



Information  
Regarding  
Your 2006  
Consolidated  
1099 Tax  
Reporting  
Statement

## How To Use Your 1099

This brochure is to be used in conjunction with your 2006 consolidated 1099 tax reporting statement from Legent Clearing LLC (Legent).

In certain situations, the information presented exceeds IRS reporting requirements and provides valuable information to assist in the preparation of your income tax return. If you engage a tax professional to prepare your tax returns, you should forward this statement to that adviser. Information contained on your Dec. 31 brokerage statement may also be helpful in preparation of your tax return.

Your consolidated 1099 summarizes and details the 2006 investment income earned on the various securities in your Legent account. This statement includes tax information for the following IRS information returns:

1099-DIV	Dividends & Distributions
1099-INT	Interest Income
1099-OID	Original Issue Discount
1099-MISC	Miscellaneous Income
1099-B	Proceeds from Broker Transactions

### 1099-DIV

Dividends are distributions of money, stock or other property paid to you by a corporation. You also may receive dividends through a partnership, an estate, a trust or an association that is taxed as a corporation. You may receive any of the following kinds of distributions:

- Ordinary dividends
- Capital gain distributions
- Nontaxable distributions

The amount indicated on the Tax Information Statement reflects dividends paid to you during 2006. Dividend information is reported to the IRS in total. Any other information presented on this statement is provided to you to aid in preparing your income tax return.

Certain dividend payments represent nontaxable distributions, as they are a return of capital. After you have received an amount equal to your cost, or other basis, further distributions are taxable to you as capital gain distributions even if the payer lists them as nontaxable. Please review your dividends carefully to determine if any amounts received represent a return of capital.

In addition, there are certain corporate distributions where the tax status has not been fully established by the paying corporation at the time of our reporting deadline. If the tax status of such items has not been determined, we must report the distribution as fully taxable. Please contact your income tax adviser or Investment Consultant for further information if you have such dividends.

Any dividend or interest claims you may have paid to us are not reflected in amounts reported. You should report these amounts on IRS Form 1040, Schedule B, "Interest and Dividend Income" as a reduction in Dividend Income. Identify this reduction of dividend income as "Dividend or Interest Claims Paid to Broker."

### Notice to Holders of Publicly Traded Master Limited Partnerships

Customers who owned interests in publicly traded Master Limited Partnerships will receive their tax information directly from the partnership on IRS Schedule K-1 (Form 1065), "Partner's Share of Income, Credits, Deductions, etc." General Partners have until March 15 to issue K-1s. Please contact the partnership directly if you do not receive this form.

Cash distributions from the partnerships credited to your account by us are not required to be reported by us to the Internal Revenue Service on the Tax Information Statement. However, if you disposed of your interest in a Master Limited Partnership through us, that sale is reflected as gross proceeds in the 1099-B section of the Tax Information Statement.

**1099-INT INTEREST INCOME**

The amounts indicated on the attached Tax Information Statement reflect total taxable interest paid to you during 2006. Discount on Treasury bills and other short-term debt instruments maturing in 2006 are included in interest income. Accrued interest on notes and bonds purchased between interest payment dates is not included in 1099 information reported to the IRS. This amount should, however, be reflected on IRS Form 1040 Schedule B "Interest and Dividend Income" as a reduction of interest income. Identify this reduction of interest income as "Accrued Interest Purchased," which can be found under "Miscellaneous Information Totals" in the nonreportable to IRS section of your consolidated statement.

**1099-OID ORIGINAL ISSUE DISCOUNT**

Original Issue Discount (OID) is the excess of an obligation's stated redemption price at maturity over its issue price (acquisition price for a stripped bond or coupon). OID is taxable as interest over the life of the obligation. If you are the holder of an OID obligation, generally you must include an amount of OID in your gross income each year you hold the obligation. Obligations that may have OID include a bond, debenture, note, certificate or other evidence of indebtedness having a term of more than one year. For example, the OID rules may apply to certificates of deposit (CDs), time deposits, bonus savings plans and other deposit arrangements, especially if the payment of interest is deferred until maturity. In addition, the OID rules apply to Treasury inflation-indexed securities. However, OID on Treasury obligations is exempt from state and local income taxes.

In certain circumstances, an adjustment to the amount of Original Issue Discount reported may be required. See IRS Publication 1212, List of Original Issue Discount Instruments, or consult your tax adviser for guidance in making this computation.

