

WSSFC 2023

Substantive Law Track – Session 2

One Year Later: Effects of the New Uniform LLC Law

Presented By:

Jason Brasch, Bakke Norman, Eau Claire Sam Wayne, Neider & Boucher, S.C., Madison

About the Presenters...

Jason Brasch is currently a shareholder with Bakke Norman, S.C. in Eau Claire, where he assists small businesses and individuals on a wide variety of business and individual issues, including real estate, estate planning, probate, taxation, and business succession. He received his undergraduate degree in Finance from the University of Northern Iowa and his law degree from the University of Wisconsin. Jason was formerly the President of the St. Croix Valley Bar Association and is currently the Chairman of the Solo and Small Firm Section of the Wisconsin State Bar.

Sam Wayne practices business law and business litigation with Neider & Boucher, S.C. He has advised clients on a wide variety of matters including stock and asset purchases, entity formations and financing, commercial contracts, restrictive covenants, intellectual property protection, and regulatory compliance. He handles most of the firm's litigation matters, handling disputes in Wisconsin and Federal courts. He currently serves on the State Bar's Business Law Section Board of Directors, and served on its Board of Governors from 2017-2021 and Anti-Sexual Harassment Task Force and Oversight Committee from 2020-2023. He was named a *SuperLawyers Rising Star* from 2018 – 2021 and as one of the *Best Lawyers in America* for Commercial Litigation in 2023. He has been a Fellow of the Wisconsin Law Foundation since 2018. He ran his own solo practice from 2009-2010 and 2014-2021.

1 Year Later: Effects of the New Uniform LLC Law Atty. Jason Brasch, Bakke Norman, S.C. Atty. Sam Wayne, Neider & Boucher, S.C.

- 1) Background:
 - a) 2021 WI Act 258 April, 2022
 - i) Completely rewrote Ch. 183 re: Limited Liability Companies and Ch. 179 re: Limited Partnerships, effective 1/1/23
 - ii) "Revised Uniform Limited Liability Company Act" (RULLCA) from Uniform Laws Commission
 - iii) Legislature made certain substantive changes from uniform law, but mostly the new law tracks RULLCA
 - b) Substantive changes to Ch. 178 re: General Partnerships
 - c) Made some changes to Ch. 180 re: Corporations, Ch. 181 re: Nonstock Corporations
 - i) Most of the Act's revisions to these chapters are intended to conform them with analogous provisions in the other three more substantively revised chapters, 178, 179, and 183.
 - d) Effective as of January 1, 2023.
 - i) Previously existing LLCs had the option to opt out of the new law prior to this date.
- 2) Changes to Operating Agreements:
 - a) Recognition of "Operating Agreement" in informal communications:
 - i) § 183.0102(13): "Operating agreement" means the agreement, whether or not referred to as an operating agreement and whether oral, implied, in a record, or in any combination thereof.
 - (1) There is a separate definition of "Written Operating Agreement."
 - (2) Generally, written operating agreements can do things that oral operating agreements cannot.
 - ii) This provision seems scary at first, but for LLCs with a professionally drafted operating agreement it is of no consequence, as long as the agreement states that it can be amended only by a signed writing with the consent of all or some subset of the members.
 - iii) "Scariest" provision example: agreement maintains statutory rule that membership interest is based on total capital contributions, but LLC continues to file taxes based on initial membership; even if operating agreement provides for amendment only by a signed writing, a court *could* (but should not) find that tax filings count.
 - b) There are more restrictions on operating agreements under the new law.

