

## Advantages of Incorporating

### Limited Liability

Distributors who operate a distributorship as a sole proprietor are potentially subject to unlimited personal liability for business debt or lawsuits against their distributorship. Creditors of the distributorship can hold the sole proprietor personally liable for debts and can move to seize the proprietor's home, savings or other personal assets. In other words, should a distributor go out of business or be a defendant in a lawsuit, his personal assets are subject to seizure. This is generally not the case when a sole proprietor incorporates. When a sole proprietor incorporates, he/she is generally only responsible for his/her investment in the Corporation. This means that the Shareholder of the Corporation generally cannot be held responsible for the debts and obligations of the Corporation unless he/she provides a personal guarantee. The limited liability feature of a Corporation, while not a guarantee, is one of the most attractive reasons for incorporating. This is the reason that the words "Limited," "Incorporated," "Corporation," or one of their abbreviations must be included in the full legal name of the Corporation. These words give notice to the public that the business is a Corporation and therefore its owners, directors, officers and employees may have limited liability.

### Tax Advantages

There are numerous tax advantages that may be available to Corporations that cannot be achieved with sole proprietorships. A Corporation is a separate and distinct legal entity. Because of this, there are many legitimate transactions that can be structured between the owner and the Corporation. For instance, if a distributor owns a building or other assets, he may be able to lease office facilities or other assets to the Corporation and claim depreciation and other deductions for them. The Corporation can then claim the rental expense. One is prohibited from doing this as a sole proprietor or a partner in a partnership. There are other potential tax advantages to incorporating a business, such as lower income tax rates and carrying forward losses of previous years and profits in subsequent years, among others.

[The chief financial drawback of incorporating is double taxation. The Corporation pays tax on its profits, and the shareholders pay income taxes on the dividends they receive. However, much of this double taxation is minimized by the ability to offset the Corporation's business expenses.]

### Credibility

Most people feel more secure and confident dealing with a Corporation as opposed to a sole proprietorship. Having "Inc." or "Corp." after a company's name adds a touch of professionalism and credibility to commercial dealings with third parties. A Corporation may appear more stable and sophisticated to third parties. This may help a distributor acquire new business. Incorporation may help convey business credibility and prestige in day-to-day business dealings with third parties.

**THE ABOVE IS ONLY A SUMMARY AND IS NOT INTENDED IN ANY WAY TO CONVEY TAX OR FINANCIAL ADVICE. ALL DISTRIBUTORS ARE ADVISED TO CONSULT THEIR OWN LEGAL, TAX, OR FINANCIAL ADVISORS BEFORE DECIDING WHETHER TO INCORPORATE. NEITHER PEPPERIDGE FARM, INCORPORATED NOR ANY OF ITS RESPECTIVE AFFILIATES, EMPLOYEES OR REPRESENTATIVES MAKES ANY REPRESENTATIONS OR GUARANTEES WITH RESPECT TO THE INFORMATION CONTAINED ABOVE.**