

CONTENTS

1.7. Comparison of the Revised Kansas Act with Other LLC Acts 1-24.3
 1.7.1. Flexible Statutes and Bulletproof Statutes 1-24.3
 1.7.2. Term of the LLC 1-25
 1.7.3. Operating Agreement 1-26
 Table 1. Comparison of Entities 1-27
 Table 2. Revenue Rulings 1-33
 Table 3. Private Letter Rulings 1-37

**CHAPTER 2: FORMATION OF THE KANSAS
 LIMITED LIABILITY COMPANY 2-1**

2.1. Formation: Basic Principles 2-3
 2.2. Articles of Organization 2-5
 2.2.1. Required Provisions 2-5
 2.2.1.1. Name 2-5
 2.2.1.2. Registered Office and Resident Agent 2-6
 2.2.1.3. Profession 2-7
 2.2.2. Optional Provisions 2-7
 2.3. Basic Form of Articles of Organization 2-8
 Form 2.3. (Articles of Organization) 2-8
 2.4. Filing of Articles of Organization 2-10
 2.5. Amendment of Articles of Organization 2-11
 2.5.1. Required and Optional Amendments 2-11
 2.5.2. Amendment Procedure 2-11
 Form 2.5.2. (Certificate of Amendment to the
 Articles of Organization) 2-12
 2.5.3. Change of Resident Agent and Registered Address 2-13
 2.5.3.1. Change of Resident Agent or Registered
 Office by Members or Manager 2-13
 2.5.3.2. Change of Registered Office by
 Registered Agent 2-14
 Form 2.5.3.2. (Certificate by Resident
 Agent of Change of
 Registered Office) 2-14
 2.5.3.3. Change of Name of Resident Agent 2-15
 Form 2.5.3.3. (Certificate by Resident
 Agent of Change of Name
 of Resident Agent) 2-15
 2.5.3.4. Resignation of Resident Agent 2-16
 2.5.3.4.1. Resignation of Resident Agent
 with the Appointment of a
 Successor Resident Agent 2-16
 Form 2.5.3.4.1. (Certificate of
 Resignation of
 Resident Agent,

	Appointment of Successor, and Change of Registered Office).	2-17
2.5.3.4.2.	Resignation of Resident Agent Without Appointment of a Successor Resident Agent.	2-18
	Form 2.5.3.4.2. (Certificate of Resignation of Resident Agent).	2-18
2.5.4.	Death or Move of Resident Agent	2-20
2.6.	Correction of Articles of Organization	2-20
2.6.1.	Certificate of Correction	2-20
	Form 2.6.1. (Certificate of Correction of the Articles of Organization).	2-21
2.6.2.	Corrected Articles of Organization Certificate.	2-21
	Form 2.6.2. (Corrected Certificate of the Articles of Organization).	2-22
2.7.	Restatement of Articles of Organization	2-23
	Form 2.7.1. (Restated Articles of Organization).	2-25
	Form 2.7.2. (Amended and Restated Articles of Organization)	2-25

**Part II
Operations**

CHAPTER 3:	OPERATING AGREEMENT: BASIC CONSIDERATIONS.	3-1
3.1.	In General	3-3
3.2.	Operating Agreement Defined.	3-3
3.3.	Flexibility	3-4
3.4.	Default Rules.	3-5
3.4.1.	Interested Transactions.	3-5
	Form 3.4.1. (Contracts with Affiliates).	3-5
3.4.2.	Indemnification	3-6
3.4.3.	Execution of Official Documents by Agent.	3-6
3.4.4.	Reorganization.	3-6
3.4.5.	Members	3-7
3.4.5.1.	Admission of New Members	3-7
3.4.5.2.	Action by Members	3-8
3.4.5.3.	Bankruptcy of a Member	3-8
3.4.5.4.	Authority to Bind	3-9
	Form 3.4.5.4. (Restriction of Powers).	3-10

