U.S. Supreme Court

The Key City, 81 U.S. 14 Wall. 653 653 (1871)

The Key City

81 U.S. (14 Wall.) 653

APPEAL FROM THE CIRCUIT COURT FOR

THE EASTERN DISTRICT OF WISCONSIN

Syllabus

1. While courts of admiralty are not governed by any statute of limitations, they adopt the principle that laches or delay in the judicial enforcement of maritime liens will, under proper circumstances, constitute a valid defense.

2. No arbitrary or fixed period of time has been or will be established as an inflexible rule, but the delay which will defeat such a suit must in every case depend on the peculiar equitable circumstances of that case.

3. When an admiralty lien is to be enforced to the detriment of a purchaser for value, without notice of the lien, the defense will be held valid under shorter time, and a more rigid scrutiny of the delay than when the claimant is the party who owned the property when the lien accrued.

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4. When two corporations united their vessels and other property used in navigation, and formed a new corporation, in which no money was paid by either party, and in the contract of consolidation made arrangements for the payment of the debts of one or both before any dividends should be declared in the new stock, the new corporation cannot avail itself of the doctrine applicable to such a purchaser without notice, and a lien, three years and a half old, will be enforced against one of the vessels so transferred to the new corporation.

Young shipped a quantity of wheat on the steamboat *Key City,* a vessel owned by a corporation called the Northwestern Packet Company, which had this and several other steamboats engaged in the navigation of the Upper Mississippi River. The cargo was lost, and so never delivered. At the time when the shipment was made and the cargo lost on the *Key City,* there was engaged in the same business in the same waters with the Northwestern Packet Company, a rival corporation known as the La Crosse and Minnesota Steam Packet Company.

After the loss of the wheat, these two companies united their stock in trade, their steamboats, barges, and other property, and formed a new corporation, the corporators of which were taken exclusively from those in the two old companies, and to the new corporation they gave the name of the Northwestern Union Packet Company. To this company all the property of the two other companies was transferred by appropriate instruments. Whether at the time of this union and transfer the La Crosse and Minnesota Company owed debts or not, or what became of them, did not appear. But it did appear that the Northwestern Company, the original owner of the *Key City,* was largely indebted, and that this was well known to all the parties. Not only was it well known, but provision was made for the payment of the debts generally of that company by the newly formed company out of a fund to come within its control. The nature of that provision was this: certificates of stock of the value of the boats, barges, and other property of the Northwestern

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Company merged in the new company were issued, but on their face they recited that no dividends would be paid on such stock until the debts of the Northwestern Company should be paid out of the proportion of the net profits which the shareholders of that company would otherwise be entitled to.

In this state of things, Young, *three years and a half after the wheat was lost, and his cause of action had accrued,* filed a libel in admiralty against the *Key City* for its failure to perform its contract of affreightment. The Northwestern Union Packet Company -- that is to say the new corporation -- appeared as claimants and set up as a defense that the lien was lost by the lapse of time, to-wit, the three years and a half which had intervened between the date when the cause of action accrued and the date of the commencement of the suit, and that defense was sustained by the circuit court. The change in the ownership of the vessel during the interval was relied on as strengthening the defense.

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MR. JUSTICE MILLER delivered the opinion of the Court.

The authorities on the subject of lapse of time as a defense to suits for the enforcement of maritime liens are

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carefully and industriously collected in the briefs of counsel on both sides, to which reference is hereby made without specifying them more particularly.

We think that the following propositions as applicable to the case before us may be fairly stated as the result of these authorities.

1. That while the courts of admiralty are not governed in such cases by any statute of limitation, they adopt the principle that laches or delay in the judicial enforcement of maritime liens will, under proper circumstances, constitute a valid defense.

2. That no arbitrary or fixed period of time has been or will be established as an inflexible rule, but that the delay which will defeat such a suit must in every case depend on the peculiar equitable circumstances of that case.

3. That where the lien is to be enforced to the detriment of a purchaser for value without notice of the lien, the defense will be held valid under shorter time and a more rigid scrutiny of the circumstances of the delay, than when the claimant is the owner at the time the lien accrued.

Counsel for the appellees argue that the libel in the present case was rightfully dismissed under this last proposition, and we are of opinion that if the claimants had shown an ordinary case of purchase and payment without notice, the lapse of time would protect them. While on the other hand we are of opinion that if the claimant had been the owner when the lien accrued, it would not be a good defense in this instance.

We must therefore inquire into the special circumstances under which the claimant became the owner of the vessel against which the lien is asserted. These show that there was no sale of the property of one of these original corporations to the other, but that they agreed to unite their property and their interests, and for convenience assumed a new corporate name; that in doing this, they recognized a large and undefined indebtedness on the part of the Northwestern Company, and provided for its payment out of the earnings otherwise payable to that company. No doubt

these debts were most of them, like the present one, liens on the property of that company, and known to be so by all who united in the transaction. And finally that neither the stockholders of the La Crosse and Minnesota Company nor of the new corporation have ever parted with or paid any money or other thing of value for the *Key City,* otherwise than by this consolidation of the companies into one, and it is not apparent, nor even a reasonable presumption, that if the new company has to pay the libellant's debt in this case they will be the losers, but it is nearly certain the loss will fall where it should, on the stockholders coming in through the Northwestern Company.

We do not see, under these circumstances, how the claimants can avail themselves of the rule for the protection of purchasers without notice.

Decree reversed with directions to enter a decree for libellant for the amount due him for his wheat lost by the Key City, with interest by way of damages.