- i) Old Law: *Kasten v. Doral Dental USA LLC*, 2007 WI 76, 301 Wis. 2d 598, 733 N.W.2d 300.
- ii) The supreme court highlighted the original WLLCL's purposes of giving maximum effect to the principle of freedom of contract and to the enforceability of operating agreements, particularly when an operating agreement deviates from the statutory default rules.
- iii) New Law: § 183.0105. Operating agreement; scope, function, and limitations.
 - (1) This statute codifies this idea that operating agreements may amend the rights and responsibilities of members and managers of an LLC, except in specific instances.
 - (2) Sub (3): An operating agreement can override anything in the statute, except:
 - (a) That the new Ch. 183 governs the LLC
 - (am) This section on what can be overridden
 - (b) That the LLC can sue and be sued in its own name.
 - (c) Generally, the provisions regarding registered agents and DFI
 - (d) The rights of aggrieved persons when a person required to sign or file something with DFI does not do so
 - (e) Alter or eliminate, or restrict the remedies for breach of the duty of loyalty or the duty of care, except it may:
 - Specify the method by which a specific act or transaction that would otherwise violate the duty of loyalty may be authorized or ratified by one or more disinterested and independent persons after full disclosure of all material facts, except as provided in (g) below
 - Eliminate the duty of loyalty except as provided in (g) below
 - (f) Eliminate, or restrict remedies for the breach of, the contractual obligation of good faith and fair dealing, except that it may prescribe the standards, if not manifestly unreasonable, by which the performance of the obligation is to be measured.
 - (g) Relieve or exonerate a person from liability for
 - 1. A willful failure to deal fairly with the company or its members in connection with a matter in which the person has a material conflict of interest.
 - 2. A violation of the criminal law, unless the person had reasonable cause to believe that the person's conduct was lawful or no reasonable cause to believe that the person's conduct was unlawful.
 - 3. A transaction from which the person derived an improper personal profit.

- 4. Willful misconduct.
- (h) Vary the information required to be kept by the LLC, or unreasonably restrict the duties and rights to provide information to members, managers, and dissociated members, but may impose reasonable restrictions on the availability and use of information obtained under that section and may define appropriate remedies, including liquidated damages and security for liquidated damages, for a breach of any reasonable restriction on use.
- (i) Vary the causes of dissolution by court order on application of a member.
- (j) Vary the requirement to wind up the company's activities and affairs.
- (k) Unreasonably restrict the right of a member to maintain an action against the LLC.
- (m) Vary the right of a member to approve a merger, interest exchange, conversion, or domestication, except by provision that does not impair the rights of a member.
- (n) Vary the required contents of a plan of merger plan of interest exchange plan of conversion under or plan of domestication.
- (o) Restrict the rights under this chapter of a person other than a member or manager, except certain instances prior to a person becoming a member, after they are dissociated as a member, or to transferees of membership interests.
- c) Recognition of "Operating Agreement" in informal communications:
 - i) § 183.0102(13): "Operating agreement" means the agreement, whether or not referred to as an operating agreement and whether oral, implied, in a record, or in any combination thereof.
 - (1) There is a separate definition of "Written Operating Agreement."
 - (2) Generally, written operating agreements can do things that oral operating agreements cannot.
 - ii) This provision seems scary at first, but for LLCs with a professionally drafted operating agreement it is of no consequence, as long as the agreement states that it can be amended only by a signed writing with the consent of all or some subset of the members.
 - iii) "Scariest" provision example: agreement maintains statutory rule that membership interest is based on total capital contributions, but LLC continues to file taxes based on initial membership; even if operating agreement provides for amendment only by a signed writing, a court *could* (but should not) find that tax filings count.
- d) New Fiduciary Duty Requirements:

- i) Old law (§ 183.0402) allowed an operating agreement to do away completely with fiduciary duties of loyalty and care.
- ii) New law:

(1) § 183.0409 adds additional standard fiduciary duty of loyalty standards.

(2) The duty of loyalty of a member in a member-managed limited liability company includes all of the following duties:

(a) The duty to account to the company and hold as trustee for it any property, profit, or benefit derived by the member in or from any of the following:

- 1. The conduct or winding up of the company's activities and affairs.
- 2. A use by the member of the company's property.
- 3. The appropriation of a limited liability company opportunity.

(b) The duty to refrain from dealing with the company in the conduct or winding up of the company's activities and affairs as or on behalf of a person having an interest adverse to the company.

(c) The duty to refrain from competing with the company in the conduct of the company's activities and affairs before the dissolution of the company.

