



**LONE STAR COLLEGE SYSTEM**  
**SMALL BUSINESS**  
**DEVELOPMENT CENTER**

# Business Start-Up and Resource Guide

A Guide to Starting and Growing  
a Business in the Tomball Area



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**W**elcome to the Lone Star College System Small Business Development Center (SBDC). The SBDC, which is partially funded by the U.S. Small Business Administration and the Lone Star College System (LSCS), provides small business owners and entrepreneurs with a host of services, programs and resources. With offices throughout the college district the LSCS SBDC serves the greater north, northwest and northeast Houston metropolitan area, including much of Harris and Montgomery Counties.

The SBDC can provide you with many free resources for starting and successfully operating your small business. These resources include educational programs, one-on-one counseling, research and special programs focusing on international trade, manufacturing, technology development, and government contracting.

## *Helping Small Businesses Start, Grow and Succeed*

### **SBDC Services**

- Free One-on-One Consulting
- Workshops and Training
- Government Contracting
- Technology Development
- International Trade Assistance



Lone Star College System  
Small Business Development Center

832.813.6674  
[www.LoneStar.edu/SBDC](http://www.LoneStar.edu/SBDC)

**T**he Greater Tomball Area Chamber of Commerce (GTACC) has a history that began in the 1920s. The Chamber has a reputation for actively representing and promoting the interest of its business members at the local, state and national levels. The Chamber is also recognized throughout the region and Texas for its passionate promotion of the greater Tomball community.

The Tomball area offers what we at the Chamber believe is the best place to live, work and play. With a wide variety of housing, Tomball is ideally located less than an hour drive from the theater, the lake, or the hills of Texas. Tomball also offers state-of-the-art medical services and education with the award-winning Tomball Regional Medical Center, a Recognized public school district, private schools, and Lone Star College – Tomball, one of the largest community college systems in the state.

Tomball is also one of the fastest growing areas in greater Houston. Our city is self-governing with its own Mayor, City Council and City Manager. GTACC takes pride in partnering with the city and local entities to preserve and protect the area's sound economic base. Most of these partners are Chamber members.

Businesses and individuals join chambers of commerce for different reasons. When a company is active in its local chamber, it is doing the right thing not only for the community but for its own success as well. Chambers of commerce directly impact communities and the value of being a member of a Chamber is clear. Data confirms consumers are more likely to support businesses because they are chamber members.

While some people join a chamber for a chance to network, some want involvement in chamber activities, and still others want a role in community affairs. The Greater Tomball Area Chamber of Commerce helps its members achieve all of these goals through a variety of opportunities.

Service to our members and the community is our primary goal at the Chamber. Small business is the Greater Tomball Area Chamber of Commerce's business. GTACC and its staff are committed to offering the best services possible in the 21<sup>st</sup> century and beyond.

Bruce Hillegeist  
President



For more information, contact the  
Greater Tomball Area Chamber of Commerce  
at [www.tomballchamber.org](http://www.tomballchamber.org) or 281.351.7222.

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# Message from a Small Business Owner

## Owning Your Own Business Requires Proper Planning

By Ted Guest Owner, Minuteman Press of Humble

For many, owning your own business is the American Dream. Without proper planning, however, your dream likely will result in sleepless nightmares. I, for one, never dreamed of owning my own business. I was content with corporate America providing reasonable compensation, retirement options, health care and paid vacations. I worked long, hard hours climbing ladders that eventually collapsed under the weight of reorganizing and downsizing.

Finally, I began dreaming of a different world where I was in control. For me, it was a new definition of mid-life crisis. At 45, I started seriously looking at business ownership.

There are more than 50,000 small businesses in the five college regions in the Lone Star College System. There's no reason you can't add one more to the list if you "plan your work and work your plan."

In a local neighborhood newspaper I learned that the Small Business Development Center (SBDC) in conjunction with the local chamber of commerce was offering a free seminar on "Owning Your Own Business." I attended, not realizing what an eye opener it would be. At the time, I still wasn't sure owning my own business was my dream rather than just an option. The counselor addressed approximately 15 citizens that morning. Most, like me, had never written a business plan or even realized the need to understand incorporation versus sole proprietorship.

A follow-up meeting with the SBDC counselor provided free personal one-on-one opportunities to discuss my individual situation. I was scared, yet excited. I was reluctant, yet anxious.

Do you start your own business from scratch or buy an existing business? Again, the SBDC counselor is a great source of information. Can you even afford to own your own business? Don't be insulted. While you may have enough resources to start a new business, many new businesses do not break even for months, even years.

If you're willing to work as hard as is required to make a business successful, find a venture that you think will be fun. I attended a franchise show because I felt I needed the training and consulting they provide. For me that was the right decision since I was making a significant vocational change from my previous business life.

Once I decided on the business venture I wanted, I talked to a CPA recommended by the local chamber. He, too, was a small business owner who offered much more than just financial suggestions. I was beginning to better understand networking which would play a great role in my business success.

I bought an existing business that was in financially poor condition. But, at least it produced some income. Expenses, of course, outweighed the income; so how do you build your business? For me, the chamber of commerce was my best investment.

Simply joining a chamber is not the answer. Get involved! Join a committee! Participate! I did not have the time to get out of my storefront to do "cold calling" because I had only one employee at the outset. However, I could go to one chamber luncheon or "After Hours" and meet at least 20 other small business owners in 60-90 minutes. Wow! That networking, with proper follow-up, far outweighed a half-day of cold calling individual businesses. Don't just look for people who will do business with you. You will also need services as you grow your business. I believe strongly in "doing business with those who do business with you."

If owning your own business is your dream, use the resources available to you. Proper planning with the SBDC and using the networking opportunities available through your chamber of commerce will greatly increase your probability of success.

Pursue your dreams. The rewards are great for those who "plan their work and work their plan."

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# Is Entrepreneurship for You?

Starting a business is a risky venture. In fact most small businesses fail in the first year of existence. While there is no sure way to eliminate all the risks associated with a small business you can improve your chances of success with proper planning and evaluation.

Start by evaluating yourself; determine your strengths and weaknesses in the areas of organization, leadership, decision-making and business management. Understanding yourself and your unique skills is a first step in planning your new venture. The demands and rewards of entrepreneurship are enormous; before you make the decision to start a new business carefully consider the following questions.

