MY MILLIONAIRE FRIENDS: COACHING CALL #10
Millionaire Entities

Participants in this call are Sheri McConnell (SM); and various Audience Members (AM.)

SM: Hello and welcome! This is Sheri McConnell, president and founder of My Millionaire Friends and that is at www.my-millionaire-friends.com. And today we are having another coaching call. I'm here to discuss millionaire entities. And a lot of the information, I'm recapping in the way that I'm presenting to you. But I'm recapping a lot of the information that you will find on your speaker CD with Garrett Sutton and the title of that program is Millionaire Business Structures.

If you're in the live program, then you know that we just had him on last week. If you missed that, you must go back and listen to it. The way that he presents it and the way that I present it is very much a different style and I know that you're going to get a lot from at least one of us, so… Definitely go back and listen to his call and my call. There's a lot of additional information that, of course, he put on that call. And then, of course, we had some really great questions at the end of the call that I won't be recreating today.

I am going to go ahead and see how quiet the line is. Hold on a second. And I've decided I would like to keep this particular call off of lecture mode if possible because I would really like to take some questions as they come up through the call. This shouldn't be a very long call, so I think that this is a perfect call that we can actually take questions during this call – instead of at the end. So if you know that you're not going to be asking questions today or if you have some outside noise, go ahead and push star six on your end.

Okay, great! And that way, if you do feel like you have a question that comes up during the call, then all you have to do is push star six one more time if you just pushed it and that will take you off mute.

So what we are here to discuss again today is those millionaire entities. And I'm going to go through just the simple process, the way that I want you to think about this. I want to start off by recapping, if you can look at your visual. One thing that I do and I did very recently is, I redid it because I'm having some growth in my companies is the org chart. And you can go into Microsoft Word, and I believe it's under "charts" and "graphs" or something like that and they have an org chart in there. And you can go ahead and start to map out some of those people that we've talked about already that you need on your team when you are creating your business.

And so, on my org chart, I'm the person who is at the top of the finance team and then on top of, excuse me, then the three people under me that are part of my finance team would be Garrett Sutton. He is my incorporation attorney. He is on that org chart. Then I have a CPA. And I still have the one that I have had for years still in the org chart. I'm looking for a more local one. But right now, she's still there. And then I have a bookkeeper position. And that's something I'm adding on this year because I don't want to do the bookkeeping. I've had my CPA kind of helping me out with that but I need a full-time bookkeeper, so that's a new person that we're adding on. So it's definitely on my org chart.

So anyway, what I wanted to tell you that is I want you to see the visual of those types of team members that are going to help you with a lot of decisions that I am going to bring up today. And again, if you were on the call last week, Garrett certainly touched upon a lot of these decisions too. I am going to try to recap them in my simple method and not get very deep into them, just to give you a real high overview.

So the first piece on setting your companies up, and all of this, the reason it's so important and it's in this My Millionaire Friends program, is because your entity structures, once you get this piece set in stone and you're operating in this method, not only does it allow you to set your companies up with protection, so that you don't lose all of the hard work that maybe your spouse is also working for – maybe he's not self-employed and he has a corporate company and you have a mortgage and you have a house with equity and you have cars, and you have lots of equity over the years that you built up. You want to protect that and you want that personal protection.

But also the taxing structure. As you grow up in, again – you will be talking with your CPA. I had my CPA on the phone for an hour the other day asking her questions, having her refresh my memory on the corporate structures and exactly how the taxes work and we went through a possible scenario so I could really get a good grasp on that taxing structure. And it really helped to have her walk me through that. I could not do this without her. So definitely understand that you'll be having phone calls, and depending on the CPAs you find, my CPA didn't charge me for that time. She wraps that into her service that she offers me all year long.

At the end of the year, I pay her about $1000 for the tax return. So she's great about me having phone calls with her during the year for things like that. Some CPAs, some attorneys and some bookkeepers aren't. They are going to charge you for every bit of time. So it just depends on who you are working with. And what they kind of wrap into it as far as those phone calls.

