

# Contents

## PART I ORGANIZATION

<b>CHAPTER 1: INTRODUCTION . . . . .</b>	<b>1-1</b>
1.1. Nature and Use of This Practice Manual . . . . .	1-2
1.2. Comparison of the LLC with Other Entities. . . . .	1-3
1.2.1. Generally . . . . .	1-3
1.2.2. Comparison with S Corporations. . . . .	1-5
1.3. History of the LLC . . . . .	1-6
1.4. The New Jersey Limited Liability Company Act — An Overview . . . . .	1-7
1.5. Key Features of the Revised Uniform Limited Liability Company Act . . . . .	1-8
Table 1. Comparison of Limited Liability Companies, Limited Partnerships, S Corporations, C Corporations, and Limited Liability Partnerships . . . . .	1-10
1.6. Classification of the LLC as a Partnership for Federal Income Tax Purposes . . . . .	1-16
1.6.1. Introduction . . . . .	1-16
1.6.2. Consequences of Classification as a Corporation . . . . .	1-16
1.6.3. Tax History of the LLC . . . . .	1-17
1.6.4. Understanding the Classification Rules . . . . .	1-19
1.6.4.1. LLCs Organized on or after January 1, 1997 . . . . .	1-20
1.6.4.2. LLCs Organized before January 1, 1997, for Periods before January 1, 1997. . . . .	1-21
1.6.4.3. LLCs Organized before January 1, 1997, for Periods on or after January 1, 1997 . . . . .	1-22
1.6.4.4. Elections . . . . .	1-23
1.7. 2017 Tax Reform . . . . .	1-24
1.8. New Jersey Workaround to 2017 Tax Reform Limitations. . . . .	1-25

CONTENTS

**CHAPTER 2: FORMATION AND ORGANIZATION ..... 2-1**

2.1. Introduction ..... 2-2

2.2. Certificate of Formation ..... 2-2

    Form 2-1. Certificate of Formation without  
            Special Provisions — Signed by  
            an Organizer ..... 2-3

2.3. Statement of Authority ..... 2-4

2.4. Certificate of Correction ..... 2-4

    Form 2-2. Certificate of Correction of  
            Certificate of Formation ..... 2-5

2.5. Certificate of Amendment. .... 2-6

    Form 2-3. Consent of Members to Amend  
            Certificate of Formation ..... 2-6

    Form 2-4. Certificate of Amendment ..... 2-7

2.6. Reservation of Name. .... 2-8

    Form 2-5. Application to Reserve Name ..... 2-8

2.7. Change of Name of Registered Agent, Change of  
    Address of Registered Agent ..... 2-9

    Form 2-6. Change of Name of Registered Agent ..... 2-9

2.8. Alternate Name ..... 2-10

    Form 2-7. Certificate of Registration of Alternate Name .... 2-11

2.9. Annual Report ..... 2-11

**PART II  
OPERATIONS**

**CHAPTER 3: THE OPERATING AGREEMENT ..... 3-1**

3.1. In General ..... 3-2

3.2. Scope of an Operating Agreement and Limitations ..... 3-3

3.3. Flexibility of the LLC Form ..... 3-5

    Form 3-1a. Checklist for the Formation of a New LLC ..... 3-6

    Form 3-1b. Checklist for Formation of a New LLC ..... 3-10.1

3.4. Form of the Operating Agreement ..... 3-10.30

    Form 3-2. Operating Agreement as the Entire Agreement  
            of the Parties ..... 3-10.31

3.5. Effect of the Operating Agreement on the Company ..... 3-10.31

3.6. Effect of the Operating Agreement on Third Parties ..... 3-11

3.7. Form Operating Agreements. .... 3-11

3.8. Use of LLCs to Hold Vacation Homes ..... 3-12

3.9. Ethical Considerations in Drafting Operating Agreements .... 3-13

    Form 3-3. Separate Counsel. .... 3-15

Form 3-4.	Separate Counsel (Alternative) . . . . .	3-16
Form 3-5.	Joint Representation Waiver . . . . .	3-16
<b>CHAPTER 4: ORGANIZATION . . . . .</b>		<b>4-1</b>
4.1.	Drafting LLC Organization Provisions. . . . .	4-3
4.2.	Operating Agreement Introductory Paragraph . . . . .	4-3
Form 4-1.	Introductory Paragraph — Names Parties . . . . .	4-3
Form 4-2.	Introductory Paragraph — Does Not Name Parties . . . . .	4-4
4.3.	Background to Agreement . . . . .	4-4
Form 4-3.	Explanatory Statement . . . . .	4-4
Form 4-3a.	Explanatory Statement . . . . .	4-5
4.4.	Confirmation of Agreement . . . . .	4-5
Form 4-4.	Confirmation of Agreement . . . . .	4-5
4.5.	Definitions. . . . .	4-5
4.5.1.	“Interest” Compared to “Membership Rights” . . . . .	4-6
4.5.2.	“Interest Holder” Compared to “Member” . . . . .	4-7
Form 4-5.	General Definitions . . . . .	4-8
4.6.	Agreement to Organize LLC . . . . .	4-9
Form 4-6.	General Agreement to Organize LLC . . . . .	4-10
Form 4-7.	Organizational Provision Confirming That a Certificate of Formation Has Been Filed . . . . .	4-10
4.7.	Name. . . . .	4-10
Form 4-8.	Name Provision for Member-Managed LLC . . . . .	4-10
Form 4-9.	Name Provision for Manager-Managed LLC . . . . .	4-11
4.8.	Purpose . . . . .	4-11
Form 4-10.	Any Lawful Purpose . . . . .	4-11
Form 4-11.	Specific Purpose . . . . .	4-12
Form 4-12.	Purpose Limited to Real Estate. . . . .	4-12
Form 4-12a.	Purpose Limited to Specific Real Estate . . . . .	4-13
4.9.	Term . . . . .	4-14
Form 4-13.	Term Commences on Date of Filing of Certificate of Formation . . . . .	4-15
Form 4-14.	Term Commences upon Execution of Operating Agreement . . . . .	4-15
4.10.	Registered Office . . . . .	4-15
Form 4-15.	Registered Office of LLC . . . . .	4-16
4.11.	Registered Agent. . . . .	4-16
Form 4-16.	Registered Agent . . . . .	4-16
4.12.	Members . . . . .	4-16
Form 4-17.	Schedule of Members Set Forth in Exhibit . . . . .	4-16

