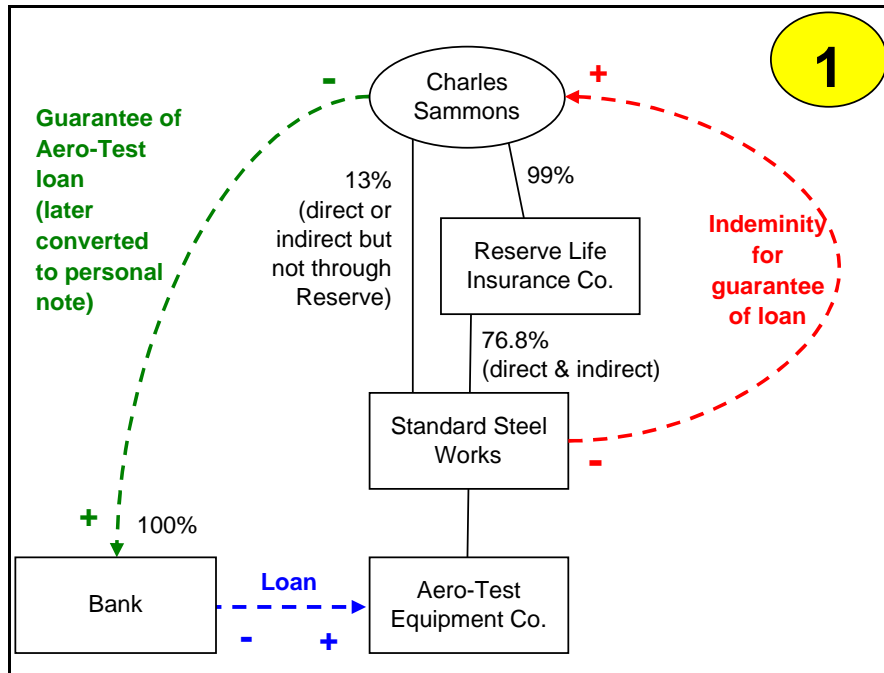
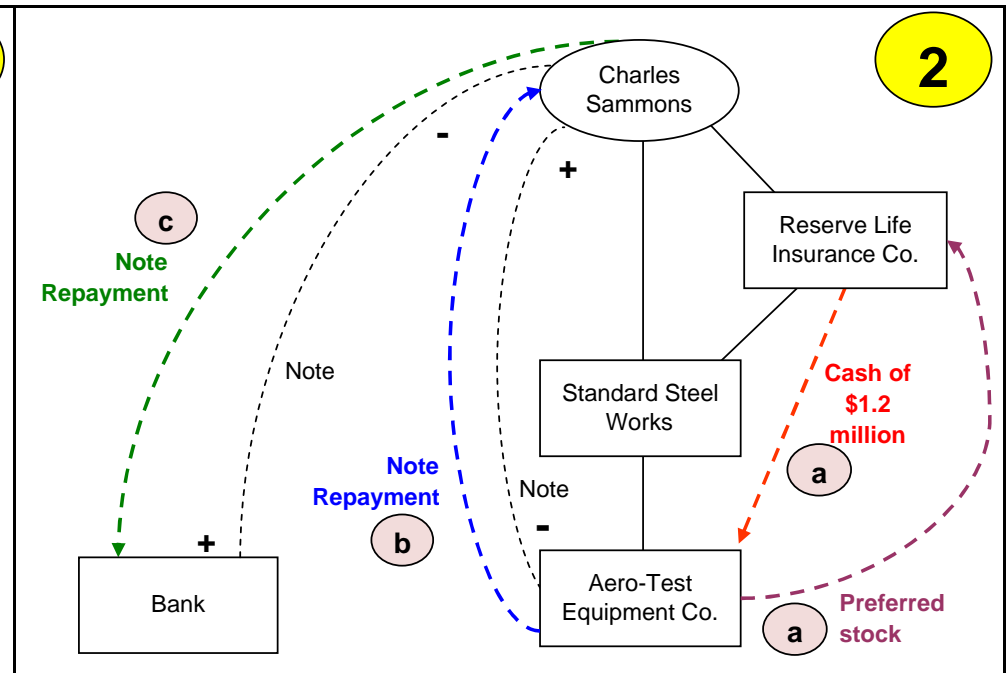


Initial Structure



Contribution & Note Repayments



Standard had an indemnity obligation to Sammons. If Standard had contributed cash to Aero-Test to repay the note from the Bank, then there would have been no constructive dividend. However, because Reserve did not own (directly or indirectly) 100% of the stock of Aero-Test, a portion of cash transferred by Reserve was considered a constructive dividend. Stated another way, Reserve and Standard were "partly" brother-sister entities. To the extent that Standard was enriched at the expense of Reserve, a constructive dividend occurred. Presumably, the value of the preferred stock received by Reserve was not equal to \$1.2 million.

It is a well-established principle that a transfer of property from one corporation to another corporation may constitute a dividend to an individual who has an ownership interest in both corporations. It is true that "(t)he line between shareholder benefit and corporate benefit is not always clear . . . because some expenditures embody both elements; and an indirect [or an incidental] benefit to the shareholder should not by itself be treated as a distribution to him." In the situation where funds are transferred from one such sibling corporation to another, the theory is that the funds pass from the transferor to the common stockholder as a dividend and then to the transferee as a capital contribution.