OUR 2006 LEGENT CLEARING 1099 CONSOLIDATED STATEMENT

LEGENT CLEARING 2006  
 9300 UNDERWOOD AVE. SUITE 400  
 OMAHA, NE 68114  
 Federal ID. No: 77-0616739

REP ACCOUNT	PAGE
C272 99-99999	1 OF 2
TAXPAYER ID: 999-99-9999	

JOSEPH A SAMPLE JR  
 12345 SAMPLE STREET  
 ANYTOWN US 99999-9999

INVESTMENT BROKER:  
 CONNIE FRANCIS  
 #1 POPCHART LANE  
 MOTOWN, US 19560

CONTACT PHONE: (800) 555-1950

**THIS IS IMPORTANT TAX INFORMATION AND IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE. IF YOU ARE REQUIRED TO FILE A RETURN, A NEGLIGENCE PENALTY OR OTHER SANCTION MAY BE IMPOSED ON YOU IF THIS INCOME IS TAXABLE AND THE IRS DETERMINES THAT IT HAS NOT BEEN REPORTED.**

IRS BOX	1099-DIV — TOTALS FOR TAX YEAR 2006
SUBSTITUTE FOR IRS FORM 1099-DIV, OMB NO. 1545-0110	
1.	ORDINARY DIVIDENDS ..... \$0.00
2A.	TOTAL CAPITAL GAINS DISTRIBUTIONS ..... \$1000.00
2B.	UNRECAP SEC 1250 GAIN ..... \$0.00
2C.	SEC 1202 GAIN ..... \$0.00
2D.	COLLECTIBLES (28%) GAIN ..... \$0.00
2E.	SECTION 1202 GAIN ..... \$0.00
3.	NONTAXABLE DISTRIBUTIONS ..... \$0.00
4.	FEDERAL INCOME TAX WITHHELD ..... \$0.00
5.	INVESTMENT EXPENSES ..... \$0.00
6.	FOREIGN TAX PAID ..... \$2.00DR
8.	LIQUIDATION DISTRIBUTIONS ..... \$0.00

IRS BOX	1099-INT — TOTALS FOR TAX YEAR 2006
SUBSTITUTE FOR IRS FORM 1099-INT, OMB NO. 1545-0112	
1.	INTEREST INCOME NOT INCLUDED IN IRS BOX 3 ... \$805.02
3.	INTEREST ON U.S. TREASURY OBLIGATIONS ..... \$0.00
4.	FEDERAL INCOME TAX WITHHELD ..... \$0.00
6.	FOREIGN TAX PAID ..... \$0.00

IRS BOX	1099-OID — TOTALS FOR TAX YEAR 2006
SUBSTITUTE FOR IRS FORM 1099-OID, OMB NO. 1545-0117	
1.	ORIGINAL ISSUE DISCOUNT ..... \$33.36
2.	OTHER PERIODIC INTEREST ..... \$0.00
4.	FEDERAL INCOME TAX WITHHELD ..... \$0.00

IRS BOX	1099-MISC — TOTALS FOR TAX YEAR 2006
SUBSTITUTE FOR IRS FORM 1099-MISC, OMB NO. 1545-0115	
1.	RENTS ..... \$0.00
2.	ROYALTIES ..... \$566.11
3.	OTHER INCOME ..... \$0.00
4.	FEDERAL INCOME TAX WITHHOLDING ..... \$0.00
5.	FISHING BOAT PROCEEDS ..... \$0.00
6.	MEDICAL & HEALTH CARE PAYMENTS ..... \$0.00
7.	NON EMPLOYEE COMPENSATION ..... \$0.00
8.	SUBSTITUTE PAYMENTS ..... \$0.00

IRS BOX	1099-B — TOTALS FOR TAX YEAR 2006
SUBSTITUTE FOR IRS FORM 1099-B, OMB NO. 1545-0715	
2.	GROSS PROCEEDS LESS COMMISSIONS ON STOCK, BONDS, ETC..... \$180,660.36
4.	FEDERAL INCOME TAX WITHHELD ..... \$0.00

## **Real Estate Mortgage Investment Conduit (REMIC) & Collateralized Mortgage Debt Obligation (CMO)**

REMICs and other Collateralized Mortgage Obligations issued after 1986 represent a separate IRS tax-reporting requirement. Because of this special reporting, the IRS grants issuers of these instruments additional time to gather and calculate accrual information to REMIC and CMO owners. Tax information regarding REMICs will be mailed on or before **March 15**.

