Contents

PART I ORGANIZATION

CHA	PTER 1:	INTRODU	CTION	1-1		
1.1.	Nature a	nd Use of Thi	s Practice Manual	1-2		
1.2.	Compar	ison of the LL	C with Other Entities	1-3		
1.3.	History	History of the LLC				
1.4.	Classific	cation of the L	LC as a Partnership for			
	Federal	Income Tax Pu	arposes	1-8		
1.5.	The Ariz	zona Limited I	Liability Company Act —			
	An Over	view		1-10		
1.6	The Ariz	zona Limited I	Liability Company Act —			
	The 202	1 Amendment	S	1-11		
СНА	PTER 2:	FORMATI	ON AND ORGANIZATION	2-1		
2.1.	Introduc	tion		2-3		
2.2.	Preform	ation Matters.		2-3		
2.3.				2-4		
2.4.	Articles		on	2-4		
	2.4.1.		rements	2-4		
		Form 2-1.	Articles of Organization –			
			Member-Managed Limited			
			Liability Company	2-6		
		Form 2-2.	Articles of Organization –			
			Manager-Managed Limited			
			Liability Company	2-8		
	2.4.2.		ovisions	2-10		
	2.4.3.		of Articles of Organization	2-10		
	2.4.4.		tention	2-11		
	2.4.5.		entification Numbers	2-11		
2.5.			or Amending and Restating the			
		_	on	2-12		
	2.5.1.			2-12		
	2.5.2.			2-12		
	2.5.3.		o Amend	2-13		
		Form 2-3.				
			Amend Articles of Organization	2-13		

		Form 2-4.	Written Consent of Managers to	
			Amend Articles of Organization	2-14
		Form 2-5.	Amendment to Articles of	
			Organization	2-15
		Form 2-6.	Restated Articles of	
			Organization	2-16
		Form 2-7.	Amended and Restated Articles	
			of Organization	2-17
2.6.	Statemen	nts of Change	and Statements of Correction	2-17
	2.6.1.		Statutory Agent, Principal Address,	
		Manager or	Member Address, or Statutory	
			ess	2-17
		Form 2-8.	Statement of Change—	
			Filed by LLC	2-18
		Form 2-9.	Statement of Change—	
			Filed by Statutory Agent	2-19
	2.6.2.	Correcting a	a Filed Record	2-19
		Form 2-10.	Statement of Correction Filed by	
			Person Making Correction	2-20
	2.6.3.	Resignation	of Statutory Agent	2-20
		Form 2-11.	Statement of Resignation Filed by	
			Statutory Agent	2-21
2.7.	Liability	for Inaccurate	e Information in a Filed Record	2-21
2.8.	Post-Org		mmunication with Clients	2-22
	Form 2-		orm of Post-Organization	
		Letter t	o Client	2-22
	Form 2-	13. Long F	orm of Post-Organization	
		Letter t	o Client	2-25
2.9.	Use of L	LCs for Ventu	re-Backed Companies	2-34
2.10	The Cor	porate Transpa	arency Act	2-36
	2.10.1	General		2-36
			PART II	
			OPERATIONS	
_	PTER 3:		RATING AGREEMENT	3-1
3.1.				3-2
3.2.			"Defined	3-2
3.3.			ing Agreement Provisions	3-4
3.4.			m	3-6
3.5.			reement	3-6
36	Hormolif	wat Adoption		2 7

3.7.	Amendn	nent	3-7			
3.8.	Form Op	perating Agreements	3-8			
3.9.		nizational Checklist				
CHA	PTER 4:	ORGANIZATION	4-1			
4.1.		LLC Organization Provisions	4-2			
4.2.		tory Paragraph	4-2			
	Form 4-1	Introductory Paragraph—Names Parties	4-2			
4.3.	Governa	nce and Treatment as a Partnership	4-3			
4.5.	4.3.1.	Treatment as a Partnership	4-3			
	4.3.1.	Form 4-3. Governance.	4-3			
4.4.	Nome	romi 4-3. Governance	4-4			
4.4.		4. Name	4-4			
4.5.		t. Name	4-4			
4.5.	Form 4-5		4-5			
	Form 4-6	*	4-5			
4.6.		Address	4-5			
1.0.	Form 4-7		4-6			
	Form 4-8	· · · · · · · · · · · · · · · · · · ·	4-6			
4.7.		ons	4-6			
,.	4.7.1.	"Interest" Compared to "Membership Rights"	4-6			
	4.7.2.	"Interest Holder" Compared to "Member"	4-7			
		Form 4-9. General Definitions	4-8			
4.8.	Miscella	neous Provisions	4-10			
	Form 4-1		4-10			
4.9.	Joint Ow	vnership	4-14			
	Form 4-1		4-17			
CHA	PTER 5:	LIMITED LIABILITY COMPANY CAPITAL.	5-1			
5.1.	Drafting	Capital Provisions	5-4			
5.2.		apital Contributions	5-4			
	5.2.1.	General	5-4			
		Form 5-1. Initial Capital Contributions	5-4			
	5.2.2.	Contribution of Cash	5-5			
		Form 5-2. Initial Capital Contributions				
		in Cash	5-5			
	5.2.3.	Contribution Agreement	5-5			
		Form 5-3. Contribution Agreement	5-5			
		Form 5-4. Contribution of Property				
		and Cash	5-7			
		Form 5-5. Contribution Agreement	5-10			

