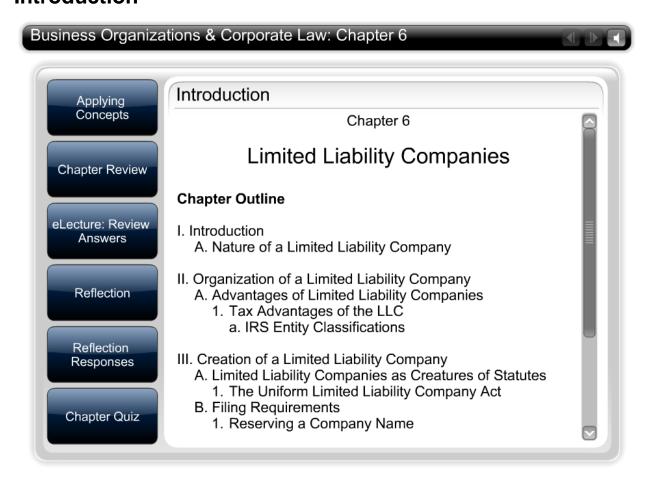
Business Organizations & Corporate Law: Chapter 6 Introduction



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Chapter 6

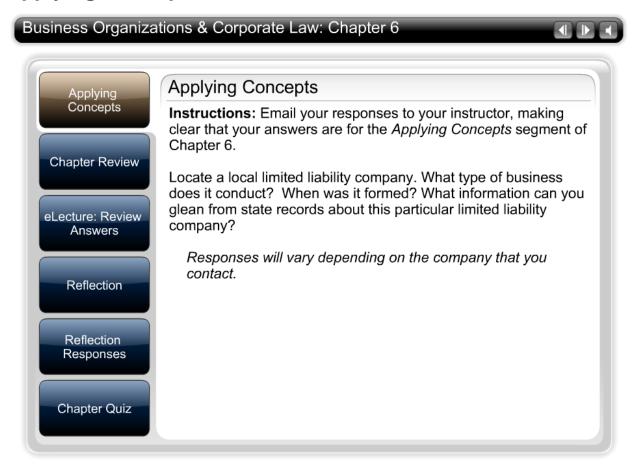
Limited Liability Companies

Chapter Outline

- I. Introduction
 - A. Nature of a Limited Liability Company
- II. Organization of a Limited Liability Company
 - A. Advantages of Limited Liability Companies
 - 1. Tax Advantages of the LLC
 - a. IRS Entity Classifications

- III. Creation of a Limited Liability Company
 - A. Limited Liability Companies as Creatures of Statutes
 - 1. The Uniform Limited Liability Company Act
 - B. Filing Requirements
 - 1. Reserving a Company Name
 - a. Naming Restrictions on a Limited Liability Company
 - C. Articles of Organization
 - D. Operating Agreement
 - 1. Judicial Interpretation of Operating Agreements
 - 2. Unwritten or Nonexistent Operating Agreements
 - 3. Transfer of Interests
 - E. Dissolution of a Limited Liability Company
 - 1. Consequences of Member Withdrawal

Applying Concepts



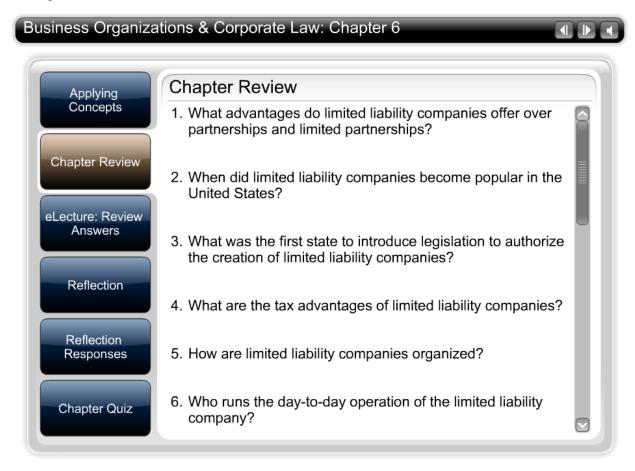
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Instructions: Email your responses to your instructor, making clear that your answers are for the *Applying Concepts* segment of Chapter 6.

Locate a local limited liability company. What type of business does it conduct? When was it formed? What information can you glean from state records about this particular limited liability company?

