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Legal Handbook for Starting and Running a Small Business

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Our intentions for this handbook are to provide you with a quick but concise understanding of the legal steps and strategies that go into starting and running a successful small business.

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Make no mistake.
Small businesses drive the U.S. economy.

Businesses with 500 employees or less make up 99.9% of all U.S. businesses.

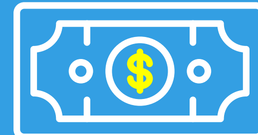
- Small Business Administration (SBA)

From 1995 to 2020, small businesses also accounted for 62% of new jobs created, while a 2019 SBA report found that small businesses account for 44% of U.S. economic activity.

That being said, small businesses are also prone to failure. Roughly 20% fail within the first two years of opening. Another 45% fail during the first five years of operation.

There are many reasons for those failures – poor business plans, misunderstanding the market, expanding too quickly, etc.

Another major contributor to small business failure?...



53% of U.S. small businesses deal with lawsuits annually.

Those lawsuits can range anywhere from $3,000 to $150,000

- Small Business Administration

This handbook addresses common small business legal needs and concerns. The information is general: we recommend that you consult a business attorney regarding your specific circumstances. The content is not meant to be considered as legal advice or a substitute for legal representation. High Swartz LLP provides legal support to clients throughout Pennsylvania, Delaware, Maryland, Virginia, and New Jersey.

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Choosing a Business Structure

"How you form your business determines your liability, tax payments, and other details for running it."

There are several options to choose from when setting up your business, including a sole proprietorship, partnership, Limited Liability Company (LLC), or corporation.

The one you select depends on several factors:

- **Flexibility:** Determine your expectations for business growth and ensure your structure provides ample flexibility to accommodate that growth. Generally, an LLC offers the most flexibility for growth potential.
- **Liability:** You must examine the risks and your potential personal liability. You'll also need to consider insurance, credit, and assets. For example, corporations can offer the most significant liability protection.
- **Taxes:** Sole proprietors, partnership owners, and S corporations classify income as personal income, while a C corporation separates business income from personal. Your structure impacts tax burdens because business income is taxed differently than personal income.
- **Operating Costs:** Keeping updated records and paperwork can be costly, so you will want to factor in these expenses. Sole proprietorships are usually the business type requiring the least amount of time and money invested in recordkeeping.
- **Fundraising:** Your structure dictates how you raise funds. For example, sole proprietorships typically can't offer stock, whereas corporations can.
- **Control:** A sole proprietorship is typically the best route if you want complete control over the business. However, you also assume total liability for potential lawsuits, taxes, and losses.

What are the Types of Business Structures?

How to form your business legally is controlled by the law of the state where you create your business. Your decision must consider liability, taxation, and recordkeeping.

The most common forms of business structures are:

- **Sole Proprietorships**
- **Partnerships**
- **Limited Liability Companies (LLC)**
- **Corporations**

Let's look at some business structure options:

Sole Proprietorship

Generally, this option is the simplest and most common. With a sole proprietorship, your business is unincorporated and run entirely by one person – you as the owner. Although this structure entitles you to all the profits, you are also individually responsible for all debts and liabilities.

You obtain the necessary licenses and permits for your business when operating as a sole proprietorship. However, they vary by state and industry. Also, if you work under a business name, you may legally have to file for a fictitious name.

In many states, such as Pennsylvania, registering a fictitious name does not protect the name or give you any right to block others from registering the same fictitious name. Instead, it serves only as a notice to the public that you are trading under that name. In addition, you must file with the IRS for an Employer Identification Number (EIN) if you hire employees.

Because you are the sole owner, your business entity is not taxed. Instead, you report the income and losses on Schedule C to Form 1040.

Partnerships

A business is legally structured as a partnership when two or more people share ownership. As a result, each partner contributes to aspects of the company, and both share liability and income.

In choosing this business structure, developing a legal partnership agreement is essential to document your future decisions. In addition, the contract should include terms for dissolving the partnership if necessary. Although a legal agreement is optional, it's strongly encouraged since operating a business without one is risky.

If you choose a partnership structure, you can form a general partnership. Consequently, everything is divided equally among the partners. On the contrary, a limited partnership allows a partner to have limited responsibility.

Register partnerships with the state with an established business name and all licenses and permits. The business must also register with the IRS and file an "annual information return" to report its income and losses.