But I really want you to know that the information I'm about to present to you, you don't want to do this alone and you don't have to and you don't need to. And thankfully, those people in part of my org chart aren't people that I really talk to every day because it's not my favorite area of my company to deal with. I have a lot more fun with the creative stuff. The product creation and the marketing and the joint venturing and the getting out and speaking and all that stuff. But I can't ignore that part of my business. I can't ignore that on the org chart. And that's why it's there. It's to remind me that it is part of running this business. That is part of growing a company into the six and seven figures. So this is much more than a hobby now and that's the mind set that I want to go ahead and install for you.

Okay. So let's dig right in. So the first piece that I want to talk about is choosing your entity. And there's a checklist of fifteen items. And a lot of the things that I'm going to go through in a second – they might not all be a consideration that you need to take. But I want to go ahead and bring these up for you. They will also be in the transcript. And that way, if something pertains to you, you'll have a little checklist here that you can go through and look at and sit down with your attorney and CPA and bring these up for discussion.

So the fifteen items to be considered when choosing an entity are: number one, protection of those family assets and investments. Those personal assets and investments. Number two, management control. Number three, avoiding family disputes. You know, I can imagine – all my kids have already told me, "I don't want your businesses, mom. Don't give them to me!" But maybe hopefully, you know – they are all 13 and under, so hopefully they will change when they get older. So they'll be fighting not to get them, not to get them. That's my little personal family joke there.

And number four. Another checklist to be considered is the flexibility of the decision making. I know when I was a non profit for a year, I believe that was 2004, I did not like the inflexibility of that business structure at all. And what I can tell you is that one of the main reasons I created a business from home – you know, because I have a lot of skill sets. I could be making a lot of money also in the corporate world. But, I have a Master's degree. There's a lot that I can go out and do.

But, I wanted the freedom. And so when you are picking an entity structure, make sure that you think about why you are doing this company in the first place and I just really did not get enough advice before I dove into that business structure. And I can tell you that it did not have flexibility and that was something I should have considered. Number five, is the succession of children and other family members to management. Number six is the nature of the business to be operated. Again, you're going to get your professional advice to help you out with some of these.

Number seven is the nature of the assets to be held. So if you remember, he talked about – Garrett talked about – real estate and LLCs being good entities for some of the real estate type holdings. Number eight, the number of owners involved. Number nine, estate planning and gifting of assets is something else you should consider when choosing your entity.

Number ten, who may legally obligate the business. Number eleven, the effect on the owner's death or departure. How will this business structure be shut down or sold at that point? Number twelve, the need for start-up funding. Number thirteen, taxation. So how will the laws that apply to each entity, how will those tax laws affect you? Number fourteen, privacy of ownership. And then number fifteen, segregation of assets and investments.

And again – a lot of those, you're going to get that advice that Garrett started to bring up. Some of you had questions in that area. You can use, I totally recommend his services over at www.corporatedirect.com and also remember, he is also giving all of my companies $100 discount if you do use their services. To incorporate in Texas, it was right under a grand. So it was about $900 something. I think it was $970 or $930. Somewhere in there. So you know, to get your industry structure in place and to incorporate, it just is money and paper.

There's not a lot to it. They definitely help you with a lot of the things I'm going to discuss today. They provide all the forms for you to sign. It could not be easier. My husband and I already had our meeting for 2008. And I'll discuss that here in a minute. We've already done a lot of the corporate "raising the veil," as they call it. You'll hear it in a few minutes, I'll discuss that. We've already done a lot of that for the 2008 period and it's just really, really easy and I really found their services there were just great about walking you through it and the products that they give you afterwards so that you can educate yourself with some of this new lingo. Because I had been a non profit before, some of this was very familiar. But it had been a couple of years so I did have to refresh my memory.