CONTENTS

3.4.5.5.	Delegation	3-10
3.4.6.	Management by Members	3-11
3.4.7.	Managers	3-11
3.4.7.1.	Authority to Bind	3-11
3.4.7.2.	Manager Member	3-11
3.4.7.3.	Action by Managers	3-11
3.4.7.4.	Delegation	3-12
3.4.8.	Obligation to Make Capital Contributions	3-12
3.4.9.	Allocations and Distributions	3-12
3.4.10.	Resignation	3-13
3.4.11.	Transfer of Interests; Assignees	3-14
3.4.12.	Dissolution and Winding Up	3-14
3.4.12.1.	Events of Dissolution	3-14
3.4.12.2.	Authority to Wind Up	3-15
3.4.12.3.	Distribution of Assets Upon Winding Up	3-16
3.5.	Optional Provisions	3-16
3.5.1.	Members and Membership Interests	3-16
3.5.1.1.	Different Classes or Groups of Interests	3-16
3.5.1.2.	Voting	3-17
3.5.1.3.	Meetings	3-17
3.5.1.4.	Personal Liability	3-18
3.5.1.5.	Information Rights	3-18
3.5.1.6.	Consequences for Breach of the Operating Agreement	3-18
3.5.1.7.	Resignation	3-18
3.5.2.	Managers	3-19
3.5.2.1.	Management by Managers	3-19
3.5.2.2.	Different Classes or Groups of Managers	3-19
3.5.2.3.	Voting	3-19
3.5.2.4.	Meetings	3-19
3.5.2.5.	Personal Liability	3-20
3.5.2.6.	Consequences for Breach of the Operating Agreement	3-20
3.5.2.7.	Resignation	3-21
3.5.3.	Failure to Make Required Capital Contributions	3-21
3.5.4.	Transfer of Interests	3-21
3.5.4.1.	Nonassignability	3-21
3.5.4.2.	Membership Procedure for Assignees	3-21
3.5.5.	Record Date for Allocations and Distributions	3-22
3.5.6.	Certification of Interests	3-22
Form 3.5.6.	Certificate for Units of Membership Interest	3-22
3.6.	Form of Operating Agreement	3-23

3.7.	Execution	3-24
3.8.	Remedy for Breach	3-25
CHAPTER 4: OPERATING AGREEMENT: ORGANIZATIONAL PROVISIONS 4-1		
4.1.	Drafting Organizational Provisions Generally	4-2
4.2.	Introductory Paragraphs and Member Information	4-2
	Form 4.2.1. (Sample Introductory Paragraph)	4-2
4.3.	Preliminary Matters	4-3
	Form 4.3.1. (Formation)	4-3
	Form 4.3.2. (Name)	4-4
	Form 4.3.3. (Registered Office, Resident Agent, and Principal Office)	4-4
	Form 4.3.4. (Term)	4-4
	Form 4.3.5. (Jointly Held Units)	4-5
4.4.	Definitions	4-6
	Form 4.4.1. (Definitions)	4-6
4.5.	Purpose and Powers	4-10
	Form 4.5.1. (Purpose)	4-10
	Form 4.5.2. (Purpose)	4-10
4.6.	Miscellaneous Provisions	4-11
	Form 4.6.1. (Miscellaneous Provisions)	4-11
CHAPTER 5: OPERATING AGREEMENT: CAPITAL CONTRIBUTIONS 5-1		
5.1.	Drafting Capital Provisions	5-2.1
5.2.	Initial Capital Contributions	5-3
	5.2.1. Basic Rules	5-3
	Form 5.2.1. (Capital Contribution)	5-3
	5.2.2. Basic Contribution Provisions	5-4
	Form 5.2.2.1. (Initial Capital Contributions)	5-5
	Form 5.2.2.2. (Investment Representation)	5-5
	Form 5.2.2.3. (Units)	5-6
	Form 5.2.2.4. (Issuance of Certificates)	5-6
	5.2.3. Formal Subscription Agreements	5-7
	Form 5.2.3.1. (Subscription Agreement)	5-8
	Form 5.2.3.2. (Sample Client Letter)	5-12
	5.2.4. Contribution Agreement	5-14
	Form 5.2.4.1. (Contributions of Property)	5-15
	Form 5.2.4.2. (Contribution Agreement; Single New Member)	5-15
	Form 5.2.4.3. (Contribution Agreement; Multiple New Members)	5-16.3
	5.2.5. Multiple Classes of Interests	5-21
	Form 5.2.5. Class A Preferred Units	5-22