- iii) These apply only to Managers in Manager-managed LLC; members have no fiduciary duties by statute; Operating Agreement can add them;
- iv) Operating Agreement can erase these specific duties, but cannot eliminate duties found verbatim in old statute; new law sets a floor that wasn't there before;
- v) It can also, subject to old statute floor, "specify the method by which a specific act or transaction that would otherwise violate the duty of loyalty may be authorized or ratified by one or more disinterested and independent persons after full disclosure of all material facts."
- e) Rights of Members in Manager-Managed LLC:
 - i) § 183.0407(3)(c): "The affirmative vote or consent of all members is required to do any of the following:
 - ii) Sell, lease, exchange, or otherwise dispose of all or substantially all of the company's property, with or without the goodwill, outside the ordinary course of the company's activities."
 - iii) This provides all members in a Manager-Managed LLC with a veto right over an asset sale.
 - iv) This can be (and should be) amended in Operating Agreement.
- f) "Family Cabin" LLCs using LLC for non-business purposes:

- i) § 183.0401(5): New law allows admission of "non-economic" members who do not acquire a transferable interest or make a capital contribution.
- ii) Intended to accommodate non-business purposes e.g. Family Cabin LLCs.
- iii) May be beneficial in Family Cabin LLCs in that it allows non-economic members a vote even if they do not have an ownership percentage (only if Operating Agreement gives vote to all members regardless of economic interest).
- iv) May also allow LLCs to qualify for 501(c)(3) treatment.
- g) New law has no effect on the following:
 - i) §183.0110(2)(d)1.: Existing obligations of LLC;
 - ii) § 183.0110(2)(d)2.: Legality of existing Operating Agreement provisions (if the Operating Agreement was executed under the old law, provisions that are counter to the new law are still enforceable, even if the LLC becomes subject to the new law);
 - iii) Capital contributions;
 - iv) Equity structure;
 - v) Capital calls;
 - vi) Transfer restrictions;
 - vii)Options to purchase or sell;
 - viii) Drag-along and tag-along rights;
 - ix) Membership classes;
 - x) Subchapter "S" status and restrictions;
 - xi) Indemnification rights and responsibilities; and
 - xii) Defaults and Remedies.
- h) Changes for all LLC Operating Agreements, no matter how simple:
 - i) Designate Member- or Manager-Management in Operating Agreement.
 - (1) New LLCs will not select this in Articles of Organization.
 - (2) The default is Member-Management.
 - ii) Specify amendment may be made only by signed writing titled "Amendment to Operating Agreement."
 - iii) Specify vote of members required for the LLC to: "Sell, lease, exchange, or otherwise dispose of all or substantially all of the company's property, with or without the goodwill, outside the ordinary course of the company's activities." (unless, of course, the members want each to have veto power).
- 3) Changes to Charging Order Procedure

- a) A "charging order" is available to a judgment creditor of an LLC member (or nonmember interest-holder), which charges the member's LLC interest with the payment of the unsatisfied judgment.
- b) Old law did not expressly allow judgment creditor to take ownership of LLC interest
- c) New law:
 - i) For single-member LLCs
 - (1) Judgment creditor can foreclose on LLC interest
 - (2) Purchaser obtains debtor member's entire LLC interest, becomes a member
 - (3) Judgment debtor dissociated as a member
 - (4) Prohibits single-member LLC owners from shielding assets from judgment by keeping them in LLC
 - ii) For multi-member LLCs
 - (1) Judgment creditor can foreclose on LLC interest
 - (2) Purchaser obtains debtor member's transferable interest (but does become a member)
 - (3) LLC or other members may satisfy judgment and succeed to the rights of the judgment creditor, including charging order
- d) Some Wisconsin lawyers are now recommending that their clients never establish singlemember LLCs
- 4) Judicial Dissociation
 - a) LLC or Member may apply for a judicial order expelling a member because:
 - i) the member has engaged, or is engaging, in wrongful conduct that has adversely and materially affected, or will adversely and materially affect, the company's activities and affairs; or
 - ii) The member has willfully or persistently committed, or is willfully or persistently committing, a material breach of the operating agreement or the person's duties or obligations under s. 183.0409.
 - iii) Law allows Member to bring this as a *direct* action rather than derivative, even if the harm alleged is to the company
 - iv) Claims for damages by Member must still be brought as derivative
- 5) Effects of New Law on LLC Litigation
 - a) First, which law applies?

