

Legal Focus

Amendments to the Law on Entrepreneurs

On March 14, 2008 the Parliament of Georgia adopted changes to the Law on Entrepreneurs (LOE). Changes were adopted as a part of the so called package of Financial Sector Competitiveness laws significantly impacting Georgian entrepreneurial law.

S u b j e c t s o f t h e L O E

Entrepreneurial Fellowship is a new organizational-legal form of a Georgian enterprise

In addition to the organizational-legal forms of enterprises existing under the LOE, with the effect of the recent amendments Entrepreneurial Fellowship has been introduced as a new form of an enterprise.

Currently, following legal forms are envisaged in the LOE:

- ◆ Individual Entrepreneur
- ◆ Limited Liability Company (LLC)
- ◆ Joint Stock Company (JSC)
- ◆ Limited Partnership (LP)
- ◆ Joint Liability Partnership (JLP)
- ◆ Cooperative Society
- ◆ Entrepreneurial Fellowship.

Like the Individual Entrepreneur, Entrepreneurial Fellowship is not considered to be a legal person. Its members are liable towards the creditors jointly, with their entire property.

Registration Procedures

Amendments provide for the simplified registration procedure

Registration is conducted based on the written application filed with the Tax Inspection. Such application, if signed in the presence of representatives of the Tax Inspection, does not require notarization. The application must be accompanied with the facsimile of the person with representative authority and document certifying payment of registration fee. Facsimile can also be performed before the registering tax officer.

Notably, submission of the company's charter is no longer required for registration purposes. It is maintained within the company and defines distribution of shares between the partners, the amount of their contribution and other rights and obligations.

Simplified Registration

Registration is conducted immediately upon submission of the registration documentation

Following requirements have been abolished:

- ◆ submission of the document certifying payment of the charter capital;
- ◆ submission of the notarized charter;
- ◆ submission of the minutes of the founders.

According to the changes, the branch registration requirement has been abolished. Legal entities can notify the Tax Inspection in writing regarding creation of the branch. The latter is obliged to include information concerning registration of a branch into the Entrepreneurial Registry.

Registration of Changes in the Company Shareholding

Registration of changes in shareholding with the Tax Inspection is no longer required

Under the previous edition of the LOE, changes in shareholding required mandatory registration in the Entrepreneurial Registry.

Under the new edition, the changes in shareholding does not require registration.

Changes in the shareholding are registered either by the internally designated company staff (normally the director) or an independent

registrar. Internal/company registrar can record the changes in shareholding only based on the notarized share purchase/transfer agreement and should maintain corresponding share register from which upon request by third parties an up-to-date excerpt should be issued (for the transfer of stocks of Joint Stock Companies special rules envisaged by the Law on Securities Market apply).

Independent registrar is required when the number of shareholders in the company exceeds 50. Independent registrar is a regulated securities market participant licensed by the national securities regulatory body.

Independent registrars maintain registers of Joint Stock Companies as well as shares of the Limited Liability Companies, as the share of the latter has been qualified as a negotiable right. Special rules on maintenance of share registry by the registrars is endorsed by the national securities regulator (Financial Supervisory Agency) under the Regulation on Securities Register adopted on September 8, 2008 (Order #5).

An enterprise can only have one independent registrar. An enterprise can have either an independent registrar or an internal registrar. Having simultaneously both is prohibited.



New opportunity:
redomiciling your company

Redomiciling legal entity

Foreign companies can be transferred to Georgia without interrupting their operations

Recent amendments incorporated new concept of redomiciling an enterprise, which provides for transfer of company's seat in and from Georgia.

Foreign registered enterprise can be transferred to Georgia while Georgian enterprise can be transferred to the foreign country.

Foreign enterprise can be redomiciled to Georgia only under the organizational-legal form envisaged by the Georgian legislation.

Special provisions of LOE

Special part of the LOE has been simplified considerably. Number of mandatory rules has been decreased leaving more flexibility for the enterprises to determine their business operations through incorporation of various provisions in the companies' charters.

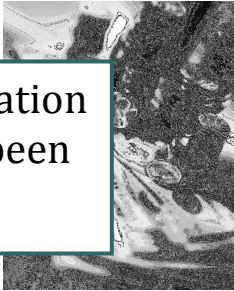
Before the changes the partners of JLP could have been only natural persons. Currently, the law on entrepreneurs does not contain such requirement. Likewise, in the LP legal person can

also be the personally liable partner of an enterprise.

The amendments abolished minimum capitalization requirements for LLCs and JSCs.

Supervisory Board

If a Joint Stock Company is not a Public (reporting) company under securities law and its stock is traded on the stock exchange, or if a JSC is not licensed by Financial Supervisory Agency and the number of the stockholders does not exceed 100, Supervisory Board is no longer a mandatory corporate body of the Joint Stock Company.



Minimum capitalization
requirement has been
abolished

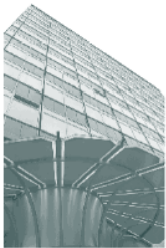
The LOE stipulates that the capitalization level of the company can be determined in any amount. Concept of the charter capital is abandoned completely.

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Our attorneys have extensive knowledge of the Georgian legislation and international law as well as understanding of business climate in Georgia.

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