

QUESTION 4 THE ANSWER TO THIS QUESTION SHOULD GO IN BLUEBOOK II  
OR IN EXAMPLIFY ANSWER SCREEN 4

Ron's Roofing Co. (Ron's) entered into a contract with Persnickety Property Investors, Inc. (PPI) to do all of the roofing on PPI's residential subdivision project. PPI's sole shareholders are Larry, Moe and Curly. Larry, on behalf of PPI, agreed to pay Ron's \$150,000 for the project and signed the contract. Ron's satisfactorily completed the project in record time.

Because Larry, Moe and Curly collectively made capital contributions to PPI of only \$2,400, PPI borrowed \$1 million dollars from Alpha Bank based upon personal guarantees of repayment from Larry, Moe and Curly. Subsequently, Larry and Moe borrowed an additional \$500,000, which they "loaned" to PPI for the project. No promissory note was issued by PPI to Larry and Moe. PPI did not pay interest on the \$500,000 loan, but instead "reimbursed" Larry and Moe by directly repaying the bank loan.

PPI paid \$50,000 to Moe as a distribution and also paid Moe approximately \$100,000 for two parcels of property that he had acquired for the development project. Moe turned over the parcels to PPI without a deed transfer. Similarly, PPI gave Curly a \$50,000 distribution.

The project was short \$500,000, so PPI's members obtained yet another loan from Alpha Bank, which required Larry to sign a sworn statement stating the amounts of money owed to various project contractors. This sworn statement indicated that of the total amount PPI owed, it owed Ron's \$50,000. In truth, Ron's had not been paid anything.

The other contractors were paid in full with this final bank loan. Alpha Bank provided the \$50,000 requested for Ron's Roofing, leaving a shortfall of \$100,000. PPI has no resources. Ron's wants to file a lawsuit to recover the shortfall. Ron's knows PPI will probably not be able to satisfy any judgment. He wants to know if he can recover the money owed against Moe, Larry and Curly personally.

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Applying principles of Michigan law, fully discuss:

1. The legal standards for piercing the corporate veil.

2. Whether, based on the facts presented, Ron's Roofing is likely to prevail in its effort to hold Larry, Moe and Curly personally liable for the shortfall.

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