	5.2.4.	Contribution of Services		5-15
		Form 5-6.	Initial Capital Contributions—	
			Partly in Cash and Partly in	
			Services	5-16
	5.2.5.	Contribution	of Property	5-16
		Form 5-7.	Initial Capital Contributions—	
			Partly in Cash and Partly in	
			Property	5-16
		Form 5-8.	Representation in Connection with	
			Contribution of Property	5-17
		Form 5-8A.	Bill of Sale	5-17
		Form 5-8B.	Intellectual Property Assignment	
			Agreement	5-18.1
	5.2.6.	Issuance of	Units	5-18.4
		Form 5-9.	Units	5-18.5
5.3.			tributions	5-18.5
	Form 5-		nal Capital Contributions at	
			on of Manager	5-19
	Form 5-		nal Capital Contributions at	
			on of Manager—Limit on Amount	5-20
	Form 5-		nal Capital Contributions	
			Member Approval	5-21
	Form 5-		nal Capital Contributions Member-	
			d LLC	5-22
	Form 5-		nal Capital Contributions—	
			ed Contributions	5-23
	Form 5-		ility beyond Initial Capital	.
			ation	5-23
	Form 5-		nal Interest—Preemptive Rights	5-24
	Form 5-		nal Interests—Preemptive Rights;	5.05
	T		ed Purchaser	5-25
	Form 5-		nal Interests—Preemptive Rights;	<i>5</i> 20
~ 1	D.C. 1/2		er Not Identified	5-28
5.4.			Contributions	5-30
	Form 5-	2	of Reduction of Member's Interest	
			t of Failure to Make Contribution to	5 21
	E 5 /		r-Managed LLC	5-31
	Form 5-2		of Reduction of Member's Interest	
			t of Failure to Make Contribution to	5 21
	E0 5 /		r-Managed LLC	5-31
	Form 5-2		nal Units	5-35 5-36
			Based on Value	5-36
	Form 5-2	دع. Loan Pl	us Dilution	5-38

5.5.	Member Loa	ıns	5-39
	Form 5-24.	Member Loans	5-40
	Form 5-25.	Member Loans—Either Member May Call	5-40
	Form 5-26.	Member Loans—Either Member May Call	5-40
	Form 5-27.	Member Loans—Terms of Loans	5-41
	Form 5-28.	Member Loans—Terms of Loans	5-42
5.6.	Interest on C	Capital Contributions	5-42
	Form 5-29.	No Salary or Interest on Capital	
		Contributions	5-42
	Form 5-30.	Interest on Capital Contributions	5-43
5.7.	Return of Ca	pital Contributions	5-43
	Form 5-31.	Return of Capital Contributions—	
		Release of Liability	5-44
5.8.	Form of Dist	ribution	5-44
	Form 5-32.	Form of Distribution—No Right to	
		Receive Anything but Cash	5-44
	Form 5-33.	Form of Distribution—Form of Distribution	
		at Discretion of Manager in Manager-	
		Managed LLC	5-45
5.9.	Capital Acco	ounts	5-45
	Form 5-34.	Capital Accounts (Short Form)	5-45
5.10.	Loans	-	5-46
	Form 5-35.	Loans—General Authority of LLC to	
		Borrow Money from Members on Terms	
		to Be Agreed upon in Future	5-46
	Form 5-36.	Loans—Authority to Make Specific Loan	
		with General Authority to Borrow Money	
		from Members on Terms to Be Agreed	
		upon in Future	5-46
5.11.	Options		5-47
	Form 5-37.	Note and Warrant Purchase Agreement	5-47
	Form 5-38.	Warrant Agreement (Fixed Exercise Price)	5-56
	Form 5-39.	Warrant Agreement (Exercise Price Based	
		on Subsequent Financing)	5-65
	5.11.1. Fo	orm of Non-Compensatory Option	5-75
		orm 5-40. Non-Compensatory Option –	
		Short Form	5-75
	Fo	orm 5-41. Non-Compensatory Option –	
		Long Form	5-78
СПУП	PTER 6: A	LLOCATION AND DISTRIBUTION	
СПАР		ROVISIONS	6-1
6.1.		he LLC	6-5
6.2.		ocation and Distribution Concepts	6-5

.3. .4.			ons under the Acts—Code Section 704(B)	6-6 6-6	
.+.	6.4.1.			6-6	
			A.L		
	6.4.2.		Alternative Allocation Tests	6-7	
		6.4.2.1.	The First Test: Partners' Interests	6-7	
		6.4.2.2.	The Second Test: Substantial		
			Economic Effect and Capital		
			Accounts	6-8	
		6.4.2.3.	The Third Test: Nonrecourse Debt	6-9	
	6.4.3.	Allocations	to Interest Holders	6-10	
.5.	Definition	Definitions			
	6.5.1.		n-Related Definitions	6-11	
		Form 6-1.	Distribution Definitions—		
		romi o i.	Distributions Not Dependent		
			on Source	6-11	
		Form 6-2.	Distribution Definitions—Distributions		
		FOIIII 0-2.			
	(5 0	A 11	Dependent on Source	6-12	
	6.5.2.		Related Definitions	6-13	
		6.5.2.1.	Adjusted Capital Account Deficit	6-13	
		6.5.2.2.	Book Value	6-14	
			Form 6-3. Tax Definitions	6-14	
.6.	Basic D	istribution Pro	visions	6-21	
	6.6.1.	In General.		6-21	
	6.6.2.	Cash Flow:	from Operations	6-22	
		Form 6-4.	Distributions at Manager's		
			Discretion	6-22	
		Form 6-5.	Quarterly Distributions	6-22	
		Form 6-6.	Distributions Required	·	
		i omi o o.	Each Year	6-23	
		Form 6-7.	Distributions Equal to Tax	0-23	
		101111 0-7.	=	6.22	
		F (0	Liability	6-23	
		Form 6-8.	Distributions Equal to Tax		
			Liability	6-24	
		Form 6-9.	Distribution Equal to Tax		
			Liability—Capital Gains	6-25	
	6.6.3.	Distribution	Dependent on Source	6-26	
		Form 6-10.	Distribution Dependent		
			on Source	6-26	
		Form 6-10/	A. Distributions Dependent on Source—		
			Definitions	6-26.1	
	6.6.4.	Liquidation	Proceeds	6-26.3	
	0.0.7.	Form 6-11.		0 20.3	
		101111 0-11.	Based on Capital Accounts	6-28	