The company itself does not pay income tax. Instead, profits and losses are "passed through" to the partners.

Limited Liability Companies

An LLC, or Limited Liability Company, is a legally recognized business structure combining corporate and partnership aspects.

To form an LLC, you must first choose a name that complies with state rules. The next step is filing articles of organization with your state's business filing office, typically with the Secretary of State. These are generally short and simple documents that take only a few minutes to complete.

After filing with the state, it's imperative to create an LLC Operating Agreement that sets legal rules for the ownership and operation of the company. Finally, make sure to obtain all licenses and permits required. Also, some states may ask you to publish notice that you intend to form an LLC in a local publication.

Corporations

Becoming a legally recognized corporation is more complex. First, states determine the formation of corporations. In addition, corporations pay corporate income tax at the federal and state levels.

Certain small corporations can elect Subchapter S status and be taxed like a partnership, avoiding corporate taxes. In that case, profits flow to the shareholders as ordinary income.

In a corporation, the business becomes a corporate entity, and the corporation is taxed and held legally liable for all business responsibilities.

The business first needs to choose a corporate name not used by another corporation or limited liability company and prepare and file articles of incorporation to become a corporation in the Commonwealth of Pennsylvania.

Pennsylvania corporations also need an agent for service of process in the state that agrees to accept legal papers on the corporation's behalf. However, a corporation with a Pennsylvania address needs no separate agent to service the process.

To complete the legal requirements of forming a corporation, you must publish legal advertising, create corporate bylaws and hold an organizational, board of directors-style meeting.

You can learn more by reviewing A Guide to Business Registration in Pennsylvania.

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Ownership Agreements

An ownership agreement that addresses the circumstances of an owner's withdrawal from ownership, the terms of a buyout, and the valuation of the owner's interest will likely save money and heartache for successful business owners. It will also give family members peace of mind that the transfer of business interests has been thought of carefully.

It can take the form of the terms of an operating agreement, partnership agreement, shareholders' agreement, or a separate, standalone agreement among the company and its owners.

What to Include in the Agreement

When drafting an agreement, it's important to address the following issues:

1. *When can an owner sell to a third party, non-owner?*
2. *Can an owner force the other owners or a third party to buy their shares?*
3. *Can an owner force a co-owner to sell their shares to a third party?*
4. *What is the value of the shares?*
5. *What kind of financing should be available on the sale of shares?*

Ownership agreements address whether co-owners can sell their interests and under what circumstances. Often, in a closely held business, the co-owners start the business relying on the fact that they will be in business with each other.

However, they don't necessarily want to be in business with a co-owners spouse, creditor, heirs, or another third party. They might be particularly wary of eventually being in business with a stranger. For this reason, many owners decide to restrict sales of ownership interests, except under very defined conditions.

How to Withdraw or Sell

The types of conditions under which an owner may sell fall into two general categories. The first is a voluntary sale, while the second is an involuntary sale.

In a voluntary sale, an owner seeks a buyer for their shares. An owner's agreement should include a procedure a selling owner must follow before a sale is complete.

Often, the selling owner must offer the interest first to the company (the company having a "right of first refusal"), then to the co-owners in proportion to their remaining interests, and lastly to the third party.

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Tag and Drag Agreements Sale Agreements

If an agreement has "tag along rights," minority owners can force at least a partial sale to the third-party owner.

Likewise, if owners holding a majority of the ownership rights want to sell their interests to a third party, and the third party only wants to purchase the entire company, an agreement may require the minority owners to sell under what is known as "drag along rights."

Involuntary Sales Agreements

Under an involuntary sale, an owner must sell their interest in the company. There can be many different triggers to force an involuntary sale:

- An owner's bankruptcy, creditor's attachment, divorce, or financial hardship
- Involuntary, or any, termination from employment
- Death
- An owner's disability or divorce

Divorce is often included so that the interests of the divorcing owner do not become subject to equitable distribution. If that happens, their interest can wind up in the hands of divorcing owner's former spouse, causing management issues.

Valuation

Once the owners settle on the methods for withdrawing from a company, they must consider valuing the interests.

For sales between owners or between an owner and the company, it's often a good idea for the owners themselves to agree on the valuation for the company annually. This decision, if done on a regular basis, can often be the definitive value of the company.

