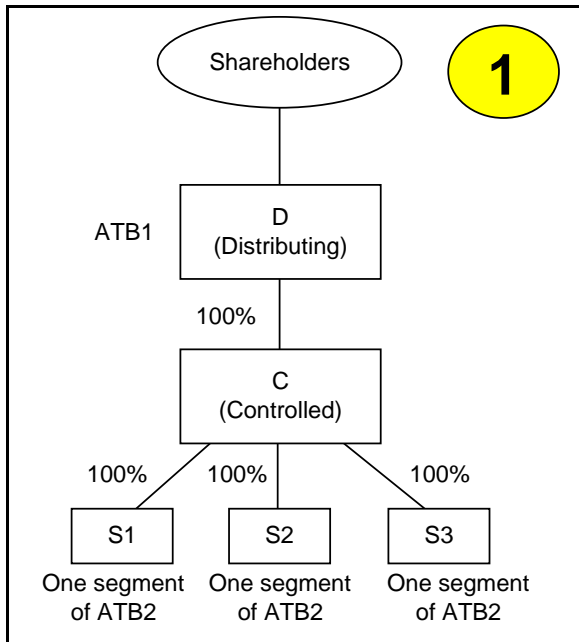
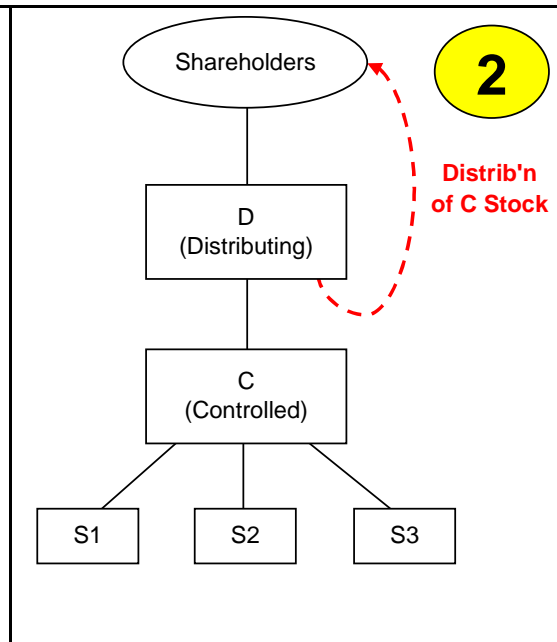


**Spin-Off - Segmented CSAG Business**

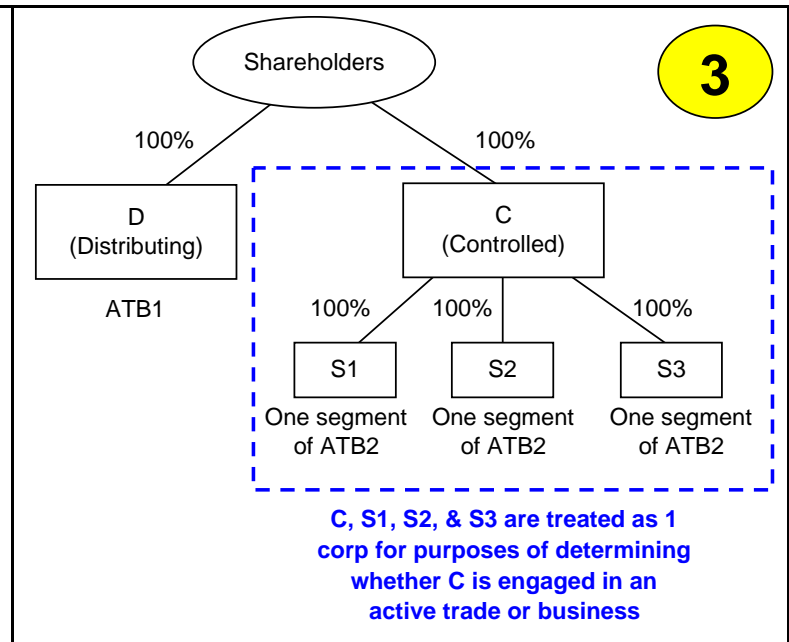
**Initial Structure**



**Spin-Off (Year 6)**



**Ending Point**



For more than five years, C has owned all the stock of S1, S2, and S3. Throughout this period, D has engaged in the active conduct of ATB1. 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. C owns section 1504(a)(2) stock of S1, S2, and S3. Therefore, C, S1, S2, and S3 are CSAG members. 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. Therefore, C 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).