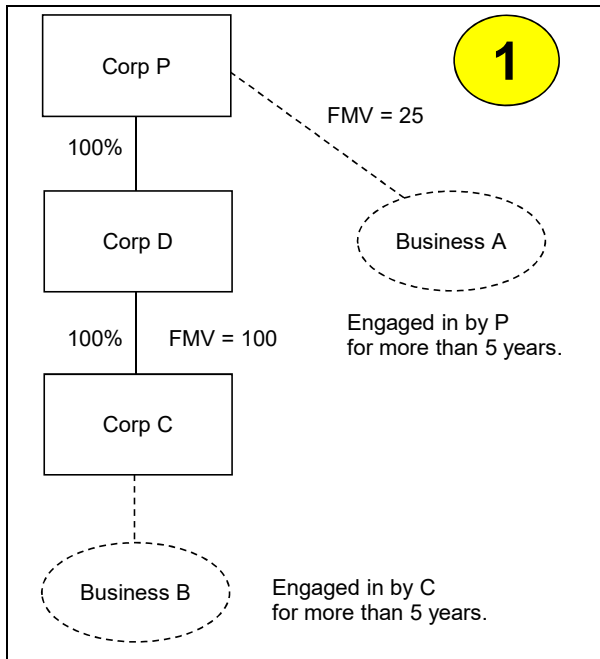
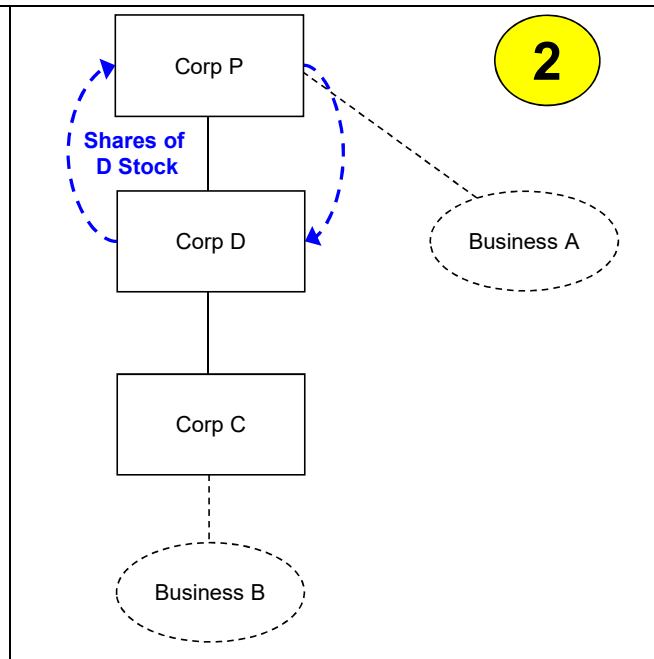


**351 Exchange (South)
Followed By Spin-Off (North)**

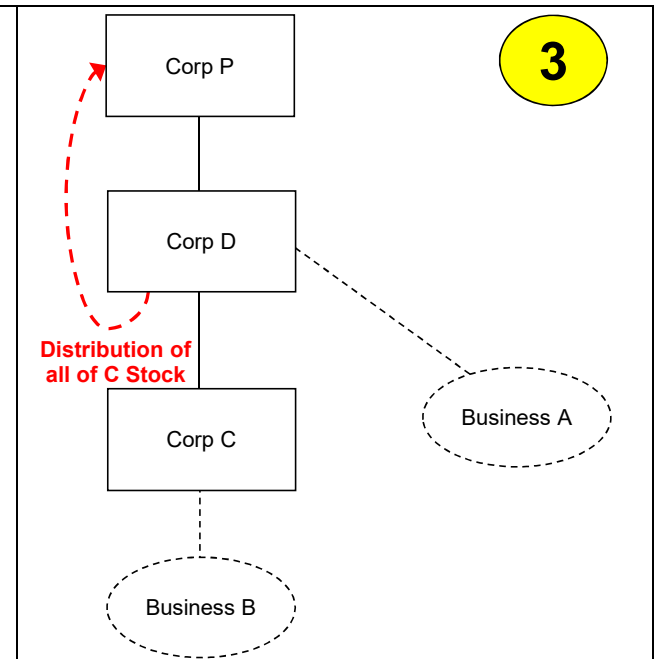
Initial Structure



Contribution (South Transaction)



Distribution (North Transaction)



P owns all the stock of D, which owns all the stock of C. The fair market value of the C stock is \$100X. P has been engaged in Business A for more than 5 years, and C has been engaged in Business B for more than 5 years. Business A and Business B each constitutes the active conduct of a trade or business within the meaning of §355(b). D is not engaged in the active conduct of a trade or business, directly or through any member of its separate affiliated group (within the meaning of §355(b)(3)) other than C.

On Date 1, P transfers the property and activities constituting Business A, having a fair market value of \$25X, to D in exchange for additional shares of D stock. On Date 2, pursuant to a dividend declaration, D transfers all the C stock to P for a valid corporate business purpose. D retains the Business A property and continues the active conduct of Business A after the distribution. The purpose of P's transfer of the property and activities of Business A to D is to allow D to satisfy the active trade or business requirement of §355(b)(1)(A).

The ruling held that the transfer by P to its subsidiary, D, of property (including a transfer of property constituting an active trade or business for the purpose of meeting the requirements of § 355(b)(1)(A)), immediately followed by the distribution by D to P of the stock of its controlled subsidiary, C, is treated as an exchange to which § 351 applies, followed by a distribution of C stock to which § 355 applies

Ending Point