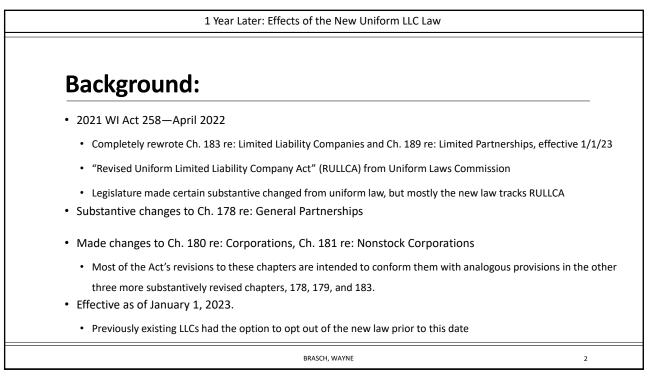
- i) Old law applies to all "obligations incurred by the" LLC prior to applicability of new law; generally all claims that arise from LLC obligations prior to 1/1/23 are governed by old law
- ii) New law applies to all obligations incurred by the LLC following 1/1/23
- iii) New law silent on claims involving Ch. 183 that do not relate to "obligations incurred by" the LLC
- iv) Be careful in filing there are numerous claims available under new law that aren't available under old law
- b) Not enough time has passed for any claims under new law to work through the Courts; no published opinions
- c) Old law, passed in 1993, has a total of *six* cases in annotations, so practitioners received very little guidance, if any at all, from Courts' interpretations of Ch. 183
- New law has one annotation, re: minority member oppression, which still applies from 2006
- e) What little guidance we had from Wisconsin Courts is all but gone
- f) However, since the new law is based on RULLCA, there will be persuasive authority from other state and federal courts' interpretations, as 23 other states have adopted a version of RULLCA, including:
 - i) California
 - ii) Florida
 - iii) Illinois
 - iv) Iowa
 - v) Minnesota
 - vi) New Jersey
 - vii) Pennsylvania
 - viii) Washington
- g) Notable states that do NOT use RULLCA:
 - i) Delaware
 - ii) New York
 - iii) Nevada
 - iv) Michigan

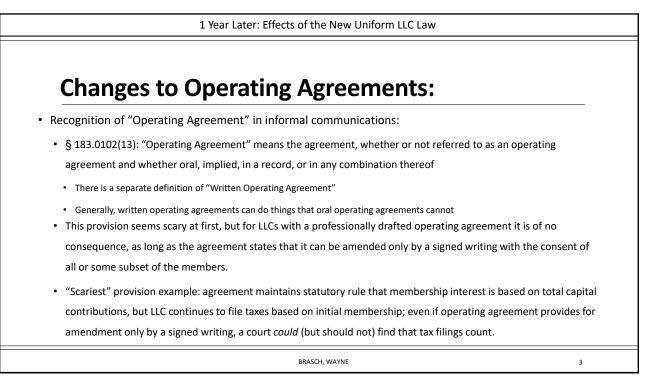
- v) Texas
- h) Westlaw search for "RULLCA" nationwide shows 53 cases interpreting law (16 reported)
- 6) Key Takeaways:
 - a) Many of the old best practices remain the same e.g., always have a written operating agreement.
 - b) Advise single member clients of the risks associated with the new charging order changes especially where personal guarantees and multiple entities are involved.
 - c) Update any specific statutory references in operating agreements.
 - d) Carefully review updated statutes for compliance any time the operating agreement is modifying any of the Members' duties to one another or to the company.
 - e) Operating agreements should specify how they can be amended and specify the votes needed to take actions outside the ordinary course of business.
- 7) Recommended reading:
 - a) Tutaj, Adam J., "Navigating Wisconsin's New LLC Act." *Wisconsin Lawyer*, Vol. 95, No. 6, June 2022
 - i) <u>https://www.wisbar.org/NewsPublications/WisconsinLawyer/Pages/Article.aspx?Volume=95&Issue=6&ArticleID=29152</u>
 - b) Boucher, Joseph W. and Miller, Craig Billings, "A Look Back and Ahead: The Wisconsin Limited Liability Company," *Wisconsin Lawyer*, Vol. 95, No. 6, June 2022
 - i) <u>https://www.wisbar.org/NewsPublications/WisconsinLawyer/Pages/Article.aspx?Vol</u> <u>ume=95&Issue=6&ArticleID=29161</u>
 - c) Nichols, Thomas J. and Brotherhood, Randall J., "Navigating New Uniform Laws: Partnership, Corporate Changes," *Wisconsin Lawyer*, Vol. 95, No. 6, June 2022
 - i) <u>https://www.wisbar.org/NewsPublications/WisconsinLawyer/Pages/Article.aspx?Volume=95&Issue=6&ArticleID=29153</u>

