

# Veil of Protection

## Maintaining the Veil of Protection

A challenge to the veil of protection over the shareholders of a corporation, or members or member/managers of a limited liability business entity most often comes from litigation being brought against the small closely-held business. In such a case, the plaintiff's attorney will seek to avoid the veil of protection and go after the shareholders or members, who, in most cases, are individuals, and who, in most cases, will have meaningful assets to protect - or lose. This action is called "piercing the veil" and can occur if the business entity has failed to follow the legal requirements for maintenance of the veil.

Maintenance of the corporate veil includes the following:

- Maintaining accurate corporate books and records. This means that the Board of Directors and the officers must ensure that meetings of the board and of shareholders occur when stated in the bylaws and that minutes for each meeting are duly recorded and put into the corporate records.
- Signing all documents in the corporate name. This is what a signature block looks like for a corporation:

A Most Excellent Franchisee, Inc.

by: \_\_\_\_\_  
its: President

The important aspects of the signature are that: (1) the name of the corporation is identified; and, (2) the document is signed by an officer. This is the manner by which all documents relating to the business (from the simplest invoice to the most complex contract) must be signed. It is not unusual for the officer to have to create this entire signature block at the bottom of a document. One is best advised that "when in doubt, spell it out." In this way, there can be no doubt that the action taken was in the name of the corporation and not in the personal name of the person signing.

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- Never use the corporate bank accounts as the personal piggy bank of an officer, director, or shareholder.  
As tempting as it often is to use these bank accounts to pay for a small personal debt or purchase, it is where most corporations get into trouble and ultimately lose the protection of the corporate veil.  
A limited liability business maintenance of the veil is made more simple as most states, do not require the entity to have formal meetings or minutes in order to maintain the protection. As noted above, however, it is best practice to have such meetings and to create minutes that reflect what happened.
- When the manager, the manager/member(s), or if the business is operated only by the members, then the member must sign all documents in the name of the business as follows:

Even Better Franchisee, Inc.

by: \_\_\_\_\_  
its:                   Member (or “Manager” or “Member/Manager”)

As with the corporation, in this case, the business entity is identified and the title of the person authorized to act on behalf of the business entity is given the appropriate title. Once again, the signature block should be used on every document relating to the business from the smallest invoice to the most complex contract.

- Never use the company bank accounts as the personal piggy bank of a manager, member/manager or manager.  
The veil of protection can also be pierced if one of the principals in the business entity (be it a shareholder, member, officer, or director) has perpetrated a fraud against the plaintiff or, in very rare cases, where an inequitable result would occur if the veil is not pierced.