CONTENTS

5.3. Additional Capital Contributions 5-22.1
Form 5.3.1. (Additional Capital Contributions) 5-22.2
Form 5.3.2. (No Additional Capital Contributions
Required). 5-23
Form 5.3.3. (Limitation of Liability) 5-24
5.4. Interest and Loans 5-26
Form 5.4.1. (Interest and Loans) 5-26
5.5. Return of Capital 5-27
Form 5.5.1. (Return of Capital) 5-27
5.6. Profits Interests 5-27
5.6.1. Profits Interests Generally 5-27
5.6.2. Holding Period Requirement/Income Not Certain
or Predictable 5-28
5.6.3. Treatment of Non-Vested Owners of Non-Vested
Profits Interests. 5-29
5.6.4. Profits Interests Must Not Be “Disguised
Compensation”. 5-29
Form 5.6. Class B Units Issued as Profits
Interests 5-29

CHAPTER 6: ALLOCATIONS AND DISTRIBUTIONS 6-1

6.1. Taxation 6-2
6.1.1. Income Taxation. 6-2
6.1.2. Medicare Tax on Unearned Income 6-2
6.2. General Allocation and Distribution Concepts 6-2.1
6.3. State Law Distribution Restrictions. 6-3
6.4. Allocation Restrictions in the Internal Revenue Code 6-4
6.4.1. General Principles 6-4
6.4.2. Three Alternative Allocation Tests. 6-5
6.4.2.1. The First Test: Partners’ Interests. 6-5
6.4.2.2. The Second Test: Substantial Economic
Effect and Capital Accounts. 6-6
6.4.2.3. The Third Test: Nonrecourse Debt. 6-7
6.4.3. Definitions 6-8
6.5. Basic Distribution Provisions 6-9
6.5.1. In General. 6-9
6.5.2. Current Distributions 6-10
Form 6.5.2.1. (Definitions) 6-10
Form 6.5.2.2. (Allocations and Distributions) 6-11
Form 6.5.2.3. Mandatory Distributions for Taxes 6-14
6.5.3. Liquidating Distributions 6-14.1
Form 6.5.3.1. (Liquidation) 6-14.2
Form 6.5.3.2. (Liquidation) 6-15
6.6. Basic Allocation Provisions. 6-16

6.6.1.	In General	6-16
	Form 6.6.1. (Definitions)	6-16
6.6.2.	Qualified Income Offset, Minimum Gain Chargeback, and Other Tax-Mandated Allocation Provisions	6-18
	Form 6.6.2. (Definitions)	6-19
CHAPTER 7: MANAGEMENT		7-1
7.1.	Drafting Management Provisions	7-3
7.2.	Specific Management Provisions in a Manager-Managed LLC	7-4
	Form 7.2. (Definitions)	7-5
7.2.1.	The Right to Establish an Alternative Name	7-5
	Form 7.2.1. (Name)	7-6
7.2.2.	The Right to Establish the LLC's Principal and Other Places of Business	7-6
	Form 7.2.2. (Registered Office, Resident Agent, and Principal Office)	7-6
7.2.3.	The Right to Establish Reserves	7-6
	Form 7.2.3.1. (Definitions)	7-7
	Form 7.2.3.2. (Distribution of Excess Cash)	7-7
7.2.4.	The Right to Sign Certain Documents on Behalf of Members	7-7
	Form 7.2.4. (Power of Attorney)	7-7
7.2.5.	The Right to Make Certain Capital Account and Allocation Decisions	7-9
7.2.6.	The Right to Invest Company Funds	7-9
	Form 7.2.6. (Company Funds)	7-9
7.2.7.	The Duty to Keep Books and Records and File Tax Returns	7-9
	Form 7.2.7.1. (Records and Accounting)	7-10
	Form 7.2.7.2. (Preparation of Tax Returns)	7-10
7.2.8.	The Right to Prohibit Transfers	7-10
7.2.9.	The Right to Issue Certificates	7-11
	Form 7.2.9.1. (Issuance of Certificates)	7-11
	Form 7.2.9.2. (Lost, Stolen, or Destroyed Certificates)	7-11
	Form 7.2.9.3. (Affidavit of Lost Certificate)	7-12
7.2.10.	The Power of the Manager in Liquidation	7-14
	Form 7.2.10. (Liquidation)	7-14
7.2.11.	The Power of the Manager to Make Routine Amendments and Filings	7-14
	Form 7.2.11. (Documents)	7-14
7.3.	Basic Grants of Authority in a Manager-Managed LLC	7-15
	Form 7.3.1. (General Authority of the Manager)	7-15
	Form 7.3.2. (Specific Duties and Authority of the Manager)	7-16