		Form 6-12.	Liquidating Distributions—	
			Based on Distribution Provisions	6-30
	6.6.5.	Deficit Rest	toration Obligation	6-30
		Form 6-13.		
			Deficit Restoration Obligation	6-31
6.7.	Basic Al	location Prov	isions	6-31
	6.7.1.	Basic Alloc	ations of Income and Loss	6-31
		Form 6-14.	Allocation Based on Percentage	
			Interests	6-31
	6.7.2.	Allocations	Dependent on Source	6-32
		Form 6-15.		6-32
	6.7.3.	Limitations	on Losses	6-32
		6.7.3.1.	Adjusted Capital Account Deficit	6-32
			Form 6-16. Limitation—Adjusted	
			Capital Account Deficit.	6-33
		6.7.3.2.	Cash Method Limitation	6-34
			Form 6-17. Cash Method Limitation	6-35
	6.7.4.	_	ncome Offset	6-35
		Form 6-18.	Qualified Income Offset	6-36
	6.7.5.		Gain Chargeback	6-37
		Form 6-19.	E	6-38
	6.7.6.		inimum Gain	6-38
		Form 6-20.		
			Chargeback	6-39
	6.7.7.	_	latory Allocations	6-39
		6.7.7.1.	Contributed Property (Section 704(c)	
			Allocations)	6-39
			Form 6-21. Code Section 704(c)	
			Allocations	6-40
		6.7.7.2.	Book Ups	6-41
		6.7.7.3.	Tax Consequences of Adjusting	
			Book Value	6-41
			Form 6-22. Subsequent	<i>-</i> 10
		6.7.7.4	Adjustments	6-42
		6.7.7.4.	Nonrecourse Deductions	6-42
			Form 6-23. Nonrecourse	6 40
			Deductions	6-43
			Form 6-24. Member Nonrecourse	<i>c</i> 40
		6777	Deductions	6-43
		6.7.7.5.	Section 751 Problems	6-44
		6.7.7.6	Form 6-25. Unrealized Receivables.	6-44
		6.7.7.6.	Withholding; Arizona Entity	
			Level Tax	6-44

			Form 6-26.	Withholding; Arizona	
				Entity Level Tax	6-45
		6.7.7.7.	Varying Inte	rests	6-46
			Form 6-27.	Varying Interests—	
				Distributions	6-46
			Form 6-28.	Varying Interests—	
				Distributions; Prior	
				Periods	6-46.1
			Form 6-29.	Varying Interests—	
				Tax Allocations	6-47
		6.7.7.8.	Amendment		6-47
			Form 6-30.	Amendment	6-48
		6.7.7.9.	Regulatory A	Allocations	6-48
			Form 6-31.	Regulatory Allocations	6-48
6.8.	Dispropo	ortionate Distr	ribution and A	Allocation Provisions	6-48
	6.8.1.				6-48
		Form 6-32.		n Preference	6-51
		Form 6-32A	A. Adjustmen	t to Unreturned Capital	
				on	6-54
	6.8.2.	Disproportio		ion of Losses	6-54.1
		Form 6-33.		ionate Allocation of Loss .	6-54.1
6.9.	Members	ship Units and			6-55
	6.9.1.	Membership	Units		6-55
	6.9.2.				6-55
		Form 6-34.	Definition	of Units	6-55
		Form 6-35.	Definition	of Units—	
			Multiple C	lasses	6-56
		Form 6-36.	Definition	of Units—Voting Units	6-56
		Form 6-37.		Interest—Tied to Units	6-57
	6.9.3.	Distribution	Preferences.		6-57
		Form 6-38.	Distribution	n Preferences	6-58
		Form 6-39.	Distribution	n Preferences—	
			Tax Alloca	tions	6-59
	6.9.4	Distribution	s Tied to Inte	rnal Rate of Return	6-60
		Form 6-40.	Internal Ra	te of Return	6-62
		Form 6-41.	Distributio	n Tied to Internal	
			Rate of Re	urn	6-62
	6.9.5.	Targeted Ca	pital Accoun	t Method of Allocations	6-63
		Form 6-42.	Liquidation	Proceeds Tied to	
			Article IV		6-65
	6.9.6.	Tax Exhibit			6-66
		Form 6-43.	Tax Alloca	tions Based on	
			Targeted C	apital Accounts—	
			Member M	anaged	6-66

		Form 6-44.	Tax Allocations Based on	
			Targeted Capital Accounts—	
			Manager Managed	6-76
		Form 6-45.	Tax Allocations Based on	
			Percentage Interests—	
			Member Managed	6-86
		Form 6-46.	Tax Allocations Based on	
			Percentage Interests—	
			Manager Managed	6-95
6.10.	Partnersh		tive	6-104
	6.10.1.	The Bipartis	an Budget Act of 2015	6-104
		Form 6-47.	r r	6-106
6.11.	Tax Retur		ons	6-107
	Form 6-48	8. Tax Ret	urns and Elections	6-107
CHAI	PTER 7:	MANAGEN	MENT PROVISIONS	7-1
7.1.	Drafting I	LLC Manager	ment Provisions	7-4
	7.1.1.		xibility under the Act	7-4
	7.1.2.		roaches	7-5
	7.1.3.	Tax Aspects.		7-5
		7.1.3.1.	Tax Classification	7-5
		7.1.3.2.	Self-Employment Tax	7-5
7.2.	Member-l	Managed LLC	C Provisions	7-6
	Form 7-1.	Simple 1	Member-Management Provision	7-7
	Form 7-2.	Member	Authority	7-7
	Form 7-3.	Member	r-Management with Appointment of	
		Adminis	strative Member	7-8
7.3.	Represent	tative Manage	ement	7-9
	7.3.1.	Managemen	t by One Class of Members	7-9
		Form 7-4.	Definitions of Class A and Class B	
			Members	7-9
		Form 7-5.	Management by Class A Members	7-9
	7.3.2.	Managemen	t by Managers	7-10
	7.3.3.	Number and	Tenure	7-11
		Form 7-6.	Number and Tenure	7-11
	7.3.4.	Powers of th	e Manager	7-11
		Form 7-7.	Manager with Broad Authority	7-12
		Form 7-8.	Specific Powers of Manager	7-12
	7.3.5.	Restrictions	on the Manager	7-13
		Form 7-9.	Actions Requiring Approval of	
			Members	7-14
	7.3.6.	Managemen	t by Multiple Managers	7-15
		Form 7-10.	Multiple Managers	7-16
		Form 7-11.	Management Committee	7-17

