**4.26 Miscellaneous Issues – Alter Ego – Corporation as**

**Alter Ego of Stockholder**

In this case, [name of plaintiff] claims that [name of corporation] was [name of stockholder]’s mere instrument or tool – what the law calls an alter ego. Should you find that [name of plaintiff] has proved this claim by a preponderance of the evidence, the law requires you to disregard the separate status of [name of corporation] and hold [name of stockholder] legally responsible for the corporation’s acts.

Under our free-enterprise economic system, the law permits – even encourages – people to form corporations as a way to attract stockholder investments. Stockholders can invest their money in corporate enterprises without risking individual liability for corporate acts and transactions. In return, society gets the benefit of jobs and other commercial activity that corporate businesses create. So, in most cases, the status of a corporation as a separate legal entity apart from its owners or stockholders must be respected and preserved.

But this rule is not absolute, and you can disregard the separate status of a corporation when a stockholder uses the corporation as a mere tool for the purpose of evading or violating a statutory or other legal duty, or for accomplishing some fraud or other illegal purpose.

To decide whether to treat [name of corporation] as the alter ego of [name of stockholder], you should consider:

the purpose for which the stockholder formed or acquired the corporation;

whether the corporation kept books and records, held regular director meetings, and observed other corporate legal formalities;

whether the corporate funds were comingled with the stockholder’s funds;

the activity or inactivity of others as officers or directors in the corporation’s business affairs; and

any other factors the evidence disclosed tending to show that the corporation was or was not operated as an entity separate from its owner.