CONTENTS

Form 7.3.3. (Limitations on Authority of the Manager) 7-18
Form 7.3.4. (Rights of Members Relating to the Company) . . 7-19
Form 7.3.5. (Withdrawal of the Manager) 7-20
7.4. Management Provisions in a Member-Managed LLC 7-21
Form 7.4. (General Authority of the Members) 7-21
7.5. Conflicts of Interest 7-23
Form 7.5. (Outside Activities) 7-24
7.6. Manager and Member Liability and Indemnification 7-25
Form 7.6.1. (Indemnification of Manager and Members) 7-25
Form 7.6.1.1. (Advancement of Indemnification) 7-27
Form 7.6.2. (Liability of the Manager) 7-28
Form 7.6.3. (Other Matters Concerning the Manager) 7-28.1
7.7. Compensation of Members and Managers 7-28.1
Form 7.7. (Compensation for Personal Service) 7-28.2
7.8. Meetings of Members 7-29
Form 7.8. (Meetings) 7-29
7.9. Management by Board and Officers 7-31
Form 7.9. Management by Board of Managers and Officers 7-31
7.10. Annual Minutes 7-39
Form 7.10. Annual Resolutions 7-39

CHAPTER 8: TRANSFER AND BUY-SELL PROVISIONS

8-1
8.1. General Considerations 8-2
8.2. Basic Transfer Rules 8-3
8.2.1. The Nature of LLC Interests 8-3
8.2.2. Transferring an LLC Interest: Default Rules 8-3
8.2.3. Rights of Judgment Creditors: Charging Order 8-5
8.2.4. Death or Incapacity of a Member 8-6
8.3. Typical Transfer Provisions 8-6
Form 8.3.1. (Transfer Generally) 8-7
Form 8.3.2. (Manner of Transfer) 8-7
Form 8.3.3. (Transfer of Units By a Member) 8-8
Form 8.3.4. (Transfers to Minors) 8-8
Form 8.3.5. (Restrictions on Transfer) 8-9
8.4. Provisions Addressing Admission of Substitute Members 8-9
Form 8.4.1. (Admission of Substitute Members) 8-9
Form 8.4.2. Assignment of Interest 8-10
8.5. Tax and Accounting Considerations Arising Upon Transfer 8-15
Form 8.5.1. (Capital Accounts) 8-16
Form 8.5.2. (Distribution and Allocations in Respect
of a Transferred Ownership Interest) 8-16
Form 8.5.3. (Adjustments to Bases of Company Assets) 8-18
8.6. Rights of First Refusal 8-18
Form 8.6. (Rights of First Refusal) 8-18

