OPERATING AGREEMENTS AND BYLAWS EXPLAINED

The rulebook for how your company is owned and run, and why you need one even if you're the only owner.

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AT A GLANCE

- An **operating agreement** is the rulebook for an **LLC**. **Bylaws** are the rulebook for a **corporation**.
- They cover ownership, who makes decisions, how money comes in and out, and what happens if owners change.
- Even **single-owner** businesses should have one. Banks often ask for it, and it helps keep your personal assets protected.

WATCH OUT

General information only, not legal advice. Have a lawyer draft or review your agreement, especially if there's more than one owner.

Why it matters

If you don't write your own rules, your state's default rules apply, and they may not match what you want. A clear agreement prevents disputes, shows the business is separate from you, and is required by many banks, lenders and investors.

What an operating agreement covers (LLC)

Topic	What it says
Members and ownership	Who owns what percentage
Contributions	Money, property or work each owner puts in
Management	Run by all members, or by named managers
Voting and decisions	Which decisions need a majority or unanimous vote
Profits and losses	How they're shared, and when money is paid out
New members	How new owners can join
Leaving and transfers	What happens if an owner leaves, sells, divorces, becomes disabled or dies
Dissolution	How the business would be closed

What bylaws cover (corporation)

- Board of directors: size, election and meetings
- Officers: such as president, secretary and treasurer, and their duties
- Shareholder meetings and voting
- Issuing shares
- Recordkeeping and how the bylaws can be changed

Corporations also often have a **shareholders' agreement** covering share transfers, vesting and buybacks. See **B-10 Co-Founder Agreements: Splitting Ownership Fairly**.

> EXAMPLE
>
> **Joseph's** auto-repair LLC had two members. Their operating agreement said Joseph managed day-to-day work, any loan over $25,000 needed both members to agree, and a departing member's share would be bought out over 3 years at a price set by an outside valuation. When his partner moved away, the buyout followed the agreement, with no court and no fight.

Keeping it useful

- **Sign it** when you form the business.
- **Keep it with your formation papers** and EIN letter.
- **Update it** when owners, roles or big rules change.
- **Follow it.** An agreement you ignore offers little protection.

Common mistakes

- **No agreement at all**, especially for single-owner LLCs.
- **Downloading a generic template** without adapting it.

- **Not covering what happens when someone leaves.**
- **Never updating it** as the business changes.

Your checklist

- ☐ Confirm whether you need an operating agreement or bylaws
- ☐ List owners, ownership percentages and roles
- ☐ Decide which decisions need everyone's agreement
- ☐ Decide what happens when an owner leaves
- ☐ Have a lawyer draft or review it, then sign and store it

Key words, explained

Word	What it means
Member	An owner of an LLC.
Manager-managed	An LLC run by named managers rather than all members.
Bylaws	A corporation's internal rules.
Shareholders' agreement	An agreement among a corporation's owners.
Dissolution	Formally closing a business.

Where to go next

- **B-10 Co-Founder Agreements: Splitting Ownership Fairly**
- **B-04 Opening a Business Bank Account**
- **X-09 Passing the Business to Family or Employees**

IMPORTANT
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