	7.3.7.	Operating Manager7-19
		Form 7-12. Operating Manager
	7.3.8.	Officers
		Form 7-13. Officers
		Form 7-14. Officers
	7.3.9.	Corporate-Style Board
		Form 7-15. Corporate-Type Board and Officers 7-22
	7.3.10.	Members Designate Representative Managers 7-30
		Form 7-16. Members Appoint Representative
		Managers
7.4.	Resignat	ion and Removal of Managers
	Form 7-1	· · · · · · · · · · · · · · · · · · ·
		Without Cause
	Form 7-	
		Reasons
7.5.	Filling V	Vacancies of Managers
	Form 7-	19. Vacancies
	Form 7-2	
	Form 7-2	
7.6.	Meeting	s of Members
	Form 7-2	22. Procedure for Calling and Holding
		Meetings of Members
7.7.	Voting P	rocedures
	7.7.1.	Voting Rights
		Form 7-23. Voting Rights
	7.7.2.	Quorum and Manner of Acting 7-37
		Form 7-24. Quorum and Voting 7-37
		Form 7-25. Procedure for Calling and Holding
		Meetings of Members—Only Class A
		Members Vote
	7.7.3.	Disproportionate Voting Rights 7-39
		Form 7-26. Disproportionate Voting 7-39
7.8.	Informal	Action of Members; Form of Written Consent 7-40
	Form 7-2	
	Form 7-2	28. Form of Written Consent of Members 7-41
7.9.	Unanimo	ous or Super Majority Consent
	Form 7-2	3. 3
	Form 7-3	3 3
7.10.	Deadloc	k and Resolution 7-43
	Form 7-3	
	Form 7-3	2
7.11.	Compen	sation
	Form 7-3	33. Compensation

	Form 7-34.	No Arrangement for Compensation—	
		Member-Managed	7-49
	Form 7-35.	Extraordinary Compensation	7-49
7.12.	Standards of O	Conduct for Members and Managers	7-50
	Form 7-36.	Fiduciary Duties Pursuant to the Act—	
		Member-Managed LLC	7-52
	Form 7-37.	Fiduciary Duties Pursuant to the Act—	
		Manager-Managed LLC	7-53
	Form 7-38.	Fiduciary Duties—Same Obligations as	
		Imposed on Corporate Directors, Officers,	
		and Shareholders	7-53
	Form 7-39.	Fiduciary Duties—Same Obligations as	
		Imposed on Corporate Directors, Officers,	
		and Shareholders with Limitation of	
		Liability	7-53
	Form 7-40.	Fiduciary Duties—Wavier of Fiduciary	
		Duties with Limitation of Liability	7-54
7.13.	Reimburseme	nt, Indemnification, and Advancement	7-55
	Form 7-41.	Indemnification—Member-Managed LLC	7-56
	Form 7-42.	Indemnification—Manager-Managed LLC	7-56
	Form 7-43.	Indemnification with Advances—	
		Member-Managed LLC	7-57
	Form 7-44.	Indemnification with Advances—	
		Manager-Managed LLC	7-58
7.14.	Power of Atto	orney	7-59
	Form 7-45.	Power of Attorney	7-60
7.15.	Agreement of	Spouses	7-61
	Form 7-46.	Consent of Spouses	7-61
	Form 7-46A.	Agreement of Spouse	7-62
	Form 7-46B.	Consent of Spouse (with Power of Attorney)	7-62.2
	Form 7-46C.	Consent of Spouse (Spousal Friendly)	7-62.4
7.16.	Arbitration		7-63
	Form 7-47.	Arbitration	7-63
7.17.	Noneconomic	Members	7-63
7.18.	Proprietary R	ights and Noncompetition Agreements	7-64
	Form 7-48.	Proprietary Rights and Noncompetition	
		Agreement	7-64
7.19.	Annual Minut	tes	7-70
	Form 7-49.	Annual Resolutions	7-71
_		RANSFER AND BUY-SELL PROVISIONS	8-1
8.1.		fault Rules for Transfers	8-4
8.2.	Tax Aspects of	of Transfer Restrictions	8-5

	8.2.1.	Partnership	Classification	8-5
	8.2.2.	Termination	of the LLC	8-5
	8.2.3.	Basis Issues		8-5
8.3.	Prelimin	nary Drafting C	Considerations	8-6
	Form 8-	1. Definiti	onal Provision—Transfer	8-6
	Form 8-	2. Definiti	onal Provisions—Interest and	
			rship Rights	8-7
8.4.	Drafting		isions that Follow the Act's	
				8-7
	Form 8-		r Provision Following Act's	0 ,
	TOTHIO		Rules	8-8
8.5.	Draftino		isions that Permit Free Transferability	0 0
0.5.			· · · · · · · · · · · · · · · · · · ·	8-8
	Form 8-		ansferability of Interests and Rights	8-8
8.6.			isions that Absolutely Prohibit	0-0
0.0.	_		•	8-8
			e Prohibition of Transfers	
	Form 8-			8-9
	Form 8-		e Right on Prohibited Transfers	8-9
8.7.			isions that Permit Transfers Only	
				8-10
	8.7.1.			8-10
		Form 8-7.	Transfer Permitted on Satisfaction of	
			Certain Conditions	8-10
	8.7.2.	First Refusa	l Rights	8-11
		Form 8-8.	Right of First Refusal; LLC Purchases;	
			Installments Allowed	8-11
		Form 8-9.	Right of First Refusal of LLC and	
			Members; Member's Purchase	
			Payment Terms Matched	8-13
		Form 8-10.	Right of First Offer; LLC Purchases;	0 10
		1011110 10.	Cash Purchase	8-15
	8.7.3.	Admission of	of Transferee as a Member	8-16
	0.7.5.	Form 8-11.	Transferee Not Admitted as Member	0-10
		101111 0-11.	without Consent of Members	0 16
		E 0.10		8-16
		Form 8-12.	Transferee Automatically Admitted	0.15
	0.7.4	T	as Member	8-17
	8.7.4.		Permitted Transferees	8-17
		Form 8-13.	Permitted Transferees	8-18
	8.7.5.	Subsequent	Events	8-20
		Form 8-14.	Transfers by Operation of Law and	
			Subsequent Events	8-21
	8.7.6.	Tag-Along a	and Drag-Along Rights	8-21
		Form 8-15.	Drag-Along Rights	8-22
		Form 8-16.	Drag-Along and Tag-Along Rights	8-23
	8.7.7.	Transfer Ag		8-26