Okay. So the next section I want to talk about and bring up is choosing the state you want to incorporate in. So each state's laws affecting the business do differ slightly and some state laws are more favorable, obviously, to your particular business than others. So, for instance, Delaware is frequently the jurisdiction of choice for forming a large corporation that intends to go public. Because it has a wealth of court decisions defining the rights and limitations of corporations. You've probably heard and I think Garrett did bring this up the other day – Nevada and Wyoming are very popular with all types of businesses, large and small because of their commitment to maintain privacy and then the flexibility of the corporate management. So what you definitely want to do again is consult with your attorney and your CPA to determine whether one state if preferable over another.

Okay. So the next area, and again if you have a question – just make sure you can bring it up during the call or we can save them to the end. Okay. So the next section is forming a corporation, raising the corporate veil. So these are just some of the, I guess you can call them tasks that occur around the formation of it. Quite easy. A lot of them are just signatures on paper and then you having certain meetings depending on who the directors are. For us, it was my husband and myself. We are CEOs of our corporation, Sheri McConnell Companies, Inc.

And I talked about the other day, I don't know if we recorded that call, I think it was on the Friday Q&A, but we talked about that I operate all of my companies under an umbrella and I just chose to do that for the ease of paperwork and the ease of running the companies. And again, if you have multiple companies, definitely get the advice from Garrett, because if you remember, on the speaker CD – and if you haven't listened to that yet, again go ahead and listen to that – what you'll recall is that – did someone have a question? Nope.

What you'll recall is that he didn't advise that because for instance, if one person – if someone chose to sue the National Association of Women Writers, it would actually make all of my companies liable for any kind of judgment that, say, a judgment was held against me for that suit. So it does put your other companies at risk when you lump them all together under an umbrella. Based on past experience, I chose to move forward and use that umbrella because I wanted to base my decisions on things I knew for sure, which was that I knew it would be a lot more paperwork, I knew it would be a lot more of the things I don't enjoy paying for or doing. And so I chose to operate under that umbrella. I like that flexibility and that freedom again – that's a core value for me.

So again, that's your choice. I don't advise to do it that way just based strictly. I would rather you go along with the attorney's advice because they do see all of those instances that they are warning us about in their day-to-day business so definitely call and get advice on your particular situation.

Okay! So let's talk about raising that corporate veil. And there are a number of steps – eight steps that I want to go over. And I'm going to over, some of these I'm going to elaborate on a little bit on. And some of them, I'll just let you know what that step is. And we'll walk through that process and maybe that will give you an easier understanding of how this new corporate industry is different than if you've already started a business. You're probably under a sole proprietorship now or maybe you haven't even started your business yet.

But I do that – do we have any questions? Nope. Okay. So number one is to prepare and follow the articles of incorporation. And so what articles of incorporation are these? This is a document and it provides, it generally provides a number of types of information within it. And so some of the types of information that you will see in your articles of incorporation is first and foremost the name and the business address. You will also state the business purpose. Some states do require that. Our business purpose is online educational services and that really covers everything that we do.

The next piece is the names and addresses of the initial directors. Easy. The next piece of information is the total number of shares the corporation is authorized to issue. Get advice in this area. Get help from the person who is helping you incorporate and you'll be good there and that's what I did. The next thing is the duration of the corporation's existence. Sometimes that's indefinite or perpetual. And then the next section is the name and address of the corporation's resident agents and the name of the incorporator.

So it really lets the state that you're in know where to find you, know where to contact you – much like in your local area if you were a sole proprietorship and you did your DBA certificate. The reason they do that is because should you do anything to somebody else, you know, not deliver on services they paid for or something like they have a way to find you and that's really why they want you to register in your local area and it's pretty much the same here. They need to know where this corporation can be found and who will be liable for anything that might happen. So it's really to protect the consumers and that's what this information is all about in this section.

Okay. So step two is to hold those organizational meetings. And what's great about what Garrett sends you is they send you a book along with your binder of all the documents that they prepare and they prepare the stock certificates and all that for you. But they send you a book called *Bulletproof Your Corporation* and within that, in the back are lots of templates and examples of organizations meeting minutes.

