

## Common Traps When Forming A Multi-Member Limited Liability Company In Texas

You have come up with this great idea for the next great business and have discussed it with one or several other people and decided to go into business together. This is an exciting time and you are thinking only success as you move forward to the next step. The limited liability company in Texas is the most popular business vehicle used when more than one person is going into business together. The Texas LLC is specifically designed to easily create a multiple member structure and offers many other advantages for starting a business. But, having more than one owner does add a higher potential for disputes and problems which, if not planned for properly, will lead to business failure. In fact, litigation attorneys have a popular saying that partnerships are sinking ship. They know, from experience, that business arrangements with multiple owners often lead to disagreements and disputes due to improper upfront business planning. A Texas limited liability company provides protection against third parties but proper planning is required to ensure the business is properly structured when it comes to multiple business owners.

**Trap #1: Due Diligence on Who your Texas LLC Members Will Be** It has always amazed me how easily a person will commit to go into business with another . . . often one will do this based on a single conversation with another. Before you form that limited liability company in Texas, you must go through a period of due diligence to make sure you are not setting yourself up for failure. After all, a jointly owned and run business involves working together a lot and having to deal not only with the fun and great things about small business but the inevitable problems and challenges. These are the persons you will be making a significant investment of your money and time with. You are undertaking a joint risk taking endeavor. Does this advice sound like another area of life? It is just like picking a husband or wife to marry. Most people would not say I DO immediately the first date and those who do often end up you know where . . . spending their money in divorce court. Take the time to know your partners and to discuss the contemplated business. Work on a summary business plan together to ensure you are on the same page when it comes to the goals and expectations of the contemplated business. Pay particular attention to how you communicate and whether you can together work through issues, problems and decisions related to strategy and opportunity.

**Trap #2: Failing to Detail and Document Texas LLC Member Rights and Obligations** Once created, a limited liability company in Texas automatically offers a layer of protection for you and your other members against third parties. But, this protection does not protect you against other Members for the rights, obligations and agreements agreed to related to the Texas limited liability company business. It is essential that prior to agreeing to admit another person as a member to your LLC business, you determine and agree upon the rights that the member will have, the authority, if any, he will have and the obligations and other requirements or conditions required for that person to become and remain a member in the Texas LLC business. Issues like how much money he or she must contribute for the ownership interest and whether the member is required to contribute other property or services must be agreed upon and documented. Documentation is key as minds often forget. You do not want to be spending thousands of dollars in a lawsuit fighting about what the final agreement was. Make sure you document at the beginning of the relationship. Standard rights and capital contribution obligations are typically documented in a Texas limited liability company agreement. Other arrangements such as services obligations are generally documented in a services agreement between the member and the limited liability company in Texas.

### About the Author

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