Responses will vary depending on the company that you contact.

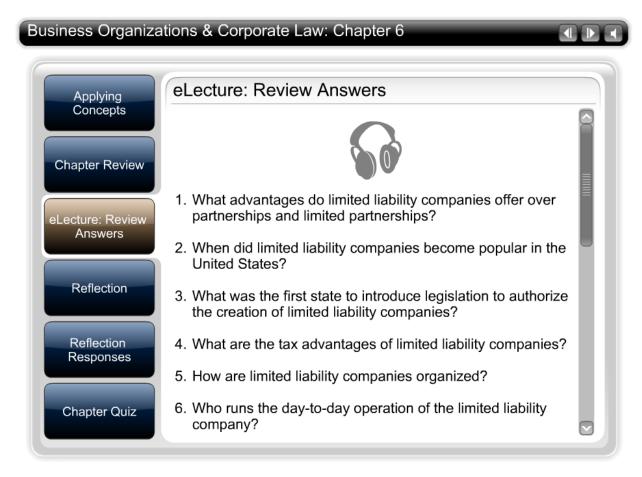
Chapter Review



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- 1. What advantages do limited liability companies offer over partnerships and limited partnerships?
- 2. When did limited liability companies become popular in the United States?
- 3. What was the first state to introduce legislation to authorize the creation of limited liability companies?
- 4. What are the tax advantages of limited liability companies?
- 5. How are limited liability companies organized?

eLecture: Review Answers



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- 1. What advantages do limited liability companies offer over partnerships and limited partnerships?
- 2. When did limited liability companies become popular in the United States?
- 3. What was the first state to introduce legislation to authorize the creation of limited liability companies?
- 4. What are the tax advantages of limited liability companies?
- 5. How are limited liability companies organized?

- 6. Who runs the day-to-day operation of the limited liability company?
- 7. How does someone become a member of a limited liability company?
- 8. What filing requirements do most states impose on companies seeking limited liability company status?
- 9. What are articles of organization?
- 10. What typical features must articles of organization contain?
- 11. What are the naming restrictions on limited liability companies?
- 12. What are some of the ways that a limited liability company can be dissolved?
- 13. Explain the holding in this chapter's Case Law.
- 14. What is the significance of the Uniform Limited Liability Company Act?
- 15. Are limited liability companies similar to limited partnerships? Explain.

Narration Script

1. What advantages do limited liability companies offer over partnerships and limited partnerships?

Limited liability companies offer several distinct advantages over general partnerships in limited partnerships, including the fact that none of the members face unlimited liability.

- 2. When did limited liability companies become popular in the United States? Limited liability companies became popular in the latter half of the twentieth century in United States.
- 3. What was the first state to introduce legislation to authorize the creation of limited liability companies?

The state of Wyoming was the first to adopt legislation authorizing the creation of limited liability companies.

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4. What are the tax advantages of limited liability companies?

Like limited partnerships and general partnerships, limited liability companies allow their members to pass through business losses to their individual income tax returns.

5. How are limited liability companies organized?

Limited liability companies do not have general managers. Instead, they organize along the lines of management and members. Investors in the limited liability

company are referred to as members, and people who conduct the day-to-day operations are listed as managers.

6. Who runs the day-to-day operation of the limited liability company?

The day-to-day operation of the limited liability company falls to the managers.

- 7. How does someone become a member of a limited liability company? A person becomes a member of a limited liability company by contributing property or something else in value.
- 8. What filing requirements do most states impose on companies seeking limited liability company status?

Limited liability companies are created by filing appropriate documentation in the Secretary of State's office.

9. What are articles of organization?

Articles of organization set out the basic details of a limited liability company, including the agent for service of process, mailing address of the principal office of the company, and the way that business will be managed.

- 10. What typical features must articles of organization contain? The typical features of the articles of organization include the company name, mailing address, identity in the mailing address of the agent for service of process, and any other matters the members deem to be important.
- 11. What are the naming restrictions on limited liability companies? Like limited partnerships, limited liability companies also have limitations on the names that they can assign to their companies. Generally, the company name must be followed by the abbreviation LLC or by the designation "limited liability company."
- 12. What are some of the ways that a limited liability company can be dissolved?

