



# STRUCTURING YOUR BUSINESS WITH NON-LICENSED PARTNERS



# INTRODUCTION



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# AGENDA

## During this program we will discuss:

- Entity Ownership Rules in NY
- Risks of Non-Compliance
- Potential Solutions
- How to Bring New Partners on Board
- Common Issues When Bringing New Partners on Board



# OWNERSHIP RULES IN NEW YORK

## Professional Corporation (PC) Limited Liability Partnership (LLP) Professional Limited Liability Company (PLLC)

- All Owners Must Be Licensed
- All Members of The Board and Management must be licensed
- Officer Restrictions
- Entity Name Restrictions

## Design Professional Corporation (DPC)

- At least 75% of Ownership Must Be Licensed
- At least 75% of Members of The Board must be licensed
- Officer Restrictions
- Entity Name Restrictions

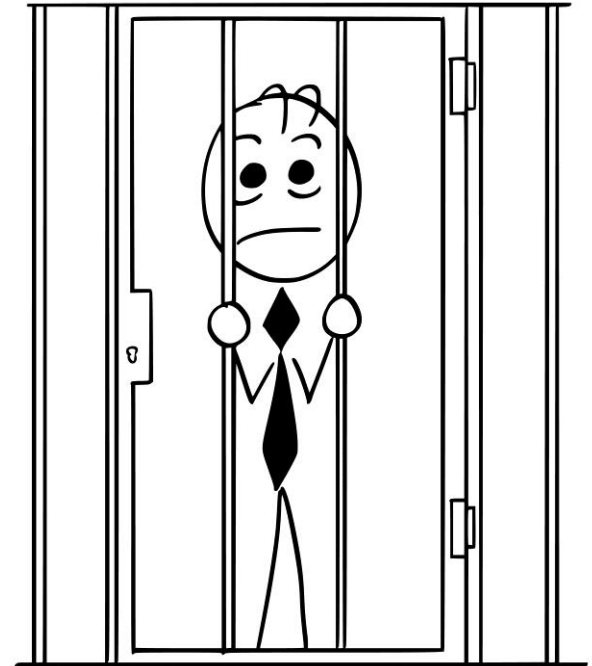
# RISKS OF NON-COMPLIANCE

## Likely Penalties:

- Subject to Investigations (DOE and AG)
- Fines (Up to \$10K for each charge)
- License Suspension and/or Revocation
- Impact on Staff Licensure

## Other Penalties:

- Jail
  - Class E Felony – up to 4 years
  - Class A Misdemeanor – up to 1 year
- Civil Fines (Up to \$5K for each violation)
- Public Service (Up to 100 hours)
- Un-insurability



# POTENTIAL SOLUTIONS



## Don't Do It --- Just Pay 'Em

- Does partnership make sense?
  - A significant commitment
  - Requires major changes to a one-person ownership
  - Expensive to reverse
- Ways to Pay 'Em
  - Increase salary
  - Annual bonuses
  - Other perks (car lease, health insurance, 401K match)