8.7.	Buy-Sell Provisions	8-21
8.7.1.	Determining the Sale Price	8-21
	Form 8.7.1. (Agreed Value).	8-21
8.7.2.	Reciprocal Buy-Sell Option	8-22
	Form 8.7.2.1. (Reciprocal Put and Call)	8-23
	Form 8.7.2.2. (Shotgun Buy-Sell Two Members; Appraised Value)	8-24
8.7.3.	Tag-Along Provisions	8-24.2
	Form 8.7.3. Tag-Along Rights	8-24.2
8.7.4.	Drag-Along Provisions	8-25
	Form 8.7.4. Drag-Along Rights	8-25
8.7.5.	Change-in-Control Provisions	8-26
	Form 8.7.5. Change-in-Control.	8-26
8.8.	Withdrawal and Expulsion of Members	8-27
	Form 8.8. (Withdrawal and Expulsion of a Member)	8-27
8.9.	Sale of the Company	8-28
CHAPTER 9: DISSOLUTION		9-1
9.1.	Basic Considerations	9-2
9.2.	Voluntary Dissolution	9-2
9.2.1.	Basic Statutory Provisions	9-2
	Form 9.2.1.1. (Continuation of Business Upon Termination of the Last Remaining Member)	9-3
	Form 9.2.1.2. (Agreement to Continue Business Upon Termination of Last Remaining Member)	9-3
	Form 9.2.1.3. (Right to Continue Business)	9-5
9.2.2.	Winding Up and Filing of Certificate of Dissolution.	9-6
	Form 9.2.2.1. (Liquidation)	9-8.1
	Form 9.2.2.2. (Certificate of Cancellation)	9-10
9.3.	Involuntary Dissolution	9-11
9.4.	Dissolution Upon Deadlock	9-12
CHAPTER 10: BOOKS, RECORDS, AND ACCOUNTING		10-1
10.1.	Introduction	10-2
10.2.	Information Required by Statute	10-2
	Form 10.2.1. (Records and Accounting—Member Managed LLC)	10-3
	Form 10.2.2. (Records and Accounting—Manager Managed LLC)	10-4
10.3.	Miscellaneous Provisions	10-5
10.3.1.	Banking	10-5
	Form 10.3.1. (Company Funds)	10-5
10.3.2.	Accounting Methods and Period	10-5