1 year later: Effects of the New Uniform LLC Law

Attorney Jason Brasch, Bakke Norman, S.C

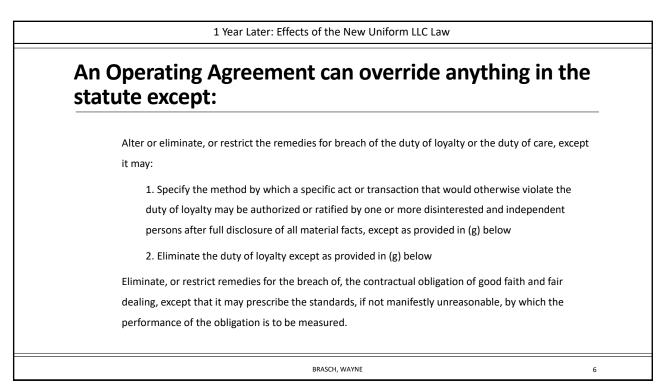
Attorney Sam Wayne, Neider & Boucher, S.C



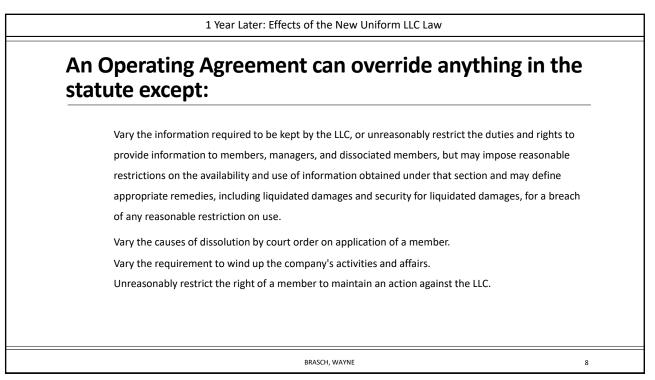


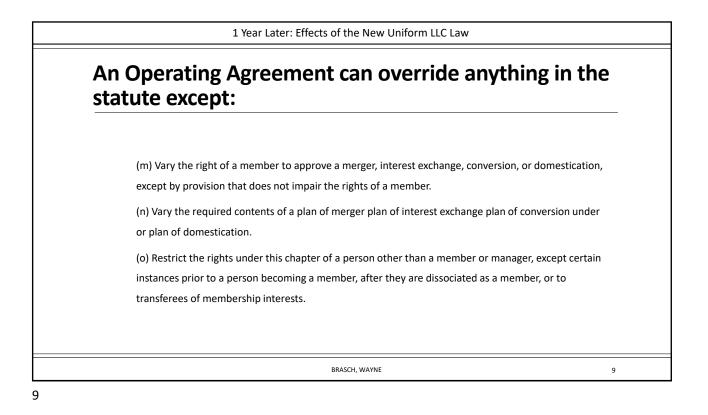
	1 Year Later: Effects of the New Uniform LLC Law
C	hanges to Operating Agreements:
• 1	here are more restrictions on operating agreements under the new law
	• Old Law: Kasten v. Doral Dental USA LLC, 2007 WI 76, 301 Wis. 2d 598, 733 N.W.2d 300.
	• The Supreme Court highlighted the original WLLCL's purposes of giving maximum effect to the principle of freedom
	of contract and to the enforceability of operating agreements, particularly when an operating agreement deviates
	from the statutory default rules.
	 New Law: § 183.0105. Operating agreement; scope, function, and limitations.
	• This statute codifies this idea that operating agreements may amend the rights and responsibilities of members and managers
	an LLC, except in specific instances.
	BRASCH, WAYNE 4

