

**CHOOSING
THE “RIGHT” FORM OF BUSINESS
ENTITY**

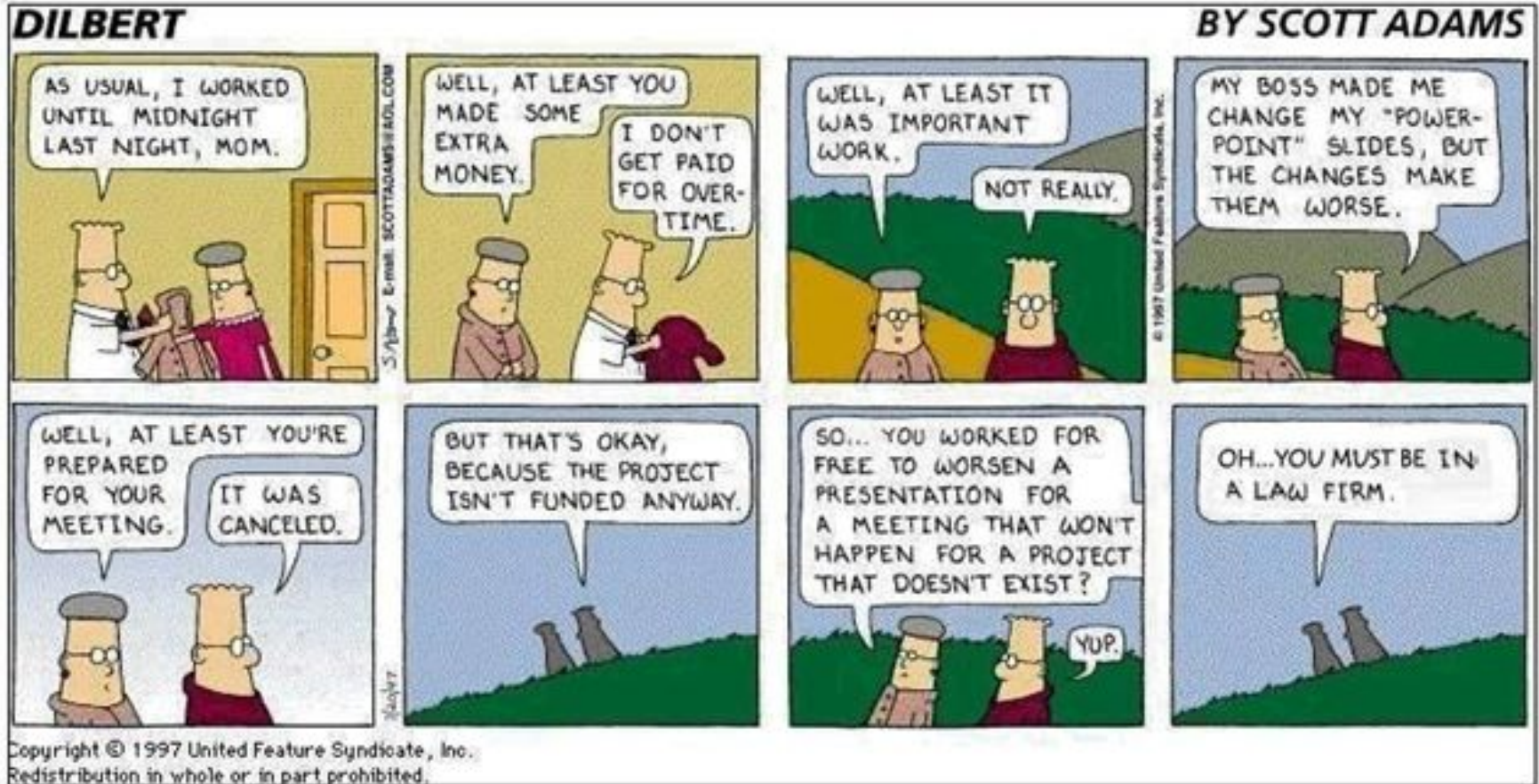
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**Small Business Committee
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THE PRESENTATION



WHERE TO START

- **Understand the Advantages and Disadvantages of Each Type of Legal Entity**
- **Consider those Factors that are Most Important to You and Your Business Intentions**
- **There is No One Size Fits All**
- **Ask Questions**
- **Get the Best Advice**



THE SOLOIST

Pam just completed her studies at Temple University in web design. During her studies, she began volunteering with local nonprofits. In trying to collect information about some of them, she found their websites very unappealing, often with outdated information. She realized that these companies could not afford web designers. She began considering whether she could help them with her new found knowledge? In the meantime, her favorite great uncle passed away and left her \$10 million.

SOLE PROPRIETOR

- 1. Easiest form of business to create**
- 2. Management by one, the sole owner**
- 3. Capital needs satisfied personally**
- 4. Completely liable**
- 5. Taxed as an individual – profits and losses applied to all other income.**

THE COUPLE

Bob recently spent his honeymoon in the beautiful hills of Sonoma Valley, California. He feel in love with the wineries and decided it was time to make his dream come true - opening a vineyard. He was not ready, however, to do this on his own. He called his friend, Jack, a fellow wine connoisseur, who had spoken about opening a vineyard himself on numerous occasions.



PARTNERSHIP

- 1. Creation with the state simple; documents between the partners may be complex**
- 2. Management by partners dependant upon the investment**
- 3. Capital can be satisfied by others**
- 4. Liability depends upon ownership**
- 5. Taxed as an individual – profits and losses passed through the partnership**

INVENTOR TURNED ENTREPRENEUR



As a researcher at the Science Center, Julie has discovered a new method for the study of genes for disease modeling which includes a combination of genetic mapping, genome resources, and high-throughput technologies. She knows it is a blockbuster for the medical community and believes she should be paid handsomely for her discovery.

LIMITED LIABILITY COMPANY

1. **Not very difficult to create**
2. **Management structure is very flexible**
3. **Capital satisfied by investors**
4. **Liability is much less**
5. **Taxed as a partnership and therefore really a hybrid between a partnership and a corporation.**

EXECUTIVE TURNED FOUNDER

Tom has been ready to leave his executive officer position for some time now and the recent Dodd-Frank laws on top of the Sarbanes-Oxley laws is just the push he needed. Fortunately, his plan for a web-based software company which streamlines the medical care process between physicians and their patients has received some interest. A prominent venture fund has just given Tom a term sheet to review.



CORPORATION

- 1. Creation entails governance documents**
- 2. Management by board and officers**
- 3. Capital satisfied by investors which may be more passive in smaller organizations**
- 4. Liability is less compared to other forms**
- 5. Double taxation because at both the corporate level and the ownership level**

TAKEAWAY POINTS

- Once size does not fit all.
- Consider all of the factors that you believe may be important for your business
 - *Ease of creation*
 - *Management*
 - *Capital needs*
 - *Liability*
 - *Taxes*
- Ask questions of advisors and others who have started their own business.

THE INFORMATION



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QUESTIONS?



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