D R A F T

FOR DISCUSSION ONLY

REVISED UNIFORM

LIMITED LIABILITY COMPANY ACT

NATIONAL CONFERENCE OF COMMISSIONERS

ON UNIFORM STATE LAWS

February 2005

WITH PREFATORY AND REPORTERS' NOTES

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REVISED UNIFORM LIMITED LIABILITY COMPANY ACT

TABLE OF CONTENTS

[ARTICLE] 3
RELATIONS OF MEMBERS AND MANAGERS
TO PERSONS DEALING WITH LIMITED LIABILITY COMPANY

[ARTICLE] 4
RELATIONS OF MEMBERS TO EACH OTHER AND
TO LIMITED LIABILITY COMPANY

[ARTICLE] 5
TRANSFERABLE INTERESTS AND RIGHTS OF TRANSFEREES AND CREDITORS

[ARTICLE] 6
MEMBER'S DISSOCIATION

[ARTICLE] 7
DISSOLUTION AND WINDING UP

[ARTICLE] 8
FOREIGN LIMITED LIABILITY COMPANIES

[ARTICLE] 9
ACTIONS BY MEMBERS

[ARTICLE] 10
MERGER

[ARTICLE] 11
MISCELLANEOUS PROVISIONS

REVISED UNIFORM LIMITED LIABILITY COMPANY ACT

PREFATORY NOTE

Background to this Drafting Project:
Developments Since the Conference Considered and Approved the Original
Uniform Limited Liability Company Act (ULLCA)

The Uniform Limited Liability Company Act ("ULLCA") was conceived in 1992 and first adopted by the Conference in 1994. By that time nearly every state had adopted an LLC statute, and those statutes varied considerably in both form and substance. Many of those early statutes were based on the first version of the ABA Model Prototype LLC Act.

ULLCA's drafting relied substantially on the then recently adopted Revised Uniform Partnership Act ("RUPA"), and this reliance was especially heavy with regard to member-managed LLCs. ULLCA's provisions for manager-managed LLCs comprised an amalgam fashioned from the 1985 Revised Uniform Limited Partnership Act ("RULPA") and the Model Business Corporation Act ("MBCA"). ULLCA's provisions were also significantly influenced by the then-applicable federal tax classification regulations, which classified an unincorporated organization as a corporation if the organization more nearly resembled a corporation than a partnership. Those same regulations also made the tax classification of single-member LLCs problematic.

Much has changed. All states and the District of Columbia have adopted LLC statutes, and many LLC statutes have been amended several times. LLC filings are significant in every U.S. jurisdiction, and in some states new LLC filings approach or even outnumber new corporate filings on an annual basis. Manager-managed LLCs have become a significant factor in non-publicly-traded capital markets, and increasing numbers of states provide for mergers and conversions involving LLCs and other unincorporated entities.

In 1997, the tax classification context changed radically, when the IRS' "check-the-box" regulations became effective. Under these regulations, an "unincorporated" business entity is taxed either as a partnership or disregarded entity (depending upon the number of owners) unless it elects to be taxed as a corporation. Exceptions exist (e.g., entities whose interests are publicly-traded), but, in general, tax classification concerns no longer constrain the structure of LLCs and the content of LLC statutes. Single-member LLCs, once suspect because novel and of uncertain tax status, are now popular both for sole proprietorships and as corporate subsidiaries.

ULLCA was revised in 1996 in anticipation of the "check the box" regulations and has been adopted in several states, but state LLC laws are far from uniform. In many other states, the LLC statute includes RUPA-like provisions. In 1995, the Conference amended RUPA to add "full-shield" LLP provisions, and today every state has some form of LLP legislation (either through a RUPA adoption or similar revisions to a UPA-based statute). While some states still

provide only a "partial shield" for LLPs, many states have adopted "full shield" LLP provisions. In full-shield jurisdictions, LLPs and member-managed LLCs offer entrepreneurs very similar attributes and, in the case of professional service organizations, LLPs might dominate the field.

Sixteen years have passed since the IRS issued its gate-opening Revenue Ruling 88-76, declaring that a Wyoming LLC would be taxed as a partnership despite the entity's corporate-like liability shield. More than seven years have passed since the IRS opened the gate still further with the "check the box" regulations. Now seems an opportune moment to identify the best elements of the myriad "first generation" LLC statutes and to infuse those elements into a new, "second generation" uniform act.

Agenda for the February, 2005 Meeting

Friday morning
(meeting begins promptly at 8:30 AM)

1. Management structure
   a. key issues
      i. should the default management structure be essentially identical for a manager-managed and member-managed LLC, except that a few key matters [which?] should be, in the default mode, reserved to members even in a manager-managed LLC?
      ii. in the default mode, should the default management structure of a manager-managed LLC and a member-managed LLC differ from the default management structure of, respectively, a limited partnership and a general partnership, and, if so, how?
      iii. what effect, if any, should management structure have on the causes of dissociation?
   b. sections to be read
      i. Section 407, Management of a Limited Liability Company
      ii. Section 601, Events Causing Dissociation

2. Information duties
   a. key issues
      i. should the Act continue the Conference's approach of treating information duties as statutory rather than fiduciary?
      ii. does the revised language adequately handle the various scenarios raised at the fall, 2004 meeting?
   b. section to be read – Section 411, Right to Information of Members, Managers, and Former Members

3. Statements of authority

a. key issues
    i. in general, can this provision be streamlined, or is it better to follow (as in the current draft) the RUPA structure?
    ii. does the current language state correctly the reliance requirements and the effect of statements that do not concern real property?
b. sections to be read
    i. Section 302, Statement of Limited Liability Company Authority
    ii. Section 303, Statement of Denial

Friday afternoon
(meeting begins promptly 90 minutes after the end of the morning session and continues until 5:30 PM)

4. Charging orders
    a. key issues
        i. is the modernized approach an improvement in general?
        ii. even if so, are there specific improvements to be made (e.g., providing that a person who has redeemed is entitled to interest on the amount paid to discharge the charging order; providing expressly that a charging order is self-executing – i.e., that the order necessarily directs the LLC to pay over to the holder of the order any distributions that would otherwise be paid to the member/transferee [there is some old authority to the contrary])
        iii. should the caption be changed to include the phrase "charging order"?
        iv. should the concept of redemption be re-labeled to avoid confusion? (to the uninitiated, the notion of a non-debtor redeeming property can be confusing)
        v. should the provision expressly state the interface with Article 9, and, if so, how?
    b. sections to be read
        i. Section 503, Rights of Judgment Creditor of Member or Transferee
        ii. for context:
            (A) Section 501, Member's Transferable Interest
            (B) Section 502, Transfer of Member's Transferable Interest

5. Becoming a member
    a. key issues
        i. does the current language in Section 401 adequately resolve the issue of "formed by filing" vs. "formed by agreement"?
        ii. is the relationship between Section 401 and Section 701(a)(3) appropriate?
        iii. should the caption to Section 401 be changed to "Becoming a Member"?
    b. sections to be read
        i. Section 401, How a Person Becomes a Member

ii. Section 701(a)(3) (dissolution occurs upon "the passage of 90 days during which the limited liability company has no members")

Saturday

(meeting begins promptly at 9 AM, recesses for lunch, resumes 90 minutes later, and continues until 5:30 PM)

6. Operating agreement
   a. key issues
      i. is there significance to the designation "operating agreement" other than the resulting power to modify the statutory default rules?
      ii. where (statutory text, comment, or not at all)should the point be made that – given the definition of "operating agreement" – once an LLC comes into existence and has a member, the LLC necessarily has an operating agreement
      iii. whether the definition of "limited liability company" should refer to the operating agreement; e.g., "an entity formed under this Act . . . and having an operating agreement"
      iv. should the Act expressly authorize "no oral modification" provisions and other "channeling" methods to control "he said/she said" disputes?
      v. should the Act permit a non-member to be party to the operating agreement?
      vi. should the Act permit the operating agreement to (A) extend rights to a third party [no big deal – standard third party beneficiary law] and (B) provide that the agreement may not be amended without the consent of a non-party [arguably a significant change in third party beneficiary law]?
      vii. assuming that a non-member is not party to the operating agreement and has no express rights under the operating agreement (e.g., a non-member manager), what rights should the non-member have if a change in the operating agreement prejudices the non-member's rights under an agreement between that non-member and the LLC (e.g., damages only, damages plus injunctive relief if available under ordinary principles of equity, a right under the Act to prevent the change to the operating agreement)?
      viii. in light of the expansive definition of "operating agreement," *inter se* the members will the articles often (or sometimes) be evidence of the content of the operating agreement?
      ix. in light of the complexity of the concept of the operating agreement, should the Act eschew a simple definition based on the RUPA approach and substitute "'operating agreement' has the meaning stated in Section 110"?
      x. can the language concerning conflicts between the articles and the

operating agreement be streamlined?

xi. should the Act give more direction as to the meaning of the "manifestly unreasonable" standard (e.g., whether the standard is applied as of the time a provision is adopted/agreed to, or as of the time the provision is applied; whether "manifestly" has any meaning at all)?

xii. whether the Act should include any specification of non-waivable provisions (the RULPA/ULLCA/ULPA(2001) approach) or instead leave that topic to the courts under the rubric of public policy.

xiii. does the revised language in Section 110 adequately handle these issues and the other issues raises at the fall, 2004 meeting?

b. sections to be read

i. Section 102(12) (definition of operating agreement) [renumbered due to deletion of definition of "governance responsibility"]

ii. Section 110, Effect of Operating Agreement; Nonwaivable Provisions

iii. Section 201(d) (conflicts between provisions of articles and operating agreement)

Sunday morning

(meeting begins promptly at 8 AM and continues until 11 AM)

7. the direct/derivative distinction

a. key issue – whether the distinction makes sense for a closely held LLC, especially a member-managed LLC, and whether the Act should somehow indicate that for a [defined] closely held LLC, the operating agreement can eliminate the distinction

b. sections to be read:

i. Section 901, Direct Action by Member

ii. for contrast (to be provided in the Reporters' Notes section to Section 901)

(A) RUPA § 405 (b) (no direct/derivative distinction; no derivative cause of action)

(B) ULLCA § 410 (direct claims authorized, while Article 11 provides for derivative claims)

8. knowledge, notice provisions

a. key issue: should this Act set aside the elaborate (and, some would say, confusing) provisions that NCCUSL imported from the UCC into RUPA, ULLCA, and ULPA (2001) ?

b. section to be read: Section 103, Knowledge and Notice

REVISED UNIFORM LIMITED LIABILITY COMPANY ACT

[ARTICLE] 1

GENERAL PROVISIONS

SECTION 101. SHORT TITLE. This [act] may be cited as the Revised Uniform Limited Liability Company Act.

Reporters' Notes

Issues to be considered: given that this act is intended as a wholesale replacement for the current uniform act, whether "Revised" is an appropriate description

SECTION 102. DEFINITIONS. In this [act]:

(1) "Articles of organization" means the articles required by Section 201. The term includes the articles as amended or restated.

(2) "Contribution" means any benefit provided by a person to a limited liability company in order to become a member or in the person's capacity as a member.

(3) "Debtor in bankruptcy" means a person that is the subject of:

(A) an order for relief under Title 11 of the United States Code or a successor statute of general application; or

(B) a comparable order under federal, state, or foreign law governing insolvency.

(4) "Designated office" means:

(A) with respect to a limited liability company, the office that the limited liability company is required to designate and maintain under Section 112; and

(B) with respect to a foreign limited liability company, its principal office.

(5) "Distribution" means a transfer of money or other property from a limited liability company to a member in the member's capacity as a member or to a transferee on account of a transferable interest owned by the transferee.

(6) "Foreign limited liability company" means an unincorporated entity formed under the laws of a jurisdiction other than this state and denominated by those laws as a limited liability company.

(7) "Limited liability company", except in the phrase "foreign limited liability company", means an entity formed under this [act].

(8) "Manager" means a person that is a manager under Section 407(b)(5) of a manager-managed limited liability company. The term does not include a person that has ceased to be a manager under Section 407(b)(5).

(9) "Manager-managed limited liability company" means a limited liability company which is so designated in its articles of organization.

(10) "Member" means a person that is a member of a limited liability company under Section 401. The term does not include a person that has dissociated as a member under Section 601.

(11) "Member-managed limited liability company" means a limited liability company which is so designated in its articles of organization.

(12) "Operating agreement" means any agreement (whether referred to as an operating agreement and whether oral, in a record, implied, or in any combination thereof) of all the members, including a sole member, concerning the limited liability company. The term

includes the agreement as amended.

(13) "Person" means an individual, corporation, business trust, estate, trust, partnership, limited liability company, association, joint venture, government; governmental subdivision, agency, or instrumentality; public corporation, or any other legal or commercial entity.

(14) "Principal office" means the office where the principal executive office of a limited liability company or foreign limited liability company is located, whether or not the office is located in this state.

(15) "Record" means information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form.

(16) "Sign" means, with the present intent to authenticate a record:

(A) to execute or adopt a tangible symbol; or

(B) to attach or logically associate an electronic symbol, sound, or process to or with a record.

(17) "State" means a state of the United States, the District of Columbia, Puerto Rico, the United States Virgin Islands, or any territory or insular possession subject to the jurisdiction of the United States.

(18) "Transfer" includes an assignment, conveyance, deed, bill of sale, lease, mortgage, security interest, encumbrance, gift, and transfer by operation of law.

(19) "Transferable interest" means a member's right to receive distributions.

(20) "Transferee" means a person to which all or part of a transferable interest has been transferred, whether or not the transferor is a member.

Reporters' Notes

Issues to be considered: whether in paragraph 8 (manager) it is clear that the term "manager" applies to an ex-manager with regard to events occurring before the person ceased to be a manager; whether in paragraph 10 (member) it is clear that the term "member" applies to a former member with regard to events occurring before the person dissociated as a member; whether in paragraph 12 (operating agreement) the phrase "concerning the limited liability company" is sufficient to indicate the all-encompassing scope of the operating agreement; whether in paragraph 12 (operating agreement) the all-encompassing scope of the definition means that any activity involving unanimous consent of the members comprises part of the operating agreement

Paragraph (6) [Foreign limited liability company] – Some statutes have elaborate definitions addressing the question of whether a non-U.S. entity is a "foreign limited liability company." The NY statute, for example, defines a "foreign limited liability company" as:

> an unincorporated organization formed under the laws of any jurisdiction, including any foreign country, other than the laws of this state (i) that is not authorized to do business in this state under any other law of this state and (ii) of which some or all of the persons who are entitled (A) to receive a distribution of the assets thereof upon the dissolution of the organization or otherwise or (B) to exercise voting rights with respect to an interest in the organization have, or are entitled or authorized to have, under the laws of such other jurisdiction, limited liability for the contractual obligations or other liabilities of the organization.

NY CLS LLC § 102. ULLCA § 101(8) takes a similar but less complex approach ("an unincorporated entity organized under laws other than the laws of this State which afford limited liability to its owners comparable to the liability under Section 303 and is not required to obtain a certificate of authority to transact business under any law of this State other than this [Act]"). This Draft follows Delaware's still simpler approach. Del. Code Ann. tit. 6, § 18-101(4) ("denominated as such").

Former Paragraph (7) [Governance responsibility] – Deleted because the Draft's provisions on fiduciary duty no longer refer to this term.

Paragraph (8) [Manager] – This term is ubiquitous in LLC statutes, but it can cause confusion given other common usages of the term. For example, a member-managed LLC might well have an "office manager" or a "property manager." Moreover, in a manager-managed LLC, the "property manager" is not likely to be a manager as the term is used in this act.

Paragraph (12) [Operating Agreement] – This definition must be read in conjunction

with Section 110, which further describes the operating agreement. The current wording mostly follows ULPA (2001), which itself was an amalgam of RUPA and ULLCA. There is no standard NCCUSL wording. The text of those uniform act definitions as well as the Delaware definition are provided below.

An agreement to form an LLC is not itself an operating agreement, because the term "operating agreement" presupposes the existence of members, and a person cannot have "member" status until the LLC exists. However, the Act's very broad definition of "operating agreement" means that, as soon as a limited liability company is formed with even one member, the limited liability company has an operating agreement. For example, suppose (i) two persons orally and informally agree to join their activities in some way through the mechanism of an LLC, (ii) they form the LLC or cause it to be formed, and (iii) without further ado or agreement, they become the LLC's initial members. The LLC has an operating agreement, because "all the members" have agreed on who the members are" and that agreement – no matter how informal or rudimentary – is an agreement "concerning the limited liability company."

The same result follows when a person becomes the sole initial member of an LLC. It is not plausible that the person would lack any understanding or intention with regard to the LLC. That understanding or intention constitutes an "agreement of all the members, including a single member, concerning the limited liability company." See also Section 110(d) ("A sole member may make the operating agreement in any manner the member desires . . . .").

The Committee may want to consider whether "concerning the limited liability company" is sufficient to indicate the all-encompassing scope of the operating agreement, or whether (perhaps paradoxically) more limiting phrasing might better connote broad scope. See the ULLCA and Delaware provisions below.

The Committee may also want to consider whether the all-encompassing scope of this definition means that any activity involving unanimous consent of the members comprises part of the operating agreement. For example, if pursuant to an operating agreement, all the members consent to the redemption of one-half of the managing-member's transferable interest, does that action become part of the operating agreement? Moreover, does the answer to that conceptual question make any practical difference?

As noted by the ABA Advisor (in a discussion in January, 2005, on the Drafting Committee's list serv):

> An agreement among less than all the members with respect to . . . the LLC (e.g., an agreement among some of the members to support or oppose an action) would not be an operating agreement but might be effective among the parties to the agreement.

Query also whether this definition should follow ULLCA, which in its statutory text cross

references to the later section that deals extensively with the agreement, or RUPA and ULPA (2001), which do not.

> RUPA § 101(7) [partnership agreement] – "the agreement, whether written, oral, or implied, among the partners concerning the partnership, including amendments to the partnership agreement."
>
> ULLCA § 101(13) [operating agreement] – "the agreement under Section 103 concerning the relations among the members, managers, and limited liability company. The term includes amendments to the agreement."
>
> ULPA (2001) § 101(13) [partnership agreement] – "the partners' agreement, whether oral, implied, in a record, or in any combination, concerning the limited partnership. The term includes the agreement as amended."
>
> Del. Code Ann. tit. 6, § 18-101(7) [limited liability company agreement] – "any agreement (whether referred to as a limited liability company agreement, operating agreement or otherwise), written or oral, of the member or members as to the affairs of a limited liability company and the conduct of its business."

Former Paragraph (14) ["Operational responsibilities"] – Deleted because the Draft's provisions on fiduciary duty no longer refer to this term.

Former Paragraph (18) ["Required information"] – Deleted because at its October, 2004 meeting, the Drafting Committee decided to delete Section 111, thereby removing any obligation for an LLC to maintain particular types of information.

Paragraph (18) [Transfer] – Following RUPA and ULPA (2001), this Act uses the words "transfer" and "transferee" rather than the words "assignment" and "assignee." See RUPA § 503.

The reference to "transfer by operation of law" is significant in connection with Section 502 (Transfer of Member's Transferable Interest). That section severely restricts a transferee's rights (absent the consent of the members), and this definition makes those restrictions applicable, for example, to transfers ordered by a family court as part of a divorce proceeding and transfers resulting from the death of a member.

Paragraph (19) [Transferable Interest] – On this point of terminology, this Draft follows RUPA and ULPA (2001) rather than ULLCA, which refers to "distributional interest." ULLCA § 101(6).