Some valuation companies typically use standard methods to determine value. For example, some like to use a valuation formula based on some combination of income, expenses, assets, liabilities, public gross income, net profit, and/or EBITDA.

If a third party is interested in purchasing the shares, sometimes the third party's offer can be the basis for valuation. In addition, some companies prefer to hold an auction for the departing owner's shares between the owners.

However, most agreements provide for a business appraisal if a buyer or seller is unhappy with the formula provided by the ownership agreement.

Financing the Shares

When a buyer isn't paying cash for the interest, the method of paying the purchase price needs to be decided.

Many companies maintain life insurance policies for their owners. The proceeds from these policies can serve as a pool for the company to finance purchasing ownership interests from the deceased owner's estate. Leftover proceeds, if any, may be used to compensate the company for losing the owner.

Sometimes, an ownership agreement may specify that the purchase occurs over time pursuant to the terms of a promissory note, which usually does not exceed five years. Often an interest rate or formula may be specified.

The proposed interest rate is often slightly higher than the market value. That high rate encourages the purchasing party to refinance with traditional bank financing at a lower rate so that the selling party can be paid more quickly.

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Commercial Leases

You can sign a commercial lease agreement without an attorney's insight. But should you? Signing a lease agreement is a critical consideration for your business.

Unfortunately, many business operators fail to give their commercial lease the proper attention, choosing to direct their attention elsewhere. But their first mistake is failing to ask themselves if they need a lawyer for a commercial lease.

A commercial lease attorney is essential when leasing a commercial space. First, they know lease agreements and can direct you on what type best fits your business. Second, they can advise you on zoning and lease clauses that might impact your company.

Most importantly, they can help negotiate your lease to get your business off to the right start.

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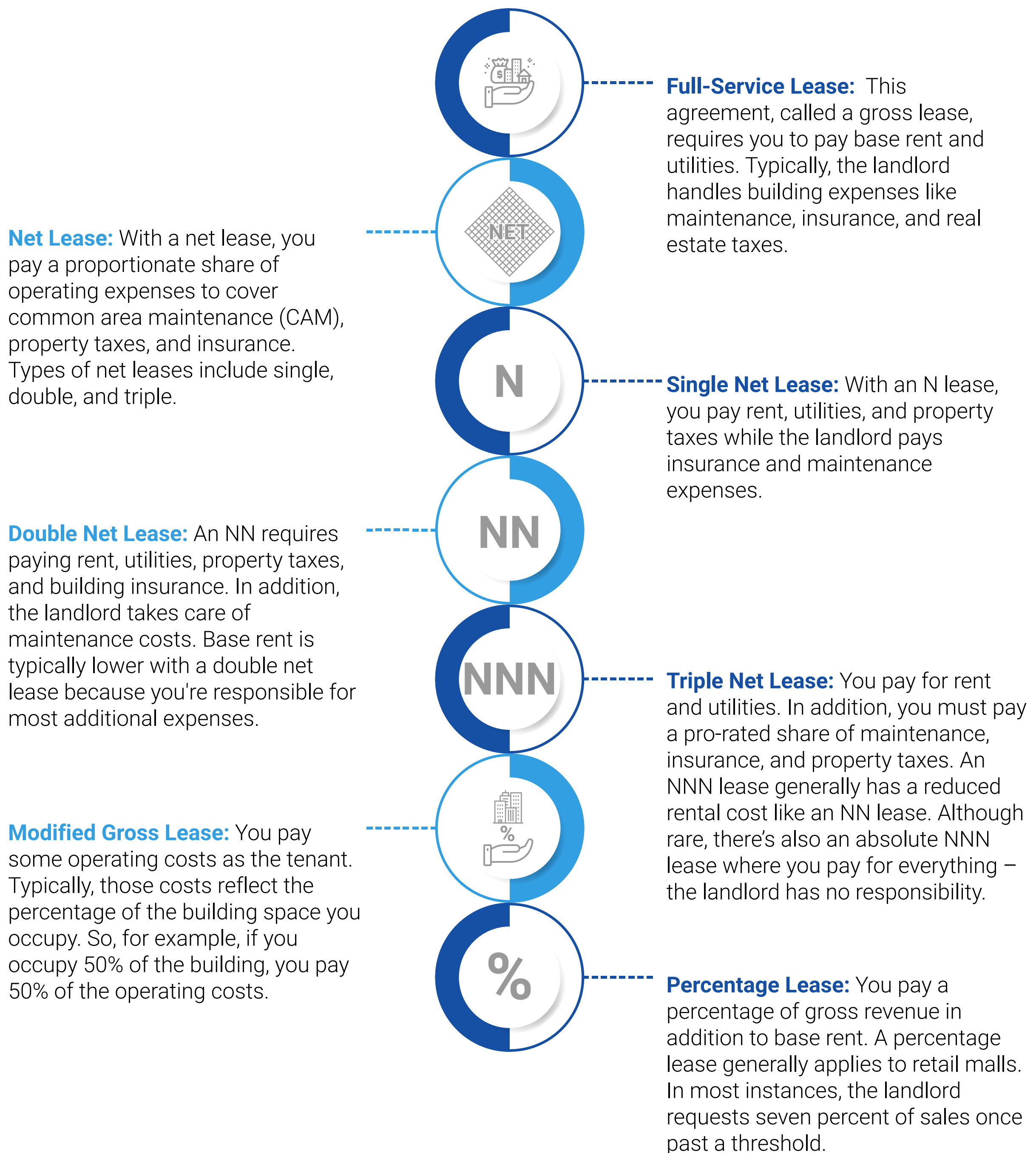
Got questions? Call us at 1-833-LAW-1914.