If you own a Real Estate Mortgage Investment Conduit (REMIC) or Collateralized Mortgage Obligation (CMO) security, the amount we are required to report as income will not be available until March 15, 2007. REMIC/CMO securities subject to delayed reporting will be identified on your original 1099. Any interest you have received on these types of securities is not reported on Form 1099-INT. All REMIC income will be included on the Form 1099-OID, REMIC Statement that will be issued in March. Your taxable income for the security will not be based on the actual interest payments you received during 2006, but will be based on the accrued interest earned during the year. If you own REMICs or CMOs, it is strongly recommended that you delay filing your tax returns until mid-March, after you receive your Form 1099-OID, REMIC Statement that explains the accrual calculation. Upon receipt of your Form 1099-OID, REMIC Statement in March, you will notice that the REMIC income is described as "OID" (Original Issue Discount). If you own a CMO that is not structured as a REMIC, your interest income will be included on your original Form 1099 sent to you in January. If the accrual interest rate cannot be obtained, the actual interest received will be reported on a corrected Form 1099-INT which will be mailed by March 15.

## **1099-B**

Proceeds from broker transactions identifies the gross proceeds (less commission) received from the disposition of securities including sales, redemptions, called bonds, returns of principal and other dispositions for cash. Proceeds information is reported to the IRS on an itemized basis. IRS Form 1040, Schedule D, provides for reconciliation between amounts included on your tax return and the amount we report to the IRS listed on the Tax Information Statement. The amount reported reflects gross proceeds net of transaction costs, such as commissions and SEC fees. It does not represent net profit. Security transactions are reported on a trade date basis; therefore, the Tax Information Statement includes dispositions having a 2005 trade date.

For bonds with accrued interest sold during the last week of the year, sale proceeds are reported in the year of the sale while the related accrued interest sold is reported in the year the trade settles. Accrued interest on notes and bonds sold between interest payment dates is not included in the 1099-B section; however, it is reported as part of interest income. Treasury bill and other short-term debt instrument sales are reported on this form, while discount on these securities maturing in 2006 is reported as part of interest income. Short sales are reported in the year the sale is executed and not in the year covered.

## **Recipient Acting as Nominee**

If your Taxpayer Identification Number is shown on the Tax Information Statement, and two or more recipients are shown on this statement or the statement includes amounts belonging to another person, you are considered a nominee recipient. See instructions on the back of the Tax Information Statement for further information on nominee reporting.

## **Backup Withholding**

Federal law requires that we withhold 28 percent federal income tax from sales proceeds and other taxable distributions (dividends, interest, etc.) when customers do not furnish us with a certified Taxpayer Identification Number (Form W-9 information) and confirmation that they are not subject to backup withholding. In addition, if the IRS cannot match the 1099 information with taxpayer data filed on individual income tax returns, backup withholding procedures may be initiated by the IRS.

Please check the Taxpayer Identification Number reflected on the Tax Information Statement to ensure it is not missing or incorrect. If more than one taxpayer is reflected, the Social Security Number should belong to the individual whose name is listed first. Promptly contact your Investment Consultant and submit a signed IRS Form W-9 if a correction is necessary.

## **Disclaimer**

We do not provide tax advisory services. We suggest that you consult your tax adviser to discuss the appropriate tax treatment of your transactions. This brochure and Tax Information Statement are intended to assist you in accumulating the data to prepare your income tax returns and are not to be construed as tax advice.

# Frequently Asked Questions

## **If I had a distribution from my retirement account, what should I receive?**

Distributions from retirement accounts are reported on Form 1099-R, which will be mailed separately.

## **Why would the income totals from my December statement disagree with my 1099?**

The totals from the December statement may be different from what is reported on your 1099 for several reasons:

- Constructive receipt of Mutual Funds/REITs. IRS regulations state that if a dividend is of record date in one year, but payable in the next tax year, that income is reportable in the record date tax year. Although you will see this income on your January or February statement, it is reportable in the prior tax year.
- Although our best efforts are always made, some items payable in late December may not be processed until early January. Therefore, you will see the entries on your Form 1099 and on your January statement. The items are taxable in the prior tax year and must be included on your Form 1099.
- If you owned a Treasury bill with a maturity of less than one year that was redeemed in 2006, the income will be reported as interest on your Form 1099-INT instead of as redemptions proceeds on the 1099-B.
- If you are the holder of a REMIC/CMO security, the amount of interest that you actually received during the year may have accrued at a different rate. Therefore, we are awaiting the rate data from the issuer and will issue a Form 1099-OID, REMIC Statement in mid-March. **Please refrain from filing your tax return until you have this information.**
- Interest from tax exempt municipal bonds is not reported to the IRS because it is federally tax exempt. However, the income may be subject to certain state reporting requirements. Gross proceeds from municipal bond sales or maturities are reported on your Form 1099-B.