CONTENTS

Form 4-18.	Schedule of Members Set Forth in Text of Agreement. . . . .	4-17
Form 4-19.	Schedule of Members (without Percentages) . . . .	4-18
Form 4-19a.	No Preemptive Rights . . . . .	4-18
Form 4-19b.	Short-Form of Grant of Preemptive Rights. . . . .	4-19
Form 4-19c.	Long-Form of Grant of Preemptive Rights. . . . .	4-20
Form 4-19d.	Additional Interests — Preemptive Rights; Identified Purchaser . . . . .	4-22
4.13.	Miscellaneous Provisions . . . . .	4-24
	Form 4-20. Miscellaneous Provisions . . . . .	4-24
4.14.	Post-Organization Communication with Clients . . . . .	4-26
	Form 4-21. Form of Post-Organization Reporting Letter to Client. . . . .	4-27
	Form 4-22. Alternate Form of Letter to New LLC Regarding Operational and Other Post-Formation Matters . . . . .	4-29
4.15.	Series LLC . . . . .	4-41
<b>CHAPTER 5: LIMITED LIABILITY COMPANY CAPITAL . . .</b>		<b>5-1</b>
5.1.	Drafting Capital Provisions. . . . .	5-3
5.2.	Initial Capital Contributions . . . . .	5-3
5.2.1.	Generally . . . . .	5-3
	Form 5-1. Initial Capital Contributions in Cash. . . . .	5-4
	Form 5-1a. Initial Capital Contributions — Automatic Amendment of Exhibit A . . . . .	5-4
	Form 5-2. Initial Capital Contributions — Partly in Cash and Partly in Services . . . . .	5-4
	Form 5-2a. Class B Units Issued as Profits Interests . . . . .	5-7
	Form 5-3. Initial Capital Contributions — Partly in Cash and Partly in Property . . . . .	5-8
	Form 5-4. Representation in Connection with Contribution of Property . . . . .	5-8
5.2.2.	Contribution Agreement . . . . .	5-8
	Form 5-4a. Contribution Agreement . . . . .	5-8.1
5.2.3.	Contribution Agreement (Real Estate). . . . .	5-10
	Form 5-4b. Contribution Agreement — Real Estate. . . . .	5-10

5.3.	Additional Capital Contributions . . . . .	5-10.7
Form 5-5.	Additional Capital Contributions at Discretion of Manager — Limit on Amount . . . . .	5-10.7
Form 5-6.	Additional Capital Contributions at Discretion of Members — Limit on Amount . . . . .	5-10.8
Form 5-7.	No Liability Beyond Initial Capital Contribution . . . . .	5-10.9
Form 5-8.	No Liability Beyond Additional Capital Contributions. . . . .	5-10.9
5.4.	Default in Payment of Contributions . . . . .	5-10.10
Form 5-9.	Remedy of Reduction of Member's Interest in Event of Failure to Make Contribution to Manager-Managed LLC . . . . .	5-10.10
Form 5-9a.	Remedy of Reduction of Member's Share of Profits in Event of Failure to Make Contribution to Manager-Managed LLC. . . . .	5-10.11
5.5.	Interest on Capital Contributions . . . . .	5-10.12
Form 5-10.	No Interest on Capital Contributions . . . . .	5-10.12
Form 5-11.	Interest on Capital Contributions . . . . .	5-10.12
5.6.	Return of Capital Contributions; Limitations on Distributions . . . . .	5-11
Form 5-12.	Return of Capital Contributions . . . . .	5-11
5.7.	Form of Distribution . . . . .	5-12
Form 5-13.	Form of Distribution — No Right to Receive Anything but Cash . . . . .	5-12
Form 5-14.	Form of Distribution — Form of Distribution Is at Discretion of Manager in Manager-Managed LLC . . . . .	5-13
5.8.	Capital Accounts. . . . .	5-13
Form 5-15.	Capital Accounts Maintained in Accordance with Code Section 704 . . . . .	5-13
Form 5-15a.	Capital Accounts Maintained in Accordance with Code Section 704 . . . . .	5-14
5.9.	Loans. . . . .	5-14.1
Form 5-16.	Loans — General Authority of LLC to Borrow Money from Members on Terms to Be Agreed upon in Future. . . . .	5-14.1
Form 5-17.	Loans — Authority to Make Specific Loan with General Authority to Borrow Money from Members on Terms to Be Agreed upon in Future. . . . .	5-14.2

CONTENTS

Form 5-18. Any Member May Call for Member Loans . . . . .	5-15
Form 5-19. Member Loans — Terms . . . . .	5-15