## **Are you a self-starter?**

The success of your new business will be up to you. Are you flexible, confident, self-disciplined and able to make tough decisions quickly? Can you organize your time and follow through on the details?

## **Are you ready for the demands of business ownership?**

Running a small business can be exhausting. Expect 12 to 16 hour days; plan to work on the weekend and maybe even holidays. Is your family prepared for the sacrifices and pressures that will occur? Having all of the responsibilities

of business ownership can be a heavy burden; being organized can help alleviate the stress. If need be, get help.

## **Do you possess business and management skills?**

Have you ever worked in a small business? Do you have managerial or supervisory experience? Have you hired and fired people before? Do you understand cash flow management, business financing and accounting? Do you have a grasp on the fundamentals of sales and marketing?

## **The Upside!**

It's true there are many reasons not to start a business. But if you are motivated, ready to work hard and possess the right skills the advantages far outweigh the risks. You get to be your own boss. Your long hours and hard work benefit you directly. Entrepreneurship can provide you with limitless opportunity, challenges and rewards.

This guide is designed to assist you in starting your business. It will provide you the basic information you need to make important decisions and get your business started on the right path. If you have questions or want more information after reading this guide, please call the SBDC at 832.813.6674 or visit the SBDC online at [www.lonestar.edu/sbdc](http://www.lonestar.edu/sbdc).

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## **Is Your Business Idea Feasible?**

- Is there any money in your idea?
- Do you have significant industry experience?
- Can you sell?
- Is your idea a new or pioneering idea in the market segment you will serve?
- Can you prove you know who will buy from you?
- Why will they buy from you?
- How large is you're your target market?
- Is your target market growing in size?
- Who will be your competitors?
- Are you better than your competitors? How?
- What is the major risk of your idea?
- Can you finance this business?

# Starting a Business Check List

## **Research Your Business**

- Chamber of Commerce
- Lone Star College System Small Business Development Center
- Texas Department of Economic Development
- Small Business Administration Business Information Center
- Public Libraries

## **Determine the Method of Organization**

- Sole Proprietorship
- General Partnership
- Limited Liability Partnership or Limited Partnership
- Registered Limited Partnership
- S-corporation or C-corporation
- Limited Liability Company

## **Register Your Business**

- County Clerk's Office - Assumed Name Certificate (dba)
- Texas Secretary of State's Office - Incorporations and Partnerships

## **Obtain Permits, Licenses and Regulations**

- Federal
- State
- County
- Local

## **Write the Business Plan**

- Management, Marketing, Operations and Financial Sections
- Supporting Documents

## **Protect Your Business**

- Insurance
- Patents, Copyrights, Trademarks

## **Prepare for State, Federal and Local Taxes**

- Property taxes
- State and Local Sales Taxes
- State Franchise Tax
- Federal income taxes

## **Fulfill Employer Responsibilities**

- State and Federal Employment and Withholding Taxes
- Workers' Compensation Insurance
- Immigration Law Verification
- Required Workplace Posters



# Reasons to Seek Counsel

**“An ounce of prevention is worth a pound of cure.”**

Henry de Bracton, English Jurist, 13<sup>th</sup> century.

By Gabriel W. Bonacci  
Attorney at Law

Many business owners don't seek legal counsel until confronted with a problem. But the successful business owner knows better. The successful business owner realizes lawyers have more to offer than legal advice. The right legal counsel is a trusted advisor that brings important skills to your management team. The right business lawyer educates management so they can make informed decisions to grow the business. The right legal counsel helps identify and avoid unnecessary risk. And of course, legal counsel can defend and file lawsuits to protect your business. But, the time to hire your legal counsel is before your business runs into trouble.

Attorneys tend to see the big picture and think in terms of transition, the business life cycle and the inevitable evolution of business relationships. This tendency provides attorneys with the ability to assess and minimize risk. A business lawyer can provide guidance from the initial planning stage by evaluating the potential liability associated with your business. Each business structure offers different protections and risks. A business lawyer will help you understand these risks and will

discuss ways to minimize them. Once the proper business structure is selected, a business lawyer can assist in evaluating proposed company governing documents, by-laws and/or partnership agreements. By defining roles and expectations, the business lawyer may help avoid future conflicts.

A business lawyer can draft and provide guidance concerning the business' contracts, help with collections and assist with customer disputes. Your lawyer can assist with employee issues, review employment application forms, draft and/or review employment agreements and employee handbooks, and assist with managing insurance claims and disputes.

With all the legal issues that arise in connection with successfully operating a business, no matter its size, it's important to develop a long-term, working relationship with an experienced business lawyer. The development of a long-term relationship allows legal counsel to build in-depth familiarity with your business. In-depth knowledge of your business provides for greater efficiency of legal service.

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# Getting Started

If you wish to operate a business in the State of Texas under any name other than your legal name, then you must register the name under which your business will operate with the local County Clerk and potentially with the Texas Secretary of State office.

If you are operating a business you should file an assumed name certificate or a d.b.a. (doing business as) form with the county clerk's office in each county in which you conduct business. You will need to search the county's records to see if the business name you have chosen is available. Many counties will perform the search for you for a small fee.

Reserving your company's name requires completing a form provided by the county. You will be required to supply information on the business' legal name, address, owners and business type. The assumed name certificate reserves your name only in the county where you file. Depending on the number of owners, the cost for an assumed name certificate or d.b.a. in Harris County starts at \$15.00. In Montgomery County the fee starts at \$8.50. An assumed name certificate is valid for ten years. (See the Information and Resources section of the Guide for information about area county clerk's offices.)

If you chose to operate your business as a corporation, limited liability corporation, limited partnership or registered limited partnership you will register your firm with the Texas Secretary of State office. Information is available at their website at [www.sos.state.tx.us](http://www.sos.state.tx.us) or by calling them at 512.463.5555. For more information on business entities and structure see the below section on business entities.

In Texas, many types of businesses and professions require special licenses and certifications from the state. There are more than 50 businesses that require licensing by the state. To see if your business requires special licensing consult with the Economic Development and Tourism Division of the Governor's Office. They can be reached at 800.888.0511 or online at <http://governor.state.tx.us/ecodev>. Also check with the Texas Department of Licensing and Regulation at 800.803.9202 or [www.license.state.tx.us](http://www.license.state.tx.us).