8.8.	Dissociati	ion under the Act	8-26
	8.8.1.	Voluntary Dissociation	8-26
		Form 8-17. Prohibition Against Voluntary	
		Dissociation	8-27
	8.8.2.	Statutory Events of Dissociation	8-29
8.9.	Distributi	ions on Dissociation	8-32
0.7.	Form 8-1		8-32
	Form 8-1		0 32
	10111101	Dissociation—Distribution Dependent on	
		Type of Dissociation Event	8-33
8.10.	Durchase	on Death or Disability	8-34
0.10.	8.10.1.	Death of a Member.	8-34
	0.10.1.	Form 8-20. Death of a Member.	8-34
	0 10 2		8-35
	8.10.2.	Disability of a Member	
		Form 8-21. Disability of a Member	8-35
		Form 8-22. Delayed Purchase from Member	8-36
	0.10.2	Form 8-23. Definition of Disability	8-36
	8.10.3.	Death/Disability of Entities and Trusts	8-37
		Form 8-24. Death Deals with Entities	
	0.40.4	and Trusts	8-37
	8.10.4.	Death with Insurance	8-38
		Form 8-25. Death with Insurance	8-38
8.11.		Provisions	8-39
	Form 8-2	6. Valuation of Membership Interest	8-40
	Form 8-2	7. Valuation of LLC Property	8-41
	Form 8-2	8. Agreed Value of LLC Property	8-43
8.12.	Act's Lin	nitations on Distributions	8-44
8.13.	Shotgun 1	Buy-Sell	8-45
	Form 8-2	9. Shotgun Buy-Sell Two Members—	
		Equal Percentage Interests	8-46
	Form 8-3		
		Differing Percentage Interests	8-48
	Form 8-3		
		Differing Percentage Interests	8-50
	Form 8-3		
		Purchase Price Paid Over Time	8-53
	Form 8-3		
		Appraised Value	8-56
8.14.	Put and C	Call Rights	8-58
0.1	Form 8-3		8-58
	Form 8-3		8-59
	1 01111 0 3	2. 2 de lagar una sulo of Froporty	5 57
CHAP	TER 9:	DISSOLUTION	9-1
9.1.		of the Act's Dissolution Provisions	9-2
9.2		Dissolution	9-2

	Form 9-1.		ion—Describes Events of	
			ion	9-3
9.3.			embers Whose Withdrawal Will	
				9-4
	Form 9-2.		ion—Withdrawal of Member	
			a Manager	9-4
9.4.	Additional		Events	9-4
	Form 9-3.	Dissolut	ion—Sale of Substantially	
		All Asse	ts	9-5
9.5.	Notice of V	Winding Up a	and Notice to Creditors	9-5
	9.5.1.	Notice of Wi	nding Up	9-5
		Form 9-4.	Notice of Winding Up	9-5
	9.5.2.	Notice to Cla	aimants	9-6
		Form 9-5.	Notice to Claimants	9-6
9.6.	Articles of	Termination		9-7
	Form 9-6.	Articles	of Termination	9-8
9.7.	Procedure	for Winding	Up and Distribution of Assets	9-8
	Form 9-7.		ion and Termination—	
		Member	-Managed	9-9
	Form 9-8.		ion and Termination—	
			r-Managed	9-10
	Form 9-9.		ion and Termination—	
			r-Managed Alternate	9-12
	Form 9-10	_	ion Resolution	9-13
_			ECORDS, AND ACCOUNTING	10-1
10.1.				10-2
10.2.	Banking			10-2
			ecounts	10-3
10.3.			• • • • • • • • • • • • • • • • • • • •	10-3
	10.3.1.	Maintenance	of Records	10-3
		Form 10-2.		
			Managed LLC (Short Form)	10-3
		Form 10-3.	Maintenance of Records—	
			Manager-Managed LLC	
			(Short Form)	10-4
		Form 10-4.	Maintenance of Records—Member-	
			Managed LLC (Long Form)	10-4
		Form 10-5.	Maintenance of Records—Manager-	
			Managed LLC (Long Form)	10-5
	10.3.2.	Right to Insp	pect and Copy Records	10-6
		Form 10-6.	Right to Inspect Records	10-6
10.4.				10-6
		-	ear Accounting Period	10-7

10.5.	Form 10-	8. Calendar Year Accounting Period	10-7 10-7
10.5.	Form 10-	9. Preparation of Reports—Manager-	
10.6	T'41. 4. D	Managed LLC	10-7
10.6.	Form 10- Form 10-	1 2	10-8 10-8
		Permitted	10-8
		PART III	
		MISCELLANEOUS	
_	TER 11:	REORGANIZATION OF THE LLC	11-1
11.1.		al	11-5
11.2.		on of New Members	11-5
	11.2.1.	Operating Agreement	11-5
		Substituted Member	11-5
		Form 11-2. Admission of Substitute Members	11-6
	11.2.2.	Acquisition of Interest from Company	11-6
		Form 11-3. Additional Members	11-7
		Form 11-4. Reserved	11-8
		Form 11-5. Reserved	11-8
		Form 11-6. First Amendment to Operating	
		Agreement Admitting Assignee of	
		Interest as a Member	11-13
	11.2.3.	Acquisition of Interest from Another Member	11-15
		Form 11-7. Assignment of LLC Membership	
		Interest	11-15
		Form 11-7A. Assignment of Less Than All of	
		an LLC Membership Interest	11-17
		Form 11-8. Membership Purchase Agreement	11-19
		Form 11-9. Joinder Agreement	11-33
	11.2.4.	Redemption of a Member	11-34
		Form 11-10. Redemption Agreement	11-34
	1105	Form 11-11. Redemption Agreement	11-36
	11.2.5.	Non-Foreign Affidavit	11-42.1
11.2	C ·	Form 11-11A. Certificate of Non-Foreign Status.	11-42.2
11.3.		on of an Existing Entity into an LLC or an LLC into	11 40 0
		Type of Entity	11-42.3
	11.3.1.	Conversion under the Arizona Entity Restructuring	11 42 2
		Act	11-42.3