Paragraph (20) [Transferee] – "Transferee" has displaced "assignee" as the Conference's term of art.

SECTION 103. KNOWLEDGE AND NOTICE.

(a) A person knows a fact the earliest the person:

(1) is consciously aware of it; or

(2) is deemed to know it under subsection (b) or (e).

(b) A person is deemed to know of a limitation on authority to transfer real property as provided in Section 302(d).

(c) A person has notice of a fact the earliest the person:

(1) knows of it;

(2) is deemed to have notice of it under subsection (d) or (e);

(3) has reason to know it exists from all of the facts known to the person at the time in question.

(d) A person has notice of:

(1) another person's dissociation as a member of a member-managed limited liability company, 90 days after the effective date of a Section 604 statement of dissociation pertaining to the other person;

(2) another person's ceasing to be a manager of a manager-managed limited liability company, 90 days after the effective date of a Section 412 statement of manager cessation pertaining to the other person;

(3) a limited liability company's dissolution, 90 days after the effective date of a Section 710(1) statement of dissolution;

(4) a limited liability company's termination, 90 days after the effective

date of a Section 710(2) statement of termination; and

(5) a limited liability company's conversion, domestication, merger

[reserved pending META]

(e) A limited liability company is deemed to know or have notice of a fact relating to the limited liability company:

(1) in a member-managed limited liability company, immediately when a member knows or has notice of the fact, except in the case of a fraud on the limited liability company committed by or with the consent of the member;

(2) in a manager-managed limited liability company, immediately when a manager knows or has notice of the fact, except in the case of a fraud on the limited liability company committed by or with the consent of the manager.

(f) In a manager-managed limited liability company, a member's knowledge or notice of a fact relating to the limited liability company is not knowledge of or notice to the limited liability company, unless:

(1) the member is also a manager; or

(2) as provided:

(A) in a Section 302 statement of authority; or

(B) by law other than this [act].

Reporters' Notes

Issues to be considered: whether this Act should set aside the elaborate provisions that NCCUSL imported from the UCC into RUPA, ULLCA, and ULPA (2001)

At its October, 2004 meeting, the Drafting Committee instructed the co-reporters to attempt to significantly "slim down" this section, leaving to the common law of agency those

imputation rules that are not specifically tailored to this Act. This Draft attempts to fulfill that assignment.

Several aspects of the proposed approach warrant particular note. First, the defined term "notification" has been deleted, because that term appears nowhere in the Act. Second, generally applicable provisions concerning when an organization is charged with knowledge or notice have been deleted, because those imputation rules are (i) core topics within the law of agency, (ii) very complicated, and (iii) should not have any different content under this Act than in other circumstances.

Third, this draft reinstates a provision, deleted in April, 2004, explaining the imputation effects of knowledge and notice of LLC members. The April 2004 Draft had expanded on ULLCA § 102 (and followed RUPA and ULPA (2001)by addressing the question of whether a member's knowledge, notice, etc. is attributed to the limited liability company. The April, 2004 meeting rejected that expansion as more properly handled in a Comment to the section concerning the power of members to bind the limited liability company. With the generally applicable provisions on how an organization knows or has notice stricken from this draft, bringing the LLC-specific provision back into the statutory text seems appropriate and probably necessary.

Subsection (a) – This Draft proposes changing the definition of "knowledge" from a tautology (knowledge = actual knowledge) to a conceptualization similar to the one expressed in the Comment to RUPA, § 103. ("Knowledge is cognitive awareness.") The Restatement (Third) of Agency, like the Restatement (Second), does not define "knowledge" in its black letter. The Reporter's Notes to the Restatement (Third), § 1.04 state:

> e. Knowledge and notice. The definition of notice is drawn from Restatement Second, Agency § 9. "Knowledge" itself is not defined in black letter by the Restatement Second of Agency. The Revised Uniform Partnership Act defines knowledge as "conscious [sic – should be cognitive] awareness." See Rev. Unif. Partnership Act § 102(a) comment. Under Model Penal Code § 2.02(b), a person acts "knowingly" with respect to a material element of an offense when, "if the element involves the nature of his conduct or the attendant circumstances, he is aware that his conduct is of that nature or that such circumstances exist; and ... if the element involves a result of his conduct, he is aware that it is practically certain that his conduct will cause such a result."

Subsection (b) – The reference to Section 302 (statements of authority) and deemed knowledge is consistent with the Act's principle of using this section as a central reference for all knowledge and notice provisions.

SECTION 104. NATURE, PURPOSE, AND DURATION OF ENTITY.

(a) A limited liability company is an entity distinct from its members.

(b) A limited liability company may have any lawful purpose, regardless of whether for profit.

(c) A limited liability company has perpetual duration.

Reporters' Notes

Subsection (b) – This language states more directly what is the substance of the current uniform act. ULLCA § 112(a) provides that a limited liability company may be organized for any "lawful" purpose but contains two vestiges of a "business purpose" approach. The Section's caption refers to "Nature of Business," and subsection (a) is expressly subject to "any law of this State governing or regulating business." The phrase "any lawful purpose" encompasses activities not intended to produce a profit, but ULLCA § 112(a) does not include the phrase "whether or not for profit." (However, ULLCA § 101(3) defines "Business" as including "every trade, occupation, profession, and other lawful purpose, whether or not carried on for profit.")

Most states permit a limited liability company to be organized for any "lawful purpose" but do not include the phrase "whether or not for profit." A few states combine the expansive "lawful purpose" language with that further clarifying phrase. *See, e.g.,* 6 Del. C. § 18-106, K.S.A. § 17-7668, 18 Okl. St. §2002, and W. Va. Code § 31B-1-112. Some states impose a "lawful business" requirement. See, e.g., Cal. Corp Code § 17002, C.R.S § 7-80-103, or refer to any business purpose subject to other law. See e.g., Minn. Stat. § 322B.10, N.D. Cent. Code, § 10-32-04, and Tex. Rev. Civ. Stat. art. 1528n 2.01A . (The MBCA takes the "lawful business" approach. See MBCA § 3.01(a).)

The expansive approach is the modern trend for LLC statutes and comports with the Conference's most recently-adopted business entity statute. ULPA (2001) § 104(b) follows ULLCA § 112(a) and allows a limited partnership to be organized for any "lawful" purpose. It is thus possible to have a limited partnership that has no "for profit" purpose. *Compare* UPA § 6 (defining a general partnership as organized for profit), RUPA § 101(6) (same), and RULPA (1976/85) § 106 (delineating the "Nature of [a limited partnership's] Business" by linking back to "any business that a partnership without limited partners may carry on").

The subsection does not bar a limited liability company from being organized to carry on charitable activities, and this act does not include any protective provisions pertaining to charitable purposes. Those protections must be (and typically are) found in other law, although sometimes that "other law" appears within a state's non-profit corporation statute. *See, e.g.,* Minn. Stat. § 317A.811 (providing restrictions on charitable organizations that seek to "dissolve, merge, or consolidate, or to transfer all or substantially all of their assets" but imposing those restrictions only on "corporations," which are elsewhere defined as corporations incorporated

under the non-profit corporation act). A comment will identify this issue, and perhaps a legislative note will suggest the need to assure that such other law refers not only to corporations but also to limited liability companies.

Another comment will state specifically that the phrase "regardless of whether for profit" indicates the issue of profit *vel non* is irrelevant to the question of whether an LLC has been validly formed.

Subsection (c) – In this context, the word "perpetual" is a misnomer, albeit one commonplace in LLC statutes. Like all current LLC acts, this act provides several avenues to avoid perpetuity: a term specified in the operating agreement or articles; an event specified in the operating agreement or articles; member consent. See Section 701 (events causing dissolution). There are other formulations possible, but the Drafting Committee has chosen to use the most common terminology, rather than the most technically precise.

Because a private document (the operating agreement) can vary this subsection, the public record pertaining to a limited liability company will not necessarily reveal whether the limited liability company actually has a perpetual duration. *Accord* ULPA (2001) § 103, comment to subsection (c) ("The partnership agreement has the power to vary this subsection [which provides for perpetual duration], either by stating a definite term or by specifying an event or events which cause dissolution. . . . . [The limited partnership act] also recognizes several other occurrences that cause dissolution. Thus, the public record pertaining to a limited partnership will not necessarily reveal whether the limited partnership actually has a perpetual duration.")

SECTION 105. POWERS. A limited liability company has the capacity to sue and be sued in its own name and the power to do all things necessary or convenient to carry on its activities.

Reporters' Notes

Following ULPA (2001), this Draft omits as unnecessary any detailed list of specific powers. Compare ULLCA § 112, which contains such a list.

The capacity to be sued is mentioned specifically so that Section 110(b) can prohibit the operating agreement from varying that capacity. The April 2004 version mentioned specifically the power to maintain an action against a member to establish that the limited liability company itself has standing to enforce the operating agreement. In this draft, that point is made instead in Section 110 (concerning the operating agreement). In any event, the limited liability company's standing to enforce the operating agreement is subject to change in the operating agreement.

Query whether an LLC should have the power to create series within it. *See e.g.* Del. Code Ann. tit. 6, § 18-215.

SECTION 106. GOVERNING LAW.

(a) The law of this state governs:

(1) the internal affairs of a limited liability company and

(2) the liability of a member as member and a manager as manager for an obligation of the limited liability company.

(b) An agreement between a limited liability company and a manager that is not also a member may select, consistent with otherwise applicable choice of law rules, a different law to govern any term of that agreement which does not address a matter governed by this [act].

Reporters' Notes

At its October, 2004 meeting, the Drafting Committee decided to substitute the concept of "internal affairs" for the prior draft's list of seven items. That list is restated below and may become part of a Comment.

Subsection (a) – Restatement (Second) of Conflict of Laws § 302, comment a, defines "internal affairs" (with reference to a corporation) as "the relations inter se of the corporation, its shareholders, directors, officers or agents." Like any other legal concept, the concept of "internal affairs" may be indeterminate at its edges, but the concept certainly includes interpretation and enforcement of the operating agreement, relations among the members as members; relations between the limited liability company and a member as a member, relations between a manager-managed limited liability company and a manager, and relations between a manager of a manager-managed limited liability company and the members as members.

The Restatement does not consider the liability of owners and managers to third parties to be an internal affair. See, e.g., Restatement (Second) of Conflict of Laws § 307 (Shareholders' Liability). A few cases do, but many do not. See, e.g., *Kalb, Voorhis & Co. v. American Financial Corp.,* 8 F.3d 130, 132 (2nd Cir. 1993). All sensible authorities agree, however, that, except in extraordinary circumstances, "shield-related" issues should be determined according to the law of the state of organization.

Subsection (b) – In the prior draft, this provision was Section 110(g)(3) (June 16, 2004

teleconference version) and is relocated here per the Committee's instructions at the October, 2004 meeting.

SECTION 107. SUPPLEMENTAL PRINCIPLES OF LAW. Unless displaced by particular provisions of this [act], the principles of law and equity supplement this [act].

SECTION 108. NAME.

(a) The name of a limited liability company must contain "limited liability company" or "limited company" or the abbreviation "L.L.C.", "LLC", "L.C.", or "LC". "Limited" may be abbreviated as "Ltd.", and "company" may be abbreviated as "Co.".

[(b) Unless authorized by subsection (c), the name of a limited liability company must be distinguishable in the records of the [Secretary of State] from:

(1) the name of each person, other than an individual, incorporated, organized, or authorized to transact business in this state; and

(2) each name reserved under Section 109 [or other state laws allowing the reservation or registration of business names, including fictitious name statutes].

(c) A limited liability company may apply to the [Secretary of State] for authorization to use a name that does not comply with subsection (b). The [Secretary of State] shall authorize use of the name applied for if, as to each conflicting name:

(1) the present user, registrant, or owner of the conflicting name consents in a signed record to the use and submits an undertaking in a form satisfactory to the [Secretary of State] to change the conflicting name to a name that complies with subsection (b) and is distinguishable in the records of the [Secretary of State] from the name applied for; or

(2) the applicant delivers to the [Secretary of State] a certified copy of the

final judgment of a court of competent jurisdiction establishing the applicant's right to use in this state the name applied for.

(d) Subject to Section 805, this section applies to any foreign limited liability company transacting business in this state, having a certificate of authority to transact business in this state, or applying for a certificate of authority.]

Reporters' Notes

Subsection (a) is taken verbatim from ULLCA § 105(a). The rest of the section is taken from ULPA (2001) § 108, which reflects the Conference's latest reworking of such provisions. At its April 2004 meeting, the Drafting Committee decided to bracket subsections (b) through (d), in recognition of the fact that in many jurisdictions this type of provision is routinely revised to fit the jurisdiction's standard approach to such matters.

[SECTION 109. RESERVATION OF NAME.

[(a) A person may reserve the exclusive use of the name of a limited liability company, including a fictitious name for a foreign company whose name is not available, by delivering an application to the [Secretary of State] for filing. The application must set forth the name and address of the applicant and the name proposed to be reserved. If the [Secretary of State] finds that the name applied for is available, it must be reserved for the applicant's exclusive use for a [nonrenewable] [renewable] 120 day period.

[(b) The owner of a name reserved for a limited liability company may transfer the reservation to another person by delivering to the [Secretary of State] for filing a signed notice of the transfer which states the name and address of the transferee.]

Reporters' Notes

Issue to be addressed: whether the address referred to in subsection (a) needs to be both a mailing and street address.

This section is bracketed for the reason stated in the Reporters' Notes to Section 108. At its October, 2004 meeting, the Drafting Committee decided to follow ULLCA rather than ULPA (2001) for this section, except to indicate that the question of renewability is a matter of choice for each legislature (thus the brackets within subsection (a)). This Draft accordingly replicates ULLCA § 106, with a slight change made in subsection (b) to conform to the convention used throughout this act regarding "delivered to the [Secretary of State] for filing."

SECTION 110. EFFECT OF OPERATING AGREEMENT; NONWAIVABLE PROVISIONS.

(a) Except as otherwise provided in subsection (b), the operating agreement governs relations among the members and between the members and the limited liability company. To the extent the operating agreement does not otherwise provide, this [act] governs relations among the members and between the members and the limited liability company.

(b) An operating agreement and any amendment to an operating agreement must be consented to by each member. An operating agreement may provide for the manner in which it may be amended, including by requiring the approval of a person that is not a party to the operating agreement or the satisfaction of conditions, and, subject to the law of waiver, an amendment is ineffective if its adoption does not conform to the specified manner or satisfy the specified conditions.

(c) A person that becomes a member in a limited liability company is bound by any operating agreement then in effect. Whether or not a limited liability company has itself manifested assent to the operating agreement, the limited liability company is bound by and may enforce the operating agreement. An operating agreement is enforceable whether or not there is a record signed by a party against whom enforcement is sought, even if the operating agreement is

not capable of performance within one year of its making.

(d) A sole member may make the operating agreement in any manner the member desires, including by signing a record stating the terms of the agreement and that the agreement is the limited liability's operating agreement.

(e) A person not a member may be party to the operating agreement. An operating agreement may provide rights to a person that is not a party to the operating agreement.

(f) An operating agreement may not:

(1) vary a limited liability company's capacity under Section 105 to sue, be sued, and defend in its own name;

(2) vary the law applicable under Section 106(a);

(3) vary the requirements of Section 204;

(4) eliminate the duty of loyalty under Sections 409(b) and 603(a)(2) or unreasonably reduce the duty of care under Sections 409(c) and 603(a)(3), but:

(i) the operating agreement may identify specific types or categories of activities that do not violate the duty of loyalty, if not manifestly unreasonable;

(ii) all of the members or a number or percentage specified in the operating agreement may authorize or ratify after full disclosure of all material facts a specific act or transaction that otherwise would violate the duty of loyalty;

(iii) the operating agreement may provide indemnification for a member or manager and may eliminate a member or manager's liability to the limited liability company and members for money damages, except for breach of the duty of loyalty, a financial benefit received by the member or manager to which the member or manager is not entitled, a

breach of a duty under Section 406, intentional infliction of harm on the limited liability company or a member, or an intentional violation of criminal law; and

(iv) to the extent the operating agreement of a manager-managed limited liability company expressly and specifically relieves a manager of a responsibility that the manager would otherwise have under this [act] and imposes that responsibility on one or more members, the operating agreement may also eliminate or limit any fiduciary duty the manager would have had pertaining to that responsibility.

(5) eliminate the obligation of good faith and fair dealing under Section 409(d), but the operating agreement may prescribe the standards by which the performance of the obligation is to be measured if the standards are not manifestly unreasonable;

(6) unreasonably restrict the obligations and rights stated in Section 411;

(7) vary the power of a court to decree dissolution in the circumstances specified in Section 701(a)(5);

(8) vary the requirement to wind up the limited liability company's business as specified in Section 702;

(9) unreasonably restrict the right to maintain an action under [Article] 9;

(10) [reserved pending META for a provision prohibiting waiver of a member's protection against "interest holder liability"]; or

(11) restrict the rights under this [act] of a person other than a member, a dissociated member, or a person in its capacity as a transferee.

Reporters' Notes

Issues to be resolved: whether there is significance to the designation "operating

agreement" other than the resulting power to modify the statutory default rules; where (statutory text, comment, or not at all) should the point be made that – given the definition of "operating agreement" – once an LLC comes into existence and has a member, the LLC necessarily has an operating agreement; whether the definition of "limited liability company" should refer to the operating agreement (e.g., "an entity formed under this Act . . . and having an operating agreement"); whether the Act should expressly authorize "no oral modification" provisions and other "channeling" methods to control "he said/she said" disputes; whether the last sentence of subsection (c) should also refer to an amendment to the operating agreement (and not simply to the operating agreement); whether the Act should permit a non-member to be party to the operating agreement; whether the Act should permit the operating agreement to (A) extend rights to a third party [no big deal – standard third party beneficiary law] and (B) provide that the agreement may not be amended without the consent of a non-party [arguably a significant change in third party beneficiary law]; assuming that a non-member is not party to the operating agreement and has no express rights under the operating agreement (e.g., a non-member manager), what rights should the non-member have if a change in the operating agreement prejudices the non-member's rights under an agreement between that non-member and the LLC (e.g., damages only, damages plus injunctive relief if available under ordinary principles of equity, a right under the Act to prevent the change to the operating agreement); in light of the expansive definition of "operating agreement," whether inter se the members the articles will often (or sometimes) be evidence of the content of the operating agreement; in light of the complexity of the concept of the operating agreement and this Section's extensive delineation of that complexity, whether the Act should eschew a simple definition based and substitute in Section 102 "'operating agreement' has the meaning stated in Section 110"; whether the language concerning conflicts between the articles and the operating agreement can be streamlined (see below for suggested revisions); whether the Act should give more direction as to the meaning of the "manifestly unreasonable" standard (e.g., whether the standard is applied as of the time a provision is adopted/agreed to, or as of the time the provision is applied; whether "manifestly" has any meaning at all); whether the Act should include any specification of non-waivable provisions (the RULPA/ULLCA/ULPA(2001) approach) or instead leave that topic to the courts under the rubric of public policy; whether the revised language in Section 110 adequately handles these issues and the other issues raises at the October, 2004 meeting?

The language proposed here is based on the Drafting Committee's discussion at its October, 2004 meeting of the June 2004 teleconference draft (which was adopted during that teleconference and read as the Committee's language at the 2004 Annual Meeting).

The red-line version of this Section is therefore not particularly useful because that version compares the new language to the language that existed before the June 2004 teleconference.