An	Operating Agreement can override anything in the
	ute except:
	That the new Ch. 183 governs the LLC
	This section on what can be overridden
	That the LLC can sue and be sued in its own name.
	Generally, the provisions regarding registered agents and DFI
	The rights of aggrieved persons when a person required to sign or file something with DFI does
	not do so



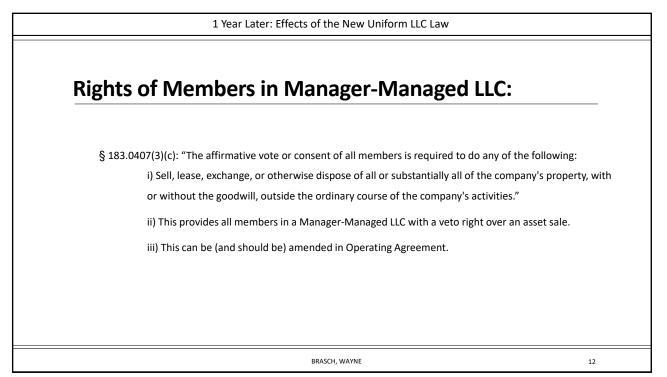
	1 Year Later: Effects of the New Uniform LLC Law
-	perating Agreement can override anything in the te except:
(g) Relieve or exonerate a person from liability for
	1. A willful failure to deal fairly with the company or its members in connection with a matter in which the person has a material conflict of interest.
	2. A violation of the criminal law, unless the person had reasonable cause to believe that the person's conduct was lawful or no reasonable cause to believe that the person's conduct was unlawful.
	3. A transaction from which the person derived an improper personal profit.
	4. Willful misconduct.
	BRASCH, WAYNE 7



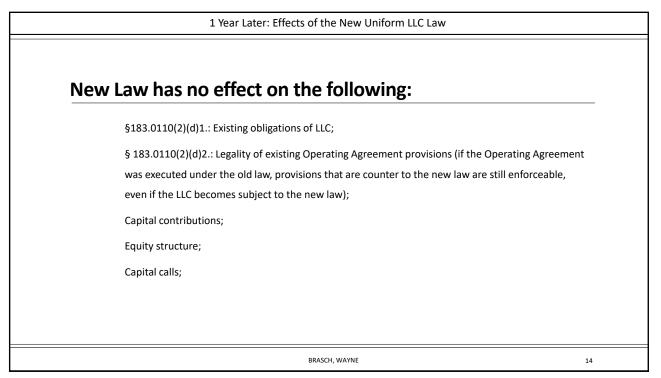


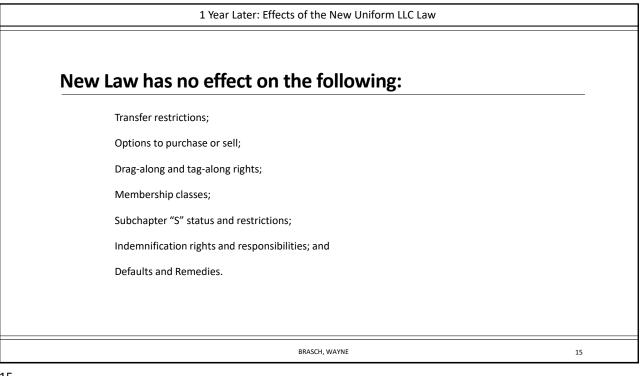
1 Year Later: Effects of the New Uniform LLC Law **New Fiduciary Duty Requirements:** Old Law: (§183.0402) allowed an Operating Agreement to do away completely with fiduciary duties of loyalty and care. New Law: § 183.0409 adds additional standard fiduciary duty of loyalty standards The duty of loyalty of a member in a member-managed limited liability company includes all of the following duties: The duty to account to the company and hold as trustee for it ay property, profit, or benefit derived by the member in or from any of the following: The conduct of winding up of the company's activities and affairs A use by the member of the company's property The appropriation of a limited liability company opportunity

