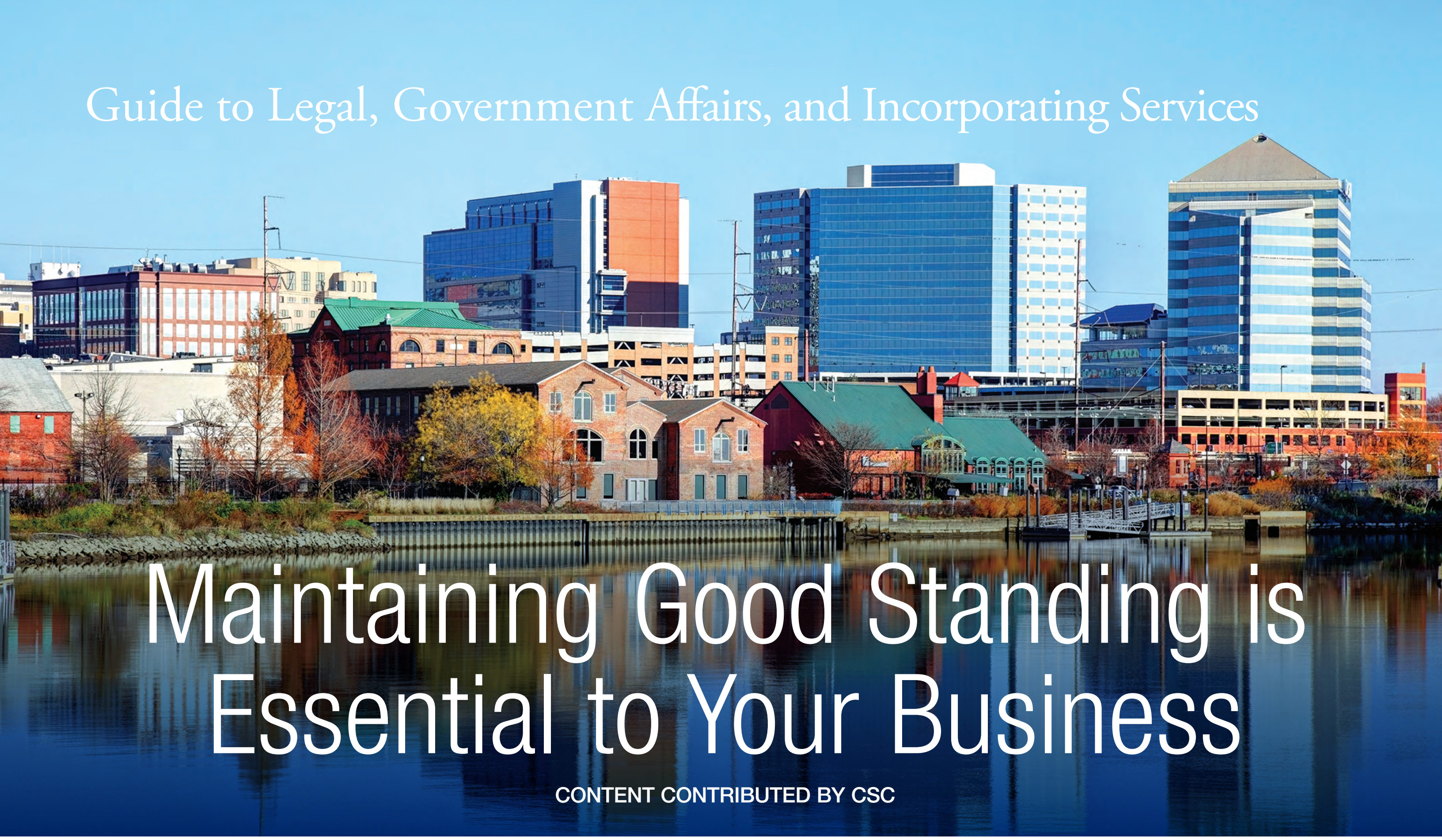

Maintaining Good Standing is Essential to Your Business

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STATES REQUIRE CORPORATIONS and other business entities to file a periodic report with state filing offices to remain in good standing. States use different terminology for periodic reports such as Corporate Annual Report, Statement of Information, Annual Registration, Annual List, Franchise Tax Report, Biennial Statement, and others. For simplicity, this article will refer to these documents as annual reports.

As corporate documents go, annual reports aren't especially long or detailed.

Not only do different states have different names for their annual reports, they also have different requirements for what information they must include, what time of year they're due, and penalties for non-compliance. These reports are required to stay in good standing with jurisdictions.

Annual reports typically require information such as entity name, principal place of business, registered agent information, and a list of business entity governors, including directors and officers of corporations, members and managers of limited liability companies (LLCs), and general partners and limited partners of a limited partnerships (LPs). Prior to a transaction, lenders, landlords, and other counter-parties may check a state filing office searchable database for the status of a business entity, and if available, the names of business entity governors, so it can be a problem if the most recent annual report does not include the current governors.

Now that we have a better idea of what annual reports are, the next question is: when are they due?

Most jurisdictions require filings by a specific date, with springtime deadlines such as March 31 and April 15 among the most common. In other jurisdictions, reports are due on the anniversary date of when the entity was formed or first qualified to do business there, or at the end of the anniversary month, or even three months after the anniversary date. Along with timing variations, states also hold different kinds of entities to different reporting standards. For example, Delaware requires corporations to file annual franchise tax reports on or before March 1, while LPs and LLCs are required to pay an annual fee on or before June 1.

Make no mistake—failing to file an annual report can have serious consequences.

Miss a due date and you run the risk of losing your entity's good standing, along with accompanying dangers and inconveniences such as limitations on your ability to transact business and loss of legal standing, as well as fees, fines, and accrued interest. Delaware and Illinois are among the states that assess additional late fees for every month your report is late.

Sometimes these problems are not immediately apparent. It's important to know that a good standing certificate from the jurisdiction is often a condition for financing or even opening a bank account. It's not unheard of, for instance, for companies to find themselves in the midst of a corporate transaction only to learn that their entity's good standing has been revoked in that jurisdiction.

Never mind the direct cost of embarrassment; the process of reinstatement can take days or weeks and, in some cases, can derail a transaction. Revocation in some states also means that companies forfeit rights to their company name which may become available to others after administrative dissolution or revocation. Companies that miss their filing dates also court danger in the form of bad press.

While annual reports are relatively straightforward in any one jurisdiction, the challenge becomes much greater for those companies qualified to do business in multiple states, with differing due dates, requirements, and implications for not remaining in compliance. They're small and easy to overlook. But small as they are, they carry significant risks to your company's status and reputation. ■