



## GLOSSARY OF TERMS

### Nevada Entities

**Corporation:** A legal entity, owned by stockholders, managed by directors and operated by the officers. When used to conduct business, the corporation puts a barrier (veil) between your business and your personal life.

**Articles:** The articles of incorporation make clear how the corporation is structured under the laws of the state where it is organized.

**Bylaws:** The bylaws of a corporation explain the operation of the corporation and the function of its various parts.

**Charter:** The document issued by the Secretary of State as evidence the corporation has been properly filed.

**Stockholder:** An owner (of stock) of a corporation determined by the shares of stock they hold.

**Shareholder:** Same as stockholder.

**Quorum:** A majority of the stockholders, or directors, necessary to be able to hold a meeting.

**Stock / Capital Stock:** The number of shares of a corporation has available to individuals (perhaps entities) that indicate ownership. The number of shares authorized is established by the secretary of state of the state of incorporation.

**Common Stock:** The stock of a corporation that is held by the shareholders and usually has voting rights.

**Preferred Stock:** A separate class of stock with a “preferred” position with regards to distribution of dividends, claim on the corporations assets and usually has no voting rights

**Stock Certificate:** A document given to each shareholder of a corporation indicating the number of shares that person owns.

**Corporate Seal:** A tool used to emboss the name of the corporation on official documents and stock certificates.

**Shareholder Agreement:** An agreement among the shareholders of a corporation. Usually it addresses the issuing of additional shares of stock, the selling of the shareholders personal stock and the succession of the company.

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**Dividend:** Corporate after-tax profits that are distributed to the shareholders of a corporation.

**Director:** A person(s) who is elected by the stockholders of a corporation to manage said corporation.

**Resolution (Corporate Formality):** A written decision by the directors or shareholders of a corporation, to take a particular course of action.

**Amendment (Corporate Formality):** Any change made to the Articles or Bylaws of a corporation by the directors or stockholders.

**EIN:** The tax identification number issued by the IRS to each business entity and is the number the corporation uses to open bank accounts and conduct business. It is the number that separates the corporation from an individual's social security number.

**Registered Agent:** The designated person, or company, who acts as agent for the service of process, the physical place or person to go to when filing notice of a lawsuit against a corporation, which is a requirement in every state.

**Foreign File:** Registering your corporation to do business in any state other than the state of incorporation. All states look at corporations formed outside their boundaries as foreign corporations and require them to register in their state in order to transact business there.

**Certificate of Authority:** Document provided by most states to show that you have registered your Foreign Corporation to transact business in that state.

**Certificate of Good Standing:** Document required for the registration of your corporation to conduct business in another state and is issued by the state of incorporation.

**Annual List:** The list of officers filed annually (president, secretary, treasurer, and one director) that is required by the Nevada secretary of state.

**LLC; Limited Liability Company:** A legal entity established to conduct business or hold assets. It has some of the characteristics of a corporation and some of the characteristics of a partnership. Many of the glossary terms for corporations can be applied to LLCs.

**Operating Agreement:** The document that explains the operation of an LLC, which is agreed upon and signed by all of the members that is similar to the bylaws of a corporation.

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**Members:** The owners of a Limited Liability Company.

**Manager(s):** The person(s) or entity appointed by the members to conduct the business operations of the LLC. The owner can be the manager.

**Membership Certificate:** A document given to the members of an LLC that indicates the percentage of ownership for each member.

**Partnership (General Partnership):** A partnership is an agreement between two or more persons to enter into a business agreement. In a general partnership all partners bear responsibility for all of the partnership liabilities.

**Limited Partnership:** A partnership where one party acts as the general partner, has control of the partnership, and is responsible for the liabilities of the partnership. Other parties are limited partners. They are investors in the partnership and share in the profits of the company, but are limited in losses to what they contributed to the partnership.

**Family Limited Partnership:** A limited partnership structured for the members of a single family.

**Limited Liability Limited Partnership:** A limited partnership where both the limited partners and the general partners have limited liability.

**Partnership Agreement:** The document that spells out the details of the arrangement between the partners. Any type of partnership will have a partnership agreement.

**Partnership Certificates:** The documents that are given to the partners in a partnership to indicate their percentage of ownership of the partnership.

**Trust:** A vehicle by which one party, the Grantor, can give an asset to a third party, the Trustee, to hold for the benefit of another party, the Beneficiary.

**Grantor:** The person gifting an asset to a trust.

**Trustee:** The person who has a legal responsibility to carry out the directions given by the Grantor.

**Beneficiary:** The person, or persons, for whom the trust was established. They will receive the asset, or the benefit of the asset, at a particular time established by the Grantor.

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**Revocable Trust:** A trust in which the Grantor can add, remove or change the assets. The Beneficiaries can also be changed.

**Irrevocable Trust:** A trust in which the once contributed assets MUST remain in the trust. The Trustee cannot be related to the Grantor and it becomes the Trustee's responsibility to "preserve" the assets of the trust until the distribution to the Beneficiaries.

**Land Trust:** A revocable trust specifically designed to hold the title to real property.

**Living Trust:** The primary estate planning tool designed to avoid probate, provide for the care of minor children and containing life-directive instructions.

**Piercing the corporate veil:** Factors for Court Consideration:

- So grossly undercapitalized that fraud is likely
- Failure to observe corporate formalities
- Intermingling of assets of the corporation and of the shareholder
- Treatment by an individual of the assets of corporation as his/her own
- Failure to pay dividends
- Siphoning of corporate funds by the dominant shareholder(s)
- Non-functioning corporate officers and / or directors
- Concealment or misrepresentation of members
- Absence of corporate records
- Was the corporation being used as a "façade" for dominant shareholder(s) personal dealings; Alter Ego Theory
- Failure to maintain arm's length relationships with related entities
- Manipulation of assets or liabilities to concentrate the assets or liabilities
- Other factors the court finds relevant

It is important to note that not all of these factors need to be met in order for the court to pierce the corporate veil. Further, some courts might find that the one factor is so compelling in a particular case that it will find the shareholders personally responsible.

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