CONTENTS

Form 10.3.2.1. (Specific Duties and Authority of the Manager) 10-5

Form 10.3.2.2. (Fiscal Year). 10-6

10.3.3. Tax Returns, Elections, and Controversies 10-6

Form 10.3.3.1. (Tax Matters—Manager-Managed LLC) 10-6

Form 10.3.3.2. (Tax Matters—Member-Managed LLC) 10-7

10.3.4. Reports 10-7

Form 10.3.4. (Reports) 10-8

10.3.5. Title to Property 10-8

Form 10.3.5.1. (Title to Company Property—Held in the Name of LLC). 10-9

Form 10.3.5.2. (Title to Company Property—Held in the Name of Nominee) 10-9

10.4. Annual Report Requirement 10-9

10.5. Franchise Tax. 10-12

Part III
Miscellaneous

CHAPTER 11: REORGANIZATION 11-1

11.1. General Concepts 11-2.1

11.2. Admission and Redemption of a Member’s Interest. 11-2.1

11.2.1. Timing of Admission 11-2.1

11.2.2. Standards for Admission 11-3

Form 11.2.2. (Admission of Additional Members). 11-4

11.2.3. Required Documents 11-4

Form 11.2.3.1. (Subscription Agreement—Simple) 11-5

Form 11.2.3.2. (Subscription Agreement) 11-6

11.2.4. Redemption of a Member 11-8

Form 11.2.4.1. Redemption Agreement (Short Form). 11-8.1

Form 11.2.4.2. Redemption Agreement (Long Form). 11-8.3

11.3. Merger of LLCs with LLCs. 11-8.8

11.4. Merger of LLCs with Other Entities and Alternative Transactions 11-12

11.4.1. Generally 11-12

11.4.2. Merger of a General Partnership into an LLC 11-12

11.4.3. Merger of a Limited Partnership into an LLC 11-14

11.4.4. Merger of a Corporation into an LLC 11-15

11.4.5. State Law Merger Provisions. 11-18

11.4.5.1. Merger under the Corporate Statutes 11-18

11.4.5.2. Merger Under the Business Entity Transactions Act. 11-23

11.4.5.2.1. Agreement of Merger 11-25

11.4.5.2.2. Certificate of Merger 11-27

11.4.5.2.3. Effect of Merger 11-28

11.5. Conversions 11-31

11.5.1.	Conversion of Entities Into LLCs	11-31
11.5.1.1.	Agreement of Conversion	11-33
	Form 11.5.1.1. Agreement of Conversion	11-35
11.5.1.2.	Certificate of Conversion	11-37
	Form 11.5.1.2. Certificate of Conversion	11-38.1
11.5.1.3.	Effect of Conversion	11-38.1
11.5.2.	Conversion of an LLC into a Corporation	11-40
11.5.3.	Conversion of an LLC into a Partnership or Other Unincorporated Entity	11-42
11.5.4.	Conversion of an S Corporation into an LLC Taxed as an S Corporation	11-44
	Form 11.5.4. Operating Agreement of LLC Taxed as an S Corporation	11-44.2
11.6.	Recapitalization of an LLC	11-44.15
11.7.	Interest Exchanges.	11-44.16
11.7.1.	Types of Interest Exchanges	11-44.16
11.7.2.	Agreement of Interest Exchange	11-45
11.7.3.	Certificate of Interest Exchange.	11-48
11.7.4.	Effect of Interest Exchange	11-49
11.8.	Domestications	11-50
11.8.1.	Types of Domestications	11-51
11.8.2.	Agreement of Domestication	11-52
11.8.3.	Certificate of Domestication	11-54
11.8.4.	Effect of Domestication	11-55
11.9.	Common Provisions Of The Business Entity Transactions Act .	11-58
11.9.1.	Definitions	11-58
	11.9.1.1. Entity	11-58
	11.9.1.2. Interests and Interest Holders.	11-59
	11.9.1.3. Governor.	11-59
	11.9.1.4. Organic Law and Organic Rules	11-60
	11.9.1.5. Record	11-60
11.9.2.	Excluded Entities	11-60
11.9.3.	Overriding Rules	11-61
11.10.	Division	11-62
CHAPTER 12: DOING INTERSTATE BUSINESS.		12-1
12.1.	Foreign Limited Liability Companies Doing Business in Kansas: Basic Law	12-2
12.1.1.	Governing Law.	12-2
12.1.2.	Choice of Name	12-2
12.2.	Registration of Foreign LLCs	12-3
12.2.1.	“Doing Business”.	12-3
12.2.2.	Application for Registration.	12-4

CONTENTS

- 12.2.3. Registered Office and Resident Agent 12-6
- 12.2.4. Cancellation of Registration. 12-6
- 12.3. Suits by and Against Foreign LLCs 12-6
- 12.4. Foreign LLCs: Annual Reports and Franchise Taxes 12-8
 - 12.4.1. Annual Report Requirement 12-8
 - 12.4.2. Failure to File Annual Reports. 12-9
 - 12.4.3. Exception for First Annual Report. 12-9
 - 12.4.4. Confidential Information 12-9
 - 12.4.5. Franchise Tax 12-10
- 12.5. Qualification to Do Business in Colorado, Nebraska,
Missouri, and Oklahoma 12-11
 - 12.5.1. Colorado Statutes 12-11
 - 12.5.2. Nebraska Statutes. 2-12
 - 12.5.3. Missouri Statutes 12-13
 - 12.5.4. Oklahoma Statutes 12-13