# POTENTIAL SOLUTIONS



## **Design Professional Corporation (DPC)**

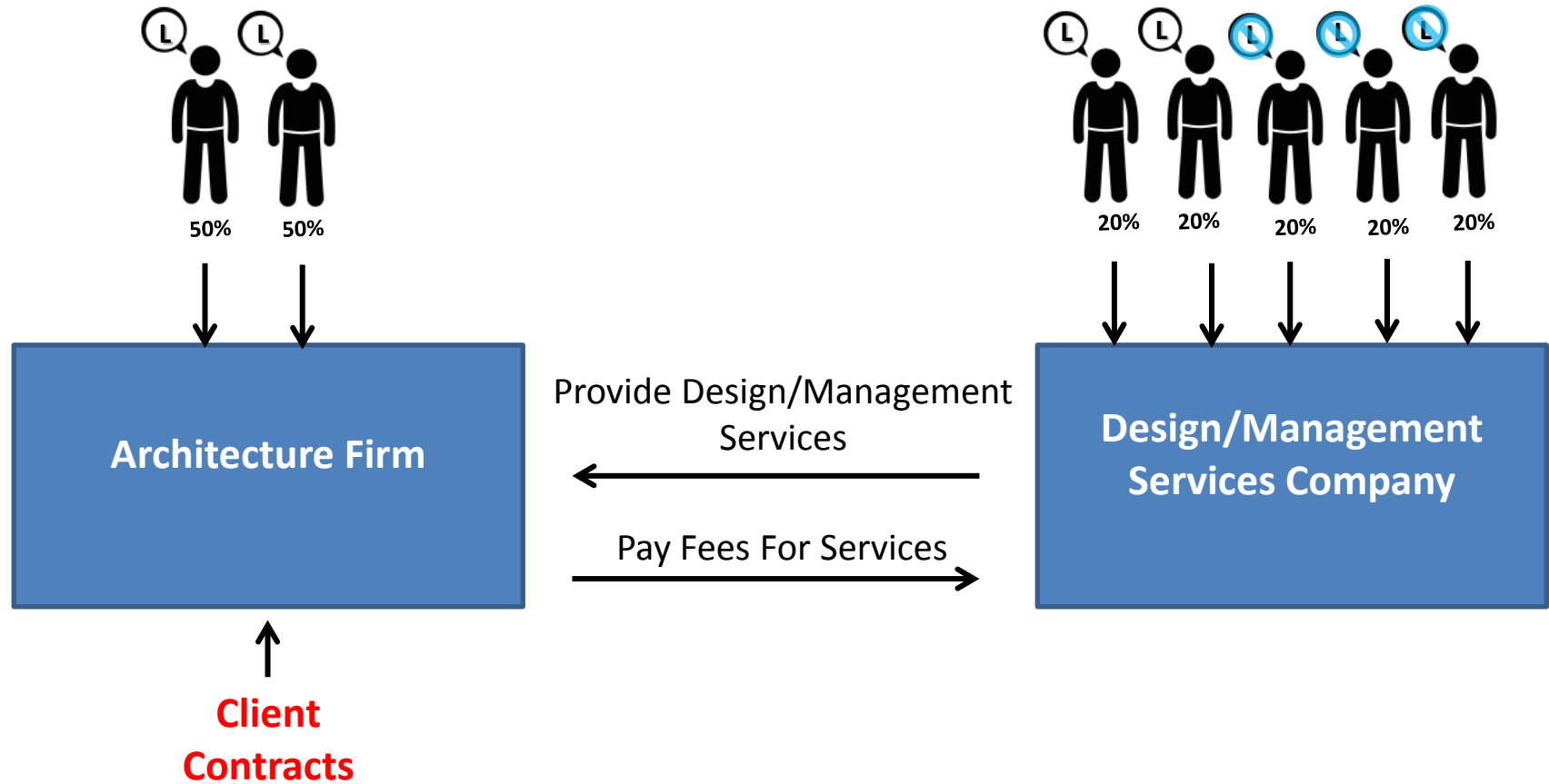
- Fairly easy to implement for PCs
- Ownership up to 24.99% permitted

