

Date of Hearing: March 14, 2016

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Matthew Dababneh, Chair

AB 1722 (Wagner) – As Amended February 29, 2016

SUBJECT: Limited liability companies: dissolution: cancellation of articles of organization

SUMMARY: Makes changes to California's Revised Uniform Limited Liability Company Act (RULLCA). Specifically, **this bill:**

- 1) Allows a limited liability company (LLC) to dissolve by a vote of 50 percent or more of the voting interests of the members.
- 2) Allows a domestic LLC to cancel the articles of organization with 50 percent or more of the voting interests of the members or managers or 50 percent or more of the persons signing the articles of incorporation.

EXISTING LAW:

- 1) Requires a majority of members of a LLC to vote to dissolve or cancel the articles of organization. [Corporations Code, Sections 17707.01 & 17707.02]
- 2) Provides that any corporation may elect voluntarily to wind up and dissolve by the vote of shareholders holding shares representing 50 percent or more of the voting power. [Corporations Code, Section 1900]

FISCAL EFFECT: Unknown.

COMMENTS:

Need for bill:

According to the Author this bill is needed:

"To avoid unnecessary and costly litigation currently required to effect dissolution of two-member and other small LLCs where acrimony between members stands in the way. It also will eliminate the prospect of understandable surprise to those seeking dissolution of a small LLC to realize that, unlike other business organizations, dissolving the LLC will require —absent going to court— an absolute majority vote, even if the LLC consists of only two members. Many small businesses are organizing without the aid of legal counsel (i.e., using the online self-help websites) and do not realize the ramification of forming an LLC with equal ownership. This will change the default rule to 50% or more and avoid the costly litigation that these small companies often cannot afford."

Background:

AB 1722 amends the RULLCA to permit 50 percent or more of the voting interests of the members of an LLC to dissolve the entity, unless a greater percentage is specified in the articles of organization or a written operating agreement.

Under current law, to dissolve, a LLC requires a majority of the voting powers of the LLC members in order to initiate voluntary dissolution proceedings. The RULLCA is used for many small businesses in California, many of which are owned by 2 members with equal voting power. When one wants to dissolve the LLC and the other does not, that leaves the LLC in a stalemate and often results in litigation that these small businesses cannot afford for a decree of a judicial dissolution.

AB 1722 eliminates the majority requirement and places in statute provisions similar to California's corporate voluntary dissolution statute, to only require 50 percent or more of the voting power to initiate voluntary dissolution.

REGISTERED SUPPORT / OPPOSITION:**Support**

Conference of California Bar Associations (CCBA) - Sponsor

Opposition

None on file.

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