**CHAPTER 13: PROFESSIONAL AND AGRICULTURAL
LIMITED LIABILITY COMPANIES 13-1**

- 13.1. Historical Background to Professional LLCs 13-2.1
 - 13.1.1. Practice in LLC Form by Non-Medical Professionals. 13-3
 - 13.1.2. Practice in LLC Form by Medical Professionals. 13-3
- 13.2. Authorization and Requirements for Kansas LLCs
Acting as Professional Associations or Professional
Corporations 13-6
 - 13.2.1. Express Authority for Professional LLCs 13-6
 - 13.2.2. Type of Profession 13-7
 - 13.2.3. “Qualified Person” 13-8
 - 13.2.4. Failure to Comply with Requirements. 13-9
 - 13.2.5. Authority of Licensing Bodies Preserved 13-10
 - 13.2.6. Forms: Formation of a Professional LLC 13-10
 - Form 13.2.6-1. Articles of Organization 13-10.1
 - Form 13.2.6-2. Letter to Client Regarding Request
for Dental Board Certificate 13-10.2
 - Form 13.2.6-3. Kansas Dental Board Application
for Certificate. 13-10.2
 - Form 13.2.6-4. Sample Cover Letter from Client to
Kansas Dental Board. 13-10.4
 - Form 13.2.6-5. Letter to Secretary of State Filing
Articles of Organization 13-10.4
 - Form 13.2.6-6. Operating Agreement 13-10.5
 - Form 13.2.6-7. Letter to Client Transmitting Articles
and Operating Agreement 13-10.10
- 13.3. Agricultural LLCs 13-10.11
 - 13.3.1. Background to Regulation of LLCs
Conducting Farming Operations 13-10.11

13.3.2.	“Limited Liability Agricultural Companies” and “Family Farm Limited Liability Agricultural Companies”	13-11
13.4.	Limited Liability Partnerships	13-13
13.4.1.	An Overview of the Kansas LLP Rules	13-13
13.4.2.	Remaining Liability Exposure of Partners in an LLP	13-14
13.4.3.	Insurance	13-15
13.4.4.	Formation of a Kansas LLP	13-15
	Form 13.4.4. (Statement of Qualification as a Kansas Limited Liability Partnership)	13-17
13.4.5.	Annual Report	13-18
13.4.6.	Franchise Tax	13-20
 CHAPTER 14: DERIVATIVE SUITS AND OTHER ACTIONS		 14-1
14.1.	Derivative Suits	14-2
14.2.	Other Actions Specifically Authorized by Statute	14-3
14.2.1.	Actions Related to Management	14-3
14.2.2.	Actions to Determine Result of a Vote	14-3
14.2.3.	Actions Involving the Rights and Liabilities of Members, Managers, and the LLC Among Each Other	14-4
14.2.4.	Failure to Execute a Certificate or Operating Agreement	14-5
14.3.	Procedural Matters: Service of Process, Notice, and Demand	14-5
14.4.	Citizenship of an LLC	14-6
 CHAPTER 15: SINGLE-MEMBER LIMITED LIABILITY COMPANIES		 15-1
15.1.	Introduction	15-2
15.2.	A Brief History of Single-Member LLCs	15-2
15.3.	Present-Day Treatment of Single-Member LLCs	15-3
15.3.1.	State Law Authorization and Characterization	15-3
15.3.2.	Tax Characterization	15-4
15.4.	Organizational Documents	15-6
15.4.1.	Articles of Organization	15-6
15.4.2.	Operating Agreement	15-6
	Form 15.4.2.1.	15-7
	Form 15.4.2.2.	15-8
	Form 15.4.2.3.	15-9
15.5.	Structural Applications	15-11
15.5.1.	Special Purpose Entities	15-11
15.5.2.	De Facto Consolidation	15-12
15.6.	Transactional Applications	15-14

CONTENTS

- 15.6.1. Like-Kind Exchanges 15-14
- 15.6.2. Tax-Free Reorganizations 15-16
- 15.6.3. Qualified Retirement Plans 15-19
- 15.6.4. Unrelated Business Income Tax 15-20
- 15.6.5. Vacation Homes 15-21
 - 15.6.5.1. General Considerations 15-21
 - 15.6.5.2. Multi-Member Considerations 15-21
- 15.6.6. Holding S Corporation Stock 15-23
- 15.7. Converting to or from a Single-Member LLC 15-24
 - 15.7.1. Conversion of a Single-Member LLC to a Multi-Member LLC 15-25
 - 15.7.1.1. Acquiring Membership Interest from Existing Member 15-25
 - 15.7.1.2. Acquiring Membership Interest by Contribution 15-26
 - 15.7.2. Conversion of a Multi-Member LLC to a Single-Member LLC 15-26