7 Types of Commercial Leases

There's more than one type of commercial lease. Each determines your payment responsibilities as a tenant. So, you need to choose which type best fits your needs.

Here's a look at seven standard lease options:



Full-Service Lease: This agreement, called a gross lease, requires you to pay base rent and utilities. Typically, the landlord handles building expenses like maintenance, insurance, and real estate taxes.

Net Lease: With a net lease, you pay a proportionate share of operating expenses to cover common area maintenance (CAM), property taxes, and insurance. Types of net leases include single, double, and triple.

Single Net Lease: With an N lease, you pay rent, utilities, and property taxes while the landlord pays insurance and maintenance expenses.

Double Net Lease: An NN requires paying rent, utilities, property taxes, and building insurance. In addition, the landlord takes care of maintenance costs. Base rent is typically lower with a double net lease because you're responsible for most additional expenses.

Triple Net Lease: You pay for rent and utilities. In addition, you must pay a pro-rated share of maintenance, insurance, and property taxes. An NNN lease generally has a reduced rental cost like an NN lease. Although rare, there's also an absolute NNN lease where you pay for everything – the landlord has no responsibility.

Modified Gross Lease: You pay some operating costs as the tenant. Typically, those costs reflect the percentage of the building space you occupy. So, for example, if you occupy 50% of the building, you pay 50% of the operating costs.

Percentage Lease: You pay a percentage of gross revenue in addition to base rent. A percentage lease generally applies to retail malls. In most instances, the landlord requests seven percent of sales once past a threshold.

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Key Clauses in Commercial Lease Agreements

Apart from spelling out monthly expenses, your lease agreement covers essential clauses governing your tenant rights. These clauses can create issues if you don't address them adequately right from the get-go.

The most relevant clauses include the following:

- **Lease Term:** When does the term start and end? What happens if the business closes or you elect to relocate? Often, the lease term includes when you can enter the building, when rent is due, when to secure insurance, etc. The clause also determines when and how to renew the lease terms.
- **Premises Clause:** This clause identifies the space you occupy as a tenant. If you're renting the entire building, it's reasonably straightforward. However, if you rent a portion of the building, the premises clause details that space. **This clause is a requirement for shared spaces.**
- **Use Clause:** A use clause defines how your business can use the space. So, you need to be aware of any limitations it places on your business, including the products or services you offer.
- **Rent Clause:** The most apparent purpose of the rent clause is determining when and how to pay rent and what operating costs fall to the tenant. However, the clause should include rent escalation. For example, when an escalation occurs, its determination and the allowable increase.
- **Alterations and Improvements:** A tenant often requires modifications before moving into a leased space. So, this clause presents who is responsible for the cost. It also determines your right to alter the area in the future, the process required, and your financial responsibilities.
- **Insurance Clause:** The most common insurance types include property and liability, rental interruption, and leasehold insurance.
- **Transfer Clause:** This clause is vital if you go out of business or elect to move to another location. Typically, it involves the lease assignment to a new tenant or subletting.
- **Personal Exposure:** Some leases require personal guarantees. You should be particularly wary of providing that guarantee. Always seek advice from a commercial lease attorney before agreeing to any such clause.