Subsection (a): The operating agreement is the exclusive consensual process for modifying statutory default rules. As noted by the ABA Advisor (in a discussion in January, 2005, on the Drafting Committee's list serv, an agreement among less than all the members with

respect to the operation of the LLC (e.g., an agreement among some of the members to support or oppose an action) would not be an operating agreement but might be effective among the parties to the agreement. On the other hand,

Subsection (b): It is important to remember that this subsection is a default rule. Therefore, if the operating agreement (initially agreed to by all the members) permits amendment by the consent of a majority of the members, an amendment agreed to by a majority of the members would be effective.

The effect of the second sentence is to permit non-members (as well as members) to have veto rights over amendments to the operating agreement. Such veto rights are likely to be sought by lenders but may also be attractive to non-member managers.

> EXAMPLE: A non-member manager enters into a management contract with the LLC, and that agreement provides in part that the LLC may remove the manager without cause only with the consent of members holding 2/3 of the profits interests. The operating agreement contains a parallel provision, but the non-member manager is not a party to the operating agreement. Later the LLC members amend the operating agreement to change the quantum to a simple majority and thereafter purport to remove the manager without cause. Although the LLC has undoubtedly breached its contract with the manager, the LLC probably has the power to effect the removal and the manager is remitted to a damage claim – unless the operating agreement provided the non-member manager a veto right over changes in the quantum provision.

The second sentence is derived from Del. Code Ann. tit. 6, § 18-302(e), which states:

> If a limited liability company agreement provides for the manner in which it may be amended, including by requiring the approval of a person who is not a party to the limited liability company agreement or the satisfaction of conditions, it may be amended only in that manner or as otherwise permitted by law (provided that the approval of any person may be waived by such person and that any such conditions may be waived by all persons for whose benefit such conditions were intended).

Subsection (c): The last sentence is included in response to an issue raised by the President of the Conference. Query whether the sentence should also refer to an amendment to the operating agreement.

Subsection (e): The second sentence is consistent with third party beneficiary law. It is the section sentence of subsection (d) that innovates.

Subsection (f)(4): This provision combines the references to duty of loyalty and duty of

care in order to avoid repetition; two of the clauses [(iii) and (iv)] pertain to both duties.

Subsection (f)(11): This provision qualifies the category of "transferee" with "a person in its capacity as a" to make clear that:

- while a transferee takes a transferable interest subject to the operating agreement (including later amendments [but subject to Section 701(a)(5)(B) – oppression remedy]),
- the agreement cannot affect any other rights of a person who happens to be a transferee (unless, of course, the person has become a member or has otherwise assented to the agreement).

Reporters' Notes to Former Section 111 [Required Information]

At its October, 2004 meeting, the Drafting Committee deleted this section, reasoning that the informal nature of the LLC made a required records provision inappropriate.

SECTION 111. BUSINESS TRANSACTIONS OF MEMBER WITH LIMITED LIABILITY COMPANY. A member may lend money to and transact other business with the limited liability company and has the same rights and obligations with respect to the loan or other transaction as a person that is not a member.

Reporters' Notes

At the suggestion of the ABA Advisor, the Comment to ULPA (2001), § 112 is replicated here with appropriate changes:

This section has no impact on a member's duty under Section [TBD] (duty of loyalty includes refraining from acting as or for an adverse party) and means rather that this Act does not discriminate against a creditor of a limited liability company that happens also to be a member. *See*, *e.g.*, *BT-I v. Equitable Life Assurance Society of the United States*, 75 Cal.App.4th 1406, 1415, 89 Cal.Rptr.2d 811, 814 (Cal.App. 4 Dist.1999). and *SEC v. DuPont, Homsey & Co.*, 204 F. Supp. 944, 946 (D. Mass. 1962), vacated and remanded on other grounds, 334 F2d 704 (1st Cir. 1964). This section does not, however, override other law, such as fraudulent transfer or conveyance acts.

SECTION 112. OFFICE AND AGENT FOR SERVICE OF PROCESS.

(a) A limited liability company shall designate and continuously maintain in this

state:

(1) an office, which need not be a place of its activity in this state; and

(2) an agent for service of process.

(b) A foreign limited liability company shall designate and continuously maintain in this state an agent for service of process.

(c) An agent for service of process of a limited liability company or foreign limited liability company must be an individual who is a resident of this state or other person authorized to do business in this state.

Reporters' Notes

Source: ULPA (2001), § 114.

Issue to be considered: whether to add the word "registered" to both office and agent.

At its October, 2004 meeting, the Drafting Committee discussed using the adjective "registered" for both office and agent, in conformity with MBCA § 5.01. That usage is inconsistent with ULPA (2001) § 114, ULLCA § 108, RULPA § 104. Query why to change what has been consistent Conference usage since 1976.

SECTION 113. CHANGE OF DESIGNATED OFFICE OR AGENT FOR SERVICE OF PROCESS.

(a) A limited liability company or foreign limited liability company may change its designated office, agent for service of process, or the address of its agent for service of process by delivering to the [Secretary of State] for filing a statement of change containing:

(1) the name of the limited liability company or foreign limited liability company;

(2) the street and mailing address of its current designated office;

(3) if the current designated office is to be changed, the street and mailing address of the new designated office;

(4) the name and street and mailing address of its current agent for service of process; and

(5) if the current agent for service of process or an address of the agent is to be changed, the new information.

(b) Subject to Section 206(c), a statement of change is effective when filed by the [Secretary of State].

Reporters' Notes

Source – ULPA (2001) § 115, which is based on ULLCA § 109.

Subsection (a) – This Draft uses "may" rather than "shall" here because other avenues exist. A limited liability company may also change the information by an amendment to its articles of organization, Section 202, or through its annual report. Section 210(e). A foreign limited liability company may use its annual report. Section 210(e). However, neither a limited liability company nor a foreign limited liability company may wait for the annual report if the information described in the public record becomes inaccurate. See Sections 208 (imposing liability for false information in record) and 116(b) (providing for substitute service).

SECTION 114. RESIGNATION OF AGENT FOR SERVICE OF PROCESS.

(a) In order to resign as an agent for service of process of a limited liability company or foreign limited liability company, the agent shall deliver to the [Secretary of State] for filing a statement of resignation containing the name of the limited liability company or foreign limited liability company.

(b) After receiving a statement of resignation, the [Secretary of State] shall file it and mail a copy to the designated office of the limited liability company or foreign limited

liability company and another copy to the principal office if the mailing address of the office appears in the records of the [Secretary of State] and is different from the mailing address of the designated office.

(c) An agency for service of process terminates on the 31st day after the [Secretary of State] files the statement of resignation.

Reporters' Notes

Source – ULPA (2001) § 116, which is based on ULLCA §110.

SECTION 115. SERVICE OF PROCESS.

(a) An agent for service of process appointed by a limited liability company or foreign limited liability company is an agent of the limited liability company or foreign limited liability company for service of any process, notice, or demand required or permitted by law to be served upon the limited liability company or foreign limited liability company.

(b) If a limited liability company or foreign limited liability company does not appoint or maintain an agent for service of process in this state or the agent for service of process cannot with reasonable diligence be found at the agent's street address, the [Secretary of State] is an agent of the limited liability company or foreign limited liability company upon whom process, notice, or demand may be served.

(c) Service of any process, notice, or demand on the [Secretary of State] may be made by delivering to and leaving with the [Secretary of State] duplicate copies of the process, notice, or demand. If a process, notice, or demand is served on the [Secretary of State], the [Secretary of State] shall forward one of the copies by registered or certified mail, return receipt

requested, to the limited liability company or foreign limited liability company at its designated office.

(d) Service is effected under subsection (c) at the earliest of:

(1) the date the limited liability company or foreign limited liability company receives the process, notice, or demand;

(2) the date shown on the return receipt, if signed on behalf of the limited liability company or foreign limited liability company; or

(3) five days after the process, notice, or demand is deposited in the mail, if mailed correctly addressed and with postage prepaid.

(e) The [Secretary of State] shall keep a record of each process, notice, and demand served pursuant to this section and record the time of, and the action taken regarding, the service.

(f) This section does not affect the right to serve process, notice, or demand in any other manner provided by law.

Reporters' Notes

Source – ULPA (2001) § 117, which is based on ULLCA §111.

[ARTICLE] 2

FORMATION; ARTICLES OF ORGANIZATION AND OTHER FILINGS

SECTION 201. FORMATION OF LIMITED LIABILITY COMPANY; ARTICLES OF ORGANIZATION.

(a) One or more persons may sign and deliver to the [Secretary of State] for filing articles of organization, which must state:

(1) the name of the limited liability company, which must comply with Section 108;

(2) the street and mailing address of the initial designated office and the name and street and mailing address of the initial agent for service of process; and

(3) whether the limited liability company is member-managed or manager-managed.

(b) Articles of organization may also contain matters other than those required by subsection (a) but:

(1) are not effective as a statement of authority (Section 302); and

(2) may not vary or otherwise affect the provisions specified in Section 110(b) in a manner inconsistent with that section.

(c) A limited liability company is formed when the [Secretary of State] files the articles of organization, unless the articles state a delayed effective date pursuant to Section 206(c). If the articles state a delayed effective date, a limited liability company is not formed if, before the articles take effect, the person who signed the articles signs and delivers to the

[Secretary of State] for filing a statement of cancellation.

(d) Subject to subsection (b), if any provision of an operating agreement is inconsistent with the filed and effective articles of organization or with a filed and effective statement of authority, termination, or change, or filed articles of domestication, conversion, or merger:

(1) the operating agreement prevails as to members and transferees; and

(2) the filed and effective articles or statement prevail as to persons, other than members and transferees, that reasonably rely to their detriment on the filed and effective record.

Reporters' Notes

Issues to be considered: whether the proposed addition to subsection (b) should be retained; whether to adopt a revised version of subsection (d), as suggested below; whether subsection (d) should take into account that provisions of the articles could be evidence of the contents of the operating agreement; whether subsection (c)'s provision for a statement of cancellation should provide a fallback rule, in case the person that signed the articles of incorporation is incapacitated and therefore unable to sign a statement of cancellation; whether the Committee should re-visit its early, tentative decision that subsection (a)(3) is properly phrased

Subsection (a)(3) – This provision does not reflect a default rule. That is, a person seeking to form a limited liability company must make an affirmative choice between member-management and manager-management. The articles will be rejected as non-conforming unless they specify the choice. The Drafting Committee has determined that this approach is appropriate, even though many LLC statutes (including ULLCA) typically default to member-management.

Subsection (b)(1) – This provision is new, added by the reporters because a person searching the public records for statements of authority might not also search the articles. (The Drafting Committee has previously decided that statements of authority should not be deemed part of an LLC's articles.)

Subsection (c) – The second sentence is new, suggested by either a member of or advisor to the Drafting Committee at the most recent meeting.

Subsection (d) – Source: ULLCA Section 203(c), which is also followed in ULPA (2001) § 201(d). The following three paragraphs are from the comment to ULPA (2001) § 201(d), revised to refer to a limited liability company.

A limited liability company is a creature of contract as well as a creature of statute. It will be possible, albeit improper, for the operating agreement to be inconsistent with the articles of organization or other specified public filings relating to the limited liability company. For those circumstances, this subsection provides the rule for determining which source of information prevails.

For members and transferees, the operating agreement is paramount. For third parties seeking to invoke the public record, actual knowledge of that record is necessary and notice under Section 103(c) or (d) is irrelevant. A third party wishing to enforce the public record over the operating agreement must show reasonable reliance on the public record, and reliance presupposes knowledge.

This subsection does not expressly cover a situation in which (i) one of the specified filed records contains information in addition to, but not inconsistent with, the operating agreement, and (ii) a person, other than a member or transferee, detrimentally relies on the additional information. However, the policy reflected in this subsection seems equally applicable to that situation.

Query whether the lead-in to this section could be streamlined by replacing the list of publicly-filed records with the phrase "the filed and effective articles of organization or any other record delivered by the limited liability company to [Secretary of State] for filing and effective under this under this [act]"? Or streamlined even further by also eliminating the specific reference to articles of organization? In any event, the lead-in will be revised to reflect META. The subsection might, therefore, read as follows:

> Subject to subsection (b), if any provision of an operating agreement is inconsistent with a record delivered by the limited liability company to the [Secretary of State] for filing and effective under this [act] or a record filed and effective under [META]:
>
> (1) the operating agreement prevails as to members and transferees; and
>
> (2) the record prevails as to persons, other than members and transferees, that reasonably rely to their detriment on the record.

Or as follows:

> Subject to subsection (b), if a record delivered by the limited liability company to the [Secretary of State] for filing and effective under this [act] or a record filed and effective under [META] is inconsistent with a provision of an operating agreement:

(1) the operating agreement prevails as to members and transferees; and

(2) the record prevails as to persons, other than members and transferees, that reasonably rely to their detriment on the record.

Note – both the current language and the contemplated revisions exclude records filed by others. Also, once the Drafting Committee has finalized the list of records that may be filed by a limited liability company, the language of this subsection must be cross-checked against that list.

SECTION 202. AMENDMENT OR RESTATEMENT OF ARTICLES OR ORGANIZATION.

(a) In order to amend its articles of organization, a limited liability company shall deliver to the [Secretary of State] for filing an amendment stating:

(1) the name of the limited liability company;

(2) the date of filing of its articles of organization; and

(3) the changes the amendment makes to the articles as most recently amended or restated.

(b) Articles of organization may be amended or restated at any time as determined by the limited liability company.

(c) Restated articles of organization may be delivered to the [Secretary of State] for filing in the same manner as an amendment. Restated articles of organization must be designated as such in the heading and state in the heading or in an introductory paragraph the limited liability company's present name and, if it has been changed, all of its former names and the date of the filing of its initial articles of organization.

(d) Subject to Section 206(c), an amendment to or restatement of articles of organization is effective when filed by the [Secretary of State].

(e) If a member of a member-managed limited liability company, or a manager of a manager-managed limited liability company, knows that any information in filed articles of organization was false when the articles were filed or has become false owing to changed circumstances, the member or manager shall promptly:

(1) cause the certificate to be amended; or

(2) if appropriate, deliver to the [Secretary of State] for filing a statement of change pursuant to Section 113 or a statement of correction pursuant to Section 207.

Reporters' Notes

Subsection (b) – At the April 2004 meeting, the Drafting Committee asked for more explanation about restated articles. In response, this subsection expressly authorizes restating the articles.

Subsection (c) – For the reason stated in the Notes to subsection (b), this draft includes an additional sentence (the second), which is taken verbatim from ULLCA. Query whether any name change should trigger the requirement for additional information or only a name change being made by the restatement itself. (The purpose of the additional information appears to be to facilitate tracking back through the Secretary of State's database.)

Subsection (e) – This subsection is taken from ULPA (2001) § 202(c), which imposes the responsibility on general partners. ULLCA has no comparable provision. This provision imposes an obligation directly on the members and managers rather than on the limited liability company. A member or manager's failure to meet this responsibility exposes the member or manager to liability to third parties under Section 208(a)(2) and might constitute a breach of the member or manager's operational duties under Section 409(a)(2). In addition, an aggrieved person may seek a remedy under Section 205 (Signing and Filing Pursuant to Judicial Order).

SECTION 203. STATEMENT OF TERMINATION. A dissolved limited liability company that has completed winding up may deliver to the [Secretary of State] for filing a statement of termination that states:

(1) the name of the limited liability company;

(2) the date of filing of its initial articles of organization; and

(3) any other information as determined by the limited liability company.

Reporters' Notes

This section is permissive and perhaps belongs in Article 7. Indeed, at the April 2004 meeting, a commissioner suggested relocating this section to that Article. However, that relocation would put this Act out of synch with the Conference's most recent enactment in the area (ULPA (2001)) – not only here but, as a result of renumbering, throughout the rest of Article 2. (The Drafting Committee liaison from the Committee on Style agrees that this section should be relocated to Article 7.)

SECTION 204. SIGNING OF RECORDS TO BE DELIVERED FOR FILING TO THE [SECRETARY OF STATE].

(a) Records delivered to the [Secretary of State] for filing pursuant to this [act] must be signed in the following manner:

(1) Initial articles of organization must be signed by at least one person

(2) A statement of cancellation under Section 201(c) must be signed by each person that signed the initial articles of organization.

(3) Except as otherwise provided in paragraph (a)(4), a record signed on behalf of an existing limited liability company must be signed by:

(A) at least one member, if the limited liability company is member-managed; or

(B) at least one manager, if the limited liability company is manager-managed.

(4) A record filed on behalf of a dissolved limited liability company that has no members must be signed either by the person winding up the limited liability company's

activities under Section 702(b) or a person appointed under Section 702(c) to wind up those activities.

(5) A statement of denial by a person under Section 303(a) must be signed by that person.

(6) Any other record must be signed by the person on whose behalf the record is delivered to the [Secretary of State].

(b) Any record to be filed under this [act] may be signed by an authorized agent.

Reporters' Notes

Issues to be considered: whether subsection (a)(3) and (7) suffice to indicate that a statement of dissociation, Section 604, must be signed either by the dissociated member or the limited liability company, depending on who is delivering the document to the Secretary of State for filing; whether it is necessary to revise subsection (a)(2) to accommodate situations in which one of the original signers has ceased to exist or lacks capacity

This Draft uses "authorized agent" rather than "attorney in fact," because the latter usage seems needlessly recondite.

SECTION 205. SIGNING AND FILING PURSUANT TO JUDICIAL ORDER.

(a) If a person required by this [act] to sign a record or deliver a record to the [Secretary of State] for filing does not do so, any other person that is aggrieved may petition the [appropriate court] to order:

(1) the person to sign the record;

(2) the person to deliver the record to the [Secretary of State] for filing; or

(3) the [Secretary of State] to file the record unsigned.

(b) If the person aggrieved under subsection (a) is not the limited liability company or foreign limited liability company to which the record pertains, the person shall make

the limited liability company or foreign limited liability company a party to the action.

(c) A person aggrieved under subsection (a) may pursue the remedies provided in subsection (a) in the same action in combination or in the alternative.

(d) A record that is filed pursuant to this section is effective even if it has not been signed.

Reporters' Notes

Source – ULPA (2001) § 205, which is based on RULPA § 205, which was the source of ULLCA § 210.

At the April 2004 meeting of the Drafting Committee, at least two people suggested that this Section might be unnecessary, given the existence of F.R.Civ. P. 70. That rule states:

> If a judgment directs a party to execute a conveyance of land or to deliver deeds or other documents or to perform any other specific act and the party fails to comply within the time specified, the court may direct the act to be done at the cost of the disobedient party by some other person appointed by the court and the act when so done has like effect as if done by the party. On application of the party entitled to performance, the clerk shall issue a writ of attachment or sequestration against the property of the disobedient party to compel obedience to the judgment. The court may also in proper cases adjudge the party in contempt. If real or personal property is within the district, the court in lieu of directing a conveyance thereof may enter a judgment divesting the title of any party and vesting it in others and such judgment has the effect of a conveyance executed in due form of law. When any order or judgment is for the delivery of possession, the party in whose favor it is entered is entitled to a writ of execution or assistance upon application to the clerk.

For several reasons, the co-reporters believe that the present Section should be retained. (1) F.R.Civ. P. 70 requires a judgment as a predicate and therefore seems to grant a power ancillary to some other already contested matter. The present Section addresses situations in which the failure to sign *is* the contested matter. (2) Due to the rules of diversity jurisdiction, federal courts will rarely have jurisdiction over a case involving as parties an LLC and any of its members. (3) There is no assurance that in each state, the District of Columbia and each U.S. territory, local law includes a provision comparable to F.R.Civ. P. 70. (4) Language similar to the present Section appears in RULPA, ULLCA and ULPA (2001).