Now the first year, they actually do those for you but then, should you not pay them to do those from now on, which is like $100 and something dollars. More than likely, I'm just going to pay them to do that so that I can move on and get the next thing done. And then I know that they are done right. That's the thing for me. I don't want to pierce my corporate veil so I'd rather spend the $100 and something dollars and make sure that the professionals are doing that. But they do that service but they also offer templates for that right here in the *Bulletproof* book so if you decide not to use their services as an ongoing, like I'm going to be doing, you can do these things yourself. And this book will tell you how.

So as soon as possible, after those filed articles of incorporation are returned, the directors and the shareholders of the corporation should conduct organizational meetings. What this does is it empowers the corporation to conduct business and to provide limited liability. It shows that you are in business.

Okay. Step three is to provide the corporation with confident initial management. And so in this section, I'm just going to let you know about the different management types and officers that you can choose to add to your corporation. I believe in doing everything simple and that's the way we set things up here. But you may have other reasons, other people, other talents, other team members that you want to tie directly into your corporation so it's good to understand and know about these different types of positions.

And then you can also, for instance, depending on your states, you can have one person do more than one position. So for instance, I made my husband the secretary of the corporation, which I had a little bit of fun doing that, and he thought that was quite humorous too because I got to make him the secretary. So he had to take all the meeting notes and do all that so it was kind of fun. And I hope that you all see the chuckle in that but it was fun for me.

Anyway, ongoing, that's what he is and he's also one of the directors and one of the CEOs, one of the owners of the corporation. But you have two people – in Texas, anyway – you can hold those multiple positions. I do believe different states have different rules around that.

Okay. So one of those initial management people that you will need to select are those directors. And then the next area are the officers. So let me go through here and tell you a number of different type of roles or positions that we have as far as officers. You have your chief executive officer. You have your president. Your vice president. Your corporate secretary. Your treasurer. You can have a general manager. A comptroller. And then you can also have assistant officers. Depending on your state, you do not have to have all of those but you can choose to have those on your board, depending on the needs of your company.

Okay! Did anyone have a question? Nope. Okay. So step four is then to issue the stock and acquire the financing. So that looks different and feels quite different depending on the types of company that you are. Sometimes that's just, for instance, I believe in Texas you have to open that business account and you have to – there's a rule around the type of money that can fund the corporation. Excuse me, I have an itch in my throat. And I believe – and I'm not even going to give you this kind of advice but I'm just going to kind of tell you how my experience went along but definitely talk to your CPA. My CPA knows this really well and she just walked me right through it.

But we had to roll over – and I'm not even using the right word – we had to put equipment into the corporation when it was formed from the sole proprietorship and then we had to take $1000 in cash, I believe that's the rule in Texas, I guess. And it had to be money that came from the sole proprietorship business. It couldn't be my personal money. And that had to finance and fund the corporation to get it started.

So there's some rules and some weird stuff if you are not used to this around that and honestly, your CPA, if you're doing any type of incorporation-type work, they understand that perfectly. So make sure – if your CPA is fuzzy about it and doesn't understand it, you don't want that to be your CPA. You want this process to be easy because that person is on your team.

And again, I can tell you that it was just very easy when I was working with my CPA. She explained it to me in such an easy way that I was like, "Oh yeah, I remember." And we did do this before but it's slightly different with a non profit. Some of the pieces of it are.

Okay. So step four is upon the corporation's formation, it's authorized to issue the amount and types of stock specified in the articles of incorporation. So depending on the plan for the corporation, the stock will be the way that it's specified. And again, I didn't understand that when I was going through the corporation process and so I called the Corporate Direct people that I was working with that were assigned to me and I just had them on the phone and went down and asked them all these questions and they gave me all the answers and I got that all straightened out.

So definitely use your service to educate yourself in that area on those pieces that you don't understand. Okay. I'm going to take a quick drink of water. This is a great time for questions if you have any. Okay. So number five is to maintain the corporate formalities. So this is the piece where, from now on, after you have it formed and after you have gotten all the expert advice to form the right entity for your business type, and if you remember Loral Langemeier a long, long time ago speaking or if you've listened to that CD, what you will remember her talking about is there are different entity structures even that she uses for her different types of investments.

