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# The Terms of Operating Agreements may be Very Flexible

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Operating Agreements are used by limited liability companies in place of the-by-laws or a partnership agreement typically used by corporations and partnerships.

The possible variations in the terms of an operating agreement are almost limitless. With careful planning, businesses are able to use this document to balance the respective rights and obligations of their “partners” in a clear and straightforward manner, which enables fair and predictable sharing of risk, reward and responsibility.

For example, Owner A may have control over operations, but is only entitled to a very small portion of the company’s earnings.

Alternatively, Owner A may receive earnings based on different levels of priorities (i.e., the first \$X going to owner A - perhaps a return of some or all of his or her initial investment) and then any remaining earnings distributed equally among all owners.

In conjunction with earnings, control may be “allocated” among the owners (i.e., Owner X may have “artistic” control over production [recording studio]; Owners Y and Z may have control over the business operations of the company; and each of the three owners, X, Y, and Z, may have “veto power” on certain “macro” business decisions such as raising capital, adding new owners, dissolving the company, etc.)

If you are starting a new business or wish to clarify the relationship between existing owners and you, contact Reinhard H. Lemke at rlemke@plunkettcooney.com or other members of the Business Law Practice Group and they will be pleased to assist you.

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