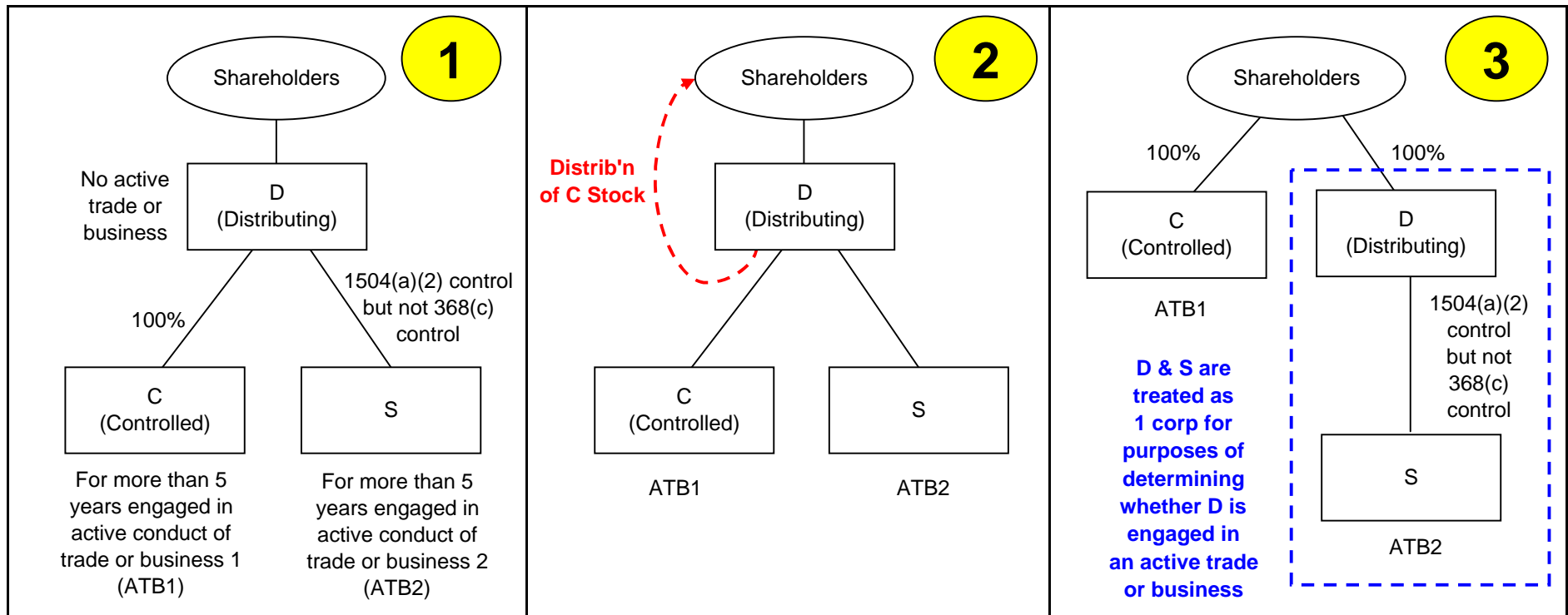


Initial Structure

Spin-Off

Ending Point



For more than five years, D has owned 100% of C stock and D has owned section 1504(a)(2) stock [but not section 368(c) stock] of S. Throughout this period, C and S have engaged in the active conduct of ATB1 and ATB2, respectively. In year 8, D distributes the C stock to the D shareholders. Because D owns section 1504(a)(2) stock of S, S is a DSAG member (distributing separate affiliated group member). D and S are treated as one corporation for purposes of determining whether D is engaged in an active trade or business. Therefore, D is engaged in the active conduct of ATB2 both throughout the pre-distribution period and immediately after the distribution. Accordingly, D and C both satisfy the requirements of section 355(b).