So she has different companies that are holding those different types of investments. So depending on how you're building your wealth plan and how aggressive your are and how fast you're comfortable with moving – again, this is all around your mindsets and the amount of leverage that you have and that money and that time and the expertise – you can move forward and just really use the power of your entities in that area.

So it's very, very fascinating and she has this sequencing structure in one of her books that she puts everybody through to help them become wealthy. And one of those sequences, one of those building blocks, is your entity structure. So it's a very, very important piece of all of this.

So step five, maintain corporate formalities. And I want to go through nine different general guidances that will help you maintain the corporate veil while you are conducting business through this new corporation that you've set up. So, number one, is you're going to perform all the annual filings. And so depending on your state, that might look a little bit different. My CPA sent me a schedule that I'm going to make sure that my bookkeeper is well-versed in so that's one reason that I'm making sure I hire a new bookkeeper. Before, when I was a non profit, I kept track of all that myself and that was one reason I was completely insane with it. And I've heard that non profits are the hardest type of entity structure to run, so if you're not doing a non profit, take a deep breath and this isn't as hard. What the bookkeeper will also keep you up on that and help you with the reports with your CPA and your bookkeeper.

Maintain internal formalities, including also having the proper resident agent on record. Number three, maintain a written record of all corporate decisions and we'll talk about that in a minute, a little bit more, what type of corporate decisions, I'll explain on that. Number four, provide – did someone have a question? Number four, provide the world with corporate notice and if you remember, Garrett talked about that on his CD and it was from now on, I'm not Sheri McConnell, I am now Sheri McConnell, president of Sheri McConnell Companies Inc. It is informing all of those people that I do business with that I am acting on behalf of a corporation. And so that's what it means to give corporate notice.

Number five, ensure that the corporation is sufficiently capitalized. Number six, maintain the distinction between corporate assets and personal assets. That's why that business corporate account is so important. Number seven, use caution when distributing corporate profits. And again, you'll want to get help with your CPA and your attorney and all those people involved when you talk about issuing dividends. Number eight, maintain separate corporation bank account. And number nine, file a separate tax return for your corporation, of course.

So next, we're going to go through step six, which is maintaining the corporate formalities by properly calling and conducting and recording those meetings. And then number seven is maintaining the corporate formalities by recording the directors' meetings. So some of the reasons why you would have a directors' meeting during the year would be because you've conducted any type of legal or tax or financial type decision has been made. So some examples of a reason you would have a formal meeting would be, you need to open a new bank account or you need to amend the corporation's articles or the bylaws, for instance. If you're going to change something, you're going to have all of the directors to sign off on it.

Another example would be purchasing or selling a business. So we talked about one of the problems with the umbrella-type model that I have is should I choose to sell any of those companies under the umbrella, it's going to be harder and more paperwork and more expensive for me to sell it. Again, that's an "if." I'm not planning on doing that. I'm sure that it will happen in the future. But I didn't want to set up all those business structures based on an "if." I just didn't have any sure "yeses" or any strong reasons that I should incorporate each of my companies separately. So I did have some definite yeses on how much work would be involved.

Some other issues, or some other reasons to have directors' meetings would be if you needed to acquire loans or financing. These things have to be done formally or otherwise you pierce the corporate veil. And other reason would be filling vacancies. You need to fill vacancies on your board of directors or you're going to add an officer. So any kind of changes that you do that are not already in your articles of incorporation, you'll have to have another meeting and then your documents.

Step eight is maintaining the corporate formalities to protect the officers and directors from liabilities. So what the corporate veil does is it again shields the shareholders from personal liabilities arising from the corporation's debts or obligations or actions. So corporations that consistently maintain the corporate formalities, which we just did an overview of, then you have protected your shareholders from that liability.

