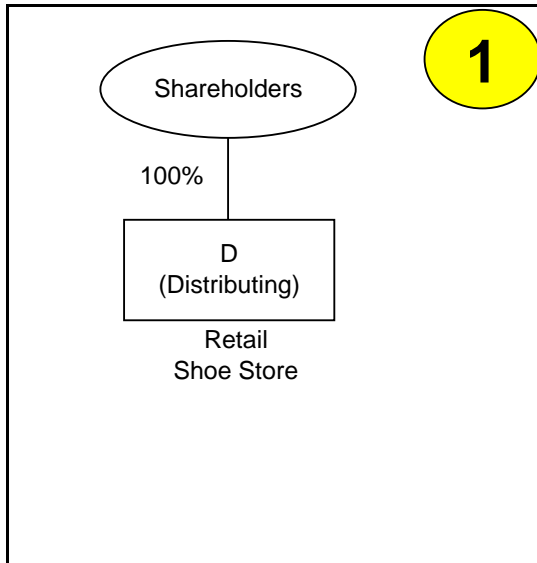
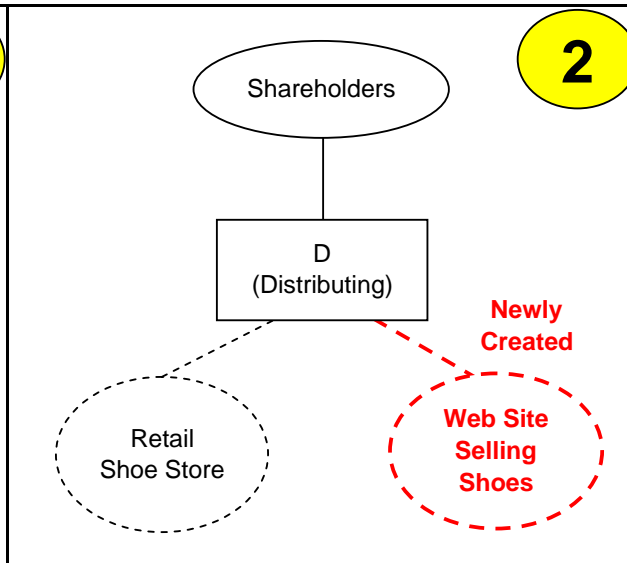


**Spin-Off -- Expansion & Horizontal  
Division -- Internet**

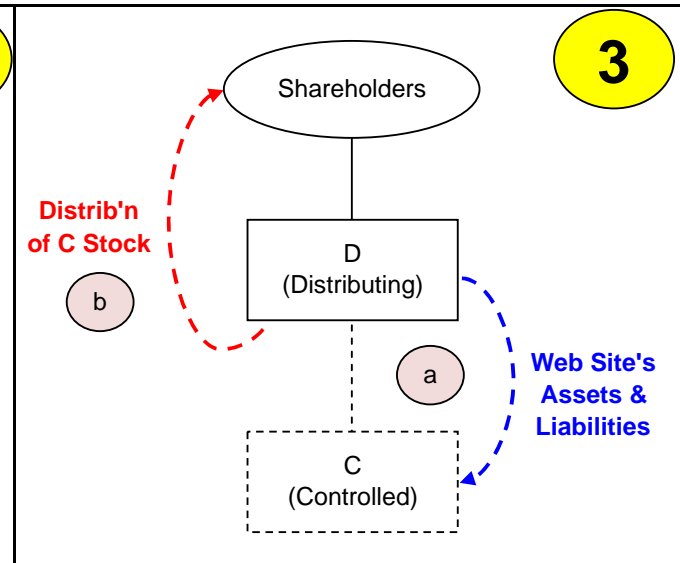
**Initial Structure**



**Web Site Creation**



**Contribution/ Spin-Off**



For more than five years, D has engaged in the active conduct of operating a retail shoe store business, under the name D. Throughout this period, D's sales are made exclusively to customers who frequent its retail stores in shopping malls and other locations. D's business enjoys favorable name recognition, customer loyalty, and other elements of goodwill in the retail shoe market. D creates an Internet web site and begins selling shoes at retail on the web site. To a significant extent, the operation of the web site draws upon D's existing experience and know-how. The web site is named "D.com" to take advantage of the name recognition, customer loyalty, and other elements of goodwill associated with D and the D name and to enhance the web site's chances for success in its initial stages. Eight months after beginning to sell shoes on the web site, D transfers all of the web site's assets and liabilities (all of which include the significant assets and goodwill associated with the web site's business) to new subsidiary C and distributes the C stock to the D shareholders. The product of the retail shoe store business and the product of the web site are the same (shoes), and the principal business activities of the retail shoe store business are the same as those of the web site (purchasing shoes at wholesale and reselling them at retail). Although selling shoes on a web site requires some know-how not associated with operating a retail store, such as familiarity with different marketing approaches, distribution chains, and technical operations issues, the web site's operation does draw to a significant extent on D's existing experience and know-how, and the web site's success will depend in large measure on the goodwill associated with D and the D name. Therefore, the creation by D of the Internet web site does not constitute the acquisition of a new or different business. Accordingly, it is an expansion of D's retail shoe store business, all of which is treated as having been actively conducted throughout the pre-distribution period. Therefore, D and C both satisfy the requirements of section 355(b).

**Ending Point**

