

BUSINESS ENTITY GLOSSARY

CORPORATION: Legal entity that can has the same powers as an individual to take action to carry out its business affairs. Ownership is held by shareholders. Major business decisions are the responsibility of the directors. Day to day business operations are handled by the officers.

LIMITED LIABILITY COMPANY: Legal entity that can has the same powers as an individual to take action to carry out its business affairs. Ownership is held by members. Major business decisions are the responsibility of the managers. Day to day business operations are handled by the officers.

GENERAL PARTNERSHIP Legal entity that can has the same powers as an individual to take action to carry out its business affairs. Ownership is held by partners who are jointly and severally liable for all the acts of the partnership. Major business decisions are the responsibility of the general partners. Day to day business operations are handled by the officers.

LIMITED PARTNERSHIP: Legal entity that can has the same powers as an individual to take action to carry out its business affairs. Ownership is held by one or more general partners (who run the business are jointly and severally liable for all the acts of the limited partnership) and one or more limited partners (who are not liable for the acts of the limited partnership, but do not run the business because they are passive investors). Major business decisions are the responsibility of the general partner(s). Day to day business operations are handled by the officers.

LIMITED LIABILITY PARTNERSHIP: Legal entity that can has the same powers as an individual to take action to carry out its business affairs. Ownership is held by one or more general partners (who run the business are jointly and severally liable for all the acts of the limited partnership) and one or more limited partners (who are only liable for their own acts). Major business decisions are the responsibility of the partners. Day to day business operations are handled by the officers. This form is usually used when professionals such as lawyers are starting a business together.

SHAREHOLDER: Person or entity that holds shares (units of ownership) in a corporation. Not liable for the debts, obligations or liabilities of the corporation. Shares are usually certificated.

MEMBER: Person or entity that holds unit(s) of ownership in a limited liability company. Not liable for the debts, obligations or liabilities of the limited liability company. If the limited liability company is member managed, then a member is also a governing person charged with managing and directing the major business affairs of a limited liability company, as defined in the entity's governing documents. Units of membership interest may be certificated.

GENERAL PARTNER: Governing partner (person or entity) who is charged with managing and directing the major business affairs of a partnership, and is fully responsible for all of the acts and debts of the partnership (whether it is a general or limited partnership).

LIMITED PARTNER: Partner who may not participate in the managing and directing the major business affairs of a partnership, or the day to day running of the business of the partnership, but is also only liable for the acts of the partnership to the extent of his/her/its investment in the partnership. A limited partner is a passive investor in the limited partnership.

DIRECTOR: Governing person charged with managing and directing the major business affairs of a corporation, as defined in the entity's governing documents. Not liable for the debts, obligations or liabilities of the corporation.

MANAGER: Governing person charged with managing and directing the major business affairs of a limited liability company, as defined in the entity's governing documents. Not liable for the debts, obligations or liabilities of the limited liability company.

OFFICER: Individual charged with managing and directing the day to day business affairs of a corporation, partnership (general, limited, or limited liability), or limited liability company, as defined in the entity's governing documents. Not liable for the debts, obligations or liabilities of the entity, except in certain circumstances.

LIABILITY SHIELD: The entity is liable for acts of the entity. The owners of the entity are not personally liable for the acts of the entity.

FRONT END LIABILITY: Suits against the entity for the acts of the entity. The entity protects the ownership from being liable for the acts of the entity.

BACK END LIABILITY: Suits against the individual owners in their individual capacity. If found liable, the owner's ownership interest could be awarded to a claimant as part of a judgment, and then the claimant would be an owner.

C CORP STATUS: Status chosen by a corporation or limited liability company with the IRS where income is taxed at the entity level as well as at the ownership level. This status is sometimes referred to as receiving "double taxation".

S CORP STATUS: Status chosen by eligible corporations and limited liability companies with the IRS where income is only taxed at the ownership level. This status is sometimes referred to as "flow through taxation" or "single taxation".

PARTNERSHIP TAX STATUS: Status chosen by partnerships and eligible limited liability companies with the IRS where income is only taxed at the ownership level. This status is sometimes referred to as "flow through taxation" or "single taxation".

FRANCHISE/MARGIN TAX: Tax imposed by the State of Texas on most business entities. Even if the entity owes no tax during the current year, it must file a return form with the Comptroller's Office or risk losing the ability to do business in the State of Texas.

CERTIFICATE OF FORMATION: Governing document of corporations, partnerships (limited and limited liability), and limited liability companies filed with the Texas Secretary of State. This document usually includes the name of the entity, type of entity, purpose for the entity, period of duration of the entity, the initial registered agent and street address, and the name and address of the organizer.

BYLAWS: Document that governs the internal affairs of a corporation.

REGULATIONS (aka COMPANY AGREEMENT): Document that governs the internal affairs of a limited liability company.

LIMITED PARTNERSHIP AGREEMENT: Document that governs the internal affairs of a limited liability partnership.

SHAREHOLDER AGREEMENT: Document that governs the ownership and transfer of shares of a corporation under certain situations.

MEMBERSHIP AGREEMENT: Document that governs the ownership and transfer of ownership units of a limited liability company under certain situations.

MINUTES: Written recording of the proceedings of the ownership or governing authority meetings, as required by the TBOC or the entity's governing documents.

UNANIMOUS WRITTEN CONSENT: Written recording of the action of the ownership or governing authority, taken without a meeting and usually done unanimously, as provided for in the entity's governing documents.

TBOC: The Texas Business Organizations Code.

REGISTERED AGENT: Agent (entity or individual) of the entity (not the entity itself) who may be served any process, notice or demand permitted by law.

EIN: Employer Identification Number. This is the number generated by the IRS at your request and it is the taxpayer identification number for your business entity.

FILING NUMBER: This is the number that is assigned to your business entity by the Texas Secretary of State's office for identification purposes. If you filed your certificate of formation on the internet, it is in the top right hand corner of the first page of your certificate of formation. This number is sometimes referred to as a charter number, a certificate number, or a registration number.