Week104	200	16	No change in holdings.	
\$2271 aggregate adjusted estimated basis/ 200 shares = \$11.36 per share final estimated basis					
250 shares surrendered x \$11.36 per share final estimated basis = \$2840 deemed basis in surrendered shares					\$2840
Nominee2	Week4	Not listed on SPR	8		
	Week21	250	10	<u>Initial estimated basis:</u> 250 shares reported x \$10 vol wtd avg closing price per share = \$2500	
	Week34	250	11	No change in holdings.	
	Week48	200	12	Reported shares decreased (250 to 200). Average cost of shares: \$2500/250=\$10; 50 shs @\$10/sh = \$500 <u>Adjusted estimated basis:</u> \$2500-500=\$2000	
	Week60	200	10	No change in holdings.	
	Week72	300	12	Reported shares increased (200 to 300). +100shs @\$12/sh=\$1200 <u>Adjusted estimated basis:</u> \$2000+1200=\$3200	
	Week80	300	14	No change in holdings.	
	Week104	150	16	Reported shares decreased (300 to 150). Average cost of shares: \$3200/300=\$10.67; 150shs @\$10.67/sh=\$1600 <u>Adjusted estimated</u>	\$1867

\$1930 aggregate adjusted estimated basis /150 shares = \$12.87 per share final estimated basis					
100 shares surrendered x \$12.87 per share final estimated basis = \$1287 deemed basis in surrendered shares					
175 shares surrendered x \$10.67 per share final estimated basis = \$1866 deemed basis in surrendered shares					
Nominee3	Week4	Not listed on SPR	8		
	Week21	Not listed on SPR	10		
	Week34	75	11	This is not Nominee3's first measuring date because Nominee3 does not appear on Target SPRs continuously to last measuring date	
	Week48	75	12		
	Week60	Not listed on SPR	10		
	Week72	100	12	<u>Initial estimated basis:</u> 100 shares reported x \$12 vol wtd avg closing price per share = \$1200	
	Week80	135	14	Reported shares increased (100 to 135) +35 shs @\$14/sh = \$490 <u>Adjusted estimated basis:</u> \$1200+490=1690	
	Week104	150	16	Reported shares increased (135 to 150): +15 shs @\$16/sh = \$240 <u>Adjusted estimated basis:</u> \$1690+240=1930	\$1287

Nominee4	Week4	50	8		
	Week21	50	10		
	Week34	100	11		
	Week48	Not listed on SPR	12		
	Week60	100	10		
	Week72	150	12		
	Week80	200	14		
	Week104	Not listed on SPR	16	No initial estimated basis can be determined (Nominee4 holds no shares on the SPR immediately preceding the transaction date)	
\$0 aggregate adjusted estimated basis/0 shares = \$0 per share final estimated basis					\$0
100 shares surrendered x \$0 per share final estimated basis = \$0 deemed basis in surrendered shares					
Nominee5	Week4	Not listed on SPR	\$8		
	Week21	Not listed on SPR	\$10		
	Week34	Not listed on SPR	\$11		
	Week48	50	\$12		
	Week60	50	\$10		
	Week72	Not listed on SPR	\$12		
	Week80	200	\$14	<u>Initial estimated basis:</u> 200 shares reported x \$14 vol wtd avg	

				closing price per share = \$2800	\$1800
	Week10 4	250	\$16	Reported shares increased (200 to 250): +50 @ \$16 = \$800 <u>Adjusted estimated basis:</u> \$2800 + 800 = \$3600	
	\$3600 aggregate adjusted estimated basis/250 shares = \$14.40 per share final estimated basis				
125 shares surrendered		x \$14.40 per share final estimated basis = \$1800 deemed basis in surrendered shares			

Computation of Section 4.04 per share modeled basis (common shares):

Nominee shareholder	Per share final estimated basis	Surrendered shares	Deemed basis in surrendered shares
Nominee1	11.36	250	\$2840
Nominee2	10.67	175	\$1867
Nominee3	12.87	100	\$1287
Nominee4	0	100	\$0
Nominee5	14.40	125	\$1800
Total deemed basis in surrendered shares			\$7794
Total number of surrendered shares			750
Section 4.04 per share modeled basis			\$10.39
Section 4.04 per share modeled basis x 92% (100/109, the SPR ratio) = Allowable basis for each Section 4.04 Eligible Share			\$9.56

ALLOCATION OF ALLOWABLE BASIS TO SECTION 4.04 ELIGIBLE SHARES

Surrendering shareholder	Allowable basis per share	Surrendered Section 4.04 Eligible shares	Aggregate allowable basis
Nominee1	\$9.56	200	\$1912
Nominee2	\$9.56	175	\$1673
Nominee3	\$9.56	0	\$0
Nominee4	\$9.56	100	\$956
Nominee5	\$9.56	125	\$1195

Notes:

Nominee1. As noted above, the basis of 50 of the 250 shares surrendered by Nominee1 was reported by Employee Plan1 and so was not determined under the Section 4.04 model.

Nominee3. As noted above, Acquiring did not satisfy the requirements to determine its basis in the shares surrendered by Nominee3 under this revenue procedure. Thus, there is no basis allowable under the model; however, Acquiring may establish its bases in those shares under such other method as agreed to by the Service.

SUMMARY
BASIS DETERMINED UNDER REVENUE PROCEDURE
(SPR DATA)

Surrendering shareholder	Applicable method	Allowable basis	Shares surrendered	Total allowable basis under revenue procedure
Preferred shares (100 outstanding):				
Officer	Cannot be established under this revenue procedure	TBD under procedures as agreed to by Service	20	\$0
Employee Plan1	Actual, as determined by Target's records	\$5/share (\$10 issue price reduced by \$5 §301(c)(2) distribution)	30	\$150
Employee Plan2	Actual, as determined by Target's records	\$36/share	50	\$1800
Total basis in preferred shares				\$1950
Common shares (1000 outstanding):				
Employee Plan1	As reported in survey, 4.01	\$12/share	50	\$600
Individual A	As reported in survey, 4.01	\$13/share	10	\$130
Individual B	4.03	\$9/share	10	\$90
Individual C	4.03	\$9/share \$12/share	25 25	\$525

Individual D	Cannot be established under this revenue procedure	TBD under procedures as agreed to by Service	50	\$0
Individual E	4.03	\$12/share	50	\$600
Director A	4.03	\$12/share	30	\$360
Private Placement	4.03	\$12/share	50	\$600
Nominee1	4.04	\$9.56/share	200	\$1912
Nominee2	4.04	\$9.56/share	175	\$1673
Nominee3	Cannot be established under this revenue procedure	TBD under procedures as agreed to by Service	100	\$0
Nominee4	4.04	\$9.56/share	100	\$956
Nominee5	4.04	\$9.56/share	125	\$1195
Total basis in common shares				\$8,641
Total number of shares (preferred plus common) surrendered				1100
Total basis in all shares				\$10,591