Always what my CPA said is those lawyers will always, well, they don't always do this… But they can come in and try to find a way to pierce the corporate veil. But that's just true of any day of the week, you can get sued for anything so. You know how I am about walking through fear and not letting fear hold you back. You know, it's almost her job to kind of talk to me like that so that I understand all of the consequences of all my decisions.

So I just kind of want to put that out there. I think all the tools that Garrett offers are amazing, that will help you feel much more at ease about this and if you remember what Laurel said in this program, that knowledge will give you those tools you need to move forward. Things are only hard to do when you don't have the correct knowledge. And again, this is a whole entire new language just like a lot of the marketing stuff that we talked about is a completely new language. And a lot of the finance discussions we've had during this program, all of these different things – it's a lot of new information coming out.

So definitely know that this is here for you to refer back to. Let me move to the next area. Do we have any questions?

AM: Sheri? What happens if you don't have anyone on your board? If you are the – you're everything?

SM: You know, what state are you in?

AM: I'm in Ohio.

SM: Yeah, you will have to check. In Texas, you have to have at least two. So if it's like Texas, you would have to find another person to serve as a director on your board. So that's one piece that I know Garrett would know off the top of his head probably. And they have people, even though – obviously he's harder to get a hold of and when you start to consult with him, you have to pay for his time, and that's good in many cases that you want to do that. But you can also call him team and he has a lot of people there that can answer a lot of those questions and they will do that as a free service. Because, you know, we always have a lot of questions before we use someone's services. Does that help?

AM: Yeah.

SM: It depends on your state and what their rules are around that. You could probably... to the IRS and there's a book or a publication is what they call them there. And I bet it's also there if you did some searching on the IRS Web site.

AM: Okay.

SM: Okey doke?

AM: Thank you.

SM: Any other questions? So this is short and sweet today. You know, definitely for those of you who have some – it's kind of overwhelming with this piece. Or maybe you're not. Definitely plug in. His Web site is really wonderful too. There are a lot of tools there that you can use to educate yourself and again, that's www.corporatedirect.com. You get $100 off if you decide to incorporate through them and it's just, it's worth the peace of mind, having people do this stuff for you – definitely, in my opinion.

And I would not even attempt to do any of this myself, obviously. There's lots of somewhat cheaper services out there also but I found all the tools that they sent to be really wonderful. And I've done this before and I was a non profit back then and an attorney's office did it pro bono and it just wasn't the same type of experience at all. So this is much better.

So if we don't have any questions, we'll go again and tune back in next week. The last two weeks of the program, we're going to be discussing – if you're in the live program – we're going to be discussing systems and automation. You will not want to miss these calls. This is a great way to end this program because this is going to wrap up everything. I've touched on systems that you'll need in your businesses and I've touched on automation a lot throughout the coaching calls. These are the crucial pieces of the six and seven-figure type business. Because you cannot get to that place without being completely miserable and exhausted, unless you begin to automate everything you're doing and you begin to think in a systematic way in that you only set things up once.

So for instance, anytime I'm doing an autoresponder, I try not to keep dates or other information in there. I try to word the autoresponder and I trained my staff this way too because I have them go in and change things and update things. And I don't want to have them update these things for years ahead of us. If I can update something once and it stays that way, that's perfect. So you always begin to start thinking in that systems way and that's just one little way that you start to really streamline what you're doing in your companies to run it more efficiently, which all boils down to the type of money you have. If you can spend less in running a company while still bringing more money in, that's more net profit at the end of the day.

And that's the fun and exciting part of running a business. Every year, you get better and better at this. And you look back and say "Whoa! I just spent way too much on that particular thing last year. I need to streamline there and do this and do that," and that's just the fun part of running the business and it all comes down to your systems and your automation, how well you can get those pieces done.

So there's a lot of fun and interesting stuff coming up in the next two weeks. If we have any questions, I'll take them at this point. And if we don't, we'll go ahead and sign off. I hope everyone has a warm Monday and I will talk to you again soon! Take care, everyone.

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