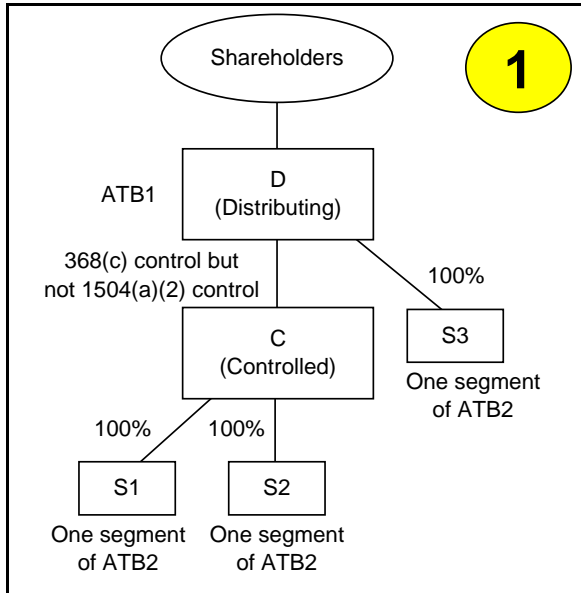
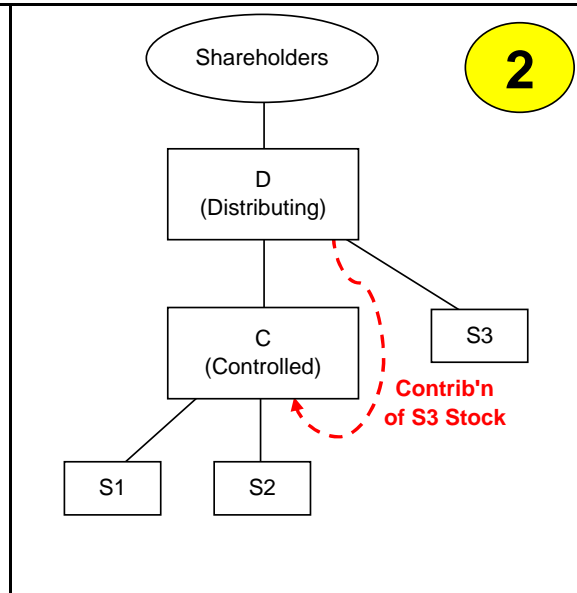


Spin-Off - Failed Segmented Business

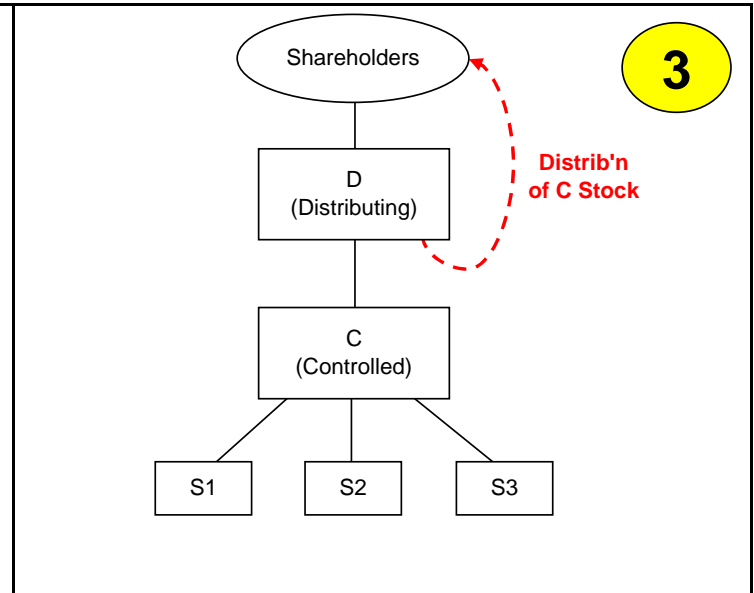
Initial Structure



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. D has also owned 368(c) stock but not 1504(a)(2) of C. 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, the DSAG includes only D and S3, and the CSAG includes only C, S1, and S2. Therefore, prior to the transfer of the S3 stock, ATB2 does not exist because no one SAG conducts all three of the essential segments of the trade or business. Accordingly, C does not satisfy the requirements of section 355(b) because ATB2 was not actively conducted throughout the pre-distribution period.

Ending Point