		Form 11-12	. Plan of Conversion of LLC to	
			Corporation	11-43
		Form 11-13	. Plan of Conversion of Corporation to LLC	11-47
		Form 11-14	. Statement of Conversion of Arizona LLC into an Arizona Corporation	11-50
		Form 11-15	Statement of Conversion of Arizona Corporation into an	11-50
			Arizona LLC	11-51
	11.3.2.	Conversion	by Contribution or Exchange	11-52
			. Agreement to Convert General	
			Partnership to Limited Liability	
			Company	11-52
		Form 11-17	. Recitals Conversion of General	
			Partnership into LLC	11-54
		Form 11-18	. Term Is Continuation of Term of	
			Partnership	11-55
		Form 11-19	. Initial Capital Contributions—	
			In Property Consisting of Partnership	11.55
		E 11.00	Interests in LLC's Predecessor	11-55
		Form 11-20	. Assignment of General Partnership	11.50
		Form 11 21	Interests to LLC	11-56
		FOIII 11-21	Resolutions of Members Approving	11-57
	11.3.3.	Conversion	Liquidation of Partnership into LLC. by Interest Exchange	11-57
	11.5.5.		Exchange Agreement	11-57
	11.3.4.		by Interest Exchange under the	11-37
	11.5.1.		ructuring Act	11-60
		-	. Plan of Interest Exchange	11-61
			. Statement of Interest Exchange	11-65
11.4.	Mergers I		Arizona LLC	11-66
	Form 11-2	25. Plan of	Merger of an Arizona LLC into an	
		Arizona	LLC	11-68
	Form 11-2		ent of Merger of Arizona LLC into an	
			a LLC	11-75
	Form 11-2	_	nent and Plan of Merger	11-76
	Form 11-2		Merger of Arizona Corporation into	
	E 11.		ona LLC	11-88
	Form 11-2		ent of Merger of Arizona Corporation	11.02
115	Domasti -		Arizona LLC	11-93
11.5.	Form 11-3		ing Arizona LLCs	11-94 11-96
	Form 11-,		ent of Domestication—Arizona to	11-90
	roini 11-,		re	11-99
		Duawa	±C	エエーノフ

	Form 11-	32. Plan o	of Domestication— De	elaware to	
		Arizo	na		11-100
11.6.		_	f Mergers and Other R	_	11-101
	11.6.1.	_	Other Conversion of a	_	11 101
		•	an LLC Taxed as a Pa	-	11-101
		11.6.1.1.	In General		11-101
		11.6.1.2.	Merger or Other Co		11 100
		11 (1 2	General Partnership		11-102
		11.6.1.3.	Merger or Other Co		11 104
		11 6 1 4	Limited Partnership		11-104
		11.6.1.4.	Merger or Other Co		11 104
		11 6 1 5	Corporation into LI		11-104
		11.6.1.5.	Division and Acquis		11-111
				sitive Partnership	11 112
				rs	11-112
			11.6.1.5.1.1.	Determining Which LLC	
				Continues and	
				Which LLC	
				Terminates for	
				Federal Tax	
				Purposes	11-112
			11.6.1.5.1.2.	Tax Filing	
				Requirements	11-113
			11.6.1.5.1.3.	Determining the	
				Form of the	
				Merger	11-113
			11.6.1.5.2. Partne	rship Division	11-117
			11.6.1.5.2.1.	Basic Rules	
				for a Division	11-117
			11.6.1.5.2.2.	Determining	
				Which, if Any,	
				LLC Continues	
				as the Prior	
				Partnership and	
				Which, if Any,	
				Terminates	11-120
			11.6.1.5.2.3.	Tax Filing	
				Requirements	11-120
			11.6.1.5.2.4.	Determining the	
				Form of the	
		_		Division	11-121
	11.6.2.		n of LLC into Corpora		11-124
	11.6.3.		o Change an LLC's Cla	assification under	
		the Check	the Roy Regulations		11 120

		11.6.3.1.	Corporation to Partnership	11-129
		11.6.3.2.	Partnership to Corporation	11-130
		11.6.3.3.	Corporation to Disregarded Entity	11-130
		11.6.3.4.	Disregarded Entity to Corporation	11-131
	11.6.4.	Change in I	Entity Classification as a Result of	
			Number of Members	11-131
		11.6.4.1.	Converting a Disregarded Entity	
			to a Partnership	11-132
		11.6.4.2.	Converting from a Partnership to a	
			Disregarded Entity	11-133
	11.6.5.	Taxpaver Io	lentification Number after Change in	
			on	11-135
СНАІ	PTER 12:	DOING IN	NTERSTATE BUSINESS	12-1
12.1.			Business in Arizona	12-2
12.1.	12.1.1.		Law	12-2
	12.1.2.		s	12-2
	12.1.3.		ness	12-3
	12.1.4.		ness without Registration	12-4
12.2.			Statement	12-4
12.2.	12.2.1.		For Registration of Foreign LLC	12-4
	12.2.1.	Form 12-1.		12-4
		101111 12-1.	Foreign LLC	12-5
	12.2.2.	Procedure f	For Registration of Foreign Series	12-3
	12.2.2.	Form 12-2.		12-7
		1.01111 12-2.	Foreign Series	12-8
12.3.	Amendi	ng the Foreign	n Registration Statement	12-11
12.3.			ution and Withdrawal of	12-11
				12-12
	12.4.1.		on Dissolution	12-12
	12.4.2.		of Registration	12-12
~			-	
CHAI	PTER 13:		IONAL LIMITED LIABILITY IES	13-1
13.1.	Overvies			13-1
13.1.			and Professional Corporations	13-2
13.2.	13.2.1.		and Frotessional Corporations	13-3
	13.2.1.	13.2.1.1.	Double Taxation	13-3
		13.2.1.1.	Pension and Profit Sharing Plans	13-3
		13.2.1.2.	Fringe Benefits	13-4
		13.2.1.3.		13-4
		13.2.1.4.	Tax Rates	13-5
			Accounting Method	13-5
		13.2.1.6.	Fiscal Year End	
		13.2.1.7.	Summary	13-6

