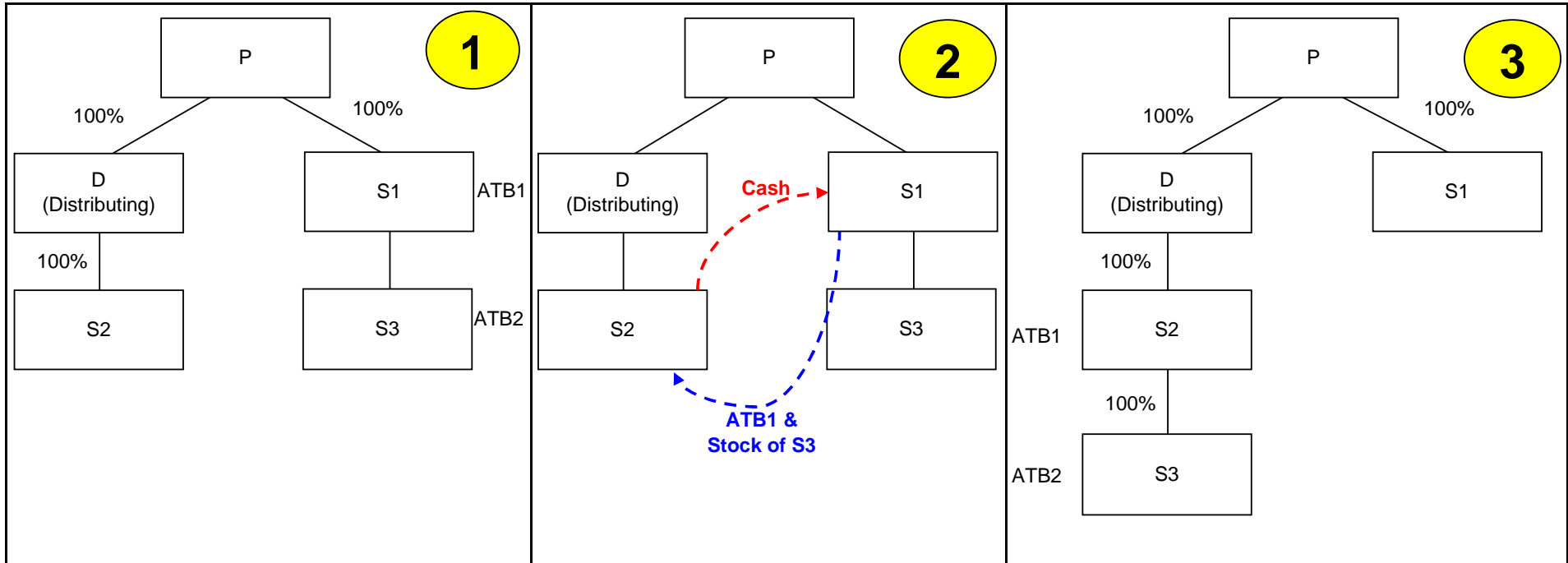


Purchase of ATB From Related Affiliate Member

Initial Structure

Purchase (Year 6)

Ending Point



For more than five years, P has owned all of the stock of D and S1, and D and S1 have owned all of the stock of S2 and S3, respectively. Throughout this period, S1 and S3 have engaged in the active conduct of ATB1 and ATB2, respectively. In year 6, S2 purchases ATB1 and all of the S3 stock from S1 on the same day. In year 6, the DSAG acquired ATB1 and ATB2 (as a result of S3 becoming a DSAG member) in a transaction in which gain or loss was recognized. Accordingly, if D were to make a distribution, it could not rely on ATB1 or ATB2 to satisfy the requirements of section 355(b) unless the DSAG's year 6 acquisition of ATB1 and ATB2 is not in the pre-distribution period. The fact that S2 acquired ATB1 and the S3 stock from an affiliate is not relevant.