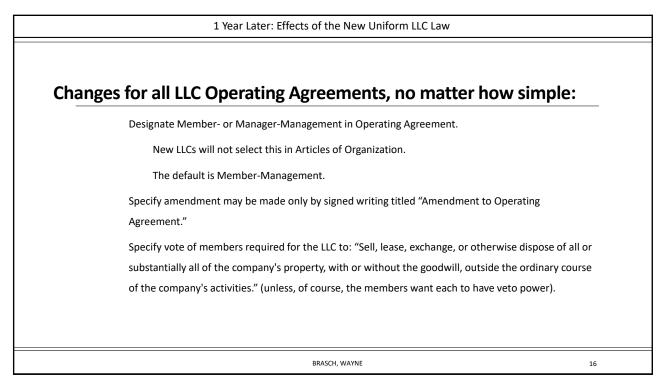
	1 Year Later: Effects of the New Uniform LLC Law	
New I	Fiduciary Duty Requirements:	
	The duty to refrain from dealing with the company in the conduct or winding up of the compa	ny's
	activities and affairs as or on behalf of a person having an interest adverse to the company.	
	The duty to refrain from competing with the company in the conduct of the company's activit	ies and
	affairs before the dissolution of the company.	
These	e apply only to Managers in Manager-managed LLC; members have no fiduciary duties by statu	te;
Oper	ating Agreement can add them;	
Oper	ating Agreement can erase these specific duties, but cannot eliminate duties found verbatim in	old statute;
new	law sets a floor that wasn't there before;	
lt car	also, subject to old statute floor, "specify the method by which a specific act or transaction th	at would
othei	rwise violate the duty of loyalty may be authorized or ratified by one or more disinterested and	
indep	pendent persons after full disclosure of all material facts."	
	BRASCH, WAYNE	11



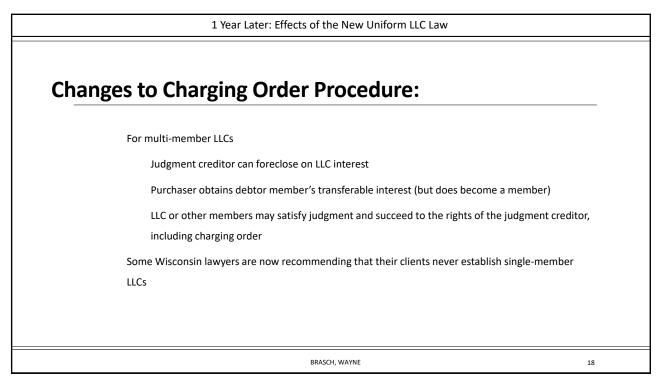
'Family C	abin" LLC's- using LLC for Non-Business Purposes:
	§ 183.0401(5): New law allows admission of "non-economic" members who do not acquire a
	e interest or make a capital contribution.
	Intended to accommodate non-business purposes – e.g. Family Cabin LLCs.
	May be beneficial in Family Cabin LLCs in that it allows non-economic members a vote even if t
not have a	n ownership percentage (only if Operating Agreement gives vote to all members regardless of
economic	nterest).
	May also allow LLCs to qualify for 501(c)(3) treatment.
	BRASCH, WAYNE





