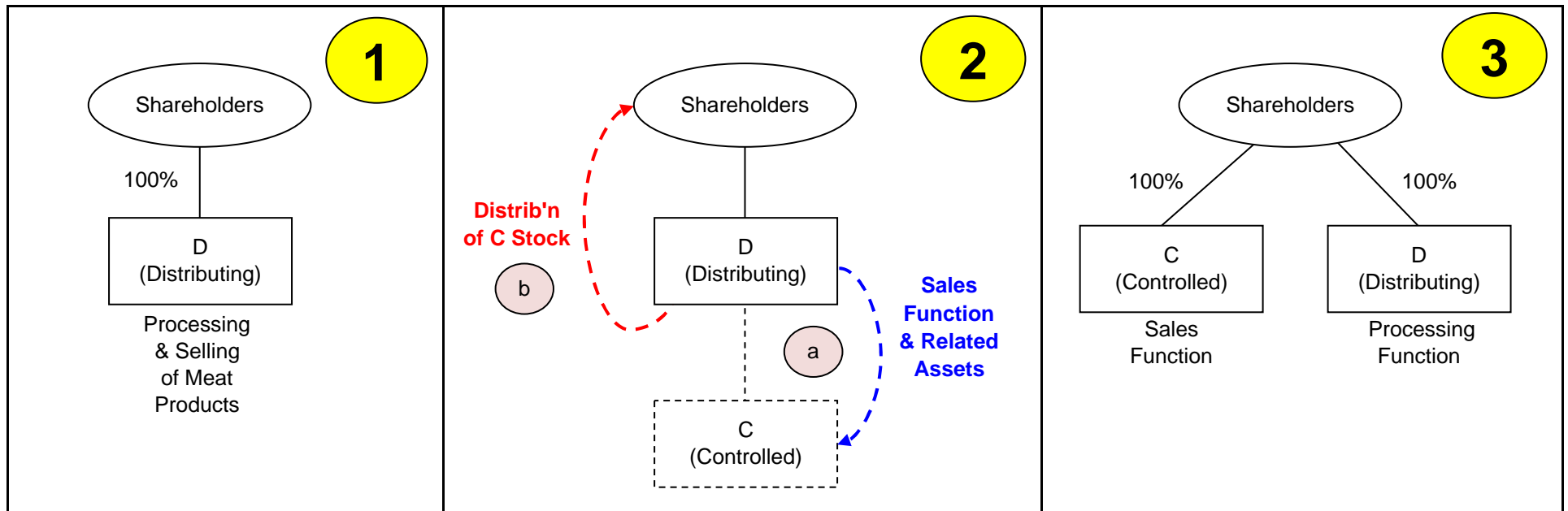


**Spin-Off -- Horizontal
 Division-- Research**

Initial Structure

Contribution / Spin-Off

Ending Point



For more than five years, D has engaged in the active conduct of processing and selling meat products. D derives income from no other source. D separates the sales function from the processing function by transferring the significant business assets related to the sales function, the goodwill associated with the sales function, and cash for working capital to new subsidiary C. D then distributes the C stock to the D shareholders. After the distribution, C purchases for resale the meat products processed by D. D and C both satisfy the requirements of section 355(b). However, see §1.355-2(d)(2)(iv)(C) (related function device factor) for possible evidence of device.