## LEGAL ENTITIES

A business may be operated through a variety of organizational structures. While a specific business structure is generally chosen for liability and/or tax reasons, the ultimate decision may involve tax, legal, financial and even estate planning considerations. In this section, we discuss the various structures available to businesses in Texas. The legal structure you choose will determine the organization and tax requirements of your business and will have a lasting effect on your new business venture.

### Sole Proprietorship

A sole proprietorship is a business owned and operated by a single person. The owner has complete control of the business, but faces unlimited personal liability for its debts and obligations. A sole proprietorship is formed by:

- Registering the business name (if applicable)
- Getting a business bank account
- Obtaining necessary licensing and permits

Social Security and Medicare taxes are paid through self-employment tax due annually (Form 1040). Payments for this tax are due in estimated quarterly installments to the federal government (Form 1040-ES). Income and expenses are reported on a Schedule C Form to be filed with your Form 1040 at the end of the year.

### Partnership

It takes two or more people to form a partnership. There are two types of partnerships: general and limited. When starting either type of partnership you will need the following:

- Tax ID number obtained by filing an SS-4 Form with the IRS
- Business bank account

The partnership itself does not pay income taxes, but does file an annual Form 1065 for federal income tax for informational purposes only. The partners must pay federal income taxes based on the profits of the business on their own individual returns.

## **General Partnership**

In a general partnership, all partners are personally liable for the activities of the business and have the right to be involved in the management and operations of the business. Each partner contributes to the start up of the business. A partnership does not necessarily need a written agreement, but one is highly recommended.

## **Limited Partnership**

A limited partnership can be created when you have two classes of partners.

- General partners: responsible for the management and operations of the business
- Limited partners: passive investors who do not participate in the management of the business.

General partners are fully liable for the activities of the business. A limited partner's liability is limited to the amount of his or her investment. The investment of the limited partners cannot be bought and sold without first considering the federal and state securities laws on limited partnership interests. Contact an attorney regarding these securities laws.

In Texas you may also form a registered limited partnership. This is a limited partnership registered with the Texas Secretary of State office. In a registered limited liability partnership, a partner is not individually liable under some circumstances for debts and obligations of the partnership arising from errors, omissions, negligence, incompetence, and/or malfeasance committed in the course of business by others in the partnership.

## **Corporation**

An individual or group of people can form a corporation. The advantage of a corporation is that if managed appropriately, a corporation offers personal liability protection to the involved party/parties.

A corporation is created by filing a Certificate of Formation with the Texas Secretary of State's office. There is a \$300 filing fee. There are certain formalities for creation of the Certificate of Formation and with maintaining a corporation, such as rights of owners, adoption of bylaws, annual shareholder and board of directors meetings. It is for this reason that it is recommended that you hire an

attorney for assistance with filing and understanding what is necessary for your business.

You will need a Tax ID number, which can be obtained by filing an SS-4 Form with the IRS. The corporation must also maintain its own bank account, separate from your personal bank account.

If you are incorporated, you are considered an employee of the company. All employee requirements and payroll taxes apply. There are two ways a corporation's taxes can be handled. One option is as a regular corporation, commonly known as a C-corporation. The second option is as a subchapter S-corporation.

### **C-corporation Taxes**

In a C-corporation, the corporation pays income tax based on the profits of the business and then the shareholders are taxed on dividends they receive from the corporation. For the owner and shareholders, this double taxation is often a concern.

For federal income tax due annually, file Form 1120, 1120A or 1120 EZ. You may also be required to make quarterly estimated tax payments. To do this, file Form 8109 and use worksheet 1120W to calculate. Corporation shareholders pay income tax on any dividends paid by the corporation from the leftover profits of the business on their own individual income tax returns.

### **Subchapter S-corporation Taxes**

You can elect S-corporation status by filing Form 2553 with the IRS. If you do not file for S-corporation status, you will be taxed as a regular C-corporation. Unlike the C-corporation, S-corporation income profits and losses are passed on to the shareholder. Profits are taxed only at the shareholder level. The corporation pays no federal or state income taxes (single taxation).

It should be noted that a significant restriction with becoming an S-corporation involves having a foreign partner or owner. A company can only be an S-corporation if owned by U.S. individuals, estates and trusts or a resident alien.

There are other restrictions with an S-corporation such as a maximum number of shareholders and the way your health care costs can be deducted, so you should

consult an accountant and tax attorney before selecting S-corporation status.

For federal income tax, file Form 1120S for tax payments due on an annual basis.

Subchapter S-corporation shareholders pay income tax on their share of the S-corporation profits on their individual federal income tax returns.

### **Limited Liability Company (LLC)**

An LLC is a hybrid of a partnership and a corporation. The liability protection is similar to a corporation and the taxes are similar to a partnership. An operating agreement is required and the LLC must be registered with the state just like a corporation. It is recommended that you consult with an attorney for assistance with filing and understanding what is necessary for your business to be an LLC.

When starting an LLC you will need a Tax ID number, which can be obtained by filing an SS-4 Form with the IRS.

### **Creating Accounting Systems and Controls**

The proper selection of an accounting system aids in compliance and reporting with lending institutions and dealing with regulatory agencies such as the IRS. The selection of an accounting system should consider but not be limited to:

- Appropriate software suitable for your business
- Setting up monthly closing cycles
- Implementation of a budget process
- Monthly review of financial statements
- Use of key performance indicators
- Use of a payroll service for cost benefits and compliance for critical payroll tax filings
- Use of an accounting policies and procedures manual to cover basic accounting functions of your business

### **Tax Responsibilities for Employers**

Federal withholding income tax is the tax withheld from Social Security and Medicare. Employees file Form W-4 to determine the amount of withholding. The business must file Form 941 (quarterly returns of taxes due) and Form 8109 (federal tax deposit coupons), for each deposit due on the 15<sup>th</sup> of the following month.

Employers must match the Social Security and Medicare taxes withheld from the employee's paycheck. File Form 941 (quarterly returns of taxes due) and Form 8109 (federal tax deposit coupons) with each month's withholding deposit that is due on the 15<sup>th</sup> of the following month. Contact the IRS forms and more information.