SECTION 206. DELIVERY TO AND FILING OF RECORDS BY [SECRETARY OF STATE]; EFFECTIVE TIME AND DATE.

(a) A record authorized or required to be delivered to the [Secretary of State] for filing under this [act] must be captioned to describe the record's purpose, be in a medium permitted by the [Secretary of State], and be delivered to the [Secretary of State]. If all filing fees have been paid, unless the [Secretary of State] determines that a record does not comply with the filing requirements of this [act], the [Secretary of State] shall file the record and:

(1) for a statement of denial, send a copy of the filed statement and a receipt for the fees to the person on whose behalf the statement was delivered for filing and to the limited liability company;

(2) for all other records, send a copy of the filed record and a receipt for the fees to the person on whose behalf the record was filed.

(b) Upon request and payment of the requisite fee, the [Secretary of State] shall send to the requester a certified copy of the requested record.

(c) Except as otherwise provided in Sections 114 and 207, a record delivered to the [Secretary of State] for filing under this [act] may specify an effective time and a delayed effective date. Subject to Sections 114, 201(c), and 207, a record filed by the [Secretary of State] is effective:

(1) if the record does not specify an effective time and does not specify a delayed effective date, on the date and at the time the record is filed as evidenced by the [Secretary of State's] endorsement of the date and time on the record;

(2) if the record specifies an effective time but not a delayed effective date,

on the date the record is filed at the time specified in the record;

(3) if the record specifies a delayed effective date but not an effective time, at 12:01 a.m. on the earlier of:

(A) the specified date; or

(B) the 90th day after the record is filed; or

(4) if the record specifies an effective time and a delayed effective date, at the specified time on the earlier of:

(A) the specified date; or

(B) the 90th day after the record is filed.

Reporters' Notes

Source – ULPA (2001) § 206, which was based on ULLCA §206.

Subsection (c) – If a person delivers to the Secretary of State for filing a record that contains an over-long delay in the effective date, the Secretary of State (i) will not reject the record and (ii) is neither required nor authorized to inform the person that this act will truncate the delay.

SECTION 207. CORRECTING FILED RECORD.

(a) A limited liability company or foreign limited liability company may deliver to the [Secretary of State] for filing a statement of correction to correct a record previously delivered by the limited liability company or foreign limited liability company to the [Secretary of State] and filed by the [Secretary of State], if at the time of filing the record contained false or erroneous information or was defectively signed.

(b) A statement of correction may not state a delayed effective date and must:

(1) describe the record to be corrected, including its filing date, or attach a

copy of the record as filed;

(2) specify the incorrect information and the reason it is incorrect or the manner in which the signing was defective; and

(3) correct the incorrect information or defective signature.

(c) When filed by the [Secretary of State], a statement of correction is effective retroactively as of the effective date of the record the statement corrects, but the statement is effective when filed:

(1) for the purposes of Section 103(c); and

(2) as to persons relying on the uncorrected record and adversely affected by the correction.

Reporters' Notes

Source – ULPA (2001) § 207, which was based on ULLCA §207.

SECTION 208. LIABILITY FOR FALSE INFORMATION IN FILED RECORD.

(a) If a record delivered to the [Secretary of State] for filing under this [act] and filed by the [Secretary of State] contains false information, a person that suffers loss by reliance on the information may recover damages for the loss from:

(1) a person that signed the record, or caused another to sign it on the person's behalf, and knew the information to be false at the time the record was signed; and

(2) a member of member-managed limited liability company, or a manager of a manager-managed limited liability company, if the record was delivered for filing on behalf of the limited liability company and the member or manager has notice that the information was

false when the record was filed or has become false because of changed circumstances for a reasonably sufficient time before the information is relied upon to enable the member or manager to effect an amendment under Section 202, file a petition pursuant to Section 205, or deliver to the [Secretary of State] for filing a statement of change pursuant to Section 113 or a statement of correction pursuant to Section 207.

(b) A person who signs a record authorized or required to be filed under this [act] thereby affirms under the penalties of perjury that the facts stated in the record are true.

Reporters' Notes

Source: ULPA (2001) § 207, which expanded on ULLCA § 209.

SECTION 209. CERTIFICATE OF EXISTENCE OR AUTHORIZATION.

(a) The [Secretary of State], upon request and payment of the requisite fee, shall furnish a certificate of existence for a limited liability company if the records filed in the [office of the Secretary of State] show that the [Secretary of State] has filed a articles of organization and has not filed a statement of termination. A certificate of existence must state:

(1) the limited liability company's name;

(2) that it was duly formed under the laws of this state and the date of formation;

(3) whether all fees, taxes, and penalties due to the [Secretary of State] under this [act] or other law have been paid;

(4) whether the limited liability company's most recent annual report required by Section 210 has been filed by the [Secretary of State];

(5) whether the [Secretary of State] has administratively dissolved the limited liability company;

(6) whether the limited liability company has delivered to the [Secretary of State] for filing a statement of dissolution;

(7) that a statement of termination has not been filed by the [Secretary of State]; and

(8) other facts of record in the [office of the Secretary of State] which may be requested by the applicant.

(b) The [Secretary of State], upon request and payment of the requisite fee, shall furnish a certificate of authorization for a foreign limited liability company if the records filed in the [office of the Secretary of State] show that the [Secretary of State] has filed a certificate of authority, has not revoked the certificate of authority, and has not filed a notice of cancellation. A certificate of authorization must state:

(1) the foreign limited liability company's name and any alternate name adopted under Section 805(a) for use in this state;

(2) that it is authorized to transact business in this state;

(3) whether all fees, taxes, and penalties due to the [Secretary of State] under this [act] or other law have been paid;

(4) whether the foreign limited liability company's most recent annual report required by Section 210 has been filed by the [Secretary of State];

(5) that the [Secretary of State] has not revoked its certificate of authority and has not filed a notice of cancellation; and

(6) other facts of record in the [office of the Secretary of State] which may be requested by the applicant.

(c) Subject to any qualification stated in the certificate, a certificate of existence or certificate of authorization issued by the [Secretary of State] may be relied upon as conclusive evidence that the limited liability company or foreign limited liability company is in existence or is authorized to transact business in this state.

Reporters' Notes

Source – ULPA (2001) § 209, which was based on ULLCA Section 208.

SECTION 210. ANNUAL REPORT FOR [SECRETARY OF STATE].

(a) Each year a limited liability company or a foreign limited liability company authorized to transact business in this state shall deliver to the [Secretary of State] for filing a report that states:

(1) the name of the limited liability company or foreign limited liability company;

(2) the street and mailing address of its designated office and the name and street and mailing address of its agent for service of process in this state;

(3) in the case of a limited liability company, the street and mailing address of its principal office; and

(4) in the case of a foreign limited liability company, the state or other jurisdiction under whose law the foreign limited liability company is formed and any alternate name adopted under Section 805(a).

(b) Information in an annual report must be current as of the date the report is delivered to the [Secretary of State] for filing.

(c) The first annual report must be delivered to the [Secretary of State] between [January 1 and April 1] of the year following the calendar year in which a limited liability company was formed or a foreign limited liability company was authorized to transact business. A report must be delivered to the [Secretary of State] between [January 1 and April 1] of each subsequent calendar year.

(d) If an annual report does not contain the information required in subsection (a), the [Secretary of State] shall promptly notify the reporting limited liability company or foreign limited liability company and return the report to it for correction. If the report is corrected to contain the information required in subsection (a) and delivered to the [Secretary of State] within 30 days after the effective date of the notice, it is timely delivered.

(e) If a filed annual report contains an address of a designated office or the name or address of an agent for service of process which differs from the information shown in the records of the [Secretary of State] immediately before the filing, the differing information in the annual report is considered a statement of change under Section 113.

Reporters' Notes

Source – ULPA (2001) § 210, which was based on ULLCA § 211.

[ARTICLE] 3

RELATIONS OF MEMBERS AND MANAGERS

TO PERSONS DEALING WITH LIMITED LIABILITY COMPANY

SECTION 301. AGENCY OF MEMBERS AND MANAGERS. Subject to the effect of a statement of limited liability company authority under Section 302, the following rules apply.

(1) In a member-managed limited liability company the following rules apply:

(A) Each member is an agent of the limited liability company for the purpose of its activities, and an act of a member, including the signing of an instrument in the limited liability company's name, for apparently carrying on in the ordinary course the limited liability company's activities or activities of the kind carried on by the limited liability company binds the limited liability company, unless the member had no authority to act for the limited liability company in the particular matter and the person with which the member was dealing knew or had notice that the member lacked authority.

(B) An act of a member which is not apparently for carrying on in the ordinary course the limited liability company's activities or activities of the kind carried on by the limited liability company binds the limited liability company only if the act was authorized by the other members.

(2) In a manager-managed limited liability company the following rules apply:

(A) A member is not an agent of the limited liability company solely by reason of being a member.

(B) Each manager is an agent of the limited liability company for the purpose of its activities, and an act of a manager, including the signing of an instrument in the limited liability company's name, for apparently carrying on in the ordinary course the limited liability company's activities or activities of the kind carried on by the limited liability company binds the limited liability company, unless the manager had no authority to act for the limited liability company in the particular matter and the person with which the manager was dealing knew or had notice that the manager lacked authority.

(C) An act of a manager which is not apparently for carrying on in the ordinary course the limited liability company's activities or activities of the kind carried on by the limited liability company binds the limited liability company only if the act was authorized under Section 407.

Reporters' Notes

Source – RUPA § 301.

This section differs somewhat from ULLCA § 301, because this Draft follows RUPA in providing for statements of authority. Compare Section 302 (statements of authority) with ULLCA § 301(c) (providing a somewhat comparable but more limited effect for statements in the articles of organization). The RUPA approach is preferable, because it allows "duplicate filing" in the real estate records without the need to file the entire articles of organization in those records. See Section 302(c)(2) of this Draft.

SECTION 302. STATEMENT OF LIMITED LIABILITY COMPANY AUTHORITY.

(a) A limited liability company may deliver to the [Secretary of State] for filing a statement of limited liability company authority. The statement:

(1) must include the name of the limited liability company and the street

and mailing address of its designated office;

(2) may state the authority, or limitations on the authority of a specific person to:

(A) execute an instrument transferring real property held in the name of the limited liability company; and

(B) enter into other transactions on behalf of, or otherwise act for, the limited liability company; and

(3) may, with respect to any person holding a specified position that exists in or with respect to the limited liability company, state the authority, or limitations on the authority of such person to:

(A) execute an instrument transferring real property held in the name of the limited liability company; and

(B) enter into other transactions on behalf of, or otherwise act for, the limited liability company.

(b) If a filed statement of limited liability company authority is signed pursuant to Section 204(a)(3) and states the name of the limited liability company but not the street and mailing address of its designated office, the statement nevertheless operates with respect to a person not a member as provided in subsections (c), (d) and (e).

(c) Except as otherwise provided in subsection (g), a filed statement of limited liability company authority supplements the authority of a person specified, or a person holding a position specified, in the statement to enter into transactions on behalf of the limited liability company as follows:

(1) Except for transfers of real property, a grant of authority contained in a filed statement of limited liability company authority is conclusive in favor of a person that gives value without knowledge to the contrary, so long as and to the extent that a limitation on that authority is not then contained in another filed statement. A filed cancellation of a limitation on authority revives the previous grant of authority.

(2) A grant of authority to transfer real property held in the name of the limited liability company contained in a certified copy of a filed statement of limited liability company authority recorded in the office for recording transfers of that real property is conclusive in favor of a person who gives value without knowledge to the contrary, so long as and to the extent that a certified copy of a filed statement containing a limitation on that authority is not then of record in the office for recording transfers of that real property. The recording in the office for recording transfers of that real property of a certified copy of a filed cancellation of a limitation on authority revives the previous grant of authority.

(d) A person that is not a member is deemed to know of a limitation on the authority to transfer real property held in the name of the limited liability company, if a certified copy of the filed statement containing the limitation on authority is of record in the office for recording transfers of that real property.

(e) When effective under Section 206(c):

(1) a statement of dissociation or manager cessation is, for the purposes of subsections (c) and (d), a limitation on the authority of the person referred to in the statement; and

(2) subject to subsection (f), a statement of dissolution or termination

cancels any filed statement of authority for the purposes of subsection (c) and is a limitation on authority for the purposes of subsection (d).

(f) After a statement of dissolution takes effect, a limited liability company may deliver to the [Secretary of State] for filing and, if appropriate, may record a statement of limited liability company authority that is designated as a post-dissolution statement of authority and which will operate with respect to a person not a member as provided in subsections (c) and (d), whether or not the transaction is appropriate for winding up the limited liability company business.

(g) Except as otherwise provided in subsections (c), (d) and (e), a person that is not a member is not deemed to know of a limitation on the authority of a person merely because the limitation is contained in a filed statement.

(h) Unless earlier canceled, a filed statement of limited liability company authority is canceled by operation of law five years after the date on which the statement, or the most recent amendment, was filed with the [Secretary of State].

Reporters' Notes

Consistent with the instructions given by the Drafting Committee at its April 2004 meeting, this section and the following section mirror RUPA § 303 and 304 in both wording and structure as much as possible. Changes have been made only to the extent that one or more of the following rationales applies: (1) The Committee decided, at least provisionally, to try to retain the concept of delineating authority by position, as reflected in the April 2004 draft. (2) Regardless of the eventual fate of that provisional decision, a statement of authority for a manager-managed LLC will be able to refer to managers. (3) There is no reason to require a statement of limited liability company authority to disclose the identity of the LLC's members. (4) Following ULPA (2001), ULLCA II has centralized its constructive notice provisions. Consonant with that decision, the diffuse "deemed" cancellation and limitation provisions of RUPA §§ 704 and 805 are relocated into this provision.

A proposed re-write of this section appears at the end of the Reporters' Notes to this

section.

Subsection (a) – It might be possible to combine paragraphs (2) and (3). However, paragraph (3) contains a novel provision that the Drafting Committee has only provisionally accepted. This Draft uses separate paragraphs to focus attention on the contents of paragraph (3). Also, a more elegant and straightforward way might exist to express the rule stated in paragraph (3), but at least initially the Drafting Committee had decided to follow as closely as possible both the wording and structure of RUPA § 302.

Subsection (a)(3) – This language permits a statement to designate authority by position (or office) rather than by specific person. (Subsection (a)(2) covers the latter type of designation.)

Subsection (h) – This subsection presupposes that statements may be amended, but the section nowhere expressly authorizes amendments. Query – should the section do so?

Proposed Re-Write to Section 302

Add a new definition:

"Effective" means, with regard to a statement of authority, a statement of denial, an amendment to a statement of authority, a cancellation of a statement of authority, that the statement, amendment or cancellation has become effective under Section 206(c).

SECTION 302. STATEMENT OF LIMITED LIABILITY COMPANY AUTHORITY.

(a) A limited liability company may deliver to the [Secretary of State] for filing a statement of limited liability company authority. The statement:

(1) must include the name of the limited liability company and the street and mailing address of its designated office;

(2) may state the authority, or limitations on the authority of a specific person to:

(A) execute an instrument transferring real property held in the name of the limited liability company; and

(B) enter into other transactions on behalf of, or otherwise act for, the limited liability company; and

(3) may, with respect to any person holding a specified position that exists in or with respect to the limited liability company, state the authority, or limitations on the authority of such person to:

(A) execute an instrument transferring real property held in the name of the limited liability company; and

(B) enter into other transactions on behalf of, or otherwise act for, the limited liability company.

(b) To amend a statement of authority previously filed by the [Secretary of State] under Section 206(a), a limited liability company may deliver to the [Secretary of State] for filing an amendment stating **[obtain IACA input re: what information is needed to link the new filing to the old.]** To cancel a statement of authority previously filed by the [Secretary of State], a limited liability company may deliver to the [Secretary of State] for filing a cancellation stating **[obtain IACA input re: what information is needed to link the new filing to the old.]**

(c) A statement of authority affects only the power of a person to bind a limited liability company to persons that are not members and does so according to the following rules:

(1) Except as otherwise provided in paragraphs (3), (4) and (5), a limitation on the authority of a person or a position contained in an effective statement of authority does not by itself cause any person to have knowledge or notice of the limitation.

(2) A grant of authority not pertaining to transfers of real property and contained in an effective statement of authority is conclusive in favor of a person that gives value in reliance on the grant, without having knowledge to the contrary, except to the extent that the statement has been cancelled **[query – or restrictively amended?]** under subsection (b) or a limitation on the grant is then contained in another statement of authority that became effective after the statement containing the grant became effective. If a cancellation of a limitation on authority becomes effective, the cancellation revives the previous grant of authority but without retroactive affect.

(3) An effective statement of authority to transfer real property held in the name of the limited liability company, which is by certified copy recorded in the office for recording transfers of that real property, is conclusive in favor of a person that gives value in reliance on the grant, without knowledge to the contrary, except to the extent that: (A) the statement has been cancelled **[query – or restrictively amended?]** under subsection (b) or a limitation on the grant is then contained in another statement of authority that became effective after the statement containing the grant became effective; and (B) a certified copy of cancellation or limiting statement is then of record in the office for recording transfers of that real property. The recording in that office of a certified copy of an effective cancellation of a limitation on authority revives the previous grant of authority but without retroactive effect.

(4) All persons **[query – due to the first sentence of this section, all persons means "all persons not members"; is that sufficiently clear?]** are deemed to know of a limitation on the authority to transfer real property held in the name of the limited liability company, if a certified copy of an effective statement containing the limitation on authority is of record in the office for recording transfers of that real property.

(5) When effective under Section 206(c):

(A) a statement of dissociation or manager cessation is, for the purposes of paragraphs (3) and (4), a limitation on the authority of the person referred to in the statement; and

(B) subject to paragraph (6), a statement of dissolution or termination cancels any filed statement of authority for the purposes of paragraph (3) and is a limitation on authority for the purposes of paragraph (4).

(6) After a statement of dissolution takes effect, a limited liability company may deliver to the [Secretary of State] for filing and, if appropriate, may record a

statement of limited liability company authority that is designated as a post-dissolution statement of authority and which will operate as provided in paragraphs (3) and (4).

(7) Unless earlier canceled, an effective statement of limited liability company authority is canceled by operation of law five years after the date on which the statement, or the most recent amendment, became effective.

(8) An effective statement of denial (Section 303) operates as a limitation of authority under this Section.

SECTION 303. STATEMENT OF DENIAL. A person named in a filed statement of limited liability company authority granting that person authority may deliver to the [Secretary of State] for filing a statement of denial stating the name of the limited liability company and denying the grant of authority.

> **Regarding proposed revised Section 302(c)** – RUPA's text makes this very important point only obliquely RUPA § 303, comment 4 does so directly ("It should be emphasized that Section 303 concerns the authority of partners to bind the partnership to third persons. As among the partners, the authority of a partner to take any action is governed by the partnership agreement, or by the provisions of RUPA governing the relations among partners, and is not affected by the filing or recording of a statement of partnership authority.") But query whether a statement of authority might, in some circumstances, be some evidence of the contents of the operating agreement?
>
> Query also what happens if a statement of authority conflicts with the articles. Under this language, the statement controls as to a third party who gives value in reliance unless the party has "knowledge to the contrary".
>
> **Not included in the proposed revised version:** current subsection (b) (" If a filed statement of limited liability company authority is signed pursuant to Section 204(a)(3) and states the name of the limited liability company but not the street and mailing address of its designated office, the statement nevertheless operates with respect to a person not a member as provided in subsections (c), (d) and (e).")

