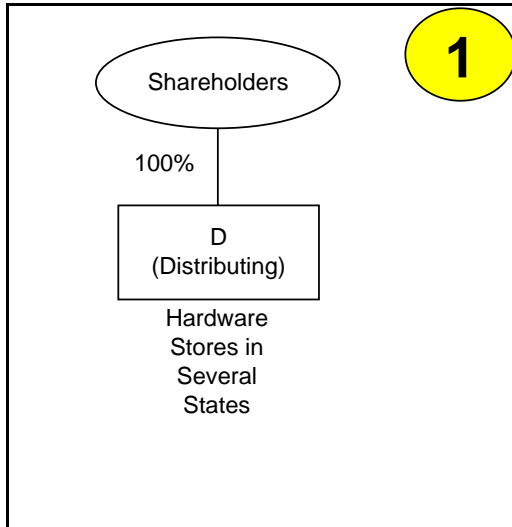
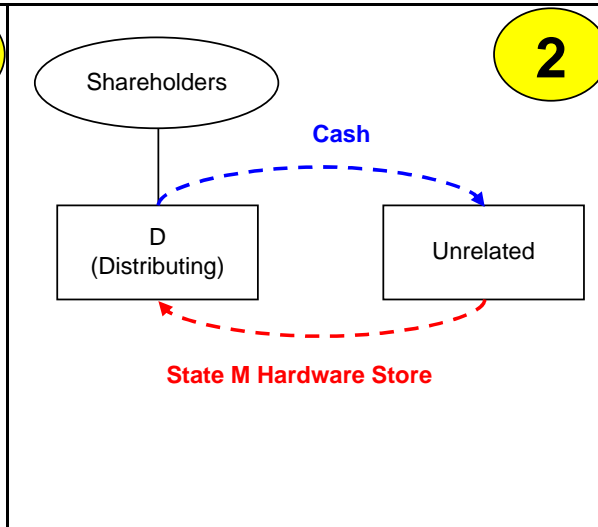


**Spin-Off -- Expansion & Vertical
 Division -- Location**

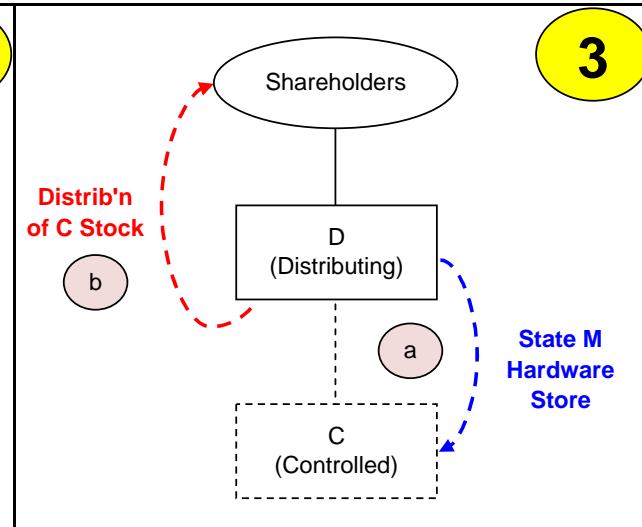
Initial Structure



Purchase of the Store (Year 6)



Contribution/ Spin-Off (Year 8)



For more than five years, D has engaged in the active conduct of owning and operating hardware stores in several states. In year 6, D purchased all of the assets of a hardware store in State M, where D had not previously conducted business. In year 8, D transfers the State M hardware store and related significant assets and goodwill to new subsidiary C and distributes the C stock to the D shareholders. After the distribution, the State M hardware store has its own manager and is operated independently of the other stores. Because -(i) The product of the State M hardware store is similar to the product of D's hardware stores in the other states;(ii) The business activities associated with the operation of the State M hardware store are the same as the business activities associated with the operation of D's hardware stores in the other states; and(iii) The operation of a hardware store in State M involves the use of the experience and know-how that D developed in the operation of the hardware stores in the other states, the hardware store in State M is in the same line of business as the hardware stores in the other states. Therefore, the acquisition of the State M hardware store constitutes an expansion of D's existing business and its acquisition does not constitute the acquisition of a new or different business. Accordingly, D and C both satisfy the requirements of section 355(b).

Ending Point

