

# K mart applauds shield bill

Corporations — but not local residents — will be helped by a state Senate-passed bill to help shield corporate directors from personal liability in lawsuits.

"It will have an impact on corporations and the way they do business," said Sen. Doug Cruce, R-Troy, a supporter of the measure. "If you're talking about jobs, it will have no effect on the average citizen."

Largely in response to pressure from Troy-based K mart Corp., Federal-Mogul Corp. and some smaller Michigan-based businesses, the Senate approved a bill that would give stockholders the option of shielding members of boards of directors from personal liability.

**LAWMAKERS MOVED** the issue to a high priority in response to an ultimatum from K mart, which threatened to move its legal home base to Delaware from Troy if the Michigan law weren't changed.

"We're happy this passed the Senate and hope that we can have early passage in the House," K mart vice president A. Robert Stevenson said.

The directors still could be sued for actions made illegally or for personal gain.

Cruce said the immunity law should be nationwide. "It's a common sense thing," he said.

To the average person, said Cruce, who has specialized in legislation af-

fecting commerce, "it makes little difference whether corporate records are kept in Delaware or Troy. K mart has stores all over."

**THE VOTE** was 33-2. Oakland County senators favoring it besides Cruce were Jack Faxon, D-Farmington Hills, and Rudy Nichols, R-Waterford.

Western Wayne County senators favoring it were H. Robert Geake, R-Northville, and George Hart, D-Dearborn. Absent was William Faust, D-Westland, who was scheduled to return from a vacation this week.

Voting against the measure were Democrats Basil Brown of Highland Park and Lana Pollack of Ann Arbor. Pollack contended directors should be accountable for their actions.

The changes also are opposed by the Michigan Trial Lawyers Association, which said the Legislature shouldn't set the precedent of exempting people from lawsuits.

The measure — Senate Bill 18 — now goes to the House. A second bill, covering not-for-profit corporations, was scheduled for Senate action this week.

**ALTHOUGH NO** final decision has been made on whether to keep K mart's charter in Michigan, "things look favorable," Stevenson said, af-

ter the legislative action. "I think that what passed the Senate is reasonable."

Gov. James Blanchard included the proposal in his State of the State message, and commerce director Doug Ross has advocated making a change in order to preserve the psychological advantage that comes when major corporations have their legal homes in Michigan.

"What we are faced with here is a question of whether or not we're going to send a message to our corporations, either we want you to stay in Michigan or we make you go to another state," said Sen. Norman Shinkle, R-Lambertville. "I hope we send a correct signal to the business people of this state."

K mart and other businesses contend the change is necessary because outsiders who accept positions on corporate boards now put their personal assets on the line with every decision. Stockholders who disagree with a board decision can sue the board members individually.

**IN THE PAST**, corporations have bought insurance against potential suits. But such coverage has become more costly and less available.

K mart's premium for board members' insurance mushroomed from \$26,000 in 1983 to \$900,000 this year, and the coverage doesn't include hostile takeovers, Stevenson said. Federal-Mogul said insurance

for its directors and officers jumped from \$12,000 in 1983 to \$430,000.

Last year, eight of the 10 directors of Detroit-based Armada Corp. resigned after the company was unable to provide insurance at a reasonable rate — premiums had mushroomed from \$45,000 to \$720,000 in one year.

**THE CHANGES** were the first part of a package of bills aimed at addressing the issue. Negotiations are in progress on legislation that would provide the same shield to directors of non-profit corporations, such as charitable and civic organizations, said sponsoring Sen. Richard Posthumus, R-Lowell.

"Telecorporations may only be paper transactions but they send the wrong signal that Michigan is still hostile toward business," Posthumus said.

"And we lose ground in our attempt to convince the business world that Michigan is a state that welcomes investment."

Originally, the measure called for giving automatic protection to directors. But after talks with the administration and House leaders, it was changed to put the decision in shareholders' hands, said Senate Majority Leader John Engler, R-Mount Pleasant.

Compiled from Associated Press and staff reports.

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