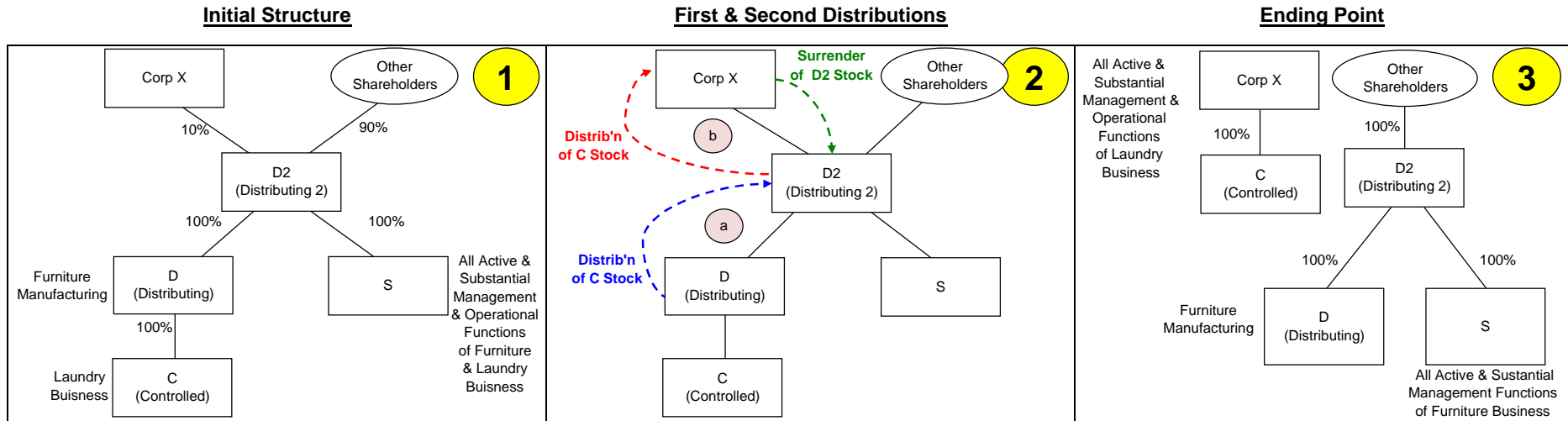


**Spin-Off & Split-Off --
Separated Management Functions**



For more than five years, X has owned 10 percent of the stock of D2, D2 has owned all the stock of D and S, and D has owned all the stock of C. Throughout this period, D has manufactured furniture that it sells to furniture stores and has been the principal owner of the goodwill and significant assets associated with that business and C has owned and operated a laundry business and has been the principal owner of the goodwill and significant assets associated with that business. Throughout this period, however, employees of S have performed all the active and substantial management and operational functions of the furniture business for D and the laundry business for C. D distributes the C stock to D2 (first distribution) and D2 distributes the C stock to X in exchange for all of X's D2 stock (second distribution). After the distributions, employees of X perform all the active and substantial management and operational functions of the laundry business for C that the employees of S performed before the distributions and the employees of S continue to perform the same activities for D as they did before the distributions.

First distribution. In determining whether the furniture manufacturing business and laundry business have been actively conducted throughout the pre-distribution period and immediately after the first distribution, the activities performed for those businesses include activities performed by employees of affiliates of D and C (even if they are not DSAG or CSAG members). Accordingly, such activities include the activities performed by the employees of S for D and C. D and C own the goodwill and significant assets associated with their respective businesses both throughout the pre-distribution period and immediately after the first distribution, and are treated as performing active and substantial management and operational functions for their respective businesses both throughout the pre-distribution period and immediately after the first distribution. Therefore, D and C both satisfy the requirements of section 355(b) with respect to the first distribution.

Second distribution. Because D2 owns section 1504(a)(2) stock of D, C, and S (and D owned section 1504(a)(2) stock of C before the first distribution), D2, D, C, and S are D2 SAG members throughout the pre-distribution period with respect to the second distribution. Accordingly, D2, D, C, and S are treated as one corporation for purposes of determining whether D2 is engaged in an active trade or business with respect to the second distribution. Accordingly, for purposes of the second distribution, D2 has been engaged in the furniture manufacturing business and the laundry business throughout the pre-distribution period. Further, for purposes of the second distribution D's distribution of the C stock to D2 is disregarded because it is between D2 SAG members. D and S continue to be D2 SAG members immediately after the second distribution. Accordingly, D2 is engaged in the furniture manufacturing business immediately after the second distribution. In determining whether C is engaged in the active conduct of a trade or business immediately after the second distribution, the activities performed for the laundry business include activities performed by employees of affiliates of C (even if they are not CSAG members). Accordingly, immediately after the second distribution, such activities include the activities performed for C by the employees of X. C owns the goodwill and significant assets associated with the laundry business both throughout the pre-distribution period and immediately after the second distribution, and is treated as performing active and substantial management and operational functions both throughout the pre-distribution period and immediately after the second distribution. Therefore, D2 and C both satisfy the requirements of section 355(b) with respect to the second distribution.