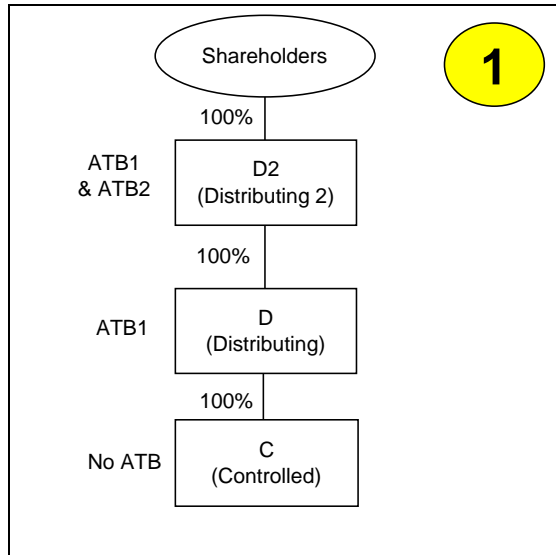
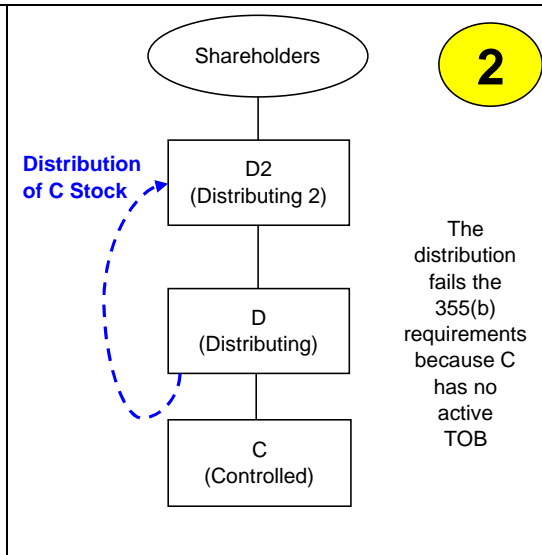


**Double Spin-Off:  
One Qualifies**

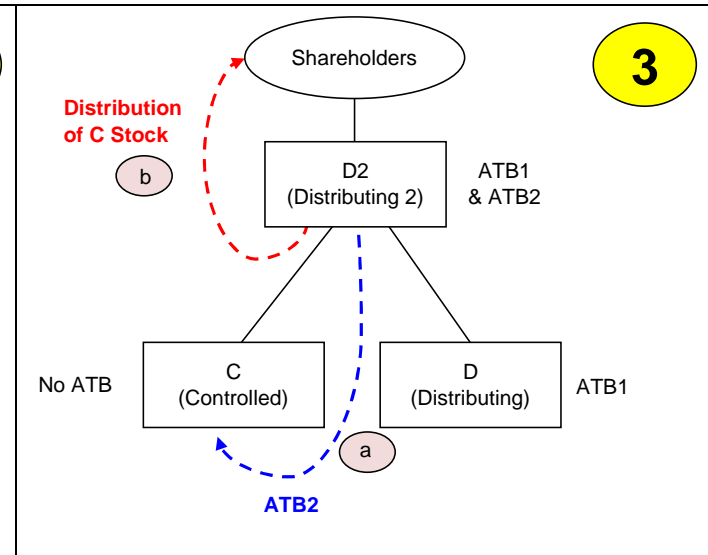
**Initial Structure (Years 1-5)**



**First Distribution (Year 6)**



**Second Distribution (Year 6)**



For more than five years, D2 has owned all of the stock of D, and D has owned all of the stock of C. Throughout this period, D2 has engaged in the active conduct of ATB1 and ATB2, and D has engaged in the active conduct of ATB1. C, individually, has not engaged in the active conduct of any ATB. In year 6, D distributes all of the C stock to D2 (first distribution). Immediately thereafter, D2 transfers ATB2 to C and distributes all of the C stock to the D2 shareholders (second distribution).

**First distribution.** Because D owns section 1504(a)(2) stock of C, C is a DSAG member prior to the first distribution. D and C are treated as one corporation for purposes of determining whether D and C are engaged in the active conduct of a trade or business with respect to the first distribution. Accordingly, throughout the pre-distribution period, D and C are each treated as engaged in ATB1 with respect to the first distribution. However, for purposes of determining whether D's distribution of the C stock to D2 satisfies the requirements of section 355(b) immediately after the first distribution, C is the only CSAG member (D2 is not a member of any SAG with respect to the first distribution). Accordingly, C does not satisfy the requirements of section 355(b) with respect to the first distribution because C is not engaged in the active conduct of an ATB immediately after the first distribution.

**Second distribution.** Because D2 owns section 1504(a)(2) stock of D and C (and D owned section 1504(a)(2) stock of C before the first distribution), D2, D, and C are D2 SAG members throughout the pre-distribution period with respect to the second distribution. Further, for purposes of the second distribution D's distribution of the C stock to D2 is disregarded because it is between D2 SAG members. D2, D, and C are treated as one corporation for purposes of determining whether D2 and C are engaged in the active conduct of a trade or business with respect to the second distribution. Accordingly, throughout the pre-distribution period, D2 and C are each treated as engaged in the active conduct of ATB1 and ATB2 with respect to the second distribution. The transfer of ATB2 to C is disregarded because it is between D2 SAG members. Immediately after the second distribution, C is engaged in the active conduct of ATB2. Therefore, D2 and C both satisfy the requirements of section 355(b) with respect to the second distribution.

**Ending Point**