Commercial Leasing Concerns in Pennsylvania

In Pennsylvania, it's critical to determine whether your business adheres to regulations regarding permitted use. For example, nearly 60 percent of PA townships and boroughs have zoning ordinances.

As a result, you may sign a lease only to learn that a township ordinance forbids your type of business from operating in the zone.

Moreover, municipal zoning regulations often use different names for business districts. For instance, one municipality may use Business General, another may use Commercial General, and another may use Business Commercial.

Finally, the Pennsylvania Uniform Construction Code (UCC) mandates a statewide building code that more than 90 percent of the Commonwealth's municipal corporations enforce. Like permitted use, each municipality determines whether to use the UCC within its jurisdiction.

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Common Small Business Legal Issues

What legal concerns should you expect if you're running a small business? Although contracts and taxes comprise more than half of small business legal issues, you're bound to encounter more. We've included the 6 most common legal issues facing small businesses on the following page.

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6 Most Common Small Business Legal Issues

The Formation of your Business

We've gone into depth about how business formation significantly impacts your liabilities and profitability. How you form your business determines your liability, tax payments, and other details for running your business. Each business structure has benefits and drawbacks.

Licensing

Do you know the government restrictions for licensing of the goods or services you will provide? If you're like most people, probably not. Costs and requirements vary based on location. Plus, regulations cover stipulations for each business type. So they vary based on size, kind, and business location. However, if you fail to license your business correctly, you'll likely face hefty fines or fees. Worse still, your business could be closed.

Contracts

Contracts drive business. And there's a good reason you often hear the phrase; *"get it in writing"*. Unfortunately, too many small business owners rely on ambiguous contracts or, worse, no contracts. More than 37% of legal issues arise from contract issues.

First, Never enter into a contract with another party sans a legally binding agreement. Second, every contract should be *"ironclad"*, whether you're executing a real estate, employee, or franchise agreement. Working with a contract or business lawyer can be extremely beneficial in this sense.

Intellectual Property

We discussed how employees might pilfer proprietary knowledge and give it to a competitor. And that raises this point – too many small businesses fail to take care of their intellectual property covering copyrights, patents, and trademarks.

Independent of safeguarding your property, you must ensure follow laws to avoid infringing on an intellectual property by failing to conduct thorough research.

Taxes

If you're going to own and operate a business, you will pay taxes, both federal and state. But know this – tax laws get complicated. So, you need to retain the services of an accounting professional to avoid issues. They can help address what taxes you must pay, when to file, how to make payments, and more.

Employee Issues

Where to start? Employee issues present significant risks for small businesses. For instance, many companies fail to acquire appropriate documentation from employees. Still, others don't take the time to draft good employee handbooks and policies. Those policies prove helpful for disciplinary, overtime disputes, and termination issues.

In Pennsylvania, small business owners need to be cognizant of Wage Payment and Collection Laws (WPCL). Otherwise, they could face liabilities leading to litigation, as PA has one of the strongest laws in the country.

For small businesses facing stiff competition or having proprietary knowledge, non-solicitation agreements are critical. You must ensure employees face the consequences of moving to another company and handing out customer lists. Or for starting their own business and using their knowledge to do so.

You even face concerns about employee misclassification. For instance, classifying someone as an independent contractor may cause backlash from the Federal Department of Labor.

We haven't even mentioned legal concerns surrounding discrimination or harassment. Remote workforces bring additional challenges to these areas.

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Workers' Compensation

Worker's Compensation is complicated.

Every state has workers' compensation laws requiring employers of a specific size to provide workers' compensation benefits. **For example, in Pennsylvania, EVERY employer of any size requires coverage.**

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It's essential to understand that **no-fault** governs workers' comp benefits.

"No-fault" essentially means that an employee is entitled to worker's compensation benefits, even if said injury occured through the employer's or employee's negligence.