SECTION 303. STATEMENT OF DENIAL. A person named in a filed statement of limited liability company authority may deliver to the [Secretary of State] for filing a statement of denial stating the name of the limited liability company and the fact that is being denied, which may include denial of a person's authority. When filed and effective, a statement of denial is a limitation on authority as provided in Section 302(c), (d), and (e).

Reporters' Notes

Source – RUPA § 304.

Note: See Reporters' Notes to Section 302 for a suggested alternative to this section.

SECTION 304. LIMITED LIABILITY COMPANY LIABLE FOR MEMBER'S OR MANAGER'S ACTIONABLE CONDUCT.

(a) A member-managed limited liability company is liable for loss or injury caused to a person, or for a penalty incurred, as a result of a wrongful act or omission, or other actionable conduct, of a member acting in the ordinary course of business of the company or with authority of the limited liability company.

(b) If, in the course of a member-managed limited liability company's activities or while acting with authority of the member-managed limited liability company, a member receives or causes the limited liability company to receive money or property of a person that is not a member, and the money or property is misapplied by a member, the limited liability company is liable for the loss.

(c) In a manager-managed limited liability company the rules stated in subsections (a) and (b):

(1) apply to each manager of the limited liability company which is a member; and

(2) do not apply to a member in the member's capacity as a member.

Reporters' Notes

This section follows the paradigm of RUPA § 305, which combined UPA §§ 13 and 14 into a single section. ULLCA § 302 contains no parallel to RUPA § 305(b). That omission is

reversed here, in subsection (b).

RUPA § 305 contains a confusing use of the word authority, which was carried forward in ULPA (2001) § 403. The following Comment to that section explains the usage issue:

> **Comment [to ULPA (2001) § 403]**
>
> Source: RUPA Section 305. For the meaning of "authority" in subsections (a) and (b), see RUPA Section 305, Comment. The third-to-last paragraph of that Comment states:
>
> > The partnership is liable for the actionable conduct or omission of a partner acting in the ordinary course of its business or "with the authority of the partnership." This is intended to include a partner's apparent, as well as actual, authority, thereby bringing within Section 305(a) the situation covered in UPA Section 14(a).
>
> The last paragraph of that Comment states:
>
> > Section 305(b) is drawn from UPA Section 14(b), but has been edited to improve clarity. It imposes strict liability on the partnership for the misapplication of money or property received by a partner in the course of the partnership's business or otherwise within the scope of the partner's actual authority.
>
> Section 403(a) of this Act is taken essentially verbatim from RUPA Section 305(a), and Section 403(b) of this Act is taken essentially verbatim from RUPA Section 305(b).

SECTION 305. LIABILITY OF MEMBERS AND MANAGERS.

(a) Except as otherwise provided in subsection (c), the debts, obligations, and liabilities of a limited liability company, whether arising in contract, tort, or otherwise, are solely the debts, obligations, and liabilities of the limited liability company. A member or manager is not personally liable for a debt, obligation, or liability of a limited liability company solely by reason of being or acting as a member or manager.

(b) The failure of a limited liability company to observe any particular formalities relating to the exercise of its powers or management of its activities is not a ground for imposing personal liability on the members or managers for the debts, obligations, or liabilities of the limited liability company.

(c) All or specified members or categories of members are liable in their capacity as members for all or specified debts, obligations, or liabilities of a limited liability company only if:

(1) the articles of organization contain a provision to that effect; and

(2) a member so liable has consented in a record to the adoption of the provision or to be bound by the provision.

Reporters' Notes

Issues to be considered: whether to reinstate in subsection (b) the phrase "or requirements" after the word "formalities"; whether to retain subsection (c)

As originally presented to the Drafting Committee, this section came almost verbatim from ULLCA § 303.

Subsection (b) – At its April 2004 meeting, the Drafting Committee changed ULLCA's phrase "the usual limited liability company formalities" to "any particular formalities" on the theory that a limited liability company does not necessarily have any usual formalities. The Committee also deleted the phrase "or requirements", which in ULLCA follows the word "formalities". The effect of this change warrants further discussion. Some Committee members and advisors saw the change as merely removing surplus language. Others feared a substantive effect.

In any event, it might be useful for a Comment to explain that this provision does not pertain to a situation in which (i) a member or manager fails to obtain the consent required to have the actual authority to bind the LLC in a transaction with a third party; (ii) the member nonetheless purports to bind the LLC; (iii) under Section 301 the member or manager lacks the statutory apparent authority to bind the LLC; (iv) the LLC is not bound; and therefore (v) under the agency law doctrine of "warranty of authority," the member or manager is liable to the third party. In that circumstance, the liability is not *for* a "debt[], obligation[], [or] liability[y] of a

limited liability company," but rather because the limited liability company is *not* indebted, obligated or liable.

Subsection (c) – At its April 2004 meeting, the Drafting Committee provisionally decided to retain this subsection, pending an inquiry into why the subsection was included in ULLCA. Co-reporter Bishop made that inquiry and spoke with Brian Schor, the ULLCA I proponent and ABA representative from NY, who has since left NY practice and is with a corporation. His recollection was that the provision was included for flexibility only. Professor Bishop's own "best recollection" (as Reporter for ULLCA I) was that, during the ULLCA I drafting process, someone stated that a particular, major bank would not deal with an LLC unless the statutory default itself could be disconnected. In that way, the bank could have the LLC's primarily liable with the LLC and not merely as guarantors.

If that rationale ever made sense, in the opinion of the co-reporters, it no longer does. Nothing prevents the operating agreement from varying this Section. The co-reporters rccommend that the Drafting Committee deleted subsection (c).

This paragraph is moot, if the Committee accepts that suggestion. The Committee has also discussed whether the current language is adequate to authorize a provision in the articles to set a cap on a member's subsection (c) liability – e.g., specifying that member X is liable only up to $500,000 to a specified obligee on a specified obligation, while member Y is liable for the full extent of that obligation (with or without the right of further contribution from X). The Committee has tentatively decided that the current language is adequate in that regard but recommended that a Comment address this point.

Subsection (c)(2) – The April 2004 draft had changed the ULLCA language of "a member" to "each member". That change was intended to highlight a question to be resolved if the Drafting Committee decides to retain subsection (c) – namely, whether an obligation intended to apply to more than one member will apply to those who do consent if some of the members intended to be liable do not consent. The Drafting Committee decided emphatically that the answer to that question is yes. A member who wants to condition his, her or its subsection (c)(2) consent on the subsection (c)(2) consent of another must arrange that protection for him, her or itself. Accordingly, the ULLCA language has been reinstated.

[ARTICLE] 4

RELATIONS OF MEMBERS TO EACH OTHER AND TO LIMITED LIABILITY COMPANY

SECTION 401. BECOMING A MEMBER.

(a) A person becomes an initial member in connection with the formation of a limited liability company, upon the later of:

(1) the formation of the limited liability company; or

(2) the time provided in and upon compliance with:

(A) the understanding of the person that is to become the sole initial member; or

(B) an agreement among the persons that are collectively to become the initial members.

(b) After a limited liability company has had at least one initial member, a person becomes a member:

(1) as provided in an operating agreement;

(2) as the result of a merger under [Article] 11 or **[TBD – pending META]**;

(3) with the consent of all the members; or

(4) if within 90 days after the limited liability company ceases to have any members, the legal representative of the last person to have been a member consents to have the person become a member and the person consents to become a member.

(c) A person may become a member without making or being obligated to make a contribution to the limited liability company or acquiring a transferable interest.

Reporters' Notes

Issues to be resolved: whether the current language in Section 401 adequately resolves the issue of "formed by filing" vs. "formed by agreement"; whether subsection (b) should make assenting to the operating agreement a precondition to becoming a member (Section 110(b) provides that a person who becomes a member is by that action bound by the operating agreement); whether the stated relationship between Section 401 and Section 701(a)(3) is appropriate (allows an LLC to be formed and exist without any members for 89 days); whether the caption to Section 401 should be changed to "Becoming a Member"

At the November, 2003 meeting, discussion was intense and views divided as to whether this Act should allow "shelf" LLCs. The April 2004 draft tried to steer a middle course, recognizing that: (i) it is the filing of a public document that creates the LLC as a legal person, and (ii) LLCs are filed on behalf of one or more persons intending to become members upon formation.

At its April 2004 meeting, the Drafting Committee directed the co-reporters to go "back to the drawing boards" and to consider the approach taken by Del. Code Ann. tit. 6, § 18-301(a), except for that provision's reliance on the records of the LLC.

The Delaware model was of limited use, because section 18-301(a)(2) depends on the notion that an LLC agreement can exist before the LLC is formed, even though Del. Code Ann. tit. 6, § 18-101(7) defines an LLC agreement as being "of the member or members" and Del. Code Ann. tit. 6, § 18-101(11) defines "member" as "a person who has been admitted to a [presumably existing] limited liability company".

A uniform act should not adopt such a "Klein bottle" approach, and accordingly subsubsection (a)(2) refers to "an agreement among the persons who are to become the initial members". (A "Klein bottle" is a mathematical construct – a bottle with neither inside nor outside, because the neck of the bottle is elongated and passes into the center of the bottle through the side of the bottle without the presence of a hole in the side. A Klein bottle can, therefore, be realized only in four dimensions.)

Subsection (b)(4) – This language is relocated from Section 701 (dealing with avoidance of dissolution when an LLC loses its last member), where it appeared in the prior draft. The legal representative could itself consent to become the member.

Subsection (c) – This subsection permits so-called "non-economic members."

SECTION 402. FORM OF CONTRIBUTION. A contribution may consist of tangible or intangible property or other benefit to the limited liability company, including money, services performed, promissory notes, other agreements to contribute cash or property, and contracts for services to be performed.

Reporters' Notes

Source – ULPA (2001) § 501, which took ULLCA § 401 essentially verbatim except that in ULLCA the last phrase is introduced with "or" instead of "and".

SECTION 403. LIABILITY FOR CONTRIBUTIONS.

(a) A person's obligation to make a contribution of money, property, or other benefit to, or to perform services for, a limited liability company is not excused by the person's death, disability, or other inability to perform personally. If a person does not make the required contribution of property or services, the person is obligated at the option of the limited liability company to contribute money equal to the value of that portion of the contribution which has not been made.

(b) A creditor of a limited liability company which extends credit or otherwise acts in reliance on an obligation described in subsection (a), and without notice of any compromise under Section 407, may enforce the original obligation.

Reporters' Notes

Source: ULLCA § 402, which is taken from RULPA § 502(b), which also gave rise to ULPA (2001) § 502.

This version differs from ULLCA § 402 in only four respects, none of them substantive. (1) In the first sentence of subsection (a), "make a contribution" replaces "contribute" so that the subsection's opening phrase uses a defined term. (2) The second sentence of subsection (a) omits the word "stated" immediately before the second occurrence of "contribution" ("value of

the stated contribution which has not been made"). There is no apparent referent for this adjective (which appears in the ULLCA version), so it has been deleted. (3) Throughout subsection (a), "person" replaces "member" to indicate that the section applies not only to members but also to persons who have promised contributions and whose membership is conditioned on the making of the promised contribution (or some other event). (4) In subsection (b), consistent with the Style Committee's current approach, "which" replaces "who" following "creditor of the limited liability company".

SECTION 404. SHARING OF AND RIGHT TO DISTRIBUTIONS BEFORE DISSOLUTION.

(a) Any distributions made by a limited liability company before its dissolution and winding up must be in equal shares.

(b) A member does not have a right to any distribution before the dissolution and winding up of the limited liability company unless the limited liability company decides to make an interim distribution. A person's dissociation does not entitle the person to any distribution.

(c) A member does not have a right to demand or receive a distribution from a limited liability company in any form other than cash. Except as otherwise provided in Section 709(c), a limited liability company may distribute an asset in kind if each portion of the asset is fungible with each other portion and each member receives a percentage of the asset equal in value to the member's share of distributions.

(d) When a member or transferee becomes entitled to receive a distribution, the member or transferee has the status of, and is entitled to all remedies available to, a creditor of the limited liability company with respect to the distribution. However, the limited liability company's obligation to make a distribution is subject to offset for any amount owed to the limited liability company by the member or dissociated member on whose account the

distribution is made.

Reporters' Notes

Issues to be considered: whether this Act should provide a default rule for the allocation of profits and losses.

This section is an amalgam of ULLCA § 405 and ULPA (2001) §§ 504 (interim distributions) 505 (no distribution on account of dissociation), 506 (distribution in kind) and 507 (right to distribution).

Subsection (d) – The first sentence is probably redundant of Section 405(e) (limitations on distributions; those entitled to distributions at parity with other general unsecured creditors). The same redundancy exists under ULPA (2001) §§ 507 and 508.

No default provision allocating profits and losses – To date, this Act has followed both ULLCA and ULPA (2001) in omitting any default rule for allocation of losses. The Comment to ULPA (2001), § 503 explains that omission as follows:

> This Act has no provision allocating profits and losses among the partners. Instead, the Act directly apportions the right to receive distributions.
>
> Nearly all limited partnerships will choose to allocate profits and losses in order to comply with applicable tax, accounting and other regulatory requirements. Those requirements, rather than this Act, are the proper source of guidance for that profit and loss allocation.

The omission has been criticized. Franklin A. Gevurtz, BUSINESS PLANNING (3rd ed.), Supp. 2005 at 24.

The ULPA (2001) drafting committee followed the urging of its Advisor from the ABA Tax Section and the example of ULLCA, concluded that the Act should not contain a provision that has meaning only in terms of tax law, and assumed that anyone sophisticated enough to include profit and loss sharing rules in a partnership agreement would be competent enough to include appropriate adjustment to the statute's default distribution rules.

Query whether the same conclusion is appropriate for ULLCA II, given that (i) many people form LLCs without obtaining sophisticated planning advice, and (ii) people are so used to seeing statutory provisions for profits/losses and distributions in tandem that the absence of one is disconcerting.

SECTION 405. LIMITATIONS ON DISTRIBUTION.

(a) A limited liability company may not make a distribution in violation of the operating agreement.

(b) A limited liability company may not make a distribution if after the distribution:

(1) the limited liability company would not be able to pay its debts as they become due in the ordinary course of the limited liability company's activities; or

(2) the limited liability company's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the limited liability company were to be dissolved, wound up, and terminated at the time of the distribution, to satisfy the preferential rights upon dissolution, winding up, and termination of members whose preferential rights are superior to those of persons receiving the distribution.

(c) A limited liability company may base a determination that a distribution is not prohibited under subsection (b) on financial statements prepared on the basis of accounting practices and principles that are reasonable in the circumstances or on a fair valuation or other method that is reasonable in the circumstances.

(d) Except as otherwise provided in subsection (g), the effect of a distribution under subsection (b) is measured:

(1) in the case of distribution by purchase, redemption, or other acquisition of a transferable interest in the limited liability company, as of the date money or other property is transferred or debt incurred by the limited liability company; and

(2) in all other cases, as of the date:

(A) the distribution is authorized, if the payment occurs within 120

days after that date; or

(B) the payment is made, if payment occurs more than120 days after the distribution is authorized.

(e) A limited liability company's indebtedness to a member incurred by reason of a distribution made in accordance with this section is at parity with the limited liability company's indebtedness to its general, unsecured creditors.

(f) A limited liability company's indebtedness, including indebtedness issued in connection with or as part of a distribution, is not a liability for purposes of subsection (b) if the terms of the indebtedness provide that payment of principal and interest are made only to the extent that a distribution could then be made to members under this section.

(g) If indebtedness is issued as a distribution, each payment of principal or interest on the indebtedness is treated as a distribution, the effect of which is measured on the date the payment is made.

Reporters' Notes

Source – ULPA (2001) § 508, which was derived from ULLCA § 406, which was in turn derived from MBCA § 6.40. **Subsection (c)** – This subsection appears to impose a standard of ordinary care, in contrast with the more complicated approach stated in Sections 409 and 410.

SECTION 406. LIABILITY FOR IMPROPER DISTRIBUTIONS.

(a) If a member of a member-managed, or manager of a manager-managed, limited liability company consents to a distribution made in violation of Section 405 and the limited liability company satisfies Section 410 with regard to the member's or manager's giving of consent, the member or manager is personally liable to the limited liability company for the

amount of the distribution which exceeds the amount that could have been distributed without the violation.

(b) A member or transferee that receives a distribution knowing that the distribution to that member or transferee was made in violation of Section 405 is personally liable to the limited liability company but only to the extent that the distribution received by the member or transferee exceeded the amount that could have been properly paid under Section 405.

(c) A person against which an action is commenced under subsection (a) may:

(1) implead in the action any other person that is liable under subsection (a) and compel contribution from the person; and

(2) implead in the action any person that received a distribution in violation of subsection (b) and compel contribution from the person in the amount the person received in violation of subsection (b).

(d) An action under this section is barred if it is not commenced within two years after the distribution.

Reporters' Notes

Source – Same derivation as Section 405.

Query – is it adequately clear that liability under this section is not affected by a person ceasing to be a member, manager or transferee after the time that the liability attaches? Consider Section 102(9) and (10) (defining "manager" and "member" to exclude former managers and former members).

SECTION 407. MANAGEMENT OF A LIMITED LIABILITY COMPANY

(a) In a member-managed limited liability company, the following rules apply:

(1) Each member has equal rights in the management and conduct of the limited liability company's activities.

(2) A difference arising among members as to a matter in the ordinary course of the activities of a limited liability company may be decided by a majority of the members. An act outside the ordinary course of activities of a limited liability company may be undertaken only with the consent of all the members. An amendment to the operating agreement may be made only with the consent of all the members.

(b) In a manager-managed limited liability company, the following rules apply:

(1) Except as expressly provided in this [act], any matter relating to the activities of the limited liability company may be exclusively decided by the managers.

(2) Each manager has equal rights in the management and conduct of the activities of the limited liability company.

(3) A difference arising among managers as to a matter in the ordinary course of the activities of a limited liability company may be decided by a majority of the managers. Subject to subsection (b)(4), an act outside the ordinary course of activities of a limited liability company may be undertaken only with the consent of all the managers.

(4) The consent of each member is necessary to:

(A) amend the operating agreement;

(B) sell, lease, exchange, or otherwise dispose of all, or substantially all, of the limited liability company's property, with or without the good will, other than in the usual and regular course of the limited liability company's activities;

(C) **[TBD]**

(5) A manager may be chosen at any time by the consent of a majority of the members and remains a manager until a successor has been chosen, unless the manager sooner resigns, is removed, dies, or, in the case of a manager that is not an individual, terminates. A manager may be removed at any time by the consent of a majority of the members, and those members need not state or have cause and need not inform the manager in advance or provide the manager with an opportunity to be heard. A person need not be a member in order to be a manager, but the dissociation of a member who is also a manager removes the person as a manager. If a person that is both a manager and a member ceases to be a manager, that cessation does not cause the person to dissociate as a member.

(c) Action requiring the consent of members under this [act] may be taken without a meeting, and a member may appoint a proxy to consent or otherwise act for the member by signing an appointment record, either personally or by the member's agent.

(d) The dissolution of a limited liability company does not affect the application of this section. However, a person that wrongfully causes dissolution of the limited liability company loses the right to participate in management as a member and a manager.

Reporters' Notes

Source: ULLCA § 404; ULPA (2001) § 406

Issues to be considered: whether the default management structure should be essentially identical for a manager-managed and member-managed LLC, except that a few key matters [which?] should be, in the default mode, reserved to members even in a manager-managed LLC; whether, in the default mode, the default management structure of a manager-managed LLC and a member-managed LLC should differ from the default management structure of, respectively, a limited partnership and a general partnership, and, if so, how

Subsection (b)(4) – Query whether the consent of any non-member manager should also be necessary? Other consent requirements may be sprinkled throughout the Act; e.g., consent to

mergers under Article 10.

