



Your Company Veil Can Protect You From Vicarious Liability

Many of our articles have reiterated the point that corporations and limited liability companies routinely fail to provide their owners any personal protection for company conduct. The purpose of this article is to demonstrate that if you keep the rules, your company veil can protect you in ways you may not think.

In the case of *Rashdan v. Tanveer*, Rashdan, a physician, operated his professional practice through a corporation. He was the sole shareholder, officer and director of his business entity. In a malpractice claim he was sued personally. Rashdan was found personally liable for malpractice and the plaintiff, Tanveer, sought to execute on the judgment against Rashdan. In addition to the Rashdan's personal assets being imperiled, the plaintiff also sought for a "reverse piercing of the company veil" to acquire Rashdan MD PA's corporate assets. This was allowed by the trial court. Rashdan appealed that decision.

On appeal, the Florida Court of Appeals reversed the trial court's decision and asserted that the trial court "should not have allowed execution on the assets of Rash MD PA". The court emphasized that a "corporate veil cannot be pierced absent a showing of improper conduct, showing the corporation was organized, proving it was employed for some fraudulent purpose, or to mislead creditors". The Court of Appeals stated that there was no evidence of non-compliance or improper conduct.

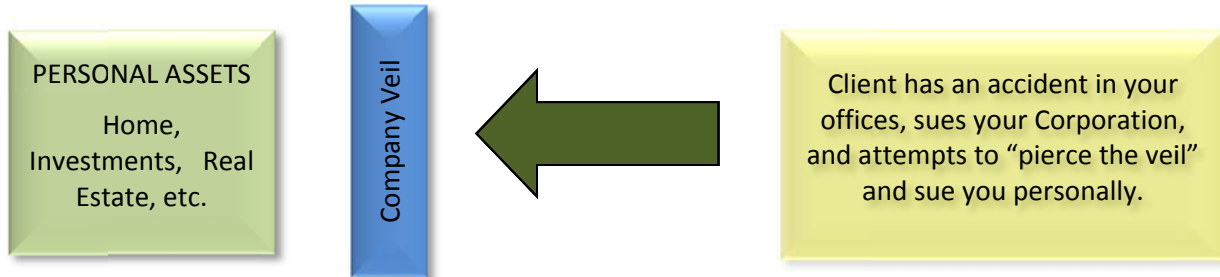
The Florida Court of Appeals emphasized the underlying legal principle this way: "Every corporation is organized as a business organization to create a legal entity that can do business in its own right and on its own credit as distinguished from the credit and assets of individual stockholders. The mere fact that one or two individuals own and control the stock structure of a corporation does not lead inevitably to the conclusion that the corporate entity is a fraud or that it is necessarily the alter ego of its stockholders... If this were the rule, it would completely destroy the corporate entity as a method of doing business and it would ignore the historical justification for the corporate enterprise system".

As a result of the Court of Appeals decision, the judgment against Dr. Rashdan was not executed against his professional corporation or its assets. Tanveer's collection efforts were limited to Rashdan's personal assets. His corporate assets were safe.

The lesson to be learned from the Rashdan case is that your corporate entity or limited liability company can protect your corporate assets from liability created by you personally. In addition, your company veil can protect your personal assets from liability created by your corporate conduct. In other words, the protection works in both directions. Let us illustrate this benefit with a couple of examples.

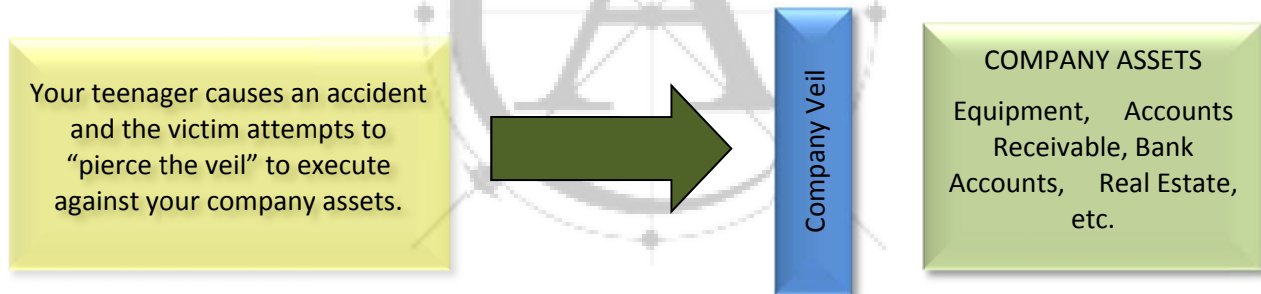
Example One

A customer/client visits your office and while there, accidentally falls into a sharp object and loses sight in one eye. She sues your corporation and attempts to “pierce the veil” to go after your personal assets. Provided you have kept the rules, your company veil will shield your personal assets from this corporate liability.



Example Two

Your 17-year-old teenage boy borrows your car and accidentally crashes into, and critically injures another driver. The other driver sues you (the parent) for damages and their attorney attempts to “pierce the veil” of your corporation to execute the assets of your business. Provided you have kept the rules, your company veil will shield your company assets from this personal liability.



Vicarious Liability

A bulletproof corporation or limited liability company is an effective protection tool against many sources of “vicarious liability”, including:

- Business Owner – Customer (patient) accidents in the office, contract disputes, etc.
- Officer, Director, Shareholder – Liability for company conduct and liability for conduct of other officers, directors and shareholders.
- Employer – Hiring/firing issues, wrongful termination, sexual harassment, liability for employee conduct, etc.
- Asset Owner (Building, Real Estate, Boat, Automobile, ATV, etc) – Injury in building, on property, or during use of an asset.

- Parent – Accidents caused by your children.
- Husband or Wife – Divorce, accidents/injury or intentional injury caused by spouse.
- Homeowner – Guest accidents/intentional injury in home or on property.

To realize these valuable benefits, you must continually maintain corporate protocol and avoid misconduct. Your partnership with Corporate Assistance will help you better understand and perform what you should and should not be doing, thus greatly increasing the strength of your company veil.

Your Governance Specialist will facilitate the planning, convening and executing of proper directors and shareholder meetings as well as maintaining appropriate and proper minutes and resolutions. Performing these formal acts on an ongoing basis will provide a great advantage to your company in erecting and maintaining its corporate veil. By doing so, you will create defensible evidence of formal activity.

Remember, our service is collaborative. We work hard to make it easy for you to keep the rules, but it is ultimately up to YOU to keep those rules. Help us help you by performing the tasks we periodically ask you to do and your corporation or limited liability company will provide you with the limited liability protection they were designed to create.

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For additional information visit www.CorporateAssistanceLLC.com on the web or call 877-800-8345 toll free.