13.3.	Articles of C	Organization 1	for a Professional LLC	13-6
	Form 13-1.	Articles of	f Organization—Member-Managed	
		Profession	al Limited Liability Company	13-7
	Form 13-2.	Articles of	f Organization—Manager-Managed	
		Profession	al Limited Liability Company	13-9
13.4.	Operating A	greement for	Professional LLC	13-11
СНАІ	PTER 14: F	INANCING	TRANSACTIONS	14-1
14.1.	Borrowing A	uthorization		14-2
	Form 14-1.		Resolution	14-2
	Form 14-2.	Manager's	Certificate	14-3
14.2.	Credit Enhan		Guarantees	14-5
	Form 14-3.	Credit Enl	nancement Agreement	14-5
	Form 14-4.	Credit Enl	nancement Agreement—	
			n	14-9
	Form 14-5.		Agreement	14-11
	Form 14-6.	-	Agreement	14-23
	Form 14-7.		aranty	14-26
	Form 14-8.		tion Agreement	14-30
14.3.	Responsibili	ty for Losses	Derived from Guarantees of	
	LLC Obliga	tions		14-33
	Form 14-9.		and Contribution Agreement—	
		•	Guaranteed Only by Members	14-34
	Form 14-10.		Suaranty Language for Operating	
			t	14-38
14.4.	Pledges of L			14-39
	Form 14-11.		Assignment of Membership Interest	
			ity Agreement	14-40
СНАІ	PTER 15: C	COMPENSA	TION STRATEGIES	
			LC	15-1
15.1.	Proposed Re	gulations and	d Legislation	15-3
	Form 15-1.		Regulations	15-3
15.2.				15-4
15.3.				15-8
15.4.	LLC Interes	t for Services		15-9
	15.4.1. C	apital Interes	t vs. Profits Interest	15-9
	15.4.2. O	perating Agr	eement Provisions for	
	P	rofits Interest	S	15-10
	F	orm 15-2. I	Definitions of Net Cash Flow and	
		(Capital Proceeds	15-11
	F		Unreturned Capital Contribution	15-12
	F		Capital Accounts (Book-Up on	
			nterest for Services)	15-13

		Fori	n 15-5.	Distributions—Cash Flow	
				Distinguished from Capital	
				Proceeds	15-15
	15.4.3.	Unv	ested Pro	ofits Interest	15-16
		Fori	n 15-6.	Distributions to Unvested	
				Interest Holders	15-18
	15.4.4.	Cod	e Section	n 1061	15-19
15.5.	LLC (Part			Corporation Compensation	
			-		15-19
	15.5.1.			Context	15-19
		-	.1.1.	Stock Grants	15-20
		15.5	.1.2.	Stock Options	15-20
		15.5	.1.3.	Phantom Stock Plans	15-21
	15.5.2.	The		ontext	15-21
15.6.	Forms: Eq	uity-	Based L	LC Compensation Plans	15-23
	Form 15-7			zation to Grant Equity Incentives	15-23
	Form 15-8			ship Interest Grant Agreement—	
				lone Form with Repurchase	
					15-24
	Form 15-9			ncentive Plan LLC Taxed as a	
				hip	15-32.3
	Form 15-9			ncentive Plan LLC Taxed as a	
				tion	15-52.10
	Form 15-1			ship Interest Grant Agreement—	
				t to Equity Plan	15-52.42
	Form 15-1			Agreement	
	Form 15-1			Agreement with Rights of	
				ase and First Refusal	15-62
	15.6.1.			erating Agreement	15-70
15.7.	Phantom I			nit Appreciation Rights Plans	15-70
	Form 15-1			preciation Rights Plan	15-72
	Form 15-1		-	preciation Rights	
				Agreement	15-90
CHAP	ΓER 16:	TA	XATION	NOF LIMITED LIABILITY	
		CO	MPANI	ES	16-1
16.1.	General .				16-3
	16.1.1.	Bac	kground		16-3
	16.1.2.	State	e Taxatio	on	16-3
16.2.	Classificat	tion a	as a Parti	nership	16-3
	16.2.1.	Clas	sificatio	n Regulations	16-3
16.3.	Partnershi	p Tax	xation		16-5
	16.3.1.				16-5
	16.3.2.	Part	nership a	as a Pass-Through Entity	16-5

164	16.3.3.		Computations	16-5
16.4.				16-6
	16.4.1. 16.4.2.		oss from the Contribution of Property	16-6
165			Holding Period	16-7
16.5.			cognition	16-8
	16.5.1.		ubject to Debt	16-8
	16.5.2.		on of Property Subject to	16 0
	1652		se Debt	16-8
	16.5.3.		on of Property Subject to	16.0
	16.5.4.		Debt	16-9 16-9
	16.5.4.		on with Corporation	16-10
	16.5.6.		eptions to Nonrecognition	16-10
	16.5.7.	_		16-10
	16.5.7.	_	Interest for Services	16-11
	16.5.9.	_	Profits Interest Consequences to Service Partner	16-11
16.6.			ions	16-14
10.0.				16-14
	10.0.1.1	16.6.1.1.	Interim Distributions	16-14
		16.6.1.2.	Basis of Property Received	16-14
		16.6.1.3.	Liquidating Distributions	16-15
		16.6.1.4.	Basis of Property Received in	10-13
		10.0.1.4.	Complete Liquidation	16-15
	16.6.2.	Exceptions	s to Nonrecognition	16-16
	10.0.2.	16.6.2.1.	Marketable Securities	16-16
		16.6.2.2.	Distribution of Previously	10-10
		10.0.2.2.	Contributed Property	16-16
		16.6.2.3.	Distribution of Other Property to	10-10
		10.0.2.3.	Contributing Members	16-17
		16.6.2.4.	Distribution by LLC Holding	10 17
		10.0.2.4.	"Section 751 Property"	16-18
		16.6.2.5.	Payments to Retired or Deceased	10 10
		10.0.2.3.	Partners	16-18
16.7.	Allocation	ons of Incom	e and Loss	16-19
10.7.	16.7.1.			16-19
	16.7.2.	•	Alternative Allocation Tests	16-20
	10.7.2.	16.7.2.1.	The First Test: Partners' Interests	16-20
		16.7.2.2.	The Second Test: Substantial	10 20
		10.7.2.2.	Economic Effect and Capital	
			Accounts	16-21
		16.7.2.3.	The Third Test: Nonrecourse Debt	16-22
	16.7.3.		s to Interest Holders	16-23
	16.7.4.		locations	16-23
	16.7.5.		d Property	16-23
	10.7.0.	Sommoute	- 1 - p - 1 - y - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1	102