CHAPTER 16: COMPENSATION STRATEGIES FOR THE LLC 16-1

- 16.1. Introduction 16-2
- 16.2. Code Section 83 16-3
 - Form 16.2-1. Sample Memorandum to Employee Regarding Unit Grant and Section 83 Rules 16-5
 - Form 16.2-2. Sample Section 83(b) Election Statement 16-6.2
- 16.3. Capital Interests and Profits Interests 16-6.3
- 16.4. LLC (Partnership) vs. Corporation Compensation Methods 16-10
 - 16.4.1. Corporations 16-10
 - 16.4.1.1. Stock Grants 16-10
 - 16.4.1.2. Stock Options 16-11
 - 16.4.1.3. Phantom Stock Plans 16-12
 - 16.4.2. LLCs 16-13
 - 16.4.2.1. Equity Interests 16-14
 - 16.4.2.1.1. Full Equity Interest 16-14
 - 16.4.2.2. Point System Compensation 16-15
 - 16.4.2.3. The Importance of Member Involvement 16-16
 - 16.4.2.4. Loss Allocation and Debt Guarantees 16-17
 - 16.4.2.5. Equity Interest vs. Non-Equity Incentive Compensation 16-17
- 16.5. Phantom Income and Distributions 16-18.1
 - 16.5.1. Tax Effected Distributions 16-18.1
 - 16.5.1.1. Separate Calculations for Each Member 16-19
 - 16.5.1.2. Standard Distribution Rate 16-21
 - 16.5.1.3. Highest Marginal Tax Rate 16-22
 - 16.5.2. Self-Employment Tax 16-23

16.5.2.1. Calculating Self-Employment Income	16-24
16.5.2.2. Application of Self-Employment Tax to LLC Members	16-25
16.6. Forms: Equity and Non-Equity-Based LLC Compensation Plans	16-25
16.6.1. Unit Grant Agreement	16-25
Form 16-1. Unit Grant Agreement	16-25
16.6.2. Incentive Compensation Plan	16-30
Form 16-2. [Name of Company] Employee Incentive Compensation Plan	16-30

CHAPTER 17: THE FAMILY LIMITED LIABILITY COMPANY 17-1

17.1. Introduction	17-2
17.2. Comparison to Family Limited Partnerships	17-3
17.3. Estate and Gift Tax Treatment	17-3
17.4. Form of Operating Agreement	17-4

**Part IV
Appendices**

Appendix A: Operating Agreement for Member-Managed LLC	APP A-1
Appendix A1: Operating Agreement for Single-Member Member-Managed LLC	APP A1-1
Appendix B: Operating Agreement for Manager-Managed LLC	APP B-1
Appendix B1: Operating Agreement for Single-Member Manager-Managed LLC	APP B1-1
Appendix C: Kansas LLC Forms (Domestic and Foreign)	APP C-1
Appendix D: Missouri, Nebraska, Oklahoma, and Colorado Foreign LLC Registration Forms	APP D-1
Appendix E: Table of Section Numbers	APP E-1
Appendix F: Outline of Limited Liability Company Operating Agreement Issues	APP F-1
Appendix G: Operating Agreement of Limited Liability Company that Owns a Vacation Home	APP G-1
Appendix H: Check-the-Box Regulations	APP H-1
Appendix I: IRS Form 8832	APP I-1
Appendix J: Comparison of State LLC Fees and Other Information	APP J-1
Appendix K: Operating Agreement of Bioventure, LLC	APP K-1
Appendix L: Membership Interests Purchase Agreement	APP L-1
Appendix M: Operating Agreement With Multiple Classes and Credit Enhancement Interests	APP M-1

CONTENTS

Appendix N: Series LLC Agreement APP N-1
Appendix O: Agreement and Plan of Merger APP O-1
Appendix P: Operating Agreement for a Family Limited
Liability Company APP P-1

Part V
LLP and LLC Cases

LLP and LLC Cases LLC Cases-1

Part VI
Indices

Cumulative Table of Kansas Limited Liability Company
Act Sections Index-1
Cumulative Table of Internal Revenue Code Citations Index-9
Cumulative Table of Revenue Rulings and Revenue Procedures Index-11
Cumulative Table of Treasure Regulations Index-12
Subject Index Index-14
Forms Index Index-28