**CHAPTER 6: ALLOCATION AND DISTRIBUTION**

<b>PROVISIONS. . . . .</b>	<b>6-1</b>
6.1. Taxation of the LLC . . . . .	6-3
6.2. General Allocation and Distribution Concepts . . . . .	6-3
6.3. Distribution Restrictions under the Act. . . . .	6-4
6.4. Allocation Restrictions — Code Section 704(b) . . . . .	6-4
6.4.1. Overview . . . . .	6-4
6.4.2. The Three Alternative Allocation Tests . . . . .	6-5
6.4.2.1. The First Test: Partners' Interests. . . . .	6-6
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. Allocations to Interest Holders . . . . .	6-8
6.5. Definitions. . . . .	6-8
6.5.1. Distribution-Related Definitions . . . . .	6-9
Form 6-1. Distribution Definitions. . . . .	6-9
6.5.2. Allocation-Related Definitions . . . . .	6-10
Form 6-2. Tax Definitions . . . . .	6-10
6.6. Basic Distribution Provisions . . . . .	6-13
6.6.1. In General . . . . .	6-13
6.6.2. Cash Flow from Operations. . . . .	6-14
Form 6-3. Distribution of Cash Flow . . . . .	6-14
6.6.3. Distribution of Net Capital Proceeds. . . . .	6-14
Form 6-4. Distribution of Capital Proceeds . . . . .	6-14
6.6.4. Tax Distributions . . . . .	6-14.1
Form 6-4a. Tax Distributions . . . . .	6-14.1
6.6.5. Liquidation Proceeds . . . . .	6-14.2
Form 6-5. Liquidation and Dissolution . . . . .	6-15
Form 6-6. Liquidation and Dissolution — Deficit Restoration Obligation . . . . .	6-15
6.7. Basic Allocation Provisions . . . . .	6-16
6.7.1. Basic Allocations of Profits and Losses. . . . .	6-16
Form 6-7. Profits and Losses . . . . .	6-16
6.7.2. Minimum Gain Chargeback and Qualified Income Offset . . . . .	6-17
Form 6-8. Minimum Gain Chargeback and Qualified Income Offset . . . . .	6-17

6.7.3.	Other Regulatory Allocations . . . . .	6-19
	Form 6-9. Regulatory Allocations . . . . .	6-19
6.7.4.	General Provisions. . . . .	6-20
	Form 6-10. General Provisions . . . . .	6-21
6.8.	Complex and Disproportionate Distribution and Allocation Provisions . . . . .	6-22
6.8.1.	Distribution Preferences . . . . .	6-22
	Form 6-11. Distribution Preference . . . . .	6-22.1
6.8.2.	Disproportionate Allocation of Losses . . . . .	6-25
	Form 6-12. Disproportionate Allocation of Losses . .	6-25
<b>CHAPTER 7: MANAGEMENT PROVISIONS . . . . .</b>		<b>7-1</b>
7.1.	Drafting LLC Management Provisions. . . . .	7-3
	7.1.1. General Flexibility under the Act. . . . .	7-3
	7.1.2. Management Structure Options . . . . .	7-4
	7.1.3. Tax Aspects . . . . .	7-5
7.2.	Member-Managed LLC Provisions . . . . .	7-6
	Form 7-1. Simple Member-Management Provision . . . . .	7-6
	Form 7-1a. Long-Form Member-Management Provision . . . .	7-6
	Form 7-2. Member-Management with Appointment of Ministerial Manager . . . . .	7-6.2
7.3.	Representative Management . . . . .	7-7
	7.3.1. Management by a Manager Similar to a General Partner of a Limited Partnership . . . . .	7-7
	Form 7-3. Manager with Authority Similar to a General Partner of a Limited Partnership. . . . .	7-8
	Form 7-4. Manager with Authority Similar to a General Partner of a Limited Partnership — Alternative Form . . . . .	7-10
	7.3.2. Management by Management Committee. . . . .	7-10
	Form 7-5. Management Committee . . . . .	7-10
	Form 7-5a. Management Committee (Alternative Form). . . . .	7-12
	7.3.3. Management by One Class of Members . . . . .	7-15
	Form 7-6. Definition of Class A and Class B Members . . . . .	7-15
	Form 7-7. Management by Class A Members . . . .	7-15
	7.3.4. Management in Bankruptcy Remote Entity. . . . .	7-15
	Form 7-7a. Special Purpose Management Provisions . . . . .	7-16
7.4.	Replacement of Managers. . . . .	7-18

CONTENTS

	Form 7-8.	Removal of Manager for Any Reason. . . . .	7-19
	Form 7-9.	Removal of Manager for Only Specified Reasons . . . . .	7-19
7.5.	Meetings of and Actions by Members . . . . .		7-19
	Form 7-10.	Procedure for Calling and Holding Meetings. . . . .	7-20
	Form 7-11.	Procedure for Calling and Holding Meetings — Only Class A Members Vote . . . . .	7-21
	Form 7-12.	Informal Actions . . . . .	7-21
	Form 7-13.	Form of Consent of Members. . . . .	7-22
7.6.	Statements of Authority . . . . .		7-23
	Form 7-14.	Statement of Authority of _____, LLC. . . . .	7-24
	Form 7-15.	Amendment to Statement of Authority of _____, LLC. . . . .	7-25
	Form 7-16.	Post-Dissolution Statement of Authority of _____, LLC. . . . .	7-27
7.7.	Deadlock and Resolution . . . . .		7-28
	Form 7-17.	Arbitration of Deadlock . . . . .	7-28
	Form 7-18.	Arbitration of Dispute (Alternate Form). . . . .	7-28
	Form 7-19.	Meeting between Senior Executives; Mediation . . . . .	7-30
	Form 7-20.	Reciprocal Purchase Rights in the Event of Deadlock. . . . .	7-31
	Form 7-21.	Deadlock; Buy-Sell. . . . .	7-34
7.8.	Dissolution as a Remedy for Deadlock or Oppression. . . . .		7-35
	7.8.1.	General. . . . .	7-35
	7.8.2.	Court-Ordered Dissolution in the Case of Deadlock . . . . .	7-35
	7.8.3.	Court-Ordered Dissolution in the Case of Oppression. . . . .	7-39
7.9.	Compensation and Reimbursement . . . . .		7-40.2
	Form 7-22.	No Arrangement for Compensation (Member-Managed) . . . . .	7-40.2
	Form 7-23.	Compensation (Manager-Managed) . . . . .	7-40.3
	Form 7-24.	Guaranteed Payment. . . . .	7-40.3
7.10.	Standard of Care and Degree of Loyalty . . . . .		7-40.4
	Form 7-25.	Standard of Care and Degree of Loyalty . . . . .	7-44
	Form 7-25a.	Modifying Duty of Loyalty Regarding Other Business Opportunities . . . . .	7-45
	Form 7-26.	Standard of Care and Duty of Loyalty (Alternative Form) . . . . .	7-46
	Form 7-26a.	Manager Granted Broad Discretion . . . . .	7-46.1



