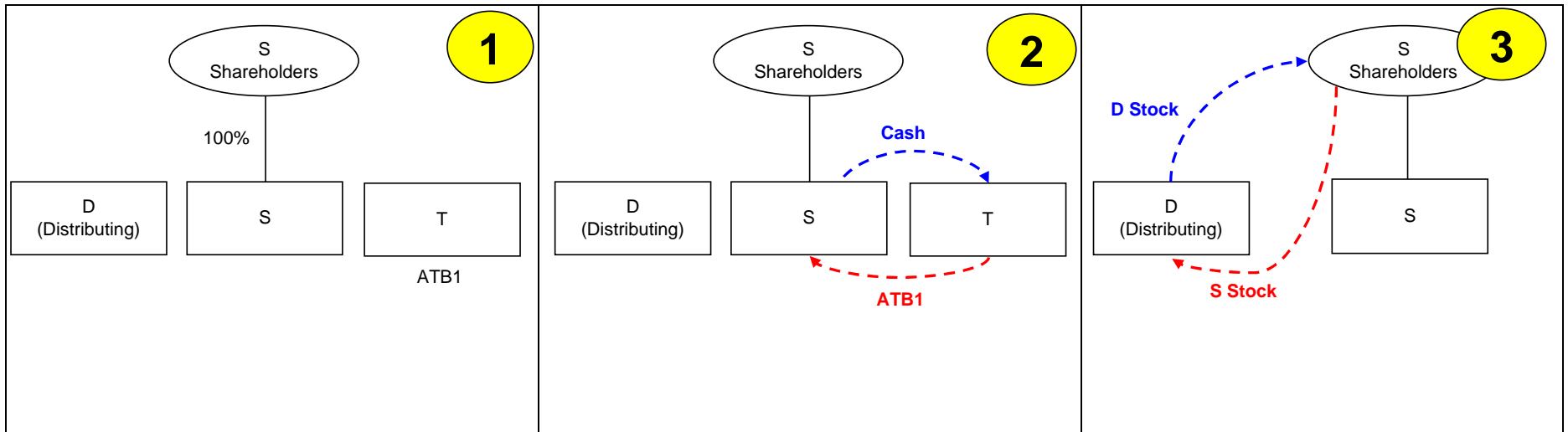


Initial Structure

Purchase of ATB1 (Year 6)

351 Exchange (Year 7)



For more than five years, T has engaged in the active conduct of ATB1. In year 6, S purchased ATB1 from T. In year 7, D acquired all of the S stock from the S shareholders solely in exchange for D stock in a transaction to which section 351 applied and in which no gain or loss was recognized. As a result, S became a DSAG member. Although S became a DSAG member in a transaction in which no gain or loss was recognized, S, a corporation that later became a DSAG member, acquired ATB1 in a transaction in which gain or loss was recognized. Accordingly, if D were to make a distribution, it could not rely on ATB1 to satisfy the requirements of section 355(b) unless S's year 6 acquisition of ATB1 is not in the pre-distribution period.

Ending Point