Provisions of Workers' Comp

Regardless of where your business resides, most state workers' compensation laws will provide for the following:

- Workers' comp benefits are provided for accidental and, in some states, non-accidental job-related injuries. For example, non-accidental injuries include repetitive strain or stress injuries, also known as RSIs. Examples of RSIs cover computer-related injuries like carpal tunnel syndrome, tendinitis, Epicondylitis (tennis elbow), and bursitis.
- Benefits may include wage loss, medical, and death benefits. **In the Commonwealth, the employee's pre-injury average weekly wage dictates wage-loss benefits**, including room and board, bonuses, incentive pay, vacation pay, and gratuities.
- State laws define covered employees.
- The fault does not determine whether a worker receives worker's compensation benefits.
- Employees give up the right to sue your business if you provide coverage. However, they are entitled to sue a third party. Examples include an equipment manufacturer, such as the gloves that them employee was wearing, a negligent driver, or even an irresponsible property owner if their negligence contributed to the injury.

Information for PA Employers

Pennsylvania requires worker's compensation insurance for business owners with employees, part-time employees, and possibly even independent contractors.

Moreover, failure to do so may result in civil and criminal penalties. However, apart from the legal considerations, **employers lacking workers' compensation coverage in PA may cover the entire loss, awards, or final judgment**.

In addition, they may also be responsible for reimbursing the Uninsured Employers Guaranty Fund, including costs, interest, penalties, and additional fees.

Employees can also file a lawsuit in state or federal court against uninsured employers. Outside of it being the law, it pays for all employers to provide workers' compensation coverage for their employees.

Although worker's comp in PA is a no-fault system, employers may be granted protection in these instances:

- Cases with fraudulent claims
- Alcohol or drug use by an employee
- Self-inflicted personal injuries
- Cases with willful misconduct involved

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Starting a Franchise

The Federal Trade Commission (FTC) requires all franchisors to prepare a complex disclosure document, or, Franchise Disclosure Document (previously known as the Uniform Franchise Offering Circular, or UFOC) to give a copy of it to any prospective franchisee. The aim of a good FDD is to be as transparent as possible.

Within the FDD are 23 different categories of material information about the franchise, including:

- Number and location of existing outlets/stores/restaurant
- Required franchise fees and other costs
- The obligations of the franchisee and franchisor under the terms of the franchise agreement
- Franchisor bankruptcy and litigation history
- Franchisor-audited financial statements
- Franchisor earnings claims, if any

Franchise Agreements

"Never fall in love with a deal." If it looks too good to be true, it probably is. Consequently, a franchise agreement rarely says what you think it does, so it is better to get to the heart of the details, and quickly. People entering a franchise agreement should know that the terms are usually negotiable.

Franchise agreements, drafted by the franchisor, set the terms and conditions governing the franchisee's ownership and operation. However, it's suggested that you work with an attorney to draft, negotiate, and review franchise agreements and terms, including:

- Advertising requirements
- Rights of first refusal
- Fees and "mandatory" costs
- Assignment provisions
- Termination and renewal

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Restrictive Covenants

Before getting into the types of restrictive covenants, it's important to note that on January 5, 2023, the Federal Trade Commission (FTC) proposed a nationwide ban on non-compete clauses in employment contracts. If enacted, the proposed ban would supersede all contrary state laws governing non-competes.

The FTC's stance is that non-competes represent unfair methods of competition, something it strictly prohibits.

The ban would require employers to rescind existing non-compete agreements within six months. In addition, employers must notify current and former employees that their non-compete clauses are no longer enforceable.

This proposal doesn't ban other restrictive covenants like non-solicitation or non-disclosure agreements.

What's the Purpose of a Restrictive Covenant?

Despite the FTC's proposal, restrictive covenants typically focus on four items:

1. A promise not to compete with a former employer
2. A promise not to solicit or accept business from customers of the former employer
3. A promise not to recruit or hire away employees of the former employer
4. The promise not to use or disclose the former employer's confidential information

Typically, the duration of restrictive covenants ranges from one to two years for employment and five to 10 years for the sale of a business. In addition, covenants must be limited to where the company conducts business and the employee's responsibilities. **However, no geographic scope is necessary for a non-solicitation of customers or employees.**

On the following page, we've laid out the top 7 restrictive covenants that employers use.

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7 Types of Restrictive Covenants

From a broad perspective, there are seven types of restrictive covenants. Whether each is enforceable or not and to what extent depends mainly on state laws.