## **What do I need to know about tax reporting for my limited partnership?**

Tax information for a limited partnership is reported to you on a Schedule K-1 form prepared and distributed by the partnership itself, usually by March 15. **Do not file your tax return until you receive your K-1.**

## **How do I report short sales?**

Stock sold short is reported in the form 1099-B section of your Consolidated 1099. The short sale transaction must be reported to the IRS even though the position may not be closed out. If not covered during 2006, you should report the short sale transaction on Schedule D (Form 1040), line 1, and attach a statement explaining that the transaction represents a short position that has not been covered. For positions sold "short against the box" (short sale of a security you already own), you must generally recognize gain (but not loss) on the date you entered the short position as if it were disposed of at the fair market value on that date. You should contact your tax adviser to determine how to report your short against the box.

## **I had income during the year. Why did I not receive a 1099 for all of my Legent accounts?**

- If the security was registered in your name, the 1099 would come from the agent, not Legent. You need to contact the agent to request a duplicate copy.
- If you are a certified non-resident alien, you will receive a Form 1042-S reflecting income earned in 2006.
- You may be exempt from 1099 reporting. IRA accounts, incorporated entities, and institutional accounts are examples of "exempt" accounts.
- You may have moved and not provided a change of address. If this is the case, please inform us so we can make the change and issue a Corrected 1099.

## **The tax identification number, name or address on my Consolidated 1099 is incorrect. How can I get it corrected?**

Contact your Investment Consultant at the number listed on your Consolidated 1099 and notify him or her of the change. You may be required to complete a new W-9 Form to correct your tax identification number.

## **Where can I get IRS tax forms and publications?**

You can contact the IRS directly to order IRS tax forms and publications by calling 1-800-829-3676 or visit their website at [www.irs.gov](http://www.irs.gov). The IRS also provides a toll-free telephone number for taxpayer assistance, which is 1-800-829-1040. Most public libraries and U. S. Post Offices also offer forms.

## **When will I receive a 1099 for my IRA account?**

Traditional, SEP, Roth, and Simple IRAs will receive a 1099-R only if distributions were received in 2006. Clients who converted from a Traditional to a Roth IRA, or recharacterized from a Roth to a Traditional IRA, will receive a 1099-R as well. Dividends, interest and gross proceeds incurred within IRA and retirement accounts are exempt from 1099-R reporting. All 1099-Rs will be produced and mailed by Delaware Charter.

## **What is foreign tax withheld and where is it reported on my 1099?**

Foreign tax can be withheld by the foreign entity on foreign securities and on mutual funds that invest in foreign securities. The amount of "Foreign Tax Paid" is reported on the 1099-DIV for dividends and the 1099-INT for interest.

## **Why is income from REMIC/CMOs not provided until March?**

The IRS requires REMIC/CMO investors to report a different income rate for each accrual period. The rate is based on specific prepayments, to which only an issuer has access. The IRS has allowed issuers an extended time frame (mid-March) in which to provide the information to the payers. Therefore, if you own a REMIC/CMO issue, you should delay filing a tax return until the receipt of a Form 1099-OID, REMIC Statement in mid-March.

*PLEASE NOTE: For holders of CMOs issued in REMIC form, the interest that you received during the year will not be included on the Original Form 1099. The REMIC securities subject to OID reporting will be identified on your original 1099. Interest income accrued will be included on the Form 1099-OID, REMIC Statement that you receive in March.*

## **Can I deduct commissions?**

Commissions paid to purchase securities are not tax-deductible; instead they are added to the purchase price to

determine cost basis. Commissions paid upon sale are subtracted from the sale price to determine the gross proceeds as reported on the 1099-B.

## **Can I take a deduction for my margin/loan interest?**

Interest that is paid during the calendar year on margin loans may be deductible as investment interest if the loan can be traced to the purchase or maintenance of a taxable investment. If deductible, the amount is treated as an itemized deduction. Please consult your tax professional.

## **What if I have more questions regarding my Consolidated 1099 statement?**

Please feel free to call your Investment Firm should you have any questions.

**This tax information brochure is provided for your general guidance. It is not intended to be, nor should it be construed as, the basis for tax advice. Investors should consult their tax adviser before implementing specific strategies. While we are not able to provide personal tax advice, Legent is committed to serving you, our valued client, during tax season as well as throughout the year.**