Subsection (b)(5) – When an entity is a manager, should dissolution or termination of the entity be an event that terminates the entity's status as manager? The current language refers to termination. *Compare* Section 601(4)(E) (providing for dissociation of a member that is a partnership or limited liability company upon the entity's dissolution). It is possible that both this provision and Section 601(4)(E) have it wrong. Perhaps dissociation should occur only upon termination, but cessation of manager status should occur upon dissolution. (If so, query the effect of dissolution on the management rights of an entity that is a member in a member-managed LLC.)

Subsection (d) – Query whether, in a manager-managed LLC, a wrongfully dissolving member should lose even the limited rights of a member to participate in management? Note that this subsection does not govern management authority a member might have not as a manager or member but rather, under a separate agreement, as an agent of the LLC.

SECTION 408. MEMBER'S AND MANAGER'S RIGHTS TO PAYMENTS AND REIMBURSEMENT.

(a) A limited liability company shall reimburse a member of a member-managed limited liability company for payments made and indemnify the member for liabilities incurred **[reserved until the Committee has made a firmer decision concerning the nature of the fiduciary duties owed by a member in a member-managed LLC and a manager in a manager-managed LLC]**.

(b) A limited liability company shall reimburse a manager of a manager-managed limited liability company for payments made and indemnify the manager for liabilities incurred **[reserved until the Committee has made a firmer decision concerning the nature of the fiduciary duties owed by a manager in a manager-managed LLC and a manager in a manager-managed LLC]**.

(c) A limited liability company shall reimburse a member for an advance to the

company beyond the amount of contribution the member agreed to make.

(d) A payment or advance that gives rise to an obligation of a limited liability company under subsections (a) through (c) constitutes a loan to the limited liability company, which accrues interest from the date of the payment or advance.

(e) A member is not entitled to remuneration for services performed for a limited liability company even in the capacity of a manager of a manager-managed limited liability company, except for reasonable compensation for services rendered in winding up the activities of a limited liability company.

Reporters' Notes

Source: ULLCA § 403

Subsections (a) and (b) – These indemnification provisions will be fleshed out once the Drafting Committee has made a firmer decision with regard to the standards of conduct and liability stated in Sections 409 and 410.

SECTION 409. STANDARDS OF CONDUCT FOR MEMBERS AND MANAGERS.

(a) The only fiduciary duties a member owes to the limited liability company are the duty of loyalty and the duty of care set forth in subsections (b) and (c).

(b) A member's duty of loyalty to a member-managed limited liability company is limited to the following:

(1) to account to the limited liability company and to hold as trustee for it any property, profit, or benefit derived by the member in the conduct or winding up of the limited liability company's business or derived from a use by the member of the limited liability

company's property, including the appropriation of a limited liability company opportunity;

(2) to refrain from dealing with the limited liability company in the conduct or winding up of the limited liability company's business as or on behalf of a party having an interest adverse to the limited liability company; and

(3) to refrain from competing with the limited liability company in the conduct of the limited liability company's business before the dissolution of the limited liability company.

(c) A member's duty of care to a member-managed limited liability company in the conduct of and winding up of the limited liability company's business is limited:

(1) when exercising discretionary authority in making decisions to take or not to take action, to acting:

(i) independently;

(ii) in a manner the member reasonably believes to be in the best interest of the limited liability company; and

(iii) after considering information the member reasonably believes appropriate in the circumstances, including information provided by another person that the member reasonably believes is a competent and reliable source for the information; and

(2) in all other circumstances, to acting with the care that a person in a like position would reasonably exercise under similar circumstances.

(d) A member of a member-managed company shall discharge the duties under this [act] or under the operating agreement and exercise any rights consistently with the obligation of good faith and fair dealing.

(e) A member of a member-managed limited liability company does not violate a duty or obligation under this [act] or under the operating agreement merely because the member's conduct furthers the member's own interest.

(f) In a manager-managed company:

(1) subject to paragraph (4), a member does not have any duties or obligations under this section in the member's capacity as a member, except that subsections (d) and (e) apply to the member's conduct in that capacity;

(2) a manager is held to the same standards of conduct prescribed for a member in subsections (a) through (d), except that the obligation stated under subsection (b)(3) continues until winding up is completed;

(3) subsection (e) does not apply to a person in the person's capacity as a manager;

(4) if an operating agreement imposes on a member that is not a manager a responsibility that this [act] would otherwise impose on a manager, the standards of conduct prescribed by this subsection for a manager apply to the member with regard to that responsibility.

Reporters' Notes

Issues to be considered: whether to return the gross negligence formulation for the duty of care; whether to delete "only" from subsection (a); whether to change "is limited to" in subsection (b) to "includes"'; whether to recognize the duty of disclosure as a fiduciary duty; whether in subsection (d) "or" should be "and" (see below); whether subsection (e) is overbroad (see below)

This section already has a lengthy history.

At its November, 2003 meeting, at the urging of Commissioner Blackburn, the Drafting

Committee decided to try to (i) eschew the "gross negligence" standard of care first promulgated in RUPA and afterwards followed in ULLCA and ULPA (2001); and (ii) incorporate something like the standard of care/standard of liability dichotomy recently adopted in MBCA §§ 8.30 and 8.31. Under the MBCA, that dichotomy exists principally for directors and not for officers, *cf.* MBCA 8.42(c) (stating that director standard of liability principles apply to officers if they "have relevance), and those positions reflect categorically different kinds of responsibilities.

In response, the co-reporters drafted and the Committee considered a version of this section and a companion section, Section 410, that together attempted to parallel *functionally* the MBCA's *positional* distinction by using the defined terms "governance responsibility" and "operational responsibilities." (The draft also differed from the MBCA approach by leaving unaffected the traditional rules for duty of loyalty violations.)

At its April 2004 meeting, the Drafting Committee discussed the proposal at length and with good-natured intensity. When the dust cleared, no one had moved to change any language. However, there was considerable sentiment expressed in favor of collapsing the two sections into one provision and somehow reinstating the gross negligence standard in combination with a business judgment rule formulation.

The chair of the Committee then directed the co-reporters to draft a single section, which was presented to and adopted by the Committee during a teleconference. That single section was distributed to the 2004 Annual Meeting as a supplement to the Act and was read in place of the Sections 409 and 410 included in the Annual Meeting draft. At its October, 2004 meeting, the Drafting Committee again vigorously debated the topic of fiduciary duty, but no changes were moved.

The language shown above is therefore the Drafting Committee's current position in the matter.

Subsection (d) – Query whether "or" should be "and".

Subsection (e) – Query whether this subsection is overbroad, because (i) as to the Act's duty of loyalty, self-interest is at the core of the wrong, and (ii) an agreement among owners could certainly proscribe self-interested behavior.

SECTION 411. RIGHT TO INFORMATION OF MEMBERS, MANAGERS, AND DISSOCIATED MEMBERS.

(a) In a member-managed limited liability company, the following rules apply:

(1) A member may, without having any particular purpose for seeking the

information, inspect and copy during regular business hours, at a reasonable location specified by the limited liability company, any records maintained by the limited liability company regarding the limited liability company's activities and financial condition.

(2) The limited liability company shall furnish to each member and each member shall furnish to each other member:

(A) without demand, any existing information concerning the limited liability company's activities, condition, and circumstances which is reasonably required for the proper exercise of the recipient member's rights and duties under the operating agreement or this [act], except to the extent that the person otherwise obligated under this provision:

(i) does not have possession, control, or access to the information; or

(ii) has notice that the would-be recipient already knows the information; and

(B) on demand, any other information concerning the limited liability company's activities, condition, and circumstances, except to the extent the demand or the information demanded is unreasonable or otherwise improper under the circumstances.

(b) In a manager-managed limited liability company, the following rules apply:

(1) The information rights and obligations stated in subsection (a) apply to the managers instead of the members.

(2) During regular business hours and at a reasonable location specified by the limited liability company, a member may obtain from the limited liability company and inspect and copy true and full information regarding the activities, condition, and circumstances

of the limited liability company as is just and reasonable if:

(A) the member seeks the information for a purpose reasonably related to the member's interest as a member;

(B) the member makes a demand in a record received by the limited liability company, describing with reasonable particularity the information sought and the purpose for seeking the information; and

(C) the information sought is directly connected to the member's purpose.

(3) Within 10 days after receiving a demand pursuant to paragraph (2)(B), the limited liability company shall in a record inform the member that made the demand:

(A) the information that the limited liability company will provide in response to the demand;

(B) when and where the limited liability company will provide the information; and

(C) if the limited liability company declines to provide any demanded information, the limited liability company's reasons for declining.

(4) Whenever this [act] or an operating agreement provides for a member to give or withhold consent to a matter, before the consent is given or withheld, the limited liability company shall, without demand, provide the member with all information that is known to the limited liability company and is material to the member's decision.

(c) Except as otherwise provided in subsection (d), on 10 days' demand made in a record received by the limited liability company, a dissociated member may have access to

whatever information the person was entitled to while a member if (i) the information pertains to the period during which the person was a member; (ii) the person seeks the information or record in good faith; and (iii) the person satisfies the requirements imposed on a member by subsection (b)(2). The limited liability company shall respond to a demand made pursuant to this subsection in the same manner as provided in subsection (b)(3).

(d) If a member dies, Section 504 applies.

(e) The limited liability company may impose reasonable restrictions on the use of information obtained under this section, including designating information confidential and imposing nondisclosure and safeguarding obligations on the recipient. In a dispute concerning the reasonableness of a restriction under this subsection, the limited liability company has the burden of proving reasonableness.

(f) A limited liability company may charge a person that makes a demand under this section reasonable costs of copying, limited to the costs of labor and material.

(g) A member or dissociated member may exercise the rights under this section through an agent or, in the case of an individual under legal disability, a legal representative. Any restriction imposed under subsection (e) or by the operating agreement applies both to the agent or legal representative and the member or dissociated member.

(h) Whenever a member purchases or sells any part of a transferable interest, or other right a member or transferee has under this [act] or the operating agreement, from or to another member, the limited liability company, or a transferee, each party to the transaction shall provide to the other, without demand, all material information concerning the limited liability company known by the party unless the party with the disclosure obligation believes reasonably

and in good faith that the other party knows the information.

(i) Except as stated in subsection (h), the rights provided in this section do not extend to a person as transferee.

Reporters' Notes

Source: ULPA (2001) §§ 304 and 407.

Issues to be considered: whether the Act continue the Conference's approach of treating information duties as statutory rather than fiduciary; whether the revised language adequately handles the various scenarios raised at the October, 2004 meeting; whether in subsection (a)(2)(A) the phrase "reasonably required" should be replaced with "material to"; whether subsection (h) appropriately handles the issue of disclosure in member-to-member and member-to-LLC transactions and, in particular, whether it is appropriate to end the subsection's protections to transferees; whether the Section should be expanded to give members, dissociated members who retain a transferable interest, and transferees a right to demand a copy of the limited liability company's tax return, with the right subject to change or elimination by the operating agreement

At its October, 2004 meeting, the Drafting Committee discussed this section at great length. Most of the discussion concerned duties to disclose in the context of member-to-member transactions (i.e., a sale of an interest) and LLC-to-member transactions (e.g., a redemption). The discussion was informed (occasionally even learned), energetic, and inconclusive. The Committee essentially directed the co-reporters to "see to it."

The co-reporters have concluded that the difficulty in this area results from the Conference's decision to exclude disclosure duties from the rubric of fiduciary duties. The Conference first made that decision in RUPA and replicated the decision in ULLCA and ULPA (2001). In the opinion of the co-reporters, the Drafting Committee has four alternatives in this matter:

1. Have the Act remain silent on this issue, trusting to other law and the obligation of good faith and fair dealing.
2. Have the Act expressly refer to and preserve the common law disclosure rules, including those that:
    a. require disclosure on account of a relationship involving trust and confidence;
    b. determine when a relationship that is not a fiduciary relationship nonetheless qualifies as one involving trust and confidence.
3. Include in the Act a statutory disclosure obligation covering member-to-member transactions and LLC-to-member transactions, and perhaps also protecting transferees.
4. Open up the Act's approach to fiduciary, thereby inviting in the developing case law in

this area.

The language in subsection (i) would implement the third alternative (statutory disclosure obligation). For comparison purposes, following is language to implement the second alternative (express reference and preservation).

> The rights and obligations stated in this section are in addition to any rights and obligations provided by other law, including those that require disclosure on account of a relationship involving trust and confidence and determine when a relationship that is not a fiduciary relationship is nonetheless one involving trust and confidence.

Subsection (a)(1): This provision does not require the limited liability company to create any records.

Subsection (a)(2)(A): The proposed changes attempt to address concerns raised at the October, 2004 meeting that the prior language created an obligation that was too open-ended.

Subsection (a)(2)(B): In most circumstances, it will be "unreasonable or otherwise improper" to demand the creation of information or to demand information when the person to whom the demand is made lacks possession, control, and access to the information or has notice that the would-be recipient already knows the information. See subsection (a)(2)(B). However, this statement is not a *per se* rule. In some circumstances, it might be reasonable to require the limited liability company to obtain information. In other circumstances, it might be reasonable to require one member to confirm that its information on a particular subject is precisely the same as the information possessed by the member making the demand.

Subsection (e): ULPA (2001) does not contain the phrase "designating information confidential and imposing non-disclosure and safeguarding obligations on the recipient." The addition is to address concerns raised by Bill Callison and Alan Vestal. See J. William Callison & Allan W. Vestal, "They've Created a Lamb With Mandibles of Death": Secrecy, Disclosure, and Fiduciary Duties in Limited Liability Firms, 76 IND. L. J. 271 (2001) and "The Want of a Theory, Again," ___ Suffolk L. Rev. ___ (forthcoming spring 2004).

Subsection (i): This subsection is necessitated by the Act's current formulation of fiduciary duties. That formulation arguably implies and at least suggests that members are not mutual fiduciaries and that managers do not owe any fiduciary duties to members. Given that background, this subsection signals courts that common law and other duties triggered by a relationship of trust and confidence can still apply in member-to-member and LLC-to-member transactions. *See, e.g.,* Restatement (Second) of Agency, § 161(d) (requiring a party to a contract to disclose a fact "where the other person is entitled to know the fact because of a relationship of trust and confidence between them").

SECTION 412. STATEMENT OF MANAGER CESSATION. If a person ceases to be a manager for any reason, the limited liability company may deliver to the [secretary of state] for filing a statement of manager cessation, which must state the name of the limited liability company, its street and mailing address, the name of the person that has ceased to be a manager and the date on which the cessation occurred.

Reporters' Notes

Issues to be considered: whether this provision warrants its own section instead of being part of Section 407 (Management of a Limited Liability Company)

If this provision remains as a separate section, the next draft will place it as Section 408 and will renumber the following sections.

[ARTICLE] 5

TRANSFERABLE INTERESTS AND RIGHTS OF TRANSFEREES AND CREDITORS

SECTION 501. MEMBER'S TRANSFERABLE INTEREST.

(a) Except as otherwise provided in subsection (c), the only interest of a member which is transferable is the member's transferable interest. The interest is personal property.

(b) If the operating agreement so provides:

(1) a transferable interest may be evidenced by a certificate of the interest issued by the limited liability company in record form; and

(2) subject to Section 502, the interest represented by the certificate may be transferred by a transfer of the certificate.

(c) A member may transfer a right to consent on a matter under the operating agreement or this [act] to another member without obtaining the consent of the other members.

Reporters' Notes

Source – This Article most directly follows ULPA (2001), Article 7, because ULPA (2001) reflects the Conference's most recent thinking on the issues addressed here. However, ULPA (2001), Article 7 is quite similar in substance to ULLCA, Article 5, and both those Articles derive from Article 5 of RUPA.

This Draft does not include ULLCA § 501(a), which provides: "A member is not a co-owner of, and has no transferable interest in, property of a limited liability company." Substantially equivalent language appeared in Section 104(a) of the April 2004 draft, but the Drafting Committee decided to delete that language as surplus and perhaps confusing.

Subsection (b) – As initially drafted, this subsection was taken verbatim from ULLCA § 501(c) (with the addition of the phrase "in record form") and read as follows:

> An operating agreement may provide that a transferable interest may be evidenced by a certificate of the interest issued in record form by the limited liability

company and, subject to Section 502, may also provide for the transfer of any interest represented by the certificate.

The current language implements the salutary suggestions of our liaison from the Committee on Style.

Subsection (c) – At its November, 2003 meeting, the drafting committee decided, consistent with current law, that a member may transfer governance rights to another member without obtaining consent from the other members. Thus, the Act does not itself protect members from control shifts that result from transfesr among members (as distinguished from transfers to non-members who seek thereby to become members). This subsection reflects the November, 2003 decision.

SECTION 502. TRANSFER OF MEMBER'S TRANSFERABLE INTEREST.

(a) A transfer, in whole or in part, of a member's transferable interest:

(1) is permissible;

(2) does not by itself cause the member's dissociation or a dissolution and winding up of the limited liability company's activities; and

(3) does not, as against the other members or the limited liability company, entitle the transferee to:

(A) participate in the management or conduct of the limited liability company's activities;

(B) require access to information concerning the limited liability company's transactions except as otherwise provided in subsection (c) and Section 411(h); or

(C) inspect or copy the required information or the limited liability company's other records.

(b) A transferee has the right to receive, in accordance with the transfer:

(1) distributions to which the transferor would otherwise be entitled; and

(2) upon the dissolution and winding up of the limited liability company's activities, the net amount otherwise distributable to the transferor.

(c) In a dissolution and winding up, a transferee is entitled to an account of the limited liability company's transactions only from the date of dissolution.

(d) Except as otherwise provided in Section 601(a)(4)(B) and (C), upon transfer the transferor retains the rights of a member other than the interest in distributions transferred and retains all duties and obligations of a member.

(e) A limited liability company need not give effect to a transferee's rights under this section until the limited liability company has notice of the transfer.

(f) A transfer of a member's transferable interest in the limited liability company in violation of a restriction on transfer contained in the operating agreement is ineffective as to a person having notice of the restriction at the time of transfer.

(g) A transferee that becomes a member with respect to a transferable interest is liable for the transferor's obligations under Sections 403 and 406. However, the transferee is not liable for obligations unknown to the transferee at the time the transferee became a member.

Reporters' Notes

Issues to be decided: whether subsection (b)(2) is a subset of subsection (b)(1) and therefore redundant; whether to insert in subsection (b) language to make clear that a transferee "takes subject to" the operating agreement; whether to insert into subsection (b) language delineating the right of members to change the operating agreement after a transferee obtains an interest; whether the transferee liability established by subsection (g) should include Section 406(a) "decision maker" liability or just Section 406(b) "recipient" liability

Subsection (d) – Section 601(a)(4)(ii) and (iii) create a risk of dissociation when a member transfers all, or substantially all, of the member's transferable interest.

SECTION 503. RIGHTS OF JUDGMENT CREDITOR OF MEMBER OR TRANSFEREE.

(a) On application by a judgment creditor of a member or transferee, a court may enter a charging order against the transferable interest of the judgment debtor for the unsatisfied amount of the judgment. To the extent necessary to effectuate the collection of distributions pursuant to the charging order, the court may:

(1) appoint a receiver of the share of the distributions due or to become due to the judgment debtor in respect of the transferable interest, with the power to make all inquiries the judgment debtor might have made; and

(2) make all other orders which the circumstances of the case may require.