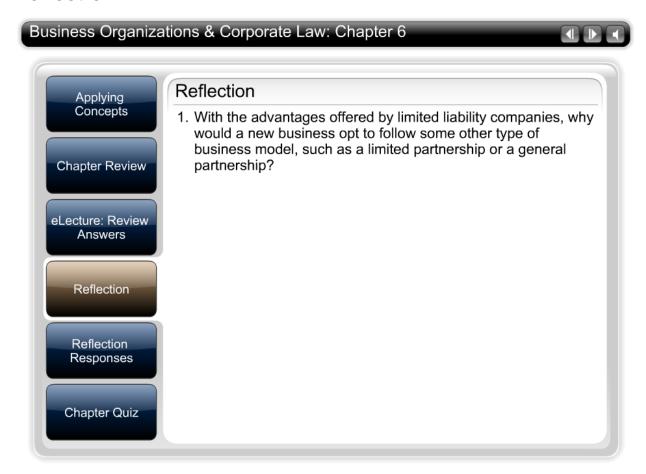
A limited liability company can be dissolved in a number of ways, including by stated agreement, by voluntary agreement to dissolve the company, by the 38 Instructor's Manual to Accompany Business Organizations and Corporate Law achievement of a specific design or purpose for which the company was originally founded, and in other ways.

13. Explain the holding in this chapter's Case Law.

Both cases show the limits and responsibilities of managers and members in limited liability companies.

- 14. What is the significance of the Uniform Limited Liability Company Act? The Uniform Limited Liability Company Act created a template and sample legislation that could be adopted by other states to create an immediate and coherent system for limited liability companies.
- 15. Are limited liability companies similar to limited partnerships? Explain. Limited liability companies are similar to limited partnerships in that the members enjoy limited liability. However, there are some important differences, including the fact that in limited liability companies both the managers and the members are protected by limited liability.

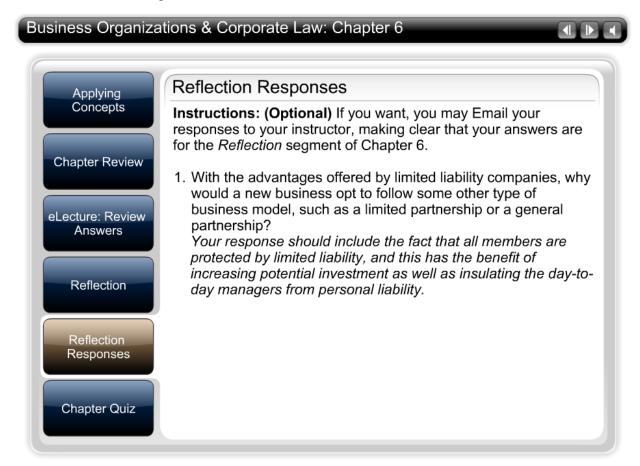
Reflection



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1. With the advantages offered by limited liability companies, why would a new business opt to follow some other type of business model, such as a limited partnership or a general partnership?

Reflection Responses



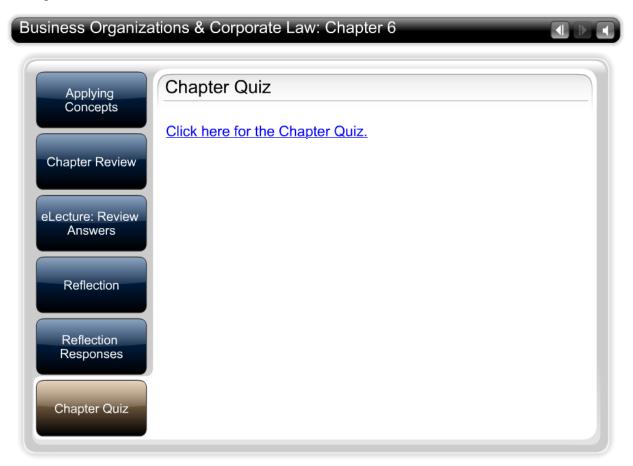
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Instructions: (Optional) If you want, you may Email your responses to your instructor, making clear that your answers are for the *Reflection* segment of Chapter 6.

1. With the advantages offered by limited liability companies, why would a new business opt to follow some other type of business model, such as a limited partnership or a general partnership?

Your response should include the fact that all members are protected by limited liability, and this has the benefit of increasing potential investment as well as insulating the day-to-day managers from personal liability.

Chapter Quiz



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Click here for the Chapter Quiz.