7.11.	Indemnification and Insurance . . . . .	7-46.1
	Form 7-27. Liability and Indemnification of Members (Manager-Managed) . . . . .	7-47
	Form 7-28. Indemnification . . . . .	7-48
	Form 7-29. Liability and Indemnification of Members (Member-Managed) . . . . .	7-48
	Form 7-30. Right to Indemnification; Advancement . . . . .	7-51
	Form 7-30a. Advancement of Indemnification . . . . .	7-53
7.12.	Power of Attorney . . . . .	7-53
	Form 7-31. Power of Attorney . . . . .	7-54
<b>CHAPTER 8: TRANSFER AND BUY-SELL PROVISIONS . . .</b>		<b>8-1</b>
8.1.	The Act's Default Rules for Transfers . . . . .	8-3
8.2.	Tax Aspects of Transfer Restrictions . . . . .	8-3
	8.2.1. Partnership Classification . . . . .	8-3
	8.2.2. Termination of the LLC . . . . .	8-4
	8.2.3. Basis Issues . . . . .	8-5
8.3.	Preliminary Drafting Considerations . . . . .	8-5
	Form 8-1. Definitional Provision — Transfer . . . . .	8-6
	Form 8-2. Definitional Provisions — Interest and Membership Rights . . . . .	8-6
8.4.	Drafting Transfer Provisions That Follow the Act's Default Rules . . . . .	8-6
	Form 8-3. Transfer Provision Following the Act's Default Rules . . . . .	8-6.1
8.5.	Drafting Transfer Provisions That Permit Free Transferability of Interests . . . . .	8-6.2
	Form 8-4. Free Transferability of Interests and Rights . . . . .	8-7
8.6.	Drafting Transfer Provisions That Absolutely Prohibit Transfers of Any Kind . . . . .	8-7
	Form 8-5. Absolute Prohibition of Transfers . . . . .	8-7
8.7.	Miscellaneous Transfer Provisions . . . . .	8-8
	8.7.1. In General . . . . .	8-8
	Form 8-6. Transfer Permitted on Satisfaction of Certain Conditions . . . . .	8-8
	8.7.2. First Refusal Rights . . . . .	8-9
	Form 8-7. Right of First Refusal; LLC Purchases; Installments Allowed . . . . .	8-10
	Form 8-8. Right of First Refusal; Member's Purchase; Payment Terms Matched . . . . .	8-11
	Form 8-9. Right of First Offer; LLC Purchases; Cash Purchase . . . . .	8-13

## CONTENTS

8.7.3.	Admission of Transferee as a Member . . . . .	8-14
	Form 8-10. Transferee Not Admitted as Member without Consent of Members . . . . .	8-14
	Form 8-11. Transferee Automatically Admitted as Member . . . . .	8-15
8.7.4.	Transfers to Members' Affiliates and Family . . . . .	8-15
	Form 8-12. Definitional Provision — Family . . . . .	8-16
	Form 8-12a. Transfers to Affiliates and Family . . . . .	8-16
	Form 8-13. Permitted Transferees . . . . .	8-16.1
8.7.5.	Right of First Refusal to Member of Family Group . . .	8-16.2
	Form 8-13a. Right of First Refusal — Members of Designated Family Group Have Right of First Refusal to Purchase Units of That Family Group before Company or Other Members . . . . .	8-16.2
8.7.6.	Transfers Incidental to Disputes between Members . . . . .	8-16.4
8.7.7.	Transfers Incidental to Put-Call, Tag-Along and Drag-Along Rights . . . . .	8-16.4
	Form 8-13b. "Put-Call" Buy-Out Provision . . . . .	8-16.4
	Form 8-13c. Tag-Along Right . . . . .	8-16.5
	Form 8-13d. Drag-Along Right . . . . .	8-16.6
8.7.8.	Transfers Incidental to Change-in-Control Provision . . . . .	8-16.7
	Form 8-13e. Change-in-Control . . . . .	8-16.7
8.8.	Withdrawal and Dissociation under the Act . . . . .	8-16.8
8.8.1.	Withdrawal . . . . .	8-16.8
	Form 8-14. Resignation Defined . . . . .	8-17
	Form 8-15. Resignation Restricted . . . . .	8-17
	Form 8-15a. Resignation Restricted — Alternative . . .	8-17
8.8.2.	Dissociation . . . . .	8-17
	Form 8-16. Dissociation Defined (Long Form) . . . . .	8-20
	Form 8-17. Dissociation Defined (Short Form) . . . . .	8-21
8.9.	Consequences of Dissociation in General . . . . .	8-21
8.9.1.	In General . . . . .	8-21
8.9.2.	Information Rights of a Dissociated Person . . . . .	8-22
	Form 8-18. Status of Successor of a Dissociated Member; Fair Value Purchase of Resigning Member's Interest Not Required . . . . .	8-22
8.10.	Valuation of Transferable Interests . . . . .	8-23