(b) A charging order constitutes a lien on the judgment debtor's transferable interest. At any time, the court may order a foreclosure of a transferable interest that is subject to a charging order. The purchaser at the foreclosure sale is a transferee.

(c) At any time before foreclosure, any of the following may, by satisfying the judgment, extinguish a charging order and redeem the transferable interest that was subject to the charging order:

(1) the judgment debtor;

(2) one or more of the members, with property other than limited liability company property; or

(3) the limited liability company, with the consent of all of the members whose transferable interest is not subject to the charging order.

(d) If a transferable interest is redeemed under subsection (c) by a person other

than the judgment debtor:

(1) the redemption does not affect the ownership of the transferable interest and does not create a debt, liability, or other obligation from the owner of the transferable interest to that person; and

(2) that person is entitled to the receive the share of the distributions due or to become due to the owner of the transferable interest until that person has recovered the amount that person paid to satisfy the judgment.

(e) This [act] does not deprive any member or transferee of the benefit of any exemption laws applicable to the member's or transferee's transferable interest.

(f) This section provides the exclusive remedy by which a judgment creditor of a member or transferee may satisfy a judgment out of the judgment debtor's transferable interest.

Reporters' Notes

Issues to be considered: whether the modernized approach is an improvement in general; whether the section should provide that a person who has redeemed is entitled to interest on the amount paid to discharge the charging order; whether the section should provide expressly that a charging order is self-executing – i.e., that the order necessarily directs the LLC to pay over to the holder of the order any distributions that would otherwise be paid to the member/transferee (there is some old authority to the contrary); the caption should be changed to include the phrase "charging order"; whether the concept of redemption should be re-labeled to avoid confusion? (to the uninitiated, the notion of a non-debtor redeeming property can be confusing); whether the provision should expressly state the interface with Article 9, and, if so, how?

Charging order provisions appear in various forms in UPA, ULPA, RULPA, RUPA, ULLCA, and ULPA (2001). At its April, 2004 meeting, the Drafting Committee authorized the Reporters to attempt to modernize the language and make explicit certain points that have been at best implicit. The language in this section reflects the Reporters' efforts and has not yet been approved by the Drafting Committee.

The Reporters have also discovered a new issue, raised by the modern phenomenon of unincorporated entities participating in mergers and other entity transactions. What is the effect of a charging order when the interest charged is subject to such a transaction? The Reporters will

have a proposal for the Drafting Committee at its next meeting.

Subsection (a) – The phrase "judgment debtor" encompasses both members and transferees.

Subsection (c)(3) – Query why the consent of all the members should be necessary in a manager-managed LLC.

SECTION 504. POWER OF PERSONAL REPRESENTATIVE OF DECEASED MEMBER. If a member dies, the deceased member's personal representative or other legal representative may exercise the rights of a transferee as provided in Section 502(c) and, for the purposes of settling the estate, may exercise the rights of a current member under Section 411.

Reporters' Notes

This language was inserted in ULPA (2001) § 704 at the behest of the representative of the Probate Section of the ABA.

[ARTICLE] 6

MEMBER'S DISSOCIATION

SECTION 601. EVENTS CAUSING DISSOCIATION.

(a) A person does not have a right to dissociate as a member before the termination of the limited liability company.

(b) A person is dissociated from a limited liability company upon the occurrence of any of the following events:

(1) the limited liability company's having notice of the person's express will to withdraw as a member or on a later date specified by the person;

(2) an event agreed to in the operating agreement as causing the person's dissociation;

(3) the person's expulsion as a member pursuant to the operating agreement;

(4) the person's expulsion as a member by the unanimous consent of the other members if:

(A) it is unlawful to carry on the limited liability company's activities with the person as a member;

(B) the limited liability company is a manager-managed limited liability company and there has been a transfer of all of the person's transferable interest in the limited liability company, other than:

(i) a transfer for security purposes; or

(ii) a court order charging the person's transferable interest which has not been foreclosed;

(C) the limited liability company is a member-managed limited liability company and there has been a transfer of all or substantially all of the person's transferable interest in the limited liability company, other than:

(i) a transfer for security purposes; or

(ii) a court order charging the person's interest which has not been foreclosed;

(D) the person is a corporation and, within 90 days after the limited liability company notifies the person that it will be expelled as a member because the person has filed a certificate of dissolution or the equivalent, its charter has been revoked, or its right to conduct business has been suspended by the jurisdiction of its incorporation, the certificate of dissolution has not been revoked or its charter or right to conduct business has not been reinstated; or

(E) the person is a limited liability company or partnership that has been dissolved and whose business is being wound up;

(5) on application by the limited liability company, the person's expulsion as a member by judicial order because:

(A) the person engaged in wrongful conduct that adversely and materially affected the limited liability company's activities;

(B) the person willfully or persistently committed a material breach of the operating agreement or the person's duties or obligations under Section 409; or

(C) the person engaged in conduct relating to the limited liability company's activities which makes it not reasonably practicable to carry on the activities with the person as a member;

(6) in the case of a person who is an individual:

(A) the person's death;

(B) if the limited liability company is a member-managed limited liability company:

(i) the appointment of a guardian or general conservator for the person; or

(ii) a judicial determination that the person has otherwise become incapable of performing the person's duties as a member under the operating agreement;

(7) if the limited liability company is a member-managed limited liability company, the person's:

(A) becoming a debtor in bankruptcy;

(B) execution of an assignment for the benefit of creditors;

(C) seeking, consenting to, or acquiescing in the appointment of a trustee, receiver, or liquidator of the person or of all or substantially all of the person's property;

(8) in the case of a person that is a trust or is acting as a member by virtue of being a trustee of a trust, distribution of the trust's entire transferable interest in the limited liability company, but not merely by reason of the substitution of a successor trustee;

(9) in the case of a person that is an estate or is acting as a member by virtue of being a personal representative of an estate, distribution of the estate's entire

transferable interest in the limited liability company, but not merely by reason of the substitution of a successor personal representative;

(10) termination of a member that is not an individual, partnership, limited liability company, corporation, trust, or estate;

(11) the limited liability company's participation in a merger under [Article] 10 or or a merger, conversation or domestication under [META], if the limited liability company:

(A) is not the domesticated, converted, or surviving entity; or

(B) is the domesticated, converted, or surviving entity but, as a result of the domestication, conversion, or merger, the person ceases to be a member.

Reporters' Notes

Source – ULLCA § 601; RUPA Section 601; ULPA (2001) §§ 601 and 603.

Issue to be considered: what effect, if any, should management structure have on the causes of dissociation

This section follows ULPA (2001)'s approach to *limited* partner dissociation except for member-managed limited liability companies. In that context, this section follows RUPA's and ULPA (2001)'s approach to the dissociation of general partners. Query whether the section should use the organization shown above, in which member-managed provisions are interspersed or, instead, collect all those provisions in a separate subsection.

Subsection (a) – Query whether this subsection should be relocated to Section 602.

Subsection (b)(11) – If the Conference approves META substantially as proposed, this act will deal directly only with "same species" mergers – i.e., mergers involving only LLCs. If so, query whether this act should provide definitions for the concepts of "domesticated, converted or surviving entit[ies]" and, if so, query whether the appropriate definitions would be a cross-references to META's definitions. Query also whether the concept of domestication belongs in subsection (b)(11)(A).

SECTION 602. MEMBER'S POWER TO DISSOCIATE; WRONGFUL DISSOCIATION.

(a) A person has the power to dissociate as a member at any time, rightfully or wrongfully, by express will under Section 601(b)(1).

(b) A person's dissociation is wrongful only if:

(1) it is in breach of an express provision of the operating agreement; or

(2) it occurs before the termination of the limited liability company and:

(A) the person withdraws as a member by express will;

(B) the person is expelled as a member by judicial determination under Section 601(b)(5);

(C) the limited liability company is member-managed and the person is dissociated under Section 601(b)(7)(A) by becoming a debtor in bankruptcy; or

(D) in the case of a person that is not an individual, trust other than a business trust, or estate, the person is expelled or otherwise dissociated as a member because it willfully dissolved or terminated.

(c) A person that wrongfully dissociates is liable to the limited liability company and, subject to Section 901, to the other members for damages caused by the dissociation. The liability is in addition to any other obligation of the member to the limited liability company or to the other members.

Reporters' Notes

Source – ULPA (2001) § 603, which is based on RUPA Section 602. ULLCA § 602 is functionally identical in some respects but is not a good overall source, because that section presupposes the term/at-will paradigm.

SECTION 603. EFFECT OF PERSON'S DISSOCIATION AS A MEMBER.

(a) When a person dissociates as a member:

(1) the person's right to participate as a member in the management and conduct of the limited liability company's activities terminates;

(2) the person's duty of loyalty as a member **[reserved until the Committee has made at least a firmer decision as to the contents of that duty]**

(3) the person's duty of care **[reserved until the Committee has made at least a firmer decision as to the contents of that duty]**;

(4) subject to Section 504, [Article] 10, and **[TBD – pending META]**, any transferable interest owned by the person immediately before dissociation in the person's capacity as a member is owned by the person as a mere transferee;

(5) any power the person had in its capacity as a member under Sections 301, 304 and 703 to bind the limited liability company terminates, but, subject to Sections 103(c) and 604, the termination does not affect the person's power to bind the limited liability company under law other than this [act].

(b) A person's dissociation as a member does not of itself discharge the person from any obligation to the limited liability company or the other members which the person incurred while a member.

Reporters' Notes

Source – ULPA (2001) § 603, which was drawn from RUPA Section 603(b). ULLCA § 603 is functionally identical in some respects but is not a good overall source, because that section presupposes the term/at-will paradigm.

Subsection (a)(5) – A Comment will explain that "other law" includes the agency law doctrine of "lingering apparent authority." See Restatement (Third) Of Agency § 3.11, comment c (T.D. No. 2, 2001). The statement of dissociation, see Section 604, will be effective to cut off lingering apparent authority. Section 703 concerns the power of members and managers to bind an LLC post-dissolution.

SECTION 604. STATEMENT OF DISSOCIATION.

(a) A limited liability company or a person dissociated as a member may deliver for filing in the office of the [Secretary of State] a statement of dissociation stating the name of the limited liability company and that the member is dissociated from the limited liability company.

Reporters' Notes

Source: ULLCA § 704. A statement of dissociation has constructive notice effect under Section 103(c).

Query: why should a member have the right to file a statement of dissociation, especially in a manager-managed limited liability company?

[ARTICLE] 7

DISSOLUTION AND WINDING UP

SECTION 701. EVENTS CAUSING DISSOLUTION.

(a) A limited liability company is dissolved, and its business must be wound up, upon the occurrence of any of the following:

(1) an event specified in the operating agreement;

(2) the consent of all the members;

(3) the passage of 90 consecutive days during which the limited liability company has no members;

(4) on application by a member, the entry by [appropriate court] of an order dissolving the limited liability company on the grounds that:

(A) the conduct of all or substantially all of limited liability company's activities is unlawful; or

(B) it is not reasonably practicable to carry on the limited liability company's activities in conformity with the articles of organization and the operating agreement; or

(5) on application by a member, a dissociated member that has retained a transferable interest, or transferee, the entry by [appropriate court] of an order dissolving the limited liability company on the grounds that the managers or those members in control of the limited liability company:

(A) have acted, are acting, or will act in a manner that is illegal or

fraudulent; or

(B) have acted or are acting in a manner that is oppressive and was, is, or will be directly harmful to the applicant.

(b) In a proceeding brought under subsection (a)(5), the court may order a remedy other than dissolution.

Reporters' Notes

Issues to be considered: whether subsection (b) should be nonwaivable; whether to provide some greater definition of "oppressive"; whether to use "dissociated member" rather than "former member" and whether to define whichever term is chosen; whether the phrase "dissociated member that has retained a transferable interest" is sufficient to exclude a former member who, after dissociation, buys back into the LLC; whether the protections of subsection (a)(5) should also extend to a dissociated member that has not retained a transferable interest but has remained liable (as guarantor or otherwise) for obligations of the LLC

At its April, 2004 meeting, the Drafting Committee had extended and amicably intense discussions about this section. Paragraphs (1) to (3) of subsection (a) were not controversial. Paragraphs (4) and (5) and subsection (b) were. The Committee revisited both provisions at its October, 2004 meeting.

Subsection (a)(4) – The standard stated here is conventional. An earlier draft contained the arguably novel approach of conferring standing on *former* owners with a continuing economic stake in the enterprise. At its October, 2004 meeting the Committee considered the risk of former members using the provision to "freeze the deal" after their departure and decided to eliminate former members from the coverage of this provision. To maintain some protection for former members, subsection (a)(5) was revised to provide them standing under that provision.

Subsection (a)(5) – At its October, 2004 meeting, the Drafting Committee revised this provision to extend standing to former members. Note that a former member who is bought out and then subsequently becomes a transferee of another interest should *not* have standing on this provision. Query whether the protections of this provision should extend to a dissociated member that lacks a transferable interest but is still liable for the obligations of the LLC (e.g., as a guarantor).

ULLCA § 801(4)(v) contains a comparable provision, and, even without aid of that provision, courts have begun to apply close corporation "oppression" doctrine to LLCs. At its April, 2004 meeting, the Drafting Committee deleted language that would have cabined somewhat the vague term "oppressive." The deleted language provided that:

oppressive conduct has occurred only if the conduct complained of has directly harmed the applicant and:

(1) constitutes a material, uncured breach of the operating agreement or of the obligation of good faith and fair dealing stated in Section 409(d); or

(2) although not constituting a material, uncured breach under paragraph (1), has substantially defeated an expectation of the applicant which is entitled to protection because the expectation:

(A) is not contradicted by any term of the operating agreement nor by the reasonable implication of any term of that agreement;

(B) was central to the applicant's decision to become a member of the limited liability company or for a substantial time has been centrally important in the member's continuing membership;

(C) was known to other members, which expressly or impliedly acquiesced in it;

(D) is consistent with the reasonable expectations of all the members; and

(E) is otherwise reasonable under the circumstances.

Subsection (a)(5) is non-waivable. See Section 110(e)(7). **{need to check x-ref}**

Subsection (a)(5)(B) – The revision implements a suggestion made at the October, 2004 meeting by the Chair of the Conference's Executive Committee.

Subsection (b) – In the close corporation context, many courts have reached this position without express statutory authority, most often with regard to court-ordered buyouts of oppressed shareholders. The Drafting Committee preferred to save courts and litigants the trouble of re-inventing that wheel in the LLC context. Because subsection (a)(5) is non-waivable, query whether subsection (b) should be non-waivable as well.

SECTION 702. WINDING UP.

(a) A limited liability company continues after dissolution only for the purpose of winding up its activities.

(b) In winding up its activities, the limited liability company:

(1) may file a statement of dissolution pursuant to Section 710(1), preserve the limited liability company activities and property as a going concern for a reasonable time, prosecute and defend actions and proceedings, whether civil, criminal, or administrative, transfer

the limited liability company's property, settle disputes by mediation or arbitration, file a statement of termination pursuant to Section 710(2), and perform other necessary acts; and

(2) shall discharge the limited liability company's liabilities, settle and close the limited liability company's activities, and marshal and distribute the assets of the limited liability company.

(c) If a dissolved limited liability company has no members, the legal representative of the last person to have been a member may wind up the activities of the limited liability company and has the powers of a member under Section 703(a). If the legal representative declines or fails to wind up the limited liability company's activities, a person may be appointed to do so by the consent of transferees owning a majority of the rights to receive distributions as transferees at the time the consent is to be effective. A person appointed under this subsection:

(1) has the powers of a member under Section 703(a); and

(2) shall promptly amend the limited liability company's articles of organization to state:

(A) that the limited liability company has no members;

(B) that the person has been appointed pursuant to this subsection to wind up the limited liability company; and

(C) the street and mailing address of the person.

(d) The [appropriate court] may order judicial supervision of winding up, including the appointment of a person to wind up the dissolved limited liability company's activities:

(1) on application of a member, if the applicant establishes good cause;

(2) on the application of a transferee or a dissociated member that has retained a transferable interest, if the limited liability company does not have member, the legal representative of the last person to have been a member declines or fails to wind up the limited liability company's activities, and within a reasonable time following the dissolution no person has been appointed pursuant to subsection (c); and

(3) in connection with a proceeding under Section 701(a)(4) or (5).

Reporters' Notes

Source – ULPA (2001) § 803, which was based on RUPA Sections 802 and 803.

Subsection (d) has been revised to take into account court-ordered dissolution proceedings in which standing extends to a person dissociated as a member or to a transferee. See Section 701(a)(4) and (5).

SECTION 703. POWER OF MEMBERS AND MANAGERS TO BIND LIMITED LIABILITY COMPANY AFTER DISSOLUTION. A member of a member-managed, and a manager of a manager-managed, limited liability company binds the limited liability company by an act after dissolution which:

(1) is appropriate for winding up the limited liability company's activities; or

(2) would have bound the limited liability company under Section 301 before dissolution, if, at the time the other party enters into the transaction, the other party does not have notice of the dissolution.

Reporters' Notes

Source: ULPA (2001) § 804, which was based on RUPA § 804.

Former subsection (b) has been deleted as duplicative of Section 603(a)(5).

SECTION 704. KNOWN CLAIMS AGAINST DISSOLVED LIMITED LIABILITY COMPANY.

(a) Except as otherwise provided in subsection (d), a dissolved limited liability company may dispose of the known claims against it by following the procedure described in subsection (b).

(b) A dissolved limited liability company may in a record notify its known claimants of the dissolution. The notice must:

(1) specify the information required to be included in a claim;

(2) provide a mailing address to which the claim is to be sent;

(3) state the deadline for receipt of the claim, which may not be less than 120 days after the date the notice is received by the claimant; and

(4) state that the claim will be barred if not received by the deadline.

(c) A claim against a dissolved limited liability company is barred if the requirements of subsection (b) are met and:

(1) the claim is not received by the specified deadline; or

(2) in the case of a claim that is timely received but rejected by the dissolved limited liability company, the claimant does not commence an action to enforce the claim against the limited liability company within 90 days after the receipt of the notice of the rejection.

(d) This section does not apply to a claim based on an event occurring after the

effective date of dissolution or a liability that is contingent on that date.

Reporters' Notes

Source – ULPA (2001) § 806, which was based on ULLCA § 807, which in turn was based on MBCA § 14.06.

Issues to be considered: whether some definition is needed of "known claims" (e.g., suppose the limited liability company knows of a claim but does not have any contact information for the claimant); whether this Act should include a provision allowing for a judicial proceeding to deal with contingent and unknown claims, perhaps following MBCA § 14.08.

At the October, 2004 meeting of the Drafting Committee, a question arose as to whether this section and Section 705 should be modernized to conform with changes in corporate law. However, the current language is quite similar to the most recent version of the MBCA.

SECTION 705. OTHER CLAIMS AGAINST DISSOLVED LIMITED LIABILITY COMPANY.

(a) A dissolved limited liability company may publish notice of its dissolution and request persons having claims against the limited liability company to present them in accordance with the notice.

(b) The notice must:

(1) be published at least once in a newspaper of general circulation in the [county] in which the dissolved limited liability company's principal office is located or, if it has none in this state, in the [county] in which the limited liability company's designated office is or was last located;

(2) describe the information required to be contained in a claim and provide a mailing address to which the claim is to be sent; and

(3) state that a claim against the limited liability company is barred unless

an action to enforce the claim is commenced within five years after publication of the notice.