## **Two Entity Structure**

- No limitations on ownership or titles
- Not simple to implement

# TWO ENTITY STRUCTURE: OPTION 1

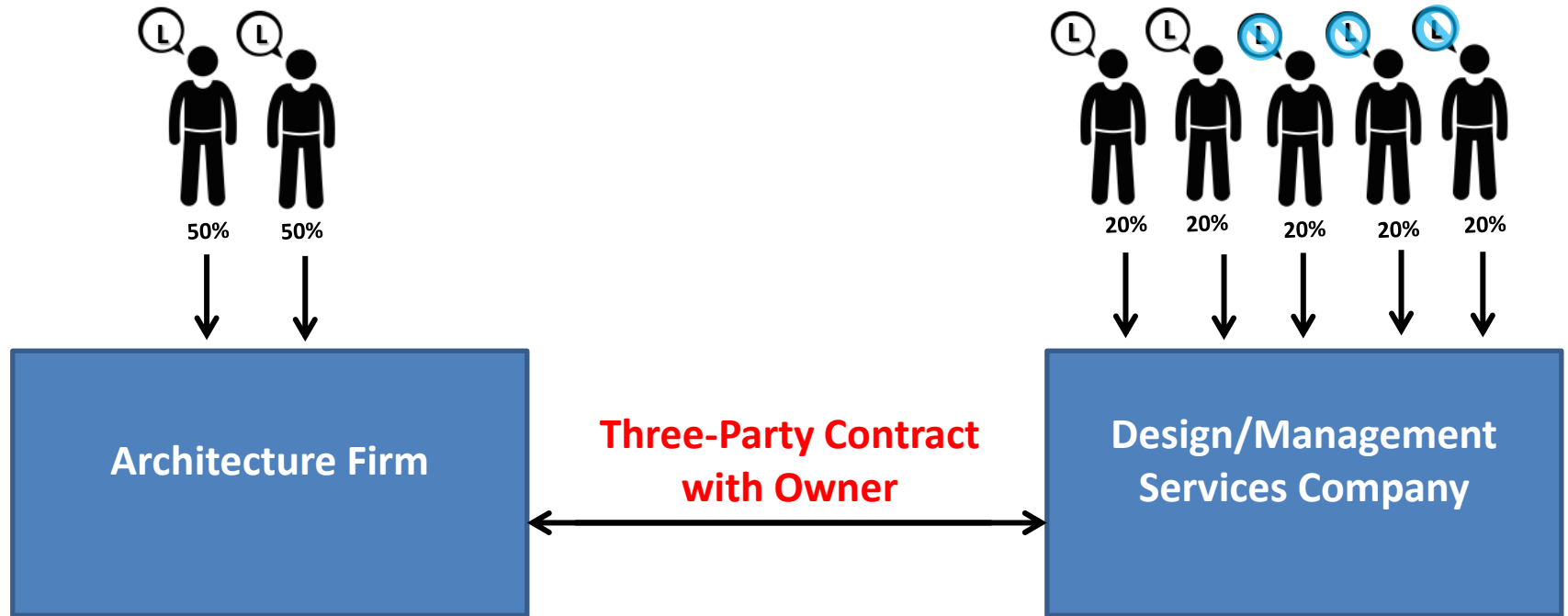
## Client Contracts With Architecture Firm





# TWO ENTITY STRUCTURE: OPTION 2

Client Contracts With Architecture Firm & Design/Management Company



# HOW TO ADD NEW PARTNERS

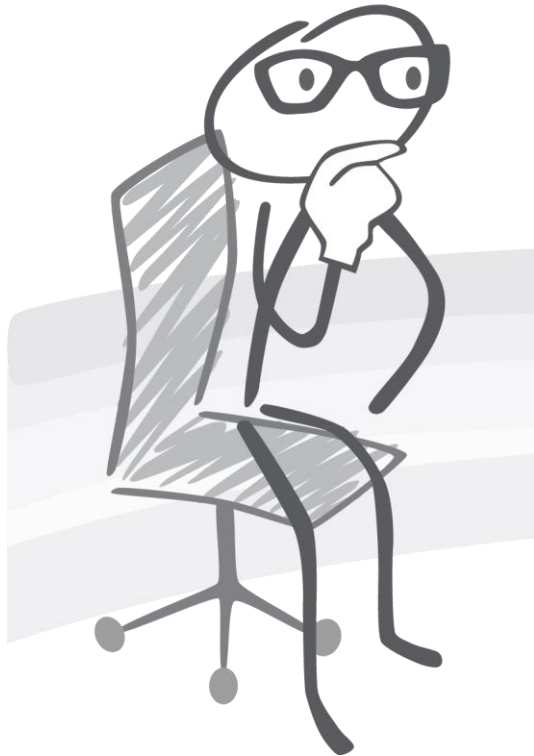
## Put a “New Partner Plan” in place in advance

- Agree on firm’s partnership goals
- Establish and communicate criteria for partnership
  - Tenure with firm
  - Business generation
  - Management skills
  - Professional skills
- Equity issued by partnership or sold by retiring partners

# HOW TO ADD NEW PARTNERS

- Establish method for valuation
  - Hire valuation firm
  - Formula based on revenue, net income, etc.
- Establish payment terms
  - Upfront
  - Paid over time
  - Payments guaranteed or conditional
- Create partnership/shareholder agreement
- Offer ownership interests

# COMMON ISSUES



- Criteria for partnership unclear
- Price for partnership interest overvalued
- New partners not willing/able to pay partnership interest
- Extended negotiations over terms of partnership agreement
- Major changes required when going from one owner structure

# CONTACT US

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