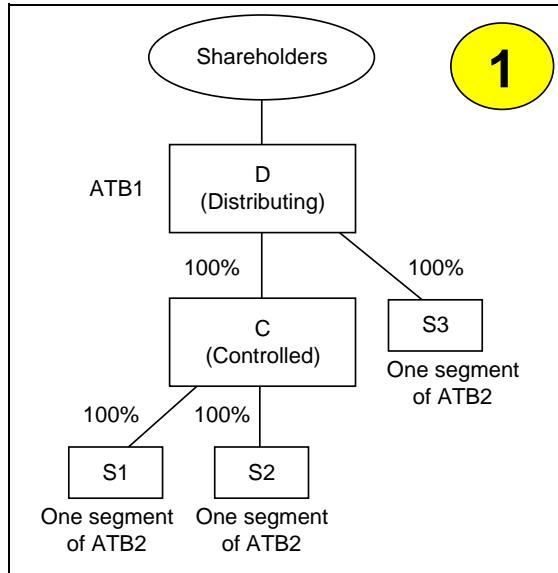
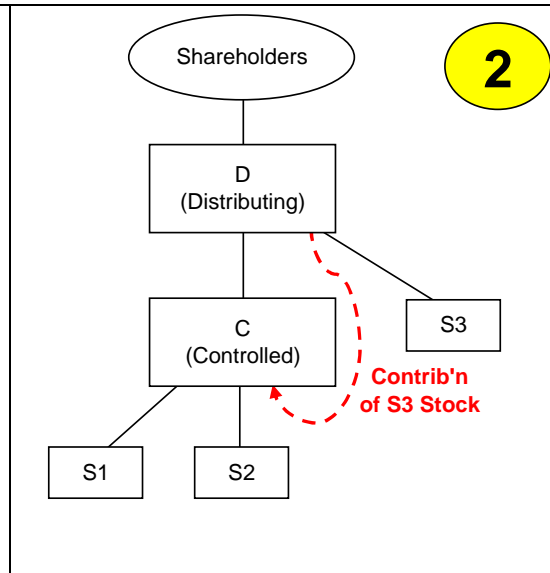


**Spin-Off - Segmented
DSAG Business**

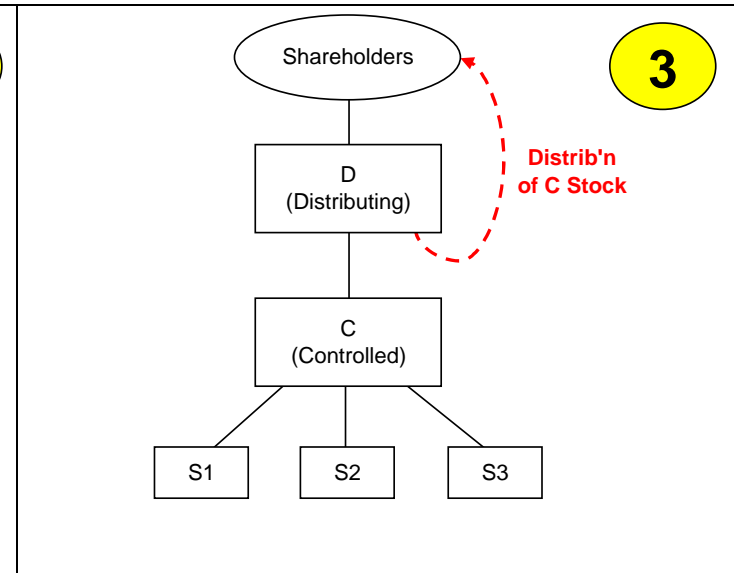
Initial Structure



Contribution (Year 6)



Spin-Off (Year 6)



For more than five years, C has owned all the stock of S1 and S2. Throughout this period, D has engaged in the active conduct of ATB1 and D has owned all the stock of S3. Throughout this same period, S1, S2, and S3 have each engaged in a different essential segment of ATB2. While the three segments of ATB2 would together constitute the active conduct of a trade or business, none of S1, S2, or S3 would be considered engaged in the active conduct of an ATB individually. In year 6, D distributes the C stock to the D shareholders. D transfers the S3 stock to C immediately prior to the distribution. Prior to D's transfer of the S3 stock to C, D owns section 1504(a)(2) stock of S3 and C, and C owns section 1504(a)(2) stock of S1 and S2. Therefore, D, C, S1, S2, and S3 are DSAG members. D, C, S1, S2, and S3 are treated as one corporation for purposes of determining whether D and C are engaged in the active conduct of a trade or business, and accordingly the transfer of the S3 stock to C is disregarded. After the transfer, C owns section 1504(a)(2) stock of S3, and the CSAG includes C, S1, S2, and S3. C, S1, S2, and S3 are treated as one corporation for purposes of determining whether C is engaged in the active conduct of a trade or business. Throughout the pre-distribution period, D, C, S1, S2, and S3 are treated as one corporation and both D and C are engaged in the active conduct of ATB1 and ATB2. Immediately after the distribution, D is engaged in the active conduct of ATB1 and C is engaged in the active conduct of ATB2. Because D and C were engaged in the active conduct of ATB1 and ATB2 throughout the pre-distribution period and, immediately after the distribution, D is engaged in the active conduct of ATB1 and C is engaged in the active conduct of ATB2. D and C both satisfy the requirements of section 355(b).

Ending Point

