

MCKEE LAW OFFICE

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[Today's Date]

[Contact]

[Contact Title]

[Company]

[Address]

[Csz]

Re: **Corporate Formalities**
Our File Number: [Account Number]

Dear [Contact Last Name]:

Congratulations! [Client Name] is officially and legally organized and recognized as a business in Commonwealth of Pennsylvania. Simply sign the enclosed documents and store them in a safe and secure location. In a few weeks you should receive some official documents from the State. Read and store those documents also.

The remainder of this letter highlights certain issues relating to [Client Name]'s operation that are important in maintaining limited personal liability and all tax benefits of doing business in the corporate form.

1. **Benefits of Corporate Form**

The limited liability and tax benefits of doing business in the corporate form result from the corporation's being treated as a separate entity. To obtain these benefits, it is important that the corporation be operated as an entity separate from its shareholders, directors, and officers. In order to do this, you must understand the role of each of the persons involved in the operation of the corporation and must comply with certain formalities in operating the corporation.

2. **Separate Entity**

It is critical that you recognize the corporation as a separate entity and treat it as such. Under no circumstances should corporate and personal funds, assets, or accounts be mixed. Corporate funds

should not be used to pay personal expenses, to make personal investments, or for any other purposes not related to the corporation's business. Corporate assets should be distributed to shareholders only in the form of compensation, dividends, or other distributions specifically approved in advance by the board of directors.

The corporation should also be held out to third parties as a separate entity. All business of the corporation should be conducted in the name of the corporation, and the name of the corporation should be used on all agreements, contracts, leases, orders, and other arrangements entered into by the corporation. It should also be used on all products, signs, advertisements, correspondence, business cards, telephone directory listings, and similar items. The corporation should carry its own insurance and will be required to file its own income and employment tax returns.

The corporation can only act through individuals. However, when acting for the corporation, remember that you are acting as a representative of the corporation, and not in your individual capacity. When signing documents, make it clear that you are representing the corporation. For example, all documents signed on behalf of the corporation by its president should be signed, "[Client Name] by [Client Contact], President." If you fail to make your representative capacity clear, you run the risk of incurring personal liability for the obligations of the corporation.

3. Individual Roles

The shareholders, directors, and officers of the corporation all have their own roles and functions. It is important that these roles be kept separate and respected. This is particularly crucial in the case of a closely held corporation such as yours where the same individuals function in several different capacities.

a. Shareholders

The shareholders own the corporation. However, the shareholders are not partners in a partnership, and they neither own the business (which is owned by the corporation) nor manage the business (which is the function of the board of directors and officers). The shareholders own stock in the corporation and have a voice in the management of the corporation since they elect the directors of the corporation and participate in certain major decisions, such as sale of substantially all of the assets of the corporation and amendment of its articles of incorporation. If the corporation's existence is to be respected, it is important that the shareholders' activities are limited to their proper role.

The shareholders must act as a group. Actions are taken at meetings, or by written consents signed by all shareholders, through the adoption of formal resolutions. A formal written record of all actions taken by the shareholders should be maintained in the corporation's minute book.

Shareholder meetings should be held at least once a year for the purpose of electing directors. Special meetings may be required if additional matters requiring shareholder approval arise.

b. Directors

The board of directors of the corporation is responsible for the management of the corporation. The board of directors establishes policy, which is carried out on a day-to-day basis by the officers of the corporation. The board of directors elects, and can remove, the officers. The board of directors also makes all major decisions relating to the management of the corporation, including the compensation paid to employees, issuance of stock, approval of important contracts, borrowing of money, purchase of equipment and property, and the payment of dividends.

The board of directors must act as a group. Actions are taken at meetings, or by written consents signed by all directors, through the adoption of formal resolutions. A written record of all actions of the board of directors should be maintained in the corporation's minute book.

The board of directors should meet at least once a year for the purpose of electing officers and dealing with such things as the compensation of shareholder-employees. However, special meetings may be required from time to time throughout the year as major issues arise that require the attention of the board of directors.

c. Officers

The officers are employees of the corporation and are responsible for conducting the day-to-day business activities of the corporation. The business is to be conducted in accordance with policies established by the board of directors, and authorization must be obtained from the board of directors for major corporate transactions. The scope of authority and the functions and responsibilities of the various officers are set forth in the bylaws of the corporation.

4. Corporate Formalities

Because a corporation is a separate entity in which individuals may play a variety of roles, certain formalities are prescribed for corporate actions. Complying with these formalities is important to have the corporation recognized as a separate entity and to avoid personal liability for the obligations and liabilities of the corporation. The bylaws of the corporation provide a guide to compliance with proper corporate formalities. In addition, proper and complete records must be maintained by the corporation. Every year, [Client Name] should record minutes and execute resolutions adopting any significant action. Please call me if you have any questions. <<*Optional*As a member of our General Counsel Program, this is one less requirement that you have to worry about. Included in the program is our Corporate Compliance Maintenance service which will address these yearly requirements.>>

5. Further Advice

You should seek further legal advice before undertaking major corporate changes or transactions. The corporation's bylaws provide you with a guide to routine corporate operations, but additional guidance will be required to comply with the legal requirements for major matters.

You should, for example, consult with me, or another attorney, if you are considering any of the following:


1. Doing business in a new state.
2. Issuing new stock or issuing bonds or other debt instruments to investors.
3. Selling or otherwise transferring a majority of the corporation's assets.
4. Merging into any other corporation, or having any other corporation merge into the corporation.
5. Having the corporation acquire stock from any stockholder.
6. Amending the articles of incorporation of the corporation.
7. Dissolving the corporation.
8. Selling the Corporation's shares to the public.

Please feel free to contact me if questions arise regarding the day-to-day operation of your corporation.

This is a huge milestone in your corporation's history. Be sure to take a little time off to appreciate and celebrate this step.

I appreciated this opportunity to be of service to you and look forward to working with you in the future. Remember, you can chat online, privately, with me every Monday through Friday from 8am to 8pm at www.mckeeoffice.com

Sincerely,

A handwritten signature in black ink that reads "Sharmil McKee". The signature is written in a cursive, flowing style.

Sharmil McKee
Business Attorney
sm@mckeeoffice.com
1-800-224-1985

Enclosures