Federal unemployment tax must be filed annually by the employer on Form 940. Deposits to the IRS should be made on Form 8109. These deposits should be made quarterly on Form 8109 if greater than \$100.

State unemployment tax is paid by all employers to the Texas Workforce Commission. For information regarding these taxes, to obtain a state employer's identification number, and for information on tax credits, contact the Texas Workforce Commission at 800.832.9394 or online at [www.twc.state.tx.us](http://www.twc.state.tx.us).

### **Texas Franchise and Sales Tax**

The State of Texas imposes a franchise tax on all taxable organizations doing business in Texas. The franchise tax is considered to be a "privilege tax" for being able to do business in Texas. The annual tax due is based on business revenue. Businesses whose annual revenues fall below a certain threshold are not required to pay the franchise tax. All businesses in Texas are required to file the franchise tax forms regardless of whether they are required to pay the franchise tax or not. Partnerships (general, limited and limited liability), corporations, LLC's, business trusts, professional associations, business associations, joint ventures and other legal entities are liable for Texas franchise taxes.

For more information on Texas Corporate Franchise Taxes, call the Texas Comptroller of Public Accounts office at 800.252.1381 or visit online at [www.cpa.state.tx.us](http://www.cpa.state.tx.us).

As a business you may be liable for collecting and paying sales taxes on goods, products and services sold. As a general rule if you sell goods or services in Texas or purchase goods or taxable services for use in Texas from vendors that do not pay sales or use taxes you need to remit sales taxes to the Texas Comptroller's office. Additionally there are local sales and use taxes imposed by local jurisdictions, including cities, counties, special purpose districts and transit authorities.

To get a sales permit you must complete an application for a sales and use tax permit, Form AP-201. If you are buying a business you should get a Certificate of “No Tax Due” from the Comptroller. This ensures the business you are buying is current on all state sales tax obligations.

Your sales taxes may be due monthly, quarterly or yearly depending upon the amount of taxes you collect. Call the Comptroller to ensure compliance and for other questions. To check the local tax rate, obtain forms and get more information contact the Office of the Texas Comptroller at 800.252.5555 or go online at [www.cpa.state.tx.us](http://www.cpa.state.tx.us).

If you are hiring anyone to work for you as an employee, then you need to take care of the required withholding and payroll taxes for those employees. If you are incorporated, then all involved parties are considered to be employees (including yourself).

### **For federal tax information:**

- Internal Revenue Service (IRS)  
800.829.1040
- IRS Forms and Publications  
800.829.3676
- Tax ID Number  
800.829.4933
- IRS online  
[www.irs.gov](http://www.irs.gov).

For information on business structure and registration requirements in the State of Texas, call the Secretary of State office at 800.648.9642 or visit them online at [www.sos.state.tx.us](http://www.sos.state.tx.us).

### **Other Employer Responsibilities**

Workers’ compensation describes insurance programs that pay medical bills and may replace lost wages for employees who are injured at work or who have work-related diseases or illnesses. Texas does not require employers to carry workers’ compensation insurance. This does not mean that employers avoid liability.

Employers who choose to carry the insurance may purchase policies from private insurance companies or self-insure if they met the requirements of the Texas Department of Insurance, Division of Workers’ Compensation (TDI, DWC). It is suggested that you consult with your attorney

and insurance professional before making the decision not to purchase workers’ compensation insurance. Rates and coverage depend upon the industry, the number of workers and your total payroll. For more information, contact the TDI, DWC at 512.804.4100 or online at [www.tdi.state.tx.us/wc/indexwc.html](http://www.tdi.state.tx.us/wc/indexwc.html).

Other responsibilities such as health insurance, disability policies, family and medical leave policies and COBRA depend upon your number of employees. Check with the Economic Development and Tourism Division of the Governor’s Office at 800.888.0511 or online at [www.governor.state.tx.us/ecodev](http://www.governor.state.tx.us/ecodev).

As an employer you may be required to post informational posters at your place of business. For information and free downloads of posters, call the Texas Workforce Commission or visit them online at [www.twc.state.tx.us](http://www.twc.state.tx.us).

All businesses that own buildings and improvements must remit to the proper authority real property tax that is levied by the school district, municipality or other taxing jurisdiction. If located in Harris County, contact the Harris County Appraisal District at 713.957.7800 or online at [www.hcad.org](http://www.hcad.org).

If located in Montgomery County, contact the Montgomery Central Appraisal District at 281.353.2186 or online at [www.mcad-tx.org](http://www.mcad-tx.org).

You may also need to contact your local municipal utility district (MUD).

### **Trademarks, Copyrights and Patents**

Trademarks, copyrights and patents are all ways to protect your ideas, know-how and products. These valuable business assets should be protected. In this section we discuss the types of registrations and where they can be registered.

**Trademark** is a word, name or symbol used to identify and distinguish your goods or services from those sold by other businesses. It indicates who made the product and, through advertising, should guarantee the quality of the items with the mark on them. A trademark allows the holder to prevent anyone from selling a product that is substantially similar. A trademark identifies a product or service. A trade name identifies the business.

In Texas you cannot register a trademark until you have actually used it in your business. On the federal level, you may register a trademark prior to actual use. A state and federal trademark is valid for ten years. For more information, see the Texas Secretary of State's website at [www.sos.state.tx.us](http://www.sos.state.tx.us) or contact the U.S. Patent and Trademark office at 800.786.9199 or online at [www.uspto.gov](http://www.uspto.gov).

**Copyright** is a form of protection provided by U.S. law to the authors of "original works of authorship," including literary, dramatic, musical, artistic and certain other intellectual works. A copyright generally gives the owner the exclusive right to do and authorize others to do the following:

- To reproduce the work in copies or phonorecords
- Prepare derivative works based upon the work
- Distribute copies by sale, rental or lease
- Perform the work publicly
- Display the copyrighted work publicly

To obtain a copyright or for more information, contact the Copyright Office at the Library of Congress, 202.707.3000, or visit the U.S. Copyright Office online at [www.copyright.gov](http://www.copyright.gov).

**Patent** is a government granted monopoly to control an invention or technology for a period of 20 years. It allows you the exclusive rights to control, make, sell or use your inventions. Patents may be issued for items that are new, different or useful.

