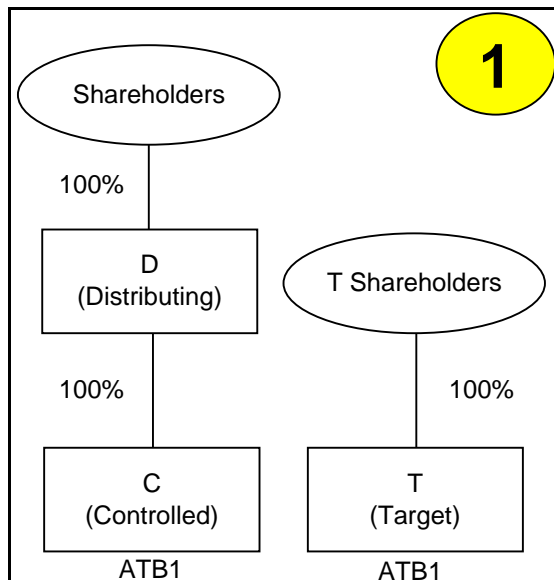
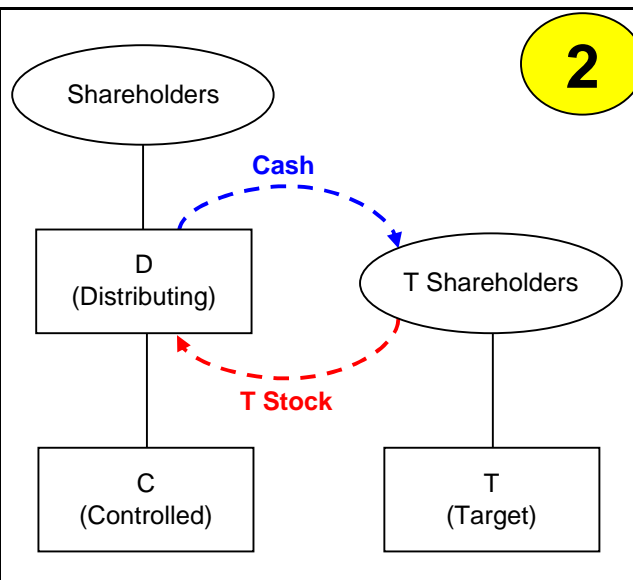


**Expansion - Acquiring
A SAG Member**

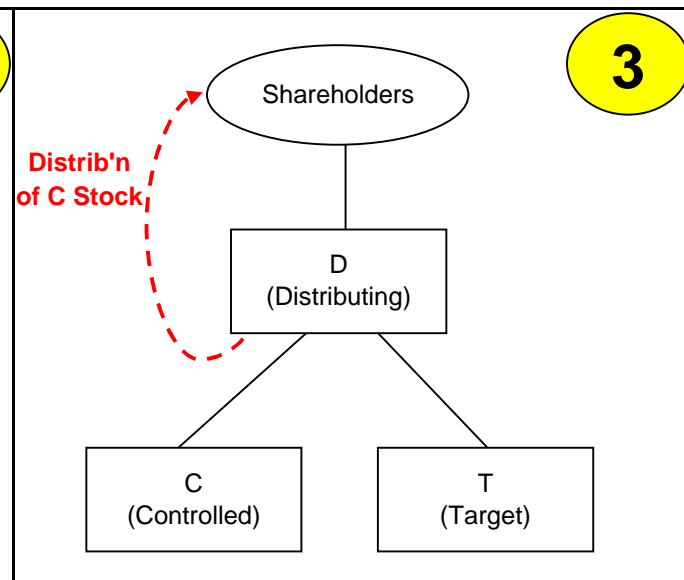
Initial Structure



Purchase of Target (Year 6)



Spin-Off



For more than five years, D has owned all of the stock of C. Throughout this period, C and unrelated T have engaged in the active conduct of ATB1. In year 6, D purchases all of the T stock. In year 8, D distributes all of the C stock to the D shareholders. Throughout the period that C is a DSAG member, D is engaged in the active conduct of ATB1. Moreover, because D acquired section 1504(a)(2) stock of T, D is treated as having acquired T's assets (and activities), and that acquisition constitutes an expansion of ATB1. Therefore, D and C both satisfy the requirements of section 355(b). The result would be the same if D had owned all of the T stock for more than five years, and purchased all of the C stock in year 6.

Ending Point

