

CORPORATE GOVERNANCE

How and Why

Businesses have a lot of governance and regulatory obligations imposed by the state in which they are formed – licenses, taxes, employment standards. Businesses also have internal governance obligations imposed by the state and codified by their bylaws or operating agreements.

Many small businesses do not effectively adhere to or keep up with their internal governance obligations. This is **WRONG!** Not keeping up with internal governance obligations can result in significant, **AVOIDABLE**, legal and business consequences.

SMB Legal offers automated corporate governance tools to make sure you never have to worry about internal governance again. This guide will help explain the consequences that can result from not automating your internal corporate governance.

POTENTIAL ADVERSE CONSEQUENCES

- Losing Limited Liability
- Lawsuits
- Fines and Fees
- Difficulty Raising Capital

COST TO AVOID

- \$10 a month to onboard your company to SMB Legal's automated governance platform.

LOSING LIMITED LIABILITY

Piercing the Corporate Veil

Limited liability is a beautiful legal creation, enabling anyone to operate a business. Because of limited liability the business has an existence apart from the creator or owner. Any actions that the business takes are the businesses – alone – so long as you comply with the law. This is called the "corporate veil".

The corporate veil is a strong protection against the imposition of liability on the owners of a business. However, a legal concept called "piercing the corporate veil" will be used, imposing personal liability on the owner of a business, if compliance with the business laws are not followed.

One of the criteria for piercing the corporate veil and imposing liability on the owner of a business is if they have not kept up with the corporate formalities imposed on the business by law. In English – not establishing, executing and keeping up with your corporate governance obligations can potentially impose significant consequences on the owner.

If the corporate veil is pierced the business owner can be held personally liable for any of the actions of the business.

LAWSUITS, FINES & FEES

Lawsuits

Not adhering to the law or a company's internal documents can open that company up to potential lawsuits from the government, shareholders or other partners in the business.

Not following company governance can also open a company or owner up to significant allegations of impropriety or misconduct. Even if you believe that you have not engaged in impropriety or misconduct it is more difficult to prove without adherence to and documentation of company actions.

Fines and Fees

As with all government interactions, there comes the possibility of fines and fees. Some states have laws that impose significant fines or fees if it is found that a company has not followed governance obligations imposed by law or their own internal instruments.

DIFFICULTY RAISING CAPITAL

Almost every company needs to raise capital. Even Bill Gates, if he was starting a company today, would need to take on some capital! Raising capital is a time, labor, legal and most importantly relationship intensive process.

Any good investor will delve deeply into the company. Investors will ask for documents, interviews and financial statements. This includes asking for a company's internal governance documents and documentation of significant company actions. A company that is found to be lacking in the execution of their company's governance obligations will likely have a hard time garnering significant investor interest.

A company that does not adhere to their governance obligations will incur a significant strike against them with a potential investor. Adhering to company governance obligations inspires confidence in an investor and shows a host of good investment criteria: good business acumen, proper risk management, an owner who "gets it" and a lower risk profile for the potential investment.

Those companies that do not adhere to company governance obligations will fight an uphill battle to prove that they meet all these investment criteria and will be a good "bet" for the investor.

SMB LEGAL

Automated Corporate Governance

SMB Legal provides the first and only automated self-help company governance tool on the market. Our automated company governance tool increases operational efficiency, helps avoid legal pitfalls, saves time and drives revenue and growth. With our tools, a business can operate and execute all of their company governance tasks in one place.

Dashboard

Our platform has an easy to use dashboard where a company can upload, manage and visualize all of their governance obligations in one place. The dashboard integrates with our proprietary contract management software making amendments and company leadership actions easier than ever.

Integrations

Our platform allows for robust integrations where all stakeholders can be contacted through one platform, all documents can be executed on one platform and all minutes, resolutions and other documents can be stored and organized in a way that allows for a simple solution to maintain a company's entire history.

Additionally, rich integrations allow outside stakeholders to be granted access making potential transactions (acquisitions, financings, etc.) easier and quicker.