Internet Partnerships - Don't Throw Away Your Business

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General partnerships are a poor business entity choice when it comes to pursuing business activities. They fail to provide the asset protection shield that should always be put between your business activities and personal assets. Many small businesses, however, find it profitable to combine their product or services with other small businesses. In doing so, they often fail to realize that they are subjecting them to the same exposure as a general partnership.

Why Even Worry About It?

You put a lot of time, money and sweat into your business. After years of effort, you have it fine-tuned and are making a nice living. How willing are you to lose your business?

Consider the following hypothetical situation involving two sole proprietors. Our first party, Programmer, creates computer programs for managing websites. The second party is Mark, the owner of a site that provides small businesses with websites. Programmer and Mark come to the conclusion that they can make big money by opening a joint site. This type of situation occurs every day on the Internet. How should they do it?

The best option is to form a corporation or LLC. Each party will own an agreed upon percentage of the company. Mark will contribute his marketing ability while Programmer contributes software platforms. The bylaws [administrative rules] of the corporation will detail how profits are divided as well as detailing who gets what [domain name, client list] if the relationship doesn’t work out. If a corporation or LLC is not formed, each party exposes their individual businesses to liability just as would occur in a general partnership.

What has been accomplished? Mark and Programmer are protected from liability arising from the new business. If the company fails or is sued because of problems with the software, Mark and Programmer will avoid personal liability and their original businesses are not touched. Are they completely protected? NO!

Mark and Programmer are still open to liability on the "back end". Without realizing it, each trusts the other to properly run their independent businesses. Why is this?

Assume that Mark and Programmer follow the above plan and the business is very profitable. One day, Programmer is served with a lawsuit claiming that he violated copyright laws with a program that he developed before meeting Mark. The nine companies to which he sold the program also sue him. The trial goes badly and Programmer is found liable to the tune of $750,000.

Guess what happens next? Since he is a sole proprietor, Programmer's interest in the joint business with Mark is seized to satisfy the judgment. Alternatively, he files personal bankruptcy. Either way, Mark is involuntarily going to have a new business partner that probably can’t program! In short, we are talking about a disaster.

How To Protect Yourself

Business entities are the key to limiting your exposure to liability. In the above situation, Mark and Programmer should own the joint company as individuals, but they should form business entities for their personal businesses. If the personal businesses are sued, their individual ownership of the joint venture entity is shielded from attachment.

As a general rule, you should form an individual business entity for each business you own. By doing so, you are better able to limit the potential damage of a lawsuit involving one of the businesses.Richard Chapo, Esq., is with http://www.sandiegobusinesslawfirm.com offering business law advice to California businesses. This article is for general education purposes and does not address every facet of the subject matter. Nothing in this article creates an attorney-client relationship.