Form 8-19.	Mandatory Purchase from Dissociated Member . . . . .	8-23
Form 8-20.	Agreed Value . . . . .	8-24
Form 8-21.	Book Value . . . . .	8-24
Form 8-21a.	Alternative Book Value Provision . . . . .	8-25
Form 8-22.	Appraised Value . . . . .	8-25
Form 8-23.	Net Present Value . . . . .	8-26
8.11.	Other Transfer Considerations . . . . .	8-26
Form 8-24.	Installment Buy-Outs . . . . .	8-26.1
8.12.	Redemption Agreements . . . . .	8-27
Form 8-25.	Membership Interest Redemption Agreement . . . . .	8-27
Form 8-26.	Membership Interest Redemption Agreement (Alternative Form) . . . . .	8-30
8.13.	Sale of All Limited Liability Company Interests . . . . .	8-40
8.14.	Certain United States Federal Income Tax Considerations . . . . .	8-40
<b>CHAPTER 9: DISSOLUTION . . . . .</b>		<b>9-1</b>
9.1.	Tax Aspects of LLC Dissolution . . . . .	9-2
9.2.	Overview of the Act's Dissolution Provisions . . . . .	9-2
Form 9-1.	Dissolution — Comprehensively Describes All Events of Dissolution . . . . .	9-4.1
Form 9-2.	Specific Dissolution Event . . . . .	9-4.2
Form 9-3.	Sample Resolutions Approving Continuation of Business after Dissolution . . . . .	9-5
Form 9-3a.	Sample Appointment of Substitute Member Following Death of Sole Member . . . . .	9-6
Form 9-3b.	Consent of Members to Dissolution, Liquidation and Winding Up of Affairs of LLC and Subsidiary . . . . .	9-7
9.3.	Procedure for Winding Up and Distribution of Assets . . . . .	9-9
Form 9-4.	Procedure for Winding Up . . . . .	9-10
Form 9-5.	Procedure for Winding Up LLC and for Distribution of Assets in Manager-Managed LLC — Manager Acts as Liquidating Trustee . . . . .	9-11
9.4.	Certificate of Dissolution . . . . .	9-12
Form 9-6.	Filing of Certificate of Dissolution — Member-Managed LLC . . . . .	9-12
Form 9-7.	Filing of Certificate of Dissolution — Manager-Managed LLC . . . . .	9-12
Form 9-8.	Certificate of Dissolution . . . . .	9-13
9.5.	Notice to Creditors of a Dissolved Limited Liability Company . . . . .	9-13

CONTENTS

Form 9-9.	Notice to Known Creditors . . . . .	9-14
Form 9-10.	Published Notice to Creditors of a Dissolved Limited Liability Company. . . . .	9-16
9.6.	Notice of Termination . . . . .	9-17
Form 9-11.	Certificate of Termination . . . . .	9-17
Form 9-12.	Certificate of Dissolution and Termination. . . . .	9-18

**CHAPTER 10: BOOKS, RECORDS, AND ACCOUNTING. . . . . 10-1**

10.1.	Introduction. . . . .	10-2.1
10.2.	Banking. . . . .	10-2.1
	Form 10-1. Bank Accounts . . . . .	10-2.1
10.3.	Rights of Members, Managers and Dissociated Members to Information . . . . .	10-3
	10.3.1. Statutory Rules. . . . .	10-3
	10.3.2. Required Records. . . . .	10-4
	Form 10-2. Maintenance of Records (Short Form) . . . . .	10-4
	Form 10-3. Maintenance of Records — Manager-Managed LLC (Long Form) . . . . .	10-4
10.4.	Accounting Period; Method of Accounting . . . . .	10-6
	Form 10-4. Calendar Year Accounting Period Specified . . . . .	10-6
	Form 10-5. Fiscal Year Accounting Period Specified . . . . .	10-6
	Form 10-6. Year to Be Determined by Members. . . . .	10-6
	Form 10-7. Annual Accounting Period Established by Managers . . . . .	10-7
	Form 10-8. Method of Account — Manager-Managed. . . . .	10-7
10.5.	Reports . . . . .	10-7
	Form 10-9. Preparation of Reports (Short Form) for Member-Managed or Manager-Managed LLC. . . . .	10-8
	Form 10-10. Preparation of Reports (Long Form) for Manager-Managed LLC . . . . .	10-8
10.6.	LLCs and Tax Audits . . . . .	10-9
	10.6.1. Unified Audit Rules . . . . .	10-9
	Form 10-11. Reserved . . . . .	10-9
	10.6.2. New Partnership Audit Procedures . . . . .	10-10
	Form 10-12. New Partnership Audit Procedures. . . . .	10-11
	10.6.3. Final and Proposed Regulations on the New Partnership Audit Procedures . . . . .	10-14

10.7. Tax Elections.....	10-15
Form 10-13. Tax Elections.....	10-15
Form 10-14. Tax Elections — Applies to Code Section 754 Only — for Use in Either Member-Managed or Manager-Managed LLC.....	10-16

## PART III MISCELLANEOUS

<b>CHAPTER 11: BUSINESS REORGANIZATIONS INVOLVING LLCS.....</b>	<b>11-1</b>
11.1. In General .....	11-3
11.2. Admission of New Members .....	11-3
11.2.1. Acquisition of Interest from Company .....	11-3
Form 11-1. Simple Subscription Agreement for LLC Membership Interest .....	11-4
Form 11-2. Long Form Subscription Agreement for LLC Membership Interest with Securities Language .....	11-5
Form 11-2a. Short Form Subscription Letter with Securities Language .....	11-9
Form 11-3. First Amendment to Operating Agreement Admitting a New Member.....	11-10
Form 11-3a. Contribution Agreement .....	11-12.1
11.2.2. Acquisition of Interest from Another Member .....	11-12.3
Form 11-4. Assignment of LLC Membership Right .....	11-12.4
Form 11-5. Joinder Agreement.....	11-17
11.3. Mergers Involving a New Jersey LLC .....	11-17
Form 11-6. Merger of Two New Jersey LLCs.....	11-22
Form 11-7. Merger of New Jersey LLC with and into a New Jersey Corporation .....	11-23
Form 11-8. Certificate of Merger of New Jersey LLC with and into Delaware LLC.....	11-25
11.4. Conversions Involving LLCs .....	11-26
11.4.1. In General .....	11-26
11.4.2. Conversion of an LLC into a Corporation.....	11-28
Form 11-9. Conversion of a New Jersey LLC to a Delaware Corporation— Plan of Conversion .....	11-29

