Corporations - Disregard of Corporate Entity in Favor of Creditors

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It is intimated in these cases that the stipulated sum must bear a reasonable relation to the loss or inconvenience suffered by the person aggrieved. That the exactions are severe is not decisive. The criterion seems to be whether or not the price of error may be so heavy as to erect an unfair barrier against the endeavor of an honest litigant to obtain the judgment of a court. *Ex parte Young*, 209 U.S. 123, 28 Sup. Ct. 441, 52 L.ed. 741, 13 L.R.A. (n.s.) 932 (1908).

In the principal case the court very definitely decided that it would not enforce both the damage provisions and the forfeiture provisions of the local chattel mortgage foreclosure statutes. Wis. Stat. (1933) §§ 241.13, 241.15. And the court decided in this case to give the debtor damages only (the difference between the estimated value of chattels and the price bid) plus the $25 penalty without benefit of the forfeiture provisions. But the decision cannot be taken as overruling a case like *Emerson-Brantingham Imp. Co. v. Paul*, supra, in which the court did carry out the forfeiture provisions of the same statutes, allowing the twenty-five dollar penalty but no other damages when the value of the chattel together with the sum already paid in by the debtor was not inconsiderable in comparison with the amount of the original debt. In such a case, forfeiture of the creditor's claim for the balance of the indebtedness is not an unreasonable penalty.

**William F. Hurley.**

**Corporations—Disregard of Corporate Entity in Favor of Creditors.**—The Defendant is a Michigan corporation. It owns all the stock of corporation *B*, which corporation, in turn, owns all the stock of corporation *A*. The latter corporation was organized by the defendant for the express purpose of entering into a land contract with the plaintiffs. The defendant admits that this was a device to hide its identity from the plaintiffs so that the price asked by them for the property would not be unreasonable. The defendant, through corporation *B*, furnished all the operating capital for corporation *A*. At the time of entering into the agreement the plaintiffs dealt solely with corporation *A* and were ignorant of the defendant's interest. Separate corporate accounts were kept, and there was no evidence of indiscriminate using or mixing of the assets of the corporations. Corporation *A* defaulted on the contract. By a bill in equity the plaintiffs now seek to have the land contract reformed, making the defendant corporation the vendee thereof, and to hold the defendant liable on such reformed contract. The trial court ruled for the plaintiff. On appeal, held, decree reversed. Corporation *A* is separate and distinct from its stockholder, and the latter cannot be held liable for corporation obligations unless it is shown that by recognizing their separate entities a fraud upon the creditor would result. *Gledhill et al. v. Fisher & Co. et al.*, (Mich. 1935) 262 N.W. 371.

Whether the corporate entity should be disregarded and a corporation creditor allowed to reach through and hold personally responsible the sole stockholder or holding company is a question to be decided solely upon the peculiar facts of a specific case. In the instant case the Michigan court seems to feel that the mixing of assets of the corporations is an important consideration in deciding the question. If the assets of the corporations or of the corporation and the sole stockholder (or stockholders, as in the case of a partnership) are mixed and used indiscriminately, the creditor of the insolvent corporation should be permitted to reach such assets. *In re Rieger, Kapner & Altman*, 157 Fed. 609 (S.D. Ohio, 1907); *In re Collins*, 75 F. (2d) 62 (C.C.A. 8th, 1934); *Donovan v.*
Where there is no mixing of assets, where the books of the parties are kept separately, and all money withdrawn by the sole stockholder or parent corporation is applied on dividends, wages, and other forms of legitimate indebtedness, then the insolvent corporation stands alone as a separate corporate entity. Cannon Mfg. Co. v. Cudahy Packing Co., 267 U.S. 333, 45 Sup. Ct. 250, 69 L.Ed. 634 (1924); Majestic Co. v. Orpheum Circuit, Inc., 21 F. (2d) 720 (C.C.A. 8th, 1927); Midwest Air Filters Pacific, Inc. v. Finn, Sheriff, et al., 201 Cal. 587, 258 Pac. 382 (1927). However, if a scheme to defraud creditors can be detected in the organization of a new corporation, then, no matter how formal the keeping of books may be, no matter how rigidly the assets of the corporations are separated, the corporate entity of the insolvent corporation will be disregarded and the creditors permitted to reach the assets of the parent corporation. Commerce Trust Co. et al. v. Woodbury et al., 77 F. (2d) 478 (C.C.A. 8th, 1935).

Where the insolvent corporation has no working capital or property except that which the parent corporation or stockholder allows it from time to time, the creditor of such insolvent corporation is permitted to recover from the parent corporation. Portsmouth Cotton Refining Corp. v. Fourth National Bank of Montgomery, 280 Fed. 879 (M.D. Ala. 1922). Similarly, a creditor should be able to fix responsibility upon the parent corporation where such corporation has permitted the insolvent debtor corporation to draw checks upon its bank account, and where the two corporations have the same officers and stockholders. Spokane Merchant's Ass'n v. Clere Clothing Co., 84 Wash. 616, 147 Pac. 414 (1915). Also, where the insolvent debtor corporation has made advances for the parent corporation and no separate books have been kept, the creditor should be permitted to reach through to the assets of such parent stockholder. In re Muncie Pulp Co., 139 Fed. 546 (C.C.A. 2nd, 1905).

The Michigan court in the instant case points out the distinction between disregarding corporate entity in favor of creditors and disregarding it for other purposes such as where it is attempted to be used as a device for justifying the raising of public utility rates. People v. Michigan Bell Telephone Co., 246 Mich. 198, 224 N.W. 438 (1929). Such distinction is important. Facts which will justify the disregard of corporate entity in one case might not prove important in the other.

ROBERT J. BUER.

TORTS—LANDLORD AND TENANT—"SAFE PLACE" STATUTE.—The plaintiff, living with her niece in the defendant's apartment building, sustained injuries while searching for the lockers in the basement. Unfamiliar with the premises and without making inquiry as to the location of the lockers, she wandered into an unlighted room, and, while searching for the light, fell from a raised platform to the floor of defendant's boiler room. By special verdict the defendant was found to be eighty per cent negligent. Held, judgment reversed. The plaintiff was found to be in the position of a trespasser, toward whom the owner of a public building owes no duty to maintain the same as a safe place. Grossenbach v. Devonshire Realty Co., (Wis. 1935) 261 N.W. 742.

Owners of public buildings are imposed with the same duty to maintain such buildings in a safe condition for the tenants as is imposed upon the employer to render the place of employment safe for his employees. Zeininger v. Preble, 173 Wis. 243, 180 N.W. 844 (1921). Such duty applies also to frequenters. Wilson v. Evangelical Lutheran Church, 202 Wis. 111, 230 N.W. 708 (1930); Bunce v.