(c) If a dissolved limited liability company publishes a notice in accordance with subsection (b), the claim of each of the following claimants is barred unless the claimant commences an action to enforce the claim against the dissolved limited liability company within five years after the publication date of the notice:

(1) a claimant that did not receive notice in a record under Section 704;

(2) a claimant whose claim was timely sent to the dissolved limited liability company but not acted on; and

(3) a claimant whose claim is contingent or based on an event occurring after the effective date of dissolution.

(d) A claim not barred under this section may be enforced:

(1) against the dissolved limited liability company, to the extent of its undistributed assets; and

(2) if assets of the limited liability company have been distributed after dissolution, against a member or transferee to the extent of that person's proportionate share of the claim or of the assets distributed to the member or transferee after dissolution, whichever is less, but a person's total liability for all claims under this paragraph does not exceed the total amount of assets distributed to the person after dissolution.

Reporters' Notes

Source – ULPA (2001) § 807, which was based on ULLCA § 808, which in turn was based on MBCA § 14.07.

Subsection (c) – Query whether this language sufficiently indicates that a claim that could have been addressed under Section 704 cannot be extinguished under this Section.

SECTION 706. ADMINISTRATIVE DISSOLUTION.

(a) The [Secretary of State] may dissolve a limited liability company administratively if the limited liability company does not, within 60 days after the due date:

(1) pay any fee, tax, or penalty due to the [Secretary of State] under this [act] or other law; or

(2) deliver its annual report to the [Secretary of State].

(b) If the [Secretary of State] determines that a ground exists for administratively dissolving a limited liability company, the [Secretary of State] shall file a record of the determination and serve the limited liability company with a copy of the filed record.

(c) If within 60 days after service of the copy the limited liability company does not correct each ground for dissolution or demonstrate to the reasonable satisfaction of the [Secretary of State] that each ground determined by the [Secretary of State] does not exist, the [Secretary of State] shall administratively dissolve the limited liability company by preparing, signing and filing a declaration of dissolution that states the grounds for dissolution. The [Secretary of State] shall serve the limited liability company with a copy of the filed declaration.

(d) A limited liability company administratively dissolved continues its existence but may carry on only activities necessary to wind up its activities and liquidate its assets under Sections 702 and 709 and to notify claimants under Sections 704 and 705.

(e) The administrative dissolution of a limited liability company does not terminate the authority of its agent for service of process.

Reporters' Notes

Source – ULPA (2001) § 809, which was based on ULLCA §§ 809 and 810. See also RMBCA §§ 14.20 and 14.21.

SECTION 707. REINSTATEMENT FOLLOWING ADMINISTRATIVE DISSOLUTION.

(a) A limited liability company that has been administratively dissolved may apply to the [Secretary of State] for reinstatement within two years after the effective date of dissolution. The application must be delivered to the [Secretary of State] for filing and state:

(1) the name of the limited liability company and the effective date of its administrative dissolution;

(2) that the grounds for dissolution either did not exist or have been eliminated; and

(3) that the limited liability company's name satisfies the requirements of Section 108.

(b) If the [Secretary of State] determines that an application contains the information required by subsection (a) and that the information is correct, the [Secretary of State] shall prepare a declaration of reinstatement that states this determination, sign, and file the original of the declaration of reinstatement, and serve the limited liability company with a copy.

(c) When reinstatement becomes effective, it relates back to and takes effect as of the effective date of the administrative dissolution and the limited liability company may resume its activities as if the administrative dissolution had never occurred.

Reporters' Notes

Source – ULPA (2001) § 810, which was based on ULLCA § 811. See also RMBCA

Section 14.22.

SECTION 708. APPEAL FROM REJECTION OF REINSTATEMENT.

(a) If the [Secretary of State] rejects a limited liability company's application for reinstatement following administrative dissolution, the [Secretary of State] shall prepare, sign, and file a notice that explains the reason or reasons for rejection and serve the limited liability company with a copy of the notice.

(b) Within 30 days after service of the notice of rejection, the limited liability company may appeal from the rejection of reinstatement by petitioning the [appropriate court] to set aside the dissolution. The petition must be served on the [Secretary of State] and contain a copy of the [Secretary of State's] declaration of dissolution, the limited liability company's application for reinstatement, and the [Secretary of State's] notice of rejection.

(c) The court may order the [Secretary of State] to reinstate the dissolved limited liability company or may take other action the court considers appropriate.

Reporters' Notes

Source – ULPA (2001) § 811, which was based on ULLCA § 812.

This section uses "rejection" rather than "denial" (the word used by both ULPA (2001) and ULLCA). The change is to avoid confusion with a "statement of denial" under Section 302.

Subsection (c) – Query why "summarily".

SECTION 709. DISTRIBUTION OF ASSETS IN WINDING UP LIMITED LIABILITY COMPANY'S BUSINESS.

(a) In winding up a limited liability company's business, the assets of the limited

liability company must be applied to discharge its obligations to creditors, including members that are creditors.

(b) Any surplus remaining after the limited liability company complies with subsection (a) must be applied to distribute:

(1) to each member, an amount equal to the value of contributions made by the member and not previously returned; and

(2) then to all members, an equal share of any surplus still remaining.

(c) If the limited liability company does not have sufficient surplus to comply with subsection (b)(1), any surplus must be distributed among the members in proportion to the value of their respective unreturned contributions.

(d) All distributions made under subsection (b) and (c) must be paid in cash.

Reporters' Notes

Source: ULLCA § 806, restyled.

SECTION 710. STATEMENTS OF DISSOLUTION AND TERMINATION. A dissolved limited liability company may deliver to the [secretary of state] for filing:

(1) a statement of dissolution, stating the name of the limited liability company and that the limited liability company is dissolved; and

(2) a statement of termination, stating the name of the limited liability company and that the limited liability company is terminated.

Reporters' Notes

Issues to be considered: whether this provision warrants its own section instead of being part of Section 702 (Winding Up)

If this provision remains as a separate section, the next draft will place it as Section 703 and will renumber the following sections.

[ARTICLE] 8

FOREIGN LIMITED LIABILITY COMPANIES

SECTION 801. GOVERNING LAW.

(a) The laws of the state or other jurisdiction under which a foreign limited liability company is formed govern:

(1) relations among the members of the foreign limited liability company and between the members and the foreign limited liability company; and

(2) the liability of members as members for an obligation of the foreign limited liability company.

(b) A foreign limited liability company may not be denied a certificate of authority by reason of any difference between the laws of the jurisdiction under which the foreign limited liability company is formed and the laws of this state.

(c) A certificate of authority does not authorize a foreign limited liability company to engage in any business or exercise any power that a limited liability company may not engage in or exercise in this state.

Reporters' Notes

Source – ULPA (2001) § 901, which was based in part on ULLCA §1001.

SECTION 802. APPLICATION FOR CERTIFICATE OF AUTHORITY.

(a) A foreign limited liability company may apply for a certificate of authority to transact business in this state by delivering an application to the [Secretary of State] for filing.

The application must state:

(1) the name of the foreign limited liability company and, if the name does not comply with Section 108, an alternate name adopted pursuant to Section 805(a).

(2) the name of the state or other jurisdiction under whose law the foreign limited liability company is formed;

(3) the street and mailing address of the foreign limited liability company's principal office and, if the laws of the jurisdiction under which the foreign limited liability company is formed require the foreign limited liability company to maintain an office in that jurisdiction, the street and mailing address of the required office; and

(4) the name and street and mailing address of the foreign limited liability company's initial agent for service of process in this state.

(b) A foreign limited liability company shall deliver with the completed application a certificate of existence or a record of similar import signed by the [Secretary of State] or other official having custody of the foreign limited liability company's publicly filed records in the state or other jurisdiction under whose law the foreign limited liability company is formed.

Reporters' Notes

Source – ULPA (2001) § 902, which was based on ULLCA § 1002.

SECTION 803. ACTIVITIES NOT CONSTITUTING TRANSACTING BUSINESS.

(a) Activities of a foreign limited liability company which do not constitute

transacting business in this state within the meaning of this [article] include:

(1) maintaining, defending, and settling an action or proceeding;

(2) holding meetings of its members or carrying on any other activity concerning its internal affairs;

(3) maintaining accounts in financial institutions;

(4) maintaining offices or agencies for the transfer, exchange, and registration of the foreign limited liability company's own securities or maintaining trustees or depositories with respect to those securities;

(5) selling through independent contractors;

(6) soliciting or obtaining orders, whether by mail or electronic means or through employees or agents or otherwise, if the orders require acceptance outside this state before they become contracts;

(7) creating or acquiring indebtedness, mortgages, or security interests in real or personal property;

(8) securing or collecting debts or enforcing mortgages or other security interests in property securing the debts, and holding, protecting, and maintaining property so acquired;

(9) conducting an isolated transaction that is completed within 30 days and is not one in the course of similar transactions of a like manner; and

(10) transacting business in interstate commerce.

(b) For purposes of this [article], the ownership in this state of income-producing real property or tangible personal property, other than property excluded under subsection (a),

constitutes transacting business in this state.

(c) This section does not apply in determining the contacts or activities that may subject a foreign limited liability company to service of process, taxation, or regulation under law of this state other than this [act].

Reporters' Notes

Source – ULPA (2001) § 903, which was based on ULLCA § 1003.

SECTION 804. FILING OF CERTIFICATE OF AUTHORITY. Unless the [Secretary of State] determines that an application for a certificate of authority does not comply with the filing requirements of this [act], the [Secretary of State], upon payment of all filing fees, shall file the application, prepare, sign and file a certificate of authority to transact business in this state, and send a copy of the filed certificate, together with a receipt for the fees, to the foreign limited liability company or its representative.

Reporters' Notes

Source – ULPA (2001) § 904, which was based on ULLCA § 1004 and RULPA § 903.

SECTION 805. NONCOMPLYING NAME OF FOREIGN LIMITED LIABILITY COMPANY.

(a) A foreign limited liability company whose name does not comply with Section 108 may not obtain a certificate of authority until it adopts, for the purpose of transacting business in this state, an alternate name that complies with Section 108. A foreign limited liability company that adopts an alternate name under this subsection and then obtains a certificate of authority with the alternate name need not comply with [fictitious name statute].

After obtaining a certificate of authority with an alternate name, a foreign limited liability company shall transact business in this state under the alternate name unless the foreign limited liability company is authorized under [fictitious name statute] to transact business in this state under another name.

(b) If a foreign limited liability company authorized to transact business in this state changes its name to one that does not comply with Section 108, it may not thereafter transact business in this state until it complies with subsection (a) and obtains an amended certificate of authority.

Reporters' Notes

Source – ULPA (2001) § 905, which was based on ULLCA § 1005.

SECTION 806. REVOCATION OF CERTIFICATE OF AUTHORITY.

(a) A certificate of authority of a foreign limited liability company to transact business in this state may be revoked by the [Secretary of State] in the manner provided in subsections (b) and (c) if the foreign limited liability company does not:

(1) pay, within 60 days after the due date, any fee, tax, or penalty due to the [Secretary of State] under this [act] or other law;

(2) deliver, within 60 days after the due date, its annual report required under Section 210;

(3) appoint and maintain an agent for service of process as required by Section 112(b); or

(4) deliver for filing a statement of a change under Section 113 within 30

days after a change has occurred in the name or address of the agent.

(b) In order to revoke a certificate of authority, the [Secretary of State] must prepare, sign, and file a notice of revocation and send a copy to the foreign limited liability company's agent for service of process in this state, or if the foreign limited liability company does not appoint and maintain a proper agent in this state, to the foreign limited liability company's designated office. The notice must state:

(1) the revocation's effective date, which must be at least 60 days after the date the [Secretary of State] sends the copy; and

(2) the grounds for revocation under subsection (a).

(c) The authority of the foreign limited liability company to transact business in this state ceases on the effective date of the notice of revocation unless before that date the foreign limited liability company remedies each ground for revocation stated in the notice. If the foreign limited liability company remedies each ground, the [Secretary of State] shall so indicate on the filed notice.

Reporters' Notes

Source – ULPA (2001) § 906, which was based on ULLCA § 1006.

SECTION 807. CANCELLATION OF CERTIFICATE OF AUTHORITY; EFFECT OF FAILURE TO HAVE CERTIFICATE.

(a) In order to cancel its certificate of authority to transact business in this state, a foreign limited liability company must deliver to the [Secretary of State] for filing a notice of cancellation. The certificate is canceled when the notice becomes effective under Section 206.

(b) A foreign limited liability company transacting business in this state may not maintain an action or proceeding in this state unless it has a certificate of authority to transact business in this state.

(c) The failure of a foreign limited liability company to have a certificate of authority to transact business in this state does not impair the validity of a contract or act of the foreign limited liability company or prevent the foreign limited liability company from defending an action or proceeding in this state.

(d) A member of a foreign limited liability company is not liable for the obligations of the foreign limited liability company solely by reason of the foreign limited liability company's having transacted business in this state without a certificate of authority.

(e) If a foreign limited liability company transacts business in this state without a certificate of authority or cancels its certificate of authority, it appoints the [Secretary of State] as its agent for service of process for rights of action arising out of the transaction of business in this state.

Reporters' Notes

Source – ULPA (2001) § 907, which was based on RULPA § 907(d) and ULLCA § 1008.

SECTION 808. ACTION BY [ATTORNEY GENERAL]. The [Attorney General] may maintain an action to restrain a foreign limited liability company from transacting business in this state in violation of this [article].

Reporters' Notes

Source – ULPA (2001) § 908, which was based on RULPA § 908 and ULLCA § 1009.

[ARTICLE] 9

ACTIONS BY MEMBERS

SECTION 901. DIRECT ACTION BY MEMBER.

(a) Subject to subsection (b), with or without an accounting a member may maintain a direct action against a manager, another member, or the limited liability company to enforce the member's rights and otherwise protect the member's interests, including rights and interests under the operating agreement or this [act] or arising independently of the membership relationship.

(b) A member commencing a direct action under this section is required to plead and prove an actual or threatened injury that is not solely the result of an injury suffered or threatened to be suffered by the limited liability company.

(c) The accrual of, and any time limitation on, a right of action for a remedy under this section is governed by law other than this [act]. A right to an accounting upon a dissolution and winding up does not revive a claim barred by law.

Reporters' Notes

Issues to be resolved: whether the direct-derivative distinction makes sense for a closely held LLC, especially a member-managed LLC, whether the Act should somehow indicate that for a [defined] closely held LLC, the operating agreement can eliminate the distinction

Subsection (a) – Source: ULPA (2001) § 1001(a), which was based on RUPA Section 405(b). The subsection has been somewhat re-styled and the phrase "for legal or equitable relief" has been deleted as unnecessary.

Subsection (b) – Source: ULPA (2001) § 1001(b). The Comment to that subsection explains:

> In ordinary contractual situations it is axiomatic that each party to a contract has standing to sue for breach of that contract. Within a limited liability company, however, different circumstances may exist. A partner does not have a direct claim against another partner merely because the other partner has breached the operating agreement. Likewise a partner's violation of this Act does not automatically create a direct claim for every other partner. To have standing in his, her, or its own right, a partner plaintiff must be able to show a harm that occurs independently of the harm caused or threatened to be caused to the limited partnership.

SECTION 902. DERIVATIVE ACTION. A member may maintain a derivative action to enforce a right of a limited liability company if:

(1) the member first makes a demand on the other members in a member-managed limited liability company, or the managers of a manager-managed limited liability company, requesting that they cause the limited liability company to bring an action to enforce the right, and the managers or other members do not bring the action within a reasonable time; or

(2) a demand would be futile.

Reporters' Notes

Source – ULPA (2001) § 1002, which was a re-styled version RULPA § 1001.

The Drafting Committee has not yet discussed whether the direct/derivative distinction should apply in a member-managed limited liability company.

SECTION 903. PROPER PLAINTIFF. A derivative action may be maintained only by a person that is a member at the time the action is commenced and:

(1) that was a member when the conduct giving rise to the action occurred; or

(2) whose status as a member devolved upon the person by operation of law or pursuant to the terms of the operating agreement from a person that was a member at the time of

the conduct.

Reporters' Notes

Source – ULPA (2001) § 1003, which was a re-styled version RULPA § 1002.

SECTION 904. PLEADING. In a derivative action, the complaint must state with particularity:

(1) the date and content of plaintiff's demand and the response to the demand by the managers or other members; or

(2) why demand should be excused as futile.

Reporters' Notes

Source – ULPA (2001) § 1004, which was a re-styled version RULPA § 1003.

SECTION 905. PROCEEDS AND EXPENSES.

(a) Except as otherwise provided in subsection (b):

(1) any proceeds or other benefits of a derivative action, whether by judgment, compromise, or settlement, belong to the limited liability company and not to the derivative plaintiff;

(2) if the derivative plaintiff receives any proceeds, the derivative plaintiff shall immediately remit them to the limited liability company.

(b) If a derivative action is successful in whole or in part, the court may award the plaintiff reasonable expenses, including reasonable attorney's fees, from the recovery of the limited liability company.

Reporters' Notes

Source – ULPA (2001) § 1005, which was a re-styled version RULPA § 1004.

[ARTICLE] 10

MERGER

[reserved pending META]

(If the Conference approves META substantially as proposed, this act will deal directly only with "same species" mergers – i.e., mergers involving only LLCs.)

[ARTICLE] 11

MISCELLANEOUS PROVISIONS

SECTION 1101. UNIFORMITY OF APPLICATION AND CONSTRUCTION. In applying and construing this Uniform Act, consideration must be given to the need to promote uniformity of the law with respect to its subject matter among states that enact it.

SECTION 1102. SEVERABILITY. If any provision of this [act] or its application to any person or circumstance is held invalid, the invalidity does not affect other provisions or applications of this [act] which can be given effect without the invalid provision or application, and to this end the provisions of this [act] are severable.

SECTION 1103. RELATION TO ELECTRONIC SIGNATURES IN GLOBAL AND NATIONAL COMMERCE ACT. This [act] modifies, limits, and supersedes the federal Electronic Signatures in Global and National Commerce Act, 15 U.S.C. Section 7001 et seq., but does not modify, limit, or supersede Section 101(c) of that act, 15 U.S.C. Section 7001(c), or authorize electronic delivery of any of the notices described in Section 103(b) of that act, 15 U.S.C. Section 7003(b).

SECTION 1104. EFFECTIVE DATE. This [act] takes effect on [effective date].

SECTION 1105. REPEALS. Effective [all-inclusive date], the following acts and parts of acts are repealed: [the state limited liability company Act as amended and in effect immediately before the effective date of this [act]].

SECTION 1106. SAVINGS CLAUSE. This [act] does not affect an action commenced, proceeding brought, or right accrued before this [act] takes effect.

SECTION 1107. APPLICATION TO EXISTING RELATIONSHIPS.

(a) Before [all-inclusive date], this [act] governs only:

(1) a limited liability company formed on or after [the effective date of this [act]]; and

(2) except as otherwise provided in subsection (c), a limited liability company formed before [the effective date of this [act]] which elects, in the manner provided in its operating agreement or by law for amending the operating agreement, to be subject to this [act].

(b) Except as otherwise provided in subsection (c), on and after [all-inclusive date] this [act] governs all limited liability companies.

(c) With respect to a limited liability company formed before [the effective date of this [act]], the following rules apply except as the members otherwise elect in the manner provided in the operating agreement or by law for amending the operating agreement: **[TBD – this subsection will contain any provisions of ULLCA which should continue to apply preexisting limited liability companies even after the "all-inclusive" date to.]**