A patent is the best way to protect your new product or invention. To obtain a patent application or get more information, contact the U.S. Patent and Trademark Office at 800.786.9199 or visit them online at [www.uspto.gov](http://www.uspto.gov). Here you will find patent applications and other useful information.

### **Insuring Your Business**

You will need to insure your business and its assets. Some common small business insurance policies cover business property, vehicles, computer equipment and software, employee dishonesty, burglary, liability, health, life, errors and omissions, directors and officers, and business interruption.

Risk management and risk mitigation should be a major consideration when starting a new business. Failure to do so can lead to costly law suits or other costly services. Many reputable insurance carriers offer assistance in evaluating risk management and risk mitigation assistance as part of their normal services.

Contact a licensed insurance professional for information on recommended coverage and to obtain a quote.

### **Professional Services**

When starting your business, you will want to consider hiring and using professional help such as an attorney, accountant, insurance agent and banker. This professional "team" can be instrumental in making your business more successful. The best way to locate these advisors is through referrals from other business owners, friends, trade organizations, the chamber of commerce and other professionals.

## FINANCING YOUR BUSINESS

One key to the successful start-up and expansion of your business is your ability to adequately capitalize your company. Raising capital is an ongoing activity throughout the life of a business. Many entrepreneurs quickly discover finding financing is not always easy and often results in a frustrating experience. With proper information, preparation, planning and realistic expectations, you should be successful in accomplishing your financing needs.

### Funding Sources

Where do you go to find financing for the operation and expansion of your small business? The answer depends on several factors:

- How much money do you need?
- What personal financial resources will you invest in the business?
- How long have you been in business?
- What is your personal financial history?
- How much are you willing to pay in credit costs?
- Are you willing to relinquish any ownership in your firm?

Some of the major sources of small business start-up and expansion funding are:

**Banks.** Banks are the primary source for small business credit. Talk to a lending officer at your bank for information about obtaining a small business loan. If you are a new business, talk with a banker early in the start-up phase to establish a positive relationship.

To obtain a bank loan you will need a good personal credit history and some of your own money to invest in the project. In most cases you will be personally responsible for paying back all loans. Most banks will require a business plan and financial information for the business and the business owners. Be prepared to submit tax returns, personal and business financial statements and projected financial information on the new venture.

**Loan Guarantees.** You may be eligible for a loan guarantee through the U.S. Small Business Administration (SBA) or other sources. The SBA can guarantee a loan you get from a bank, making credit more accessible to small companies, especially start-

ups. For more information, contact the Lone Star College System SBDC at 832.813.6674 or the local SBA office at 713.773.6500 or online at [www.sba.gov](http://www.sba.gov).

**Other.** The following financing options are also available for consideration:

*Certified Development Company Loans* (504 Loan Program). An economic development program that supports American small business growth through expansion and job growth. Different than the loan guaranty program mentioned earlier the 504 Program is a two tiered project financing program where a lender provides 50% of the project cost with a first lien on all the project assets, the SBA finances 40% of the project assets with a subordinated lien and the borrower provides the balance.

*Texas Emerging Technology Fund.* A program that works through partnerships between state, higher education and private industry to consider investments in promising Texas high-tech start-up companies.

*Houston Angel Network.* A network that considers equity and/or debt with an equity kicker investment after a lead investor has invested; only certain business sectors are considered. Reviews by the HAN have specific criteria and application fees.

For more information on the above contact the Lone Star College SBDC.

**Local Governments, Economic Development and Enterprise Organizations.** Talk with your chamber of commerce for a local economic development organization or community development corporations for possibilities for loans and grants for business start-up or expansion. For information regarding state initiatives, contact the Economic Development and Tourism Division of the Governor's Office online at [www.governor.state.tx.us/ecodev](http://www.governor.state.tx.us/ecodev).

**Friends and Family.** These are one of the most common sources for funding small businesses, especially start-ups. If you decide to use this option, make certain to handle the transaction in a professional manner. When applicable, pay a fair rate of interest, sign a promissory note, and repay the money as agreed.

**Credit Cards.** Although it is a more costly form of credit, your credit card can provide ready access to cash. You should only use this source if you have a credit limit high enough to cover your needs, and if you can afford to pay off the card balance quickly.

**Venture Capital Firms.** These firms agree to finance your business in return for an ownership stake in your business. They are usually more risk-oriented and most of these firms have specific investment preferences in terms of industry segment, minimum investment size, and opportunity for high growth and returns. Venture capital is available to very few small firms, but depending upon several factors it may work for your business.

## THE BUSINESS PLAN

Writing a business plan is an essential step in starting or growing your business. An effective business plan serves as a road map that identifies the critical elements of the business and how it intends to achieve stated goals and objectives. The business planning process forces one to address fundamental questions about the business. The plan will serve as a blue print for your business and will be an essential tool in attracting debt and/or equity financing. The plan will require research, careful thought, numerous revisions and time. Many entrepreneurs spend months researching and developing a business plan. The business plan brings together the goals, plans, strategies, capital needs and resources of a business.

A business plan is a living document and is best prepared by the entrepreneur with assistance from key members of the management team and/or individuals close to the business. The contents of the plan should be vetted by trusted professionals who are not emotionally attached to the business.

Once prepared the plan should be revisited frequently to compare actual performance vs. forecasted projections. This gives rise to not only accountability but also a higher probability of achieving key elements of the plan; “what gets measured, gets done”

Each year the plan should be re-done to force a reassessment of those factors that impact not only the strategic direction but the very survivability of the business. For example a reassessment of such things as the economy, politics, competition, technology, buying trends, customer satisfaction, sales conversion rates and marketing strategies to mention a few.

A SWOT analysis is considered crucial to most every business; an objective analysis of the businesses Strengths, Weaknesses, Opportunities and Threats. A SWOT analysis is routinely performed by many Fortune 500 companies and professional management consulting firms in the normal course of business management. The SWOT analysis should form an integral part of the business plan.

The Lone Star College System’s SBDC stands ready to assist with your preparation of the business plan in areas of research, editing and to serve as your objective business advisor.

The following outline is presented as a step-by-step guide to help in writing a professional business plan.

