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THE IMPORTANCE OF LLC OPERATING AGREEMENTS

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Opening a new business is exciting. Many owners are eager to get started and to start turning their dreams into realities. While the legal details of operating a business may not be as exciting as getting your first paying client or customer, they are extremely important for protecting yourself and your new business for the future.

If your business will be operating as a Limited Liability Company (LLC) then one of the most important business documents that you will create is an operating agreement. An LLC operating agreement often includes the owners':

- **Percentage of ownership;**
 - **Rules of management;**
 - **Rights and responsibilities in the business;**
 - **Rules of selling, closing or having one or more partners leave the business;**
- and**
- **Share of profits and losses.**

It is important for a business to have an operating agreement even if the business only has a single owner. In the absence of an operating agreement, the business will be governed by the default rules set forth by state law which may not be the most advantageous rules for your specific business. If you are the only owner of the LLC, the existence of an operating agreement can also help protect your limited liability status and show the courts that you were indeed running your business as an LLC rather than sole proprietorship. This can significantly affect your personal liability in a lawsuit. Furthermore, many banks will require a business to have an operating agreement prior to the owner or owners opening a business account.

For these reasons, it is important that you develop a comprehensive operating agreement that is specifically tailored to the needs of your business and that will protect your personal finances and business objectives. The contents of an operating agreement should vary from business to business and from state to state to ensure that the needs of that particular LLC are met and that the new business is legally established to be the success envisioned by its owners.

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