CONTENTS

Form 11-9a. Conversion of a New Jersey LLC to a Delaware Corporation—Articles of Conversion. . . . .	11-30.2
Form 11-10. Certificate of Conversion to Corporation . . . . .	11-30.3
11.4.3. Conversion of General Partnership to LLC . . . . .	11-30.4
Form 11-11. Agreement to Convert General Partnership to Limited Liability Company . . . . .	11-31
Form 11-12. Explanatory Statement — Conversion of General Partnership into LLC. . . . .	11-33
Form 11-13. Term Is Continuation of Term of Partnership. . . . .	11-34
Form 11-14. Initial Capital Contributions — In Property Consisting of Partnership Interests in LLC’s Predecessor . . . . .	11-35
Form 11-15. Assignment of General Partnership Interests to LLC. . . . .	11-35
Form 11-16. Resolutions of Members Approving Liquidation of Partnership into LLC. . . . .	11-36
11.4.4. Conversion of Limited Partnership into LLC . . . . .	11-37
11.4.5. Conversion of Corporation into LLC. . . . .	11-37
11.5. Recapitalizing the LLC. . . . .	11-39
Form 11-17. Form of Amendment of Operating Agreement. . . . .	11-40
<b>CHAPTER 12: DOING INTERSTATE BUSINESS . . . . .</b>	<b>12-1</b>
12.1. Foreign LLCs Doing Business in New Jersey . . . . .	12-2
12.1.1. Governing Law . . . . .	12-2
12.1.2. Doing Business . . . . .	12-2
12.1.3. Procedure for Registration. . . . .	12-3
Form 12-1. Application for Registration of a Foreign Limited Liability Company . . . . .	12-3
12.1.4. Issuance and Cancellation of Registration. . . . .	12-4
12.1.5. Doing Business without Registration . . . . .	12-4
12.2. Domestication of Foreign Limited Liability Companies . . . . .	12-5
12.3. New Jersey LLCs Doing Business Outside of New Jersey. . . . .	12-5
12.3.1. Delaware . . . . .	12-7
12.3.2. New York . . . . .	12-7
Form 12-2. Application for Authority of a Foreign Limited Liability Company to Transact Business in New York. . . . .	12-10

12.3.3.	Pennsylvania .....	12-11
<b>CHAPTER 13: PROFESSIONAL LIMITED LIABILITY COMPANIES..... 13-1</b>		
13.1.	Use of Limited Liability Companies by Professionals .....	13-2
13.2.	Limited Liability Partnerships .....	13-5
13.2.1.	Generally .....	13-5
13.2.2.	Becoming a Limited Liability Partnership. ....	13-7
	Form 13-1. Statement of Qualifications to Become a Limited Liability Partnership .....	13-7
13.2.3.	Foreign Limited Liability Partnerships .....	13-8
	Form 13-2. Statement of Qualifications of a Foreign Limited Liability Partnership. ....	13-9
13.2.4.	Use of Limited Liability Partnerships by Attorneys ...	13-10
13.3.	Member Service Agreement .....	13-11
	Form 13-3. Member Service Agreement .....	13-11
<b>CHAPTER 14: COMMERCIAL AND SECURITIES LAW ASPECTS OF LLCs..... 14-1</b>		
14.1.	Credit Agreement Considerations for LLC Borrowings.....	14-4
14.1.1.	Due Diligence .....	14-4
	Form 14-1. Manager's Certificate .....	14-6
	Form 14-2. Member's Certificate.....	14-8
	Form 14-3. Majority Member's Certificate .....	14-9
14.1.2.	Documentation.....	14-11
	14.1.2.1. Recourse .....	14-12
	14.1.2.2. Representations and Warranties.....	14-12
	14.1.2.3. Covenants.....	14-12
14.1.3.	Remedies .....	14-13
14.1.4.	Conversions of Existing Entities .....	14-13
14.1.5.	Banking Resolutions .....	14-14
	Form 14-4. Limited Liability Company Depository and Signing Resolutions .....	14-14
14.1.6.	Amendment of Operating Agreement in Connection with a Loan Transaction.....	14-16
	Form 14-5. Amendment of Operating Agreement in Connection with Financing Agreement.....	14-17
14.2.	Opinion Letters .....	14-19
14.2.1.	Introduction .....	14-19

CONTENTS

Form 14-6. Form of Opinion Letter in Connection with a Bank Loan to an LLC . . . . .	14-20
14.2.2. Status Opinion . . . . .	14-25
14.2.2.1. Background and Meaning . . . . .	14-25
14.2.2.2. Due Diligence Procedures . . . . .	14-25
14.2.3. Power Opinion . . . . .	14-26
14.2.3.1. Background and Meaning . . . . .	14-26
14.2.3.2. Due Diligence Procedures . . . . .	14-27
14.2.4. Acts Opinion . . . . .	14-28
14.2.4.1. Background and Meaning . . . . .	14-28
14.2.4.2. Due Diligence Procedures . . . . .	14-29
14.2.5. No Violation Opinion . . . . .	14-31
14.2.5.1. Background and Meaning . . . . .	14-31
14.2.5.2. Due Diligence Procedures . . . . .	14-36
14.2.6. No Consent Opinion . . . . .	14-37
14.2.6.1. Background and Meaning . . . . .	14-38
14.2.6.2. Due Diligence Procedures . . . . .	14-39
14.2.7. Remedies Opinion . . . . .	14-40
14.2.7.1. Background and Meaning . . . . .	14-40
14.2.7.2. Due Diligence Procedures . . . . .	14-45
14.2.8. Opinions on LLC Membership Interests . . . . .	14-47
14.2A. Due Diligence Checklists . . . . .	14-48
14.2A.1. Status Opinion . . . . .	14-48
Form 14-6A. Status Opinion Checklist . . . . .	14-48
14.2A.2. Power Opinion . . . . .	14-49
Form 14-6B. Power Opinion Checklist . . . . .	14-49
14.2A.3. Acts Opinion . . . . .	14-50
Form 14-6C. Acts Opinion Checklist . . . . .	14-50
14.2A.4. No Violation Opinion . . . . .	14-52
Form 14-6D. No Violation Opinion Checklist . . . . .	14-52
14.2A.5. No Consent Opinion . . . . .	14-54
Form 14-6E. No Consent Opinion Checklist . . . . .	14-54
14.2A.6. Remedies Opinion . . . . .	14-55
Form 14-6F. Remedies Opinion Checklist . . . . .	14-55
14.3. Guarantees and Responsibility for Losses Derived from Guarantees of LLC Obligations . . . . .	14-56
Form 14-7. Guaranty Agreement . . . . .	14-56
Form 14-8. Indemnity and Contribution Agreement — Obligation Guaranteed Only by Members . . . . .	14-69
14.4. Pledges of LLC Interests . . . . .	14-71
Form 14-9. LLC “Opt In” under UCC Article 8 . . . . .	14-72