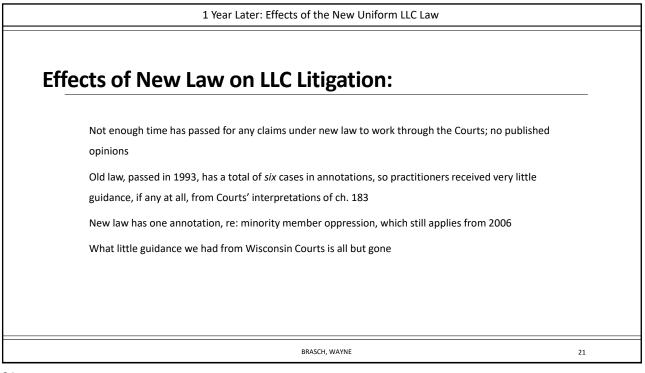


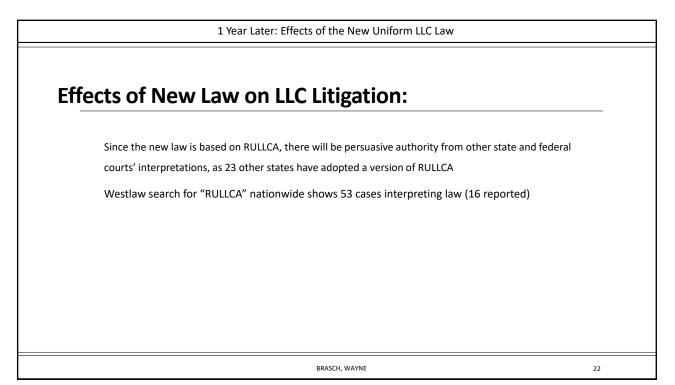
	1 Year Later: Effects of the New Uniform LLC Law	
nange	es to Charging Order Procedure:	
A "chargi	ng order" is available to a judgment creditor of an LLC member (or non-member interest-holder),	
which ch	arges the member's LLC interest with the payment of the unsatisfied judgment.	
Old law d	lid not expressly allow judgment creditor to take ownership of LLC interest	
New law:		
For	single-member LLCs	
	Judgment creditor can foreclose on LLC interest	
	Purchaser obtains debtor member's entire LLC interest, becomes a member	
	Judgment debtor dissociated as a member	
	Prohibits single-member LLC owners from shielding assets from judgment by keeping them in	
	LLC	
	BRASCH, WAYNE	17



1 Year Later: Effects of the New Uniform LLC Law	
Judicial Dissociation:	
LLC or Member may apply for a judicial order expelling a member because:	
The member has engaged, or is engaging, in wrongful conduct that has adversely and materially	
affected, or will adversely and materially affect, the company's activities and affairs; or	
The member has willfully or persistently committed, or is willfully or persistently committing, a	
material breach of the operating agreement or the person's duties or obligations under s. 183.040)9.
Law allows Member to bring this as a <i>direct</i> action rather than derivative, even if the harm alleged is to	1
the company	
Claims for damages by Member must still be brought as derivative	
BRASCH, WAYNE	19

1 Year Later: Effects of the New Uniform LLC Law Effects of New Law on LLC Litigation: First, which law applies? Old law applies to all "obligations incurred by the" LLC prior to applicability of new law; generally all claims that arise from LLC obligations prior to 1/1/23 are governed by old law New law applies to all obligations incurred by the LLC following 1/1/23 New law silent on claims involving Ch. 183 that do not relate to "obligations incurred by" the LLC Be careful in filing – there are numerous claims available under new law that aren't available under old law





	1 Year Later: Effects of the New Uniform LLC Law	
Tak	æaways	
1	Many of the old best practices remain the same, e.g., always have a written operating agreement.	
2	Advise single member clients of the risk associated with the new charging order changes- especially where personal guarantees and multiple entities are involved.	
3	Update any specific references in operating agreements.	
4	Carefully review updated statutes for compliance any time the Operating Agreement is modifying any of the Members' duties to one another or to the company.	
5	Operating Agreements should specify how they can be amended and specify the votes needed to take actions outside the ordinary course of business.	
	BRASCH, WAYNE	23

 1 Year Later: Effects of the New Uniform LLC Law

 Recommended Reading:

 Tataj, Adam J., "Navigating Wisconsin's New LLC Act." Wisconsin Lawyer, Vol. 95, No. 6, June 2022

 https://www.wisbar.org/NewsPublications/WisconsinLawyer/Pages/Article.aspx?Volume=95&lssue=6&ArticleID=29152

 Boucher, Joseph W. and Miller, Craig Billings, "A Look Back and Ahead: The Wisconsin Limited Liability Company," Wisconsin Lawyer, Vol. 95, No. 6, June 2022

 https://www.wisbar.org/NewsPublications/WisconsinLawyer/Pages/Article.aspx?Volume=95&lssue=6&ArticleID=29161