

## Why You Need an Operating Agreement

One of the areas we work with our clients on are establishing appropriate operating agreements.

These are important documents that outline rules, regulations and provisions for partners/shareholders and govern the internal operations of the business.

There are 4 main reasons why you need these agreements:

1. First, they protect the company and it's ownership from future conflicts by outlining any potential scenarios that may occur in the business. They define agreements in writing rather than verbally. I'm sure you've all heard the saying, if it's not in writing, it doesn't exist!
2. Operating agreements also protect your business from state default rules. Companies that don't have operating agreements in place may have to default to (often) vague state rules when decisions need to be made. *You* want to be in control of your own business not fall victim to state rules that might not be favorable. Having the proper legal documents in place will clarify the outcome if any issues do arise.
3. Operating agreements define important decisions that may need to be made about the business and it's shareholders/partners. These could include what happens if a partner/shareholder gets divorced, retires from the company, or unexpectedly passes away. It should also define how the value of the business is calculated in such an event. It's important to point out that if all partners/shareholders agree on something outside of what's in the agreement, that's acceptable. However, if that is not the case, then the signed agreement must be followed.
4. Essentially the role of operating agreements is to protect both the partners/shareholders and their business. It can do this by defining the rules of engagement that all partners/shareholders must abide by. In the event they are not, it would outline how they can be removed from the business by a "for cause" event. These events would also be outlined in the agreement, thus protecting the remaining partners/shareholders and their business.

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It's important you work with your CPA and legal representation to draft these agreements. They will offer perspectives gained through years of experience working with business owners like you. SVA has that experience and will help guide you through the process.

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