However, most states impose varying rules on what specific clauses are allowed in restrictive covenant agreements.

Non-Compete Covenant
It prohibits an ex-employee from working for a competing employer for a stated period after leaving a job. This agreement is the focus of the FTC's proposed ban.

Specific Non-Compete Covenant
This restrictive covenant is narrower. It keeps the ex-employee from doing business with customers for a set time. But it does not prohibit working for a competitor.

Customer Non-Solicitation Covenant
A customer non-solicitation covenant prevents the former employee only from initiating contact with customers (or even prospects) after leaving a job. However, a non-solicit does not bar an ex-employee from doing business with a customer that initiates contact with the ex-employee.

Employee Non-Solicitation Covenant
These agreements prohibit ex-employees from soliciting other former co-workers from joining the new employer. However, courts hesitate to enforce anti-piracy clauses without evidence of an intention to destroy a competitor.

Confidentiality or Non-Disclosure Covenant
This restrictive covenant prohibits ex-employees from using or disclosing the employer's confidential business information. Technically, these clauses are optional to protect confidential information. For example, trade secret law, now embodied in the Pennsylvania Uniform Trade Secrets Act, does this job.

Garden Leave
The newest type of restrictive covenant is the "garden leave" requirement. This "pre-post-employment" restriction is most common in high-end financial services work. Once the employer has notice of an employee's impending departure, the employer sends the employee home to "the garden" for an extended period. During garden leave, the employee remains on the old employer's payroll. However, they may not perform work for their old or new employer. In addition, they may not contact clients or customers. The employer uses the employee's garden leave to cement relations with the employee's clients, so the clients do not follow the ex-employee to the new employer.

Assignment of Property Rights
The seventh restrictive covenant is the assignment of property rights. Generally, the rights to own, patent, copyright, or trademark items happen during employment. This assignment is essential when an employee develops inventions of possible value to the employer.

Enforcing Restrictive Covenants

Three states prohibit employers from asking employees to sign restrictive covenants, including **California, Montana, and North Dakota**. In addition, California prohibits the non-solicitation of customers. Pennsylvania recognizes only the first two types of non-competes presented below.

In the remaining jurisdictions, a restrictive covenant is enforceable only when serving a legitimate purpose. Moreover, the covenant must be reasonable in scope, geography, and time.

Although limitations vary from state to state, most jurisdictions apply the ACRE concept for enforcement – ancillary, consideration, reasonable terms, and equitable to enforce.

Here's a snapshot of each type of non-complete:

1. **Ancillary:** You must be employed or engaged in a legally enforceable relationship.
2. **Consideration:** The employee must receive something to execute the restrictive covenant. Typically, continued employment is sufficient. But some states require additional consideration like a signing bonus or severance.
3. **Reasonableness:** The agreement must be necessary to protect the employer's legitimate interests. It must also be reasonable in length and geographic scope.
4. **Equitable:** Enforcement of the restrictive covenant must be fair.

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Business Exit Strategy

As they say, all good things come to an end. And that's true for business ownership. So, you'll need to devise an exit strategy at some point.

What is a Business Exit Strategy?

A business exit strategy outlines **how a business owner or investor intends to exit or sell their ownership stake in a business**. It's essentially a roadmap that lays out the steps and actions necessary to leave a company and realize the maximum possible value of the business.

There are several reasons why a business owner might want an exit strategy. For example, they might want to retire, move on to other business opportunities, or cash out on their investment. A well-crafted exit strategy helps ensure a smooth transition of ownership.

Developing an exit strategy is an essential step in the life cycle of a business. As a result, you should work with a team of advisors, including attorneys and financial advisors, to ensure your strategy is legally and financially viable.

