

Piercing of the Corporate Veil

Only last week, the Haifa Magistrate Court has given an exceptional ruling, a ruling based on article 6 of the Company Act (1999) - the article referring to the “piercing of the corporate veil”. In these legal proceedings, our firm represented the plaintiff.

The plaintiff, is a global conglomerate engaged in world-wide projects. The plaintiff asserted that an outstanding debt was never paid. The defendant, never offered to pay a part thereof and throughout their communications the defendant presented many obscure reasons to justify its failure to pay. The plaintiff, therefore, claimed this constitutes proper theft. During the proceedings, the defendant presented its case. It presented information allegedly indicating its dire financial situation and the fact that its business place is being closed by police orders. It also claimed that the company itself is on the brink of being shut-down.

Accordingly, the plaintiff asked for the “piercing of the corporate veil”. In other words, that the defendant’s debt be assigned to the defendant’s shareholders. We argued that in this exceptional case, the shareholders have exploited their separate legal identity in order to deceive and prejudice the plaintiff as their creditor. And while they personally promised to pay for the goods they have avoided keeping their promise. Additionally, since the defendant is a family business, the plaintiff petitioned the court to define the two brothers, the defendant’s managing directors, as organs of the the company - as its board of directors and as those responsible to all of the defendant's actions. Since it was evident they directly enjoyed the fruits of the transaction, deceived the plaintiff and have exercised bad faith in their conduct, these factors constitute due cause for their personal responsibility and for the piercing of the veil.

Last week, and after due deliberation, the Haifa Magistrate Court has handed down its verdict. After examining the body of evidence and the claims made by both parties, it decided that the three defendants - the company itself and their two directors (together and individually) - shall be held responsible for paying the debt. The parties have agreed to this recommendation and it was issued as a verdict.

And thus, considering all of the above, this Haifa Magistrate Court verdict is indeed an exceptional one. The Company Act (1999) typically protects the separation between the company and its owners, and the lifting of a heavy burden of proof is required in order to remove this protection. We are thrilled we've managed to prove the necessity for piercing the corporate veil and convince the court to personally require the company's directors to pay the debt. This ensures the debt can be collected upon.

However, this verdict concerns a much wider audience. As the plaintiff is an international corporation having many projects in Israel, and the court has afforded it its protection, other foreign entities shall be comforted to know that the Israeli legal system serves them well and that their investments in Israel are duly protected .

(Civil Case No. 28451-08-14, Haifa Magistrate Court, ruling given on November 4th, 2015).