Form 14-9a. Operating Agreement Provision that LLC Will Not “Opt Out” of Article 8 . . . . .	14-73
Form 14-9b. Membership Interest Pledge Agreement. . . . .	14-74
Form 14-9c. Assignment Separate from Certificate . . . . .	14-84.2
14.5. Bankruptcy Implications. . . . .	14-84.3
14.5.1. The Bankruptcy Code and LLCs . . . . .	14-84.3
Form 14-10. Operating Agreement Provision — Unanimous Consent of Members to Filing a Voluntary Case . . . . .	14-85
Form 14-11. Operating Agreement Provision — Manager Vote Required for Filing of Voluntary Case . . . . .	14-86
Form 14-12. Operating Agreement Provision — Member and Manager Vote Required for Filing of Voluntary Case . . . . .	14-86
Form 14-13. Resolutions of Board of Managers in Manager-Managed LLC Consenting to Filing a Voluntary Case under Chapter 11 . . . . .	14-87
14.5.2. Involuntary Cases. . . . .	14-88
14.5.3. Bankruptcy of a Member—Ipsa Facto Clauses and Section 541 of the Bankruptcy Code. . . . .	14-88
14.5.4. Executory Operating Agreements and the Impact of Section 365 of the Bankruptcy Code. . . . .	14-94
14.5.5. Bankruptcy-Remote LLCs. . . . .	14-94.8
Form 14-13a. Operating Agreement Provision — Special Amendment Provision. . . . .	14-96
14.6. Securities Law Aspects . . . . .	14-96
14.6.1. LLC Interests as Securities . . . . .	14-96.1
14.6.2. Status of the LLC as an Issuer. . . . .	14-101
14.7. Applicability of the Premerger Notification Requirements of the Hart-Scott-Rodino Act to LLCs . . . . .	14-102
14.7.1. Background . . . . .	14-102
14.7.2. Current Hart-Scott-Rodino Act Premerger Reporting Requirements Applicable Partnerships, LLCs and Unincorporated Entities . . . . .	14-103
14.7.3. Treatment of LLCs and Unincorporated Entities under the New Rules . . . . .	14-105
14.8. Diversity Jurisdiction for LLCs . . . . .	14-107
14.9. Charging Orders . . . . .	14-107
14.9.1. Generally . . . . .	14-107

CONTENTS

14.9.2.	The Olmstead Case . . . . .	14-109
14.9.3.	The Bankruptcy Cases . . . . .	14-110
14.9.4.	Does Olmstead Have Precedential Value in New Jersey? . . . . .	14-112
14.10.	Proprietary Rights and Noncompetition Agreements . . . . .	14-112
	Form 14-14. Proprietary Rights and Noncompetition Agreements . . . . .	14-113
14.11.	S Corporation Limited Liability Companies . . . . .	14-119
	Form 14-15. Selected S Corporation Provisions . . . . .	14-120
14.12.	Bulk Sales Notification Process for Pass-Through Sellers . . . . .	14-121

**CHAPTER 15: COMPENSATION STRATEGIES FOR THE  
LLC . . . . . 15-1**

15.1.	Introduction. . . . .	15-3
15.2.	IRC Section 83 . . . . .	15-4
15.3.	Profits Interest vs. Capital Interest . . . . .	15-6
	Form 15-1a. Provision for Issuance of Profits Interests . . . . .	15-10
	Form 15-1b. Profits Interest Based on Achieving a “Threshold Amount” . . . . .	15-12
	Form 15-1c. Definitions for Profits Interest Based on Achieving a “Threshold Amount”. . . . .	15-12.6
15.4.	LLC (Partnership) vs. Corporation Compensation Methods. . . . .	15-12.7
15.4.1.	Corporation Context . . . . .	15-12.7
	15.4.1.1. Stock Grants. . . . .	15-12.7
	15.4.1.2. Stock Options. . . . .	15-12.9
	15.4.1.3. Phantom Stock Plans . . . . .	15-13
15.4.2.	The LLC Context. . . . .	15-13
	15.4.2.1. Equity Interests . . . . .	15-14
	15.4.2.1.1. “Full Equity Interest” . . . . .	15-14
	15.4.2.2. Point System Compensation . . . . .	15-15
	15.4.2.3. The Importance of Member Involvement . . . . .	15-17
	15.4.2.4. Loss Allocation and Debt Guarantees . . . . .	15-17
	15.4.2.5. Equity Interest vs. Non-Equity Incentive Compensation. . . . .	15-18
15.4.3.	Guidance from the Internal Revenue Service . . . . .	15-19
15.5.	Phantom Income and Distributions. . . . .	15-22.1
15.5.1.	Tax Effected Distributions . . . . .	15-22.1
	15.5.1.1. Separate Calculations for Each Member . . . . .	15-23