### Cover Page

- Name and address of company
- Contact information, phone, fax, email and web addresses
- Business logo (if you have one)
- Names, titles, and contact information for business owners
- Indicate that the plan is Confidential
- Date the document

### Executive Summary

This summary should be a brief summary representing the various sections of your business plan. It should provide a concise overview of the complete plan. Often a lender or prospective investor will only read this section and the financial plan. Write this section last after the rest of the plan is finished.

### Background Information/Business Concept

Explain the business concept. Include in this section the mission statement, goals and objectives of the business, a simple business description, and what the business will do.

Answer as many of the following questions as are appropriate:

- What business are you in? Retail, manufacturing, wholesale or service?
- What is the nature of your product(s) or service(s)?
- What will be special about your business?
- What market do you intend to serve? What is the total market? What is your expected share?
- Identify what makes you unique, how can you serve the market better than your competition?
- Present status of the business: start-up, expansion of an existing business, or purchase of a business.
- If you will be doing any contract work, what are the



terms? Reference any signed contracts and include them as supporting documents.

- Do you have letters of intent from prospective suppliers? If so, include these letters in the business plan.

Answer the following questions if you are an existing business or are buying a business:

- What is the history of the business?
- Why does the owner wish to sell at this time?
- If the business is declining, why is it declining? How can you turn it around?
- How will your management make the business more profitable?
- What changes do you plan to make in the business?
- What is the purchase price formula? Give breakdown for building, improvements, equipment, inventory, and goodwill.

*NOTE: If your business will be a seasonal business, make sure the seasonality is reflected in your narrative and financial projections with appropriate footnotes.*

## Description of Products or Services

Explain the features of your proposed products and/or services. Describe the benefits to your customers. Are there intellectual property and proprietary rights issues? What is the production plan? Do you have any future products and/or services that you anticipate providing?

## The Marketing Plan

The marketing plan has several sections described below.

- **Industry Description**  
Describe the industry including history, background, current and future trends and how your business fits into the industry.
- **Your Market**  
Include customer profiles and description of the target market. Include a map showing geographic trade area. Include statistics on the market; how large it is, what is the market potential, what are the trends, is the market growing?
- **Competition**  
Who is your direct and indirect competition? Evaluate the competition and explain your competitive advantage.

Briefly describe your competition and tell how their operations are similar and dissimilar to yours. What is your unique selling proposition? How will you use it to control and grow your market share?

- **Sales and Market Strategies**

What marketing strategies will you employ in your business? Items to be covered include market positioning, marketing tactics, packaging, pricing, promotion, distribution, advertising, public relations, and customer service.

Identify how you plan to sell your products; direct, through a sales rep organization, e.t.c.

## Management Structure and Organization

The importance of the background and experience of the management team cannot be overstated. Lenders often consider this to be on the top of their priority list. It is recommended that this section be clear, comprehensive and convincing. Identify outside resources if those are anticipated.

Identify the legal formation of the existing or to-be formed new business and the list and per cent of ownership. A graphic of the management team should be included on an organizational chart.

## Business Operations

- **Business Location**

Identify the business address and why that location has been chosen; lease or buy. If leasing, include the terms and a copy of the contract. If necessary, include information on any renovations with related cost. If available, include a picture of the facility, a description of the area in which it is located along with a map.

- **Licenses and Permits**

Identify any special licenses or permits your business may need or already has obtained. Make sure to research zoning and deed restrictions and call the State for information on environmental and other regulations. Include copies of any special permits obtained in the business plan.

## Financial Plan

The financial section of the business plan is one of the most important. Be sure it is well researched, all encompassing, defensible and organized. The financial data required is explained below:

- **General Assumptions**

The assumptions are what provides the credibility for your financial forecasts. Separate written assumptions should be made for each individual item of revenue, cost and expense. Place assumptions in front of any financial forecasts so the reader will see them first. If possible financials presented in a worse, best and most realistic case should be included.

- **History**

A start-up or new business will have no history. A new start-up business will, however, have start-up expenses without which the doors can't be opened for business. Many of these expenses may get different treatment for tax purposes than regular operating expenses. If the business is a start-up, provide a listing of start-up costs at this point in the plan.

If this is an existing business, it is important to show sales revenue, cost of goods sold, gross profit, and net profit preferably for at least the past three years, supported by outside audit or copies of income tax returns.

- **Income Statements**

This is simply a projected income statement often called a profit and loss statement prepared using the written assumptions mentioned above. The income statement simply lays out the revenues and expenses of the business. A statement covering three years on a monthly basis should be prepared.

- **Balance Sheets**

The balance sheet reveals what the business owns and what the business owes to others and its owners. It is a snapshot of the business assets and liabilities at a given point in time. It can reveal whether there are assets that could be used as collateral, what is currently owed, and the resulting net worth of the business. A projected balance sheet should be prepared on a monthly basis for the first year. Quarterly balance sheets are prepared for subsequent years.

- **Cash Flow Forecasts**

A statement of cash flow is another very important financial statement. It shows how cash cycles through your business. Remember cash and only cash pays the bills. To be a successful entrepreneur you need to understand and consistently track your business cash

flow. This form should be prepared on a monthly basis for the first year, with subsequent years prepared on a quarterly basis. Your cash flow forecast can also be used to determine the specific amount of financing that may be required and when those funds need to be available. Asking a banker or investor for either too much or too little can lead to complications. Knowing exactly what you need and when you need it helps prove that you have done your homework.

## **Financing a Start-Up Business**

Once the financials are completed a more concise assessment can be made to determine the financial feasibility of the business. It will identify the capital needs which when compared to how much the owner or owners choose to invest will determine the extent to which outside financing may be required; be it debt or equity. An earlier section of this business guide provides various funding sources available for consideration.

Once the total complete capital needs of the business have been determined a summary schedule should be prepared and made a part of the Financial Plan called the "Source and Use Schedule". This one-page schedule should, in summary form, identify the total capital needs of the business, where it is intended to derive (owner's equity, to be borrowed, e.t.c.) and what will be the intended use of those funds.

The final selection of a funding option should be carefully considered and only after the advice of trusted legal, financial and business counsel. Each option carries with it serious consequences extending frequently to matters of control, autonomy and oftentimes personal guaranty's.

