# Business Operating Agreement

This Business Operating Agreement (the "Agreement") is made and entered into on this \_\_\_ day of \_\_\_\_\_\_\_, 20, by and between:

[Partner 1 Name], of [Address], ("Partner 1")

and

[Partner 2 Name], of [Address], ("Partner 2")

Collectively referred to as the "Partners".

## 1. Formation of Partnership

The Partners agree to form a business partnership under the name of [Business Name] (the "Partnership"), located at [Business Address]. The Partnership shall operate under the laws of [State] and shall engage in the business of [Description of Business Activities].

## 2. Capital Contributions

Each Partner agrees to contribute the following capital to the Partnership:

Partner 1: $[Amount or Description of Contribution]
Partner 2: $[Amount or Description of Contribution]

These contributions will form the initial capital of the Partnership. Future capital contributions will be made upon mutual agreement of the Partners.

## 3. Ownership Interest

The Partners agree that the ownership interests in the Partnership shall be as follows:

Partner 1: [Percentage]%
Partner 2: [Percentage]%

## 4. Profits and Losses

Profits and losses of the Partnership shall be divided according to each Partner's ownership percentage, unless otherwise agreed to in writing by both Partners.

## 5. Management of the Partnership

The management of the Partnership will be shared equally between the Partners, unless otherwise specified. Each Partner shall have the authority to make decisions regarding the business operations, subject to the approval of the other Partner in matters requiring significant financial or strategic commitment.

## 6. Duties and Responsibilities of Partners

Each Partner agrees to perform the following duties:

Partner 1: [List specific duties or roles]
Partner 2: [List specific duties or roles]

Both Partners agree to devote the necessary time and effort to the business, and to act in the best interests of the Partnership.

## 7. Distributions

Distributions of profits and other available funds shall be made to the Partners in accordance with their ownership percentages. Distributions may be made at such times as the Partners agree, provided that all necessary operating expenses and reserves have been accounted for.

## 8. Bank Accounts and Financial Records

The Partnership shall maintain its own bank accounts and financial records, separate from the personal accounts of the Partners. All Partnership funds shall be deposited in these accounts, and all expenses and distributions shall be made from the Partnership's accounts.

## 9. Dispute Resolution

In the event of a dispute between the Partners, the Partners agree to attempt to resolve the matter through mediation. If mediation is unsuccessful, the dispute may be resolved through binding arbitration, in accordance with the rules of the American Arbitration Association.

## 10. Transfer of Ownership

No Partner shall transfer, sell, or assign their ownership interest in the Partnership to any third party without the prior written consent of the other Partner(s). Any transfer of ownership will require the approval of all Partners, unless otherwise specified in this Agreement. The Partners agree to include the following additional provisions governing the transfer of ownership interests:

10.1 Drag-Along Right
In the event that a majority Partner (holding more than 50% of the ownership interest in the Partnership) receives an offer from a third party to purchase the entire Partnership, the majority Partner may exercise their drag-along right, requiring the other Partner(s) to sell their ownership interests in the Partnership on the same terms and conditions as the majority Partner. The Partners shall cooperate in the sale, and the terms of the sale shall be binding on all Partners.

10.2 Tag-Along Right
If a Partner (the "Selling Partner") receives an offer from a third party to purchase their ownership interest in the Partnership, the other Partner(s) shall have the right to sell their proportional ownership interest in the Partnership (a "tag-along right") on the same terms and conditions as the Selling Partner. The Selling Partner must notify the other Partner(s) in writing of the offer, and the other Partner(s) may exercise their tag-along right by providing written notice within a specified period, such as 30 days.

10.3 Shotgun Clause
In the event of a deadlock between the Partners, where the Partners are unable to agree on the operation or sale of the business, either Partner may invoke the shotgun clause. Under this clause, one Partner (the "Offering Partner") may offer to buy the other Partner’s ownership interest at a specified price per share or percentage. The other Partner (the "Offeree Partner") must either:
- Accept the offer and sell their ownership interest to the Offering Partner, or
- Buy the Offering Partner's ownership interest at the same price per share or percentage.

This clause is intended to provide a mechanism for resolving deadlocks by allowing one Partner to exit or buy out the other.

## 11. Term and Termination

This Agreement shall remain in effect until terminated by mutual agreement of the Partners or by operation of law. In the event of termination, the assets and liabilities of the Partnership shall be distributed according to the ownership interests of the Partners, after payment of any outstanding debts and obligations.

## 12. Indemnification

Each Partner agrees to indemnify and hold harmless the other Partner(s) from any personal liability arising from the actions of the Partnership, provided such actions were taken in good faith and in the ordinary course of business.

## 13. Miscellaneous Provisions

- Amendments: Any amendments to this Agreement must be in writing and signed by both Partners.
- Governing Law: This Agreement shall be governed by and construed in accordance with the laws of the State of [State].
- Severability: If any provision of this Agreement is held to be invalid or unenforceable, the remaining provisions shall remain in full force and effect.
- Entire Agreement: This Agreement constitutes the entire understanding between the Partners and supersedes all prior agreements, whether written or oral, relating to the subject matter hereof.

## 14. Signatures

IN WITNESS WHEREOF, the Partners have executed this Business Operating Agreement as of the date first written above.

Partner 1 Name:
Signature: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Partner 2 Name:
Signature: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

## Explanation of Key Clauses:

Drag-Along Right: Protects the majority Partner(s) by ensuring that if they sell, the minority Partner(s) must also sell their shares to the third party on the same terms.
Tag-Along Right: Protects minority Partner(s) by allowing them to "tag along" and sell their shares if the majority Partner sells to a third party.
Shotgun Clause: Resolves deadlocks by giving one Partner the right to offer to buy out the other Partner, or for the offered Partner to buy out the offering Partner at the same price.

*This template is a starting point and should be customized based on the needs of your business and local laws. You may also want to consult a legal professional to ensure compliance with regulations.*