

Imagine a startup company of your own and briefly trace its development from a sole proprietorship to a major corporation with a focus on how that development would be financed.

1. Start of as a Sole Proprietorship: A new business requires the sole proprietor to introduce the company to potential customers and build its reputation. Maintains responsibility for all decisions made in the company and earns money through the profits generated in the business. A sole proprietor risks losing money when the company experiences a loss.

Financing-Equity is the owner's or stockholders original investment and, as such, represents the owner's cash contribution to the business.

2. Encourage Partnership: Is a voluntary association of two or more persons acting as co-owners of the business. This form of business combines assets and talents of the partners to conduct the business operations. Each partner can act as an agent for the partnership through business operations, incurring debt, etc. The partners' personal assets are at risk for all claims and debts of the partnership.

Financing-Equity is critical to a business in need of obtaining a loan to fund start-up or expansion. As a general rule-of-thumb, equity requirements for a new business fall in the range of twenty-five to fifty percent of the total projected cost of the business start-up. This means that owners may be required to provide up to one-half of the funds needed to open the business. This funding can be obtained from various sources, including the business owner's friends, family, and in limited instances, venture capitalists. Equity funding is dollars, which remain in the business and have no set repayment schedule for disbursement to investors.

3. Create a Limited Liability Company: An LLC is a cross between a partnership and a corporation. It provides for investors, simply called "members" to contribute money or other consideration to the company. These members share in profits and losses and can participate in its management. Generally, each member has one vote, and members decide most matters by a majority vote.

4. . Establish a Statutory Close Corporation: The statutory close corporation is most beneficial to businesses with 1-2 owners. The statutory close corporation is usually a small, closely held corporation, professional corporation, or wholly-owned subsidiary corporation. The statute allows the corporation to do away with bylaws, board of directors, and annual shareholder meetings, but requires a shareholder management agreement and perhaps other operating agreements. Basically, the statutory close corporation allows the elimination of some of the paperwork requirements that are burdensome to the smaller business. However, since the requirements are reduced, it is imperative that all the remaining requirements outlined in the Articles of Incorporation be followed, in order to maintain the liability protection afforded the business owner under the corporate form.

5. Go Public and establish a Large Corporation: A corporation is a separate legal entity. The owners of a corporation are known as stockholders. Each owner invests money or other assets in the new business in return for shares of stock at a predetermined price. The stockholders are at risk only for the amount of money they have invested in the stock of the corporation. The personal assets of the stock stockholders are not at risk. Because corporations are considered legal entities (or "artificial persons"), the corporation files income tax returns and pays taxes. The corporation may also sue and be sued

Financing-A loan or debt is the other funding source common to business financing. This source becomes necessary when an owner's equity investment is insufficient to finance the company's start-up or expansion. These are funds obtained from a third party source, generally a commercial bank, having a defined repayment schedule which stipulates both principal (that portion of a loan repayment representing retirement of the original loan amount) and interest (the portion of repayment which represents the business' cost of obtaining third party financing) requirements. Loans can either be unsecured or secured. Unsecured loans are based solely on the borrower's financial strength, without pledging of assets (collateral); while secured loans, also based on financial strength, require pledging assets as collateral for the loan. Secured loans are the common method used by third party financing sources