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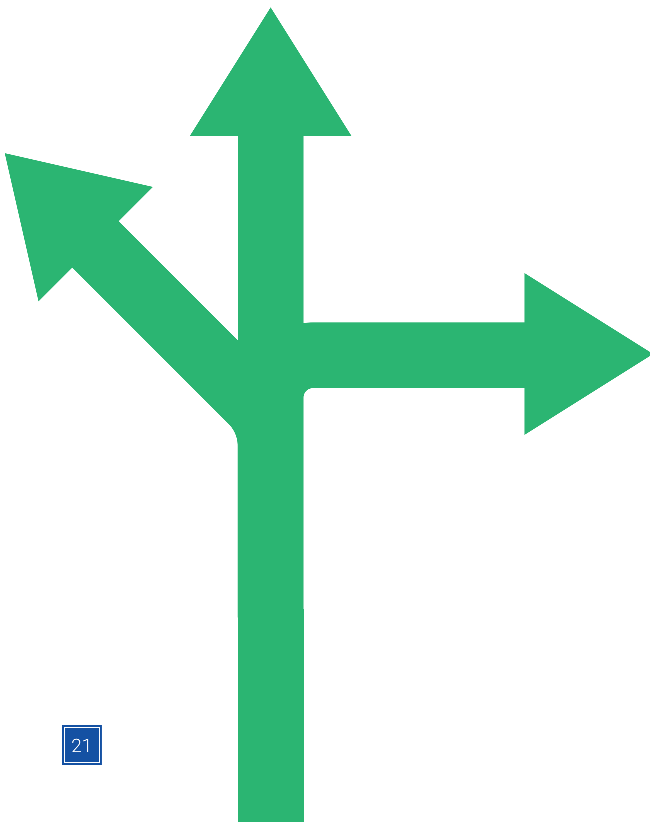
Why is an Exit Strategy Important?

An exit strategy is critical for several reasons:

- **Maximizing Value:** An exit strategy helps you maximize the value of your business by preparing it for sale or transfer to increase its attractiveness to potential buyers or investors. That helps ensure you'll realize the most value for your investment.
- **Smooth Transition:** An exit strategy ensures a smooth transition of ownership or leadership. That's important for continuity and preserving your company's value for employees, customers, and other stakeholders.
- **Future Planning:** A plan allows you to make informed decisions about the direction of your business. It helps ensure your business is positioned for long-term success and that you'll achieve your personal and financial goals.
- **Flexibility:** Having a strategy provides a framework for managing unexpected events or changes in circumstances, for like an illness or turbulent market conditions. Consequently, you can respond more quickly and effectively.
- **Attracting Investors:** As with maximizing value, an exit strategy helps attract investors by demonstrating a clear plan for how and when they can expect a return on investment. That helps build confidence and potentially attracts additional investors to your business.



What are some common exit strategies?

Your exit strategy depends on business size and type. It also depends on how much control you want to retain, whether you want the company to run the same way after your departure, or whether you're willing to let go.

Regardless, **it starts with a business valuation**. Seek out an accredited appraiser to help determine your company's value. You'll want that information to set the table for negotiation. Consult with your business lawyer for their suggestions.

Below are some common exit strategies:

1. **Selling to a Third Party:** Generally, the most common exit strategy involves selling your business to an outside buyer, such as a strategic buyer or a private equity firm. This option is attractive if you want a clean break from the company.
2. **Merging:** In 2022, there were more than 18,000 mergers and acquisitions (M&A). An M&A deal involves merging your business with another business to create a larger entity. This type of deal is attractive if you want to grow your business or access new markets and resources.
3. **Family Succession:** You transfer ownership to a family member, such as your children. This often friendly buyout allows you to keep your business in the family. In addition, it may ensures your company continues to operate according to your vision and values.
4. **Management/Employee Buyout:** Sometimes, you may have managers or employees with a deep connection to your business. As a result, you may want to sell the company to them. This could be th eway to go if you feel comfortable that they'll maintain your values and culture.
5. **IPO:** An initial public offering (IPO) involves offering your business shares to the public. This option is attractive for raising growth capital or providing liquidity to early investors.
6. **Liquidation:** Typically used if you're company is failing, this approach involves selling your business's assets and winding down

Got questions? Call us at 1-833-LAW-1914.

in conclusion

Although starting and running a small business is challenging, the rewards are worth it. Nearly two-thirds of small business owners started their business to be their own boss or experience the rewards of creating something from the ground up.

No doubt, you'll experience frustrations along the way. But don't let legal concerns be one of them. Our law firm can support you in numerous ways:

- Business formation
- Business Litigation
- Employee handbooks
- Restrictive covenants
- Trademarks & Copyrights
- Real estate tax law

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Call 1-833-LAW-1914 or email us at info@highswartz.com.

We're here to help.

Doylestown, PA

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