## **Exit Strategy**

Exit strategy is defined as the method by which a business owner intends to get money out of an investment generally dealing with private companies. A wide range of exit options are available to an owner, for example an initial public offering (IPO), selling to a competitor, selling to a financial buyer, leaving the business to one or more family members, or selling to a strategic buyer to name just a few. The time to consider one's preferred exit strategy, strangely enough, is when the business is started. The owner should identify his or her preferred exit strategy at the time the business is started with goals then created to achieve that plan. The owner can thus make conscience decisions regarding the tax implications of various exit strategies as well as how and to what extent to invest in such things as capital expenditures, people, products,

markets and sales techniques with a mind towards whether or not those investments will pay dividends when it comes time to exit. Far too many owners place the business up for sale when they choose to sell only to realize at that time a less than maximum return on their investment. Investors and lenders are keenly interested in understanding an owner's exit strategy as regards to evaluating their own interests. A sound exit strategy can enhance the credibility of the return on investment analysis for all parties involved.

### **Partnerships**

In the event the business is expected to be the joining of two or more individuals the relationship should be identified in the business plan. It is strongly recommended that a Partnership Agreement be reached between the parties identifying many important terms and conditions including but not limited to roles of responsibilities as well as the manner in which to deal with separation of the partnership including the formula to determine the business value and process of buy/sell of each partner's shares. This should be accomplished at the same time the partnership is formed under guidance of outside counsel. A copy of the agreement should be made a part of the business plan.

### **Supporting Documentation**

In this section of the business plan, you should include any supporting information that will strengthen the business

plan. Keep in mind that you do not want to overwhelm your reader with extraneous paperwork. So, make sure that the information included in the section is relevant and easy-to-read. Supporting documentation may include: tax returns (existing business); your resume; industry data; articles or studies relating to your industry; patents; detailed market studies; photo of your products; professional references; photo or rendering of location; employment contracts; leases; commitment letters from customers; and pertinent legal documents such as your articles of incorporation, assumed name certificate or partnership agreement.

### **STILL HAVE QUESTIONS?**

For more detailed information on business plans, call or visit the Lone Star College Small Business Development Center (SBDC). The SBDC's experienced business consultants will assist in developing a sound plan for your new or existing business.

For additional information and resources or to schedule a meeting, contact the SBDC at 832.813.6674 or visit our website at [www.LoneStar.edu/SBDC](http://www.LoneStar.edu/SBDC)

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Houston, Texas 77002  
713.222.7100  
gbonacci@cbllp.com

The tax and financial assistance and guidance of:

Karlins & Ramey, LLC  
1610 Woodstead Court Suite 245  
The Woodlands, Texas 77380  
gramey@karlinsramey.com

# Information and Resources

## Texas Office of the Governor

Economic Development and Tourism Division  
512.463.2000  
<http://www.governor.state.tx.us/ecodev/>

## Texas Secretary of State

512.463.5555  
[www.sos.state.tx.us](http://www.sos.state.tx.us)

## Texas Department of Agriculture

512.463.7476  
[www.agr.state.tx.us](http://www.agr.state.tx.us)

## LSCS Small Business Development Center

832.813.6674  
[www.SBDC.LoneStar.edu](http://www.SBDC.LoneStar.edu)

## Local Resources

City of Tomball 401 Market Street Tomball, TX 77375	281.351.5484	<a href="http://www.tomballtx.com">www.tomballtx.com</a>
Water, Parks and Recreation, Public Works, Utilities, Permits and Inspections, Community Center	281.351.5484	
Fire Department/Volunteer FD, Fire Marshall, Emergency Management Sanitation/WCA	281.351.7101 713.292.2400	
Municipal Courts Tomball Police	281.351.7894 281.351.5451	
Greater Tomball Area Chamber of Commerce 29201 Quinn Road, Suite B Tomball, TX 77375	281.351.7222	<a href="http://www.tomballchamber.org">www.tomballchamber.org</a>
Tomball Economic Development Corporation 29201 Quinn Road, Suite B Tomball, TX 77375	281.401.4086	<a href="http://www.tomballtxedc.org">www.tomballtxedc.org</a>
<b>Harris County</b>	713.755.5000	<a href="http://www.co.harris.tx.us">www.co.harris.tx.us</a>
Appraisal District	713.957.7800	<a href="http://www.hcad.org">www.hcad.org</a>
Assessor Tax Collector	713.368.2510	<a href="http://www.tax.co.harris.tx.us">www.tax.co.harris.tx.us</a>
Assumed Name Records (DBA)	713.755.6411	<a href="http://www.cclerk.hctx.net/PersonalRec/assumnam.htm">www.cclerk.hctx.net/PersonalRec/assumnam.htm</a>
Attorney	713.755.5101	<a href="http://www.co.harris.tx.us/coatty">www.co.harris.tx.us/coatty</a>
Clerk	713.755.6411	<a href="http://www.cclerk.hctx.net">www.cclerk.hctx.net</a>
Fire & Emergency Services	281.436.8000	<a href="http://www.co.harris.tx.us/fmarshal">www.co.harris.tx.us/fmarshal</a>
Flood Control	713.684.4000	<a href="http://www.hcfcd.org">www.hcfcd.org</a>
Library	713.749.9000	<a href="http://www.hcpl.lib.tx.us">www.hcpl.lib.tx.us</a>
Office of Economic Development	713.578.2254	<a href="http://www.csd.hctx.net">www.csd.hctx.net</a>
Office of Emergency Management	713.881.3100	<a href="http://www.hcoem.org">www.hcoem.org</a>
Public Health	713.439.6000	<a href="http://www.hd.co.harris.tx.us">www.hd.co.harris.tx.us</a>
Purchasing	713.755.5036	<a href="http://www.hctx.net/purchasing">www.hctx.net/purchasing</a>
Sheriff's Department	713.221.6000	<a href="http://www.hcso.hctx.net">www.hcso.hctx.net</a>
Tax Office	713.368.2000	<a href="http://www.tax.co.harris.tx.us">www.tax.co.harris.tx.us</a>
Texas Cooperative Extension	281.855.5600	<a href="http://www.harris-tx.tamu.edu">www.harris-tx.tamu.edu</a>

