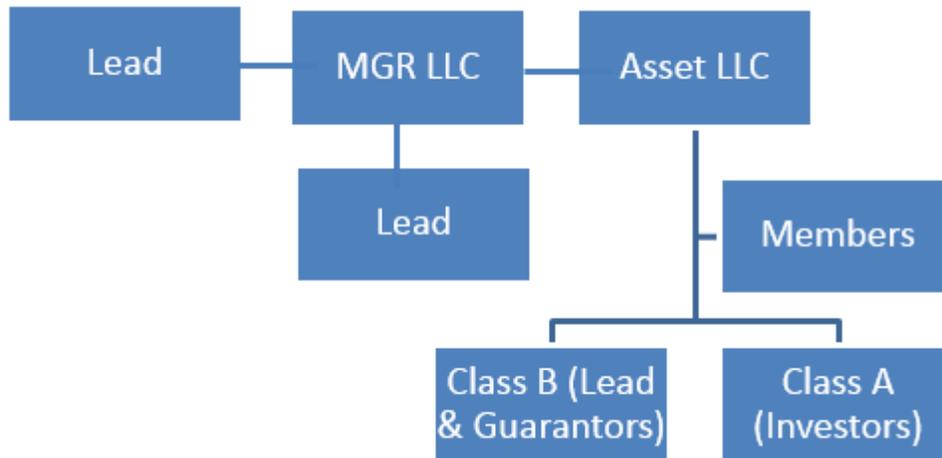


**Where Control is Derived from on a Standard Deal**



In a basic LLC structure control is derived from two primary locations. The first is the Manager, analogous to the Board of Directors of a corporation, the Manager has the power to hire and fire executives, make the majority of business decisions, enter into contracts on behalf of the LLC, etc. The second area in which control is derived is the Members. Analogous to the shareholders or owners of a corporation, the Members power comes from the ability to vote in and out the Managers.

As a liability protection technique we typically recommend creating a second LLC to serve as the manager of the asset holding LLC. Typically, the Manager and sole Member of the MGR LLC is the lead, and they can exercise complete control over that MGR LLC (as reflected on the chart above-to the left of “MGR LLC” the lead is reflected as a Manager and below “MGR LLC” the lead is reflected as its sole member). So where is control derived from in this instance?

Similarly, the Members (Investors) of “Asset LLC” will have the ability to vote in and out the Manager (MGR LLC) of that entity. The MGR LLC will have the typical authority appointed to a Manager.

Special caution is advised with regard to the structuring of the MGR LLC. If the Lead provides someone else with a controlling ownership interest of the MGR LLC, that other party will have the authority to vote in and out Managers of the MGR LLC. This means they could remove the Lead as Manager of the MGR LLC, and in essence take control of the deal. The only way for the Lead to regain control at this point would be for the Members of Asset LLC to vote out MGR LLC as their Manager, and then vote back in the Lead.

To summarize, it is critically important that the Lead maintain a controlling interest in the MGR LLC to remain in control of the deal. However, there is no guarantee the Lead will remain in control even doing this as the Members of Asset LLC will always have the right to vote out their Manager.

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*\*Please note the information provided here is not legal advice and all information provided is merely for discussion purposes.*