15.5.1.2.	Standard Distribution Rate. . . . .	15-24
15.5.1.3.	Highest Incremental Tax Rate . . . . .	15-25
15.5.2.	Self-Employment Tax . . . . .	15-27
15.5.2.1.	Calculating Self-Employment Income . . . . .	15-28
15.5.2.2.	Application of Self-Employment Tax to LLC Members. . . . .	15-28
15.5.2.3.	Electing S Corporation Status as a Means of Mitigating Employment. . . . .	15-29
15.6.	Forms: Equity and Non-Equity Based LLC Compensation Plans . . . . .	15-29
15.6.1.	Grant of Equity Interest to Employees Subject to Forfeiture . . . . .	15-29
	Form 15-1. Unit Grant Agreement. . . . .	15-30
15.6.2.	Phantom Ownership Plan . . . . .	15-32.3
	Form 15-2. Communications, LLC: Employee Incentive Compensation Plan . . . . .	15-32.3
	Form 15-3. Sample Memorandum to Employee Regarding Unit Grant and Section 83 Rules. . . . .	15-42
	Form 15-4. Sample Section 83(b) Election Statement. . . . .	15-44
15.7.	Other Compensation Issues. . . . .	15-45
15.7.1.	Internal Revenue Code Section 409A . . . . .	15-45
15.7.2.	“Carried Interest” Legislation . . . . .	15-46
<b>CHAPTER 16: RESERVED . . . . .</b>		<b>16-1</b>
<b>CHAPTER 17: SINGLE MEMBER LLCs . . . . .</b>		<b>17-1</b>
17.1.	In General . . . . .	17-2
17.2.	Tax Issues . . . . .	17-2
17.3.	Uses of Single Member LLCs in Statutory Mergers and Consolidations . . . . .	17-4
17.4.	Uses of Single Member Limited Liability Companies. . . . .	17-5
17.5.	Operating Agreements for Single Member Limited Liability Companies . . . . .	17-7
17.5.1.	Generally . . . . .	17-7
17.5.2.	Operating Agreement as a Means of Withstanding Veil-Piercing . . . . .	17-7
17.5.3.	Single Member Operating Agreement Can Eliminate Ambiguity Resulting from Transfer of Member’s Interest . . . . .	17-9

CONTENTS

Form 17-1. Transferability of Single Member’s Interest. . . . . 17-9

17.6. Tax Consequences of a Single Member LLC Becoming an Entity with More than One Owner . . . . . 17-10

**CHAPTER 18: THE LLC IN LITIGATION. . . . . 18-1**

18.1. Introduction. . . . . 18-2

18.2. Derivative Actions. . . . . 18-2

Form 18-1. Letter Demanding Members with Authority to Enforce the Rights of the LLC . . . . . 18-4

Form 18-2. Complaint for Derivative Action. . . . . 18-6

18.3. Dissolution as a Remedy for Member Disputes and Alleged Oppression. . . . . 18-10

18.4. The Role of Equity in the LLC Litigation . . . . . 18-10

18.5. Judgment Creditors of Members. . . . . 18-11

**PART IV  
APPENDICES**

APPENDIX A: [MEMBER-MANAGED] OPERATING AGREEMENT OF \_\_\_\_\_ LIMITED LIABILITY COMPANY . . . . . APP A-1

APPENDIX B: [MANAGER-MANAGED] OPERATING AGREEMENT OF \_\_\_\_\_ LIMITED LIABILITY COMPANY . . . . . APP B-1

APPENDIX C: PROFESSIONAL SERVICES OPERATING AGREEMENT OF \_\_\_\_\_ LIMITED LIABILITY COMPANY . . . . . APP C-1

APPENDIX D: OPERATING AGREEMENT FOR A SINGLE MEMBER NEW JERSEY LIMITED LIABILITY COMPANY OWNED BY A CORPORATION . . . . . APP D-1

APPENDIX D1: ALTERNATIVE FORM OF SINGLE MEMBER OPERATING AGREEMENT . . . . . APP D1-1

APPENDIX D2: OPERATING AGREEMENT OF LIMITED LIABILITY COMPANY WHICH IS A SUBSIDIARY OF A TAX-EXEMPT ENTITY AND IS USED FOR TAX-EXEMPT PURPOSES . . . . . APP D2-1

APPENDIX D3:	OPERATING AGREEMENT FOR A BANKRUPTCY-REMOTE ENTITY . . . . .	APP D3-1
APPENDIX E:	FORM OF OPERATING AGREEMENT FOR A TWO PERSON LIMITED LIABILITY COMPANY FORMED FOR A SPECIFIC PROJECT . . . . .	APP E-1
APPENDIX F:	NEW JERSEY REVISED UNIFORM LIMITED LIABILITY COMPANY ACT . . . . .	APP F-1
APPENDIX G:	CHECK-THE-BOX REGULATIONS . . . . .	APP G-1
APPENDIX H:	REVENUE PROCEDURE 95-10 . . . . .	APP H-1
APPENDIX I:	IRS FORM 8832 . . . . .	APP I-1
APPENDIX J:	N.Y.L.L.C.L. § 204. LIMITED LIABILITY COMPANY NAME . . . . .	APP J-1
APPENDIX K:	DIVISION OF REVENUE, BUSINESS REGISTRATION FORM, NJ-REG . . . . .	APP K-1
APPENDIX L:	COMMON UNIT INCENTIVE PLAN; CORRESPONDING PROVISIONS OF OPERATING AGREEMENT; FORM OF INCENTIVE UNIT GRANT AGREEMENT . . . . .	APP L-1
APPENDIX L1:	INCENTIVE UNIT AGREEMENT . . . . .	APP L1-1
APPENDIX M:	OPERATING AGREEMENT OF LIMITED LIABILITY COMPANY THAT OWNS A VACATION HOME. . . . .	APP M-1
APPENDIX N:	COMPARISON OF STATE LLC FEES AND OTHER INFORMATION . . . . .	APP N-1
APPENDIX O:	UNIT PURCHASE AGREEMENT . . . . .	APP O-1

## PART V LLP AND LLC CASES

LLP and LLC Cases . . . . .	LLC Cases-1
-----------------------------	-------------

**PART VI**  
**INDICES**

Cumulative Table of Internal Revenue Code Sections . . . . .	INDEX-1
Cumulative Table of Treasury Regulations . . . . .	INDEX-4
Cumulative Table of Revenue Rulings and Revenue Procedures . . .	INDEX-6
Cumulative Table of New Jersey Limited Liability Company Act Sections . . . . .	INDEX-7
Miscellaneous New Jersey Act Sections . . . . .	INDEX-11
Subject Index . . . . .	INDEX-13
Forms Index . . . . .	INDEX-29