<b>Montgomery County</b>	936.756.0571	<a href="http://www.co.montgomery.tx.us">www.co.montgomery.tx.us</a>
Appraisal District	936.441.2186	<a href="http://www.mcad.tx.org">www.mcad.tx.org</a>
Bar Association	936.756.4554	<a href="http://www.mctxbar.com">www.mctxbar.com</a>
County Clerk	936.539.7885	<a href="http://www.co.montgomery.tx.us/cclerk">www.co.montgomery.tx.us/cclerk</a>
Engineering	936.539.7833	<a href="http://www.com.montgomery.tx.us/">www.com.montgomery.tx.us/</a>
Emergency Management and Services	936.539.7812	<a href="http://www.mcoem.org">www.mcoem.org</a>
Health Services	936.539.7839	<a href="http://www.co.montgomery.tx.us/ehealth">www.co.montgomery.tx.us/ehealth</a>
Library	936.539.7814	<a href="http://www.countylibrary.org">www.countylibrary.org</a>
Purchasing	936.539.7983	<a href="http://www.montgomery.tx.us/purch">www.montgomery.tx.us/purch</a>
Sheriff	936.760.5872	<a href="http://www.co.montgomery.tx.us/sheriff">www.co.montgomery.tx.us/sheriff</a>
Tax Assessor/Tax Office	936.539.7897	<a href="http://www.co.montgomery.tx.us/mctax">www.co.montgomery.tx.us/mctax</a>
<b>City of Houston</b>	713.837.0311	<a href="http://www.houstontx.gov">www.houstontx.gov</a>
Airport System	281.233.3000	<a href="http://www.fly2houston.com">www.fly2houston.com</a>
Bar Association	713.759.1133	<a href="http://www.hba.org">www.hba.org</a>
Bid Hotline	832.393.8762	
Building Permits	713.837.0311	<a href="http://www.houstontx.gov/permits">www.houstontx.gov/permits</a>
CPA Society	713.622.7733	<a href="http://www.houstoncpa.org">www.houstoncpa.org</a>
Fire Department Administration	832.394.6700	<a href="http://www.houstontx.gov/fire">www.houstontx.gov/fire</a>
Health & Human Services	832.393.5169	<a href="http://www.houstontx.gov/health/">www.houstontx.gov/health/</a>
Minority Business Council	713.271.7805	<a href="http://www.hmhc.org">www.hmhc.org</a>
One Stop Business Center	832.393.0954	<a href="http://www.houstontx.gov/onestop/">www.houstontx.gov/onestop/</a>
Police	713.308.1600	<a href="http://www.ci.houston.tx.us/hpd/">www.ci.houston.tx.us/hpd/</a>
Public Works and Engineering	832.395.2511	<a href="http://www.publicworks.houstontx.gov">www.publicworks.houstontx.gov</a>
Sign Administration/Permits	713.218.5801	<a href="http://www.publicworks.houstontx.gov">www.publicworks.houstontx.gov</a>
<b>Education</b>		
Aldine ISD	281.449.1011	<a href="http://www.aldine.k12.tx.us">www.aldine.k12.tx.us</a>
Conroe ISD	936-709-7751	<a href="http://www.conroeisd.net">www.conroeisd.net</a>
Cypress Fairbanks ISD	281.897.4000	<a href="http://www.cfsd.net">www.cfsd.net</a>
Houston ISD	713.556.6005	<a href="http://www.houstonisd.org">www.houstonisd.org</a>
Humble ISD	281.541.1000	<a href="http://www.humbleisd.net">www.humbleisd.net</a>
Klein ISD	281.249.4000	<a href="http://www.kleinisd.net">www.kleinisd.net</a>
Magnolia ISD	281.356.357	<a href="http://www.magnoliaisd.org">www.magnoliaisd.org</a>
New Caney ISD	281.577.8600	<a href="http://www.newcaneyisd.org">www.newcaneyisd.org</a>
Splendora ISD	281.689.3128	<a href="http://www.splendorisd.org">www.splendorisd.org</a>
Spring ISD	281.586.1100	<a href="http://www.springisd.org">www.springisd.org</a>
Tomball ISD	281.357.3100	<a href="http://www.tomballisd.net">www.tomballisd.net</a>
Willis ISD	936.356.1200	<a href="http://www.willisid.org">www.willisid.org</a>



**LONE STAR COLLEGE SYSTEM**  
**SMALL BUSINESS**  
**DEVELOPMENT CENTER**



*Consulting* ★ *Training* ★ *Solutions*

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*The Lone Star College System provides equal employment, admission and educational opportunities without regard to race, color, religion, national origin, sex, age or disability.*

*The Lone Star College System SBDC is a business consulting and training center of the University of Houston Small Business Development Center Network. The UH SBDC Network serves 32 counties in Southeast Texas.*

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<b>Lone Star College System (LSCS)</b>	832.813.6650	<a href="http://www.LoneStar.edu">www.LoneStar.edu</a>
LSC-CyFair	832.290.3200	
LSC-Kingwood	281.312.1600	
LSC-Montgomery	936.321.5161	
LSC-North Harris	281.618.5400	
LSC-Tomball	281.351.3300	
LSC-University Center	281.618.7140	
LSC-University Park	281.401.5300	
<b>Other</b>		
Better Business Bureau (Houston)	713.868.9500	<a href="http://www.bbbhou.org">www.bbbhou.org</a>
Community Impact News	281.469.6181	<a href="http://www.communityimpactnews.com">www.communityimpactnews.com</a>
Greater Houston Partnership	713.844.3600	<a href="http://www.houston.org">www.houston.org</a>
Greater Houston Convention and Visitors Bureau	713.437.5200	<a href="http://www.visithoustontexas.com">www.visithoustontexas.com</a>
Houston Chronicle	713.220.7171	<a href="http://www.chron.com">www.chron.com</a>
Houston Community Newspapers	281.668.1104	<a href="http://www.hcnonline.org">www.hcnonline.org</a>
The Leader	713.686.8494	<a href="http://www.theleadernews.com">www.theleadernews.com</a>
North Houston Association	281.875.0660	<a href="http://www.north-houston.com">www.north-houston.com</a>
Texas Department of Public Safety	512.424.2000	<a href="http://www.txdps.state.tx.us">www.txdps.state.tx.us</a>
Texas Veterans Commission	800.252.8387	<a href="http://www.tvc.state.tx.us">www.tvc.state.tx.us</a>