Flink Vs. Paladini

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Court : US Supreme Court

Decided On : Mar-05-1929

Appeal No. : 279 U.S. 59

Appellant : Flink

Respondent : Paladini

Judgement :

Flink v. Paladini - 279 U.S. 59 (1929)
U.S. Supreme Court Flink v. Paladini, 279 U.S. 59 (1929)

Flink v. Paladini

No. 299

Submitted February 21, 1929

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CERTIORARI TO THE CIRCUIT COURT OF APPEALS

FOR THE NINTH CIRCUIT

SYLLABUS

1. The words of the Acts of Congress limiting the liability of shipowners to the value of the vessel and pending freight, and of part owners to their proportional share, must be taken in a broad and popular sense in order not to defeat the policy of the acts to encourage investment in shipping. P. 279 U. S. 62 .

2. Therefore, where the title to the vessel is in a corporation whose stockholders are by state law made proportionately liable for obligations of the corporation, the stockholder may limit liability as "part owners." P. 279 U. S. 62 .

3. The individual liability assumed under Art. XII, 3, of the California Constitution and 322 of the Civil Code by becoming a stockholder of a California ship-owning corporation, though voluntary and contractual, is to be construed as subject to the limited liability acts of Congress. P. 279 U. S. 63 .

2 F.2d 21 affirmed.

Certiorari, 278 U.S. 589, to a decree of the circuit court of appeals reversing an order of the district court in a proceeding to limit liability for personal injuries suffered by the present petitioner while serving aboard ship at sea. The reversed order refused a stay of actions in state and federal courts which the petitioner had brought against the respondents to enforce their liability under the state law as stockholders of the corporation owning the ship.

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MR. JUSTICE HOLMES delivered the opinion of the Court.

The petitioner suffered a severe injury on the high seas while employed as an engineer on the tugboat *Henrietta,*

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belonging to A. Paladini, Incorporated, a corporation of the State of California. He sued the corporation and also the respondents, the stockholders of the same, seeking to hold the latter liable under the Constitution of the state, Article XII, 3, and the Civil Code, 322, which provide that each stockholder shall be individually and personally liable for such proportion of all its debts and liabilities contracted during the time he was a stockholder as the amount of stock owned by him bears to the whole of the subscribed capital stock. The respondents took proceedings in the district court of the United States to limit their liability under the Acts of Congress, and the limitation was established by the Circuit Court of Appeals for the Ninth Circuit under R.S. 4283 (Code, Title 46, 183), and the Act of June 26, 1884, c. 121, 18, 23 Stat. 57 (Code, Title 46, 189), 26 F.2d 21. These statutes, it will be remembered, provide for the limitation of the liability of shipowners to the value of the vessel and pending freight, and of part owners to their proportional share. The argument of the present petitioner is that the stockholders of A. Paladini, Inc., were not the owners of the *Henrietta,* and that their liability under the law of California was an independent one voluntarily assumed by contract, with which the Acts of Congress do not interfere.

The circuit court of appeals disposed of the case after a thorough discussion. It is unnecessary to do more than to make a short statement of the points. The purpose of the Act of Congress was "to encourage investment by exempting the investor from loss in excess of the fund he is willing to risk in the enterprise," 26 F.2d 24; *Richardson v. Harmon,* 222 U. S. 96 , 222 U. S. 103 ; *Hartford Accident & Indemnity Co. v. Southern Pacific Co.,* 273 U. S. 207 , 273 U. S. 214 . For this purpose, no rational distinction can be taken between several persons owning shares in a vessel directly and making the same division by putting the title in a corporation and distributing the corporate stock. The

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policy of the statutes must extend equally to both. In common speech, the stockholders would be called owners, recognizing that their pecuniary interest did not differ substantially from those who held shares in the ship. We are of opinion that the words of the acts must be taken in a broad and popular sense in order not

to defeat the manifest intent. This is not to ignore the distinction between a corporation and its members, a distinction that cannot be overlooked even in extreme cases, *Behn, Meyer & Co. v. Miller,* 266 U. S. 457 , 266 U. S. 472 , but to interpret an untechnical word in the liberal way in which we believe it to have been used -- as has been done in other cases. *International Stevedoring Co. v. Haverty,* 272 U. S. 50 .

The other branch of the petitioner's argument seems to us a perversion of the California law. The effect of that law, so far as it goes, is to destroy the operation of a charter as a nonconductor between the persons injured by a breach of corporate duty and the members of the corporation, who, but for the charter, would be liable. As suggested in *Flash v. Conn,* 109 U. S. 371 , it leaves the members to a certain extent in the position of copartners. But that is the liability that the Acts of Congress mean to limit. Having no doubt of the comprehensive purpose of Congress, we should not be ingenious to construe the California statute in such a way as to raise questions whether it could be allowed to interfere with the uniformity which has been declared a dominant requirement for admiralty law.

Decree affirmed.