		16.7.5.1. General Rule	16-24
		16.7.5.2. Depreciation and 704(c) Property	16-24
		16.7.5.3. The Ceiling Rule	16-26
		16.7.5.4. Reverse 704(c) Allocations	16-27
16.8.	Section 7	754 Election	16-28
16.9.		Activity-Loss Rules	16-28
	16.9.1.	Material Participation	16-29
16.10.	Self-Emp	oloyment Tax	16-29
16.11.		ing Methods	16-30
	16.11.1	Generally	16-30
	16.11.2.	Syndicate	16-31
	16.11.3.	Effect on LLCs	16-31
	16.11.4.	Losses Allocable.	16-32
16.12.	Use of S	ingle-Member LLCs	16-32
	16.12.1.	Overview of Single-Member LLCs	16-32
	16.12.2.	Corporate Reorganizations	
		Involving Single-Member LLCs	16-33
	16.12.3.	Single-Member LLCs in Like-Kind	
		Exchanges	16-34
	16.12.4.	Single-Member LLCs in Lieu of	
		Consolidated Returns	16-35
16.13.	LLC Ele	cting to be Taxed as a Subchapter	
		ration	16-36
OTT 1 D		VIGE OF LA GG DV EVEN EDE	
СНАР	TER 17:	USE OF LLCS BY EXEMPT	
	T	ORGANIZATIONS	17-1
17.1.		tion	17-2
17.2.		LLCs by Exempt Organizations	17-2
	17.2.1.	Use of an Arizona LLC as a Wholly-Owned	
		Subsidiary of an Exempt Organization to	
		Carry out a "Business" Purpose	17-2
	17.2.2.	Use of an Arizona LLC as the Wholly-Owned	
		Subsidiary of an Exempt Organization to	
		Carry Out an Exempt Purpose	17-4
		Form 17-1. Articles of Organization of	
		Single-Member LLC Organized to	
		Carry Out an Exempt Purpose of a	
		Tax-Exempt Parent	17-8
		Form 17-2. Operating Agreement of	
		Single-Member LLC Organized to	
		Carry Out an Exempt Purpose of a	
		Tax-Exempt Parent	17-11
	1722	I.I.C. for Two or More Exempt Organizations	17 20

	Form 17-4.	Multiple Member Tax-Exempt LLC	
		PART IV APPENDICES	
APPENDIX A:	ARIZON	A LAWS AND REGULATIONS	
APPENDIX A1:	LIABILI	IZONA REVISED LIMITED TY COMPANY ACT (A.R.S. NS 29-3101 ET SEQ.)	APP A1-1
APPENDIX A2:	LIABILI	IOR ARIZONA LIMITED TY COMPANY ACT (A.R.S. NS 29-601 ET SEQ.)	APP A2-1
APPENDIX A3:	_	IA CORPORATION SSION NAME STANDARDS A	APP A3-1
APPENDIX B:	-	AL LAWS AND REGULATIONS DING IRS MATERIALS)	
APPENDIX B1:	CHECK-	THE-BOX REGULATIONS	APP B1-1
APPENDIX B2:	IRS FOR	RM 8832	APP B2-1
APPENDIX B3:	EMPLO	RM SS-4—APPLICATION FOR YER IDENTIFICATION R	APP B3-1
APPENDIX C:	SINGLE	-MEMBER OPERATING AGREEMI	ENTS
APPENDIX C1:	SINGLE	TING AGREEMENT FOR -MEMBER LLC— R-MANAGED A	APP C1-1
APPENDIX C2:	SINGLE	TING AGREEMENT FOR -MEMBER LLC— ER-MANAGED A	APP C2-1

Form 17-3. Articles of Organization for a

APPENDIX C3:	OPERATING AGREEMENT FOR SINGLE-MEMBER LLC—MEMBER- MANAGED WITH SUBCHAPTER S ELECTION
APPENDIX C4:	OPERATING AGREEMENT FOR SINGLE-MEMBER LLC— MANAGER-MANAGED WITH SUBCHAPTER S ELECTION APP C4-1
APPENDIX C5:	OPERATING AGREEMENT FOR SINGLE-MEMBER LLC—MULTIPLE MANAGER-MANAGED APP C5-1
APPENDIX D:	MULTIPLE-MEMBER OPERATING AGREEMENTS
APPENDIX D1:	OPERATING AGREEMENT FOR MEMBER-MANAGED LLC—SIMPLE APP D1-1
APPENDIX D2:	OPERATING AGREEMENT FOR MEMBER-MANAGED LLC APP D2-1
APPENDIX D3:	OPERATING AGREEMENT FOR MANAGER-MANAGED LLC APP D3-1
APPENDIX D4:	OPERATING AGREEMENT FOR MULTIPLE MANAGER-MANAGED LLC APP D4-1
APPENDIX D5:	OPERATING AGREEMENT FOR MULTIPLE MANAGER-MANAGED LLC WITH PREFERRED UNITS APP D5-1
APPENDIX D6:	OPERATING AGREEMENT FOR MULTIPLE MANAGER-MANAGED LLC WITH PROFITS INTERESTS APP D6-1
APPENDIX D7:	OPERATING AGREEMENT FOR MEMBER-MANAGED LLC WITH SUBCHAPTER S ELECTION APP D7-1
APPENDIX D8:	OPERATING AGREEMENT FOR MANAGER-MANAGED LLC WITH SUBCHAPTER S ELECTION APP D8-1
APPENDIX D9:	OPERATING AGREEMENT FOR LLC WITH UNITS AND PERMITTED TRANSFEREES APP D9-1

APPENDIX D10:	OPERATING AGREEMENT FOR MANAGER-MANAGED PROFESSIONAL LLC	APP D10-1
APPENDIX D11:	OPERATING AGREEMENT FOR MEMBER-MANAGED PROFESSIONAL LLC	APP D11-1
APPENDIX D12:	OPERATING AGREEMENT FOR LLC ELECTING SUBCHAPTER S STATUS—MULTIPLE MANAGERS	APP D12-1
APPENDIX E:	OTHER MATERIALS	
APPENDIX E1:	CLIENT QUESTIONNAIRE	APP E1-1
APPENDIX E2:	COMPARISON OF STATE LLC FEES AND OTHER INFORMATION	APP E2-1
APPENDIX E3:	UCC FINANCING STATEMENT	APP E3-1
APPENDIX E4:	STATES WITH SERIES LLC STATUTES .	APP E4-1
	PART V INDICES	
Cumulative Table of Internal Revenue Code Citations Cumulative Table of Treasury Regulations Cumulative Table of Revenue Rulings and Revenue Procedures Cumulative Table of Internal Revenue Service Private		Index-1 Index-5 Index-8
Letter Rulings		Index-9
Cumulative Table of	f Arizona Limited Liability	
Company Act Sections		Index-10 Index-15
Cumulative Table of Bankruptcy Code Citations		Index-15 Index-16
		Index-10