

# FINAL BILL REPORT

## SSB 5030

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Synopsis as Enacted

**Brief Description:** Addressing the limited liability company act.

**Sponsors:** Senate Committee on Law & Justice (originally sponsored by Senators Pedersen and O'Ban; by request of Washington State Bar Association).

**Senate Committee on Law & Justice**  
**House Committee on Judiciary**

**Background:** A limited liability company (LLC) is a type of business organization. LLCs have flexible structures and management. An LLC only needs one individual member – owner – but multiple business organizations may also join together as members to form an LLC. An LLC may be member managed or manager managed. An LLC organization provides its members with the benefits of both a corporation and a partnership, and is relatively easy to create. Like a corporation, the LLC structure protects the members from liability in most circumstances. Like a partnership, LLCs are not taxed as a separate business entity under federal law – no double taxation.

Washington enacted its first law governing LLCs in 1994. Under the current law, the LLC's members must file a certificate of formation with the Secretary of State to create an LLC. LLCs must comply with all other state laws and with the terms of a written LLC agreement. The written LLC agreement binds the members and governs the LLC's affairs. LLCs have the same power to conduct business that an individual has for matters not covered by state law or the LLC agreement.

**Summary:** The LLC agreement governs the relations between the LLC and its members, the relations among the LLC's members, and the LLC manager's rights and duties. If the LLC agreement does not specify these internal relations, legal rights, and duties, default rules and presumptions supplement the LLC agreement as a matter of law. Some of the default rules also set minimum legal requirements that an LLC agreement cannot limit or eliminate.

An LLC agreement may be written, oral, or implied. However, like similar laws governing partnerships, the LLC must make a written record if it limits the rights of dissenters to a merger. An LLC may either be member managed or manager managed. Unless the LLC agreement provides otherwise, an LLC is presumed member managed. A majority vote is sufficient to authorize most LLC actions that require member consent. Some LLC actions,

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like merger or conversion, require a unanimous vote of members or additional member approval.

The LLC manager owes defined fiduciary duties of loyalty and care. Members owe the same fiduciary duties to a member-managed LLC.

As to matters in the ordinary course of an LLC's activities, each member of a member-managed LLC is the LLC's agent and has apparent authority to bind the LLC. Likewise, each manager of a manager-managed LLC is the LLC's agent and has the authority to bind the LLC. Members no longer have apparent authority to bind a manager-managed LLC.

An LLC must provide its members with any records the members request subject to reasonable limits on the use of the records. An LLC must allocate and distribute profits and losses according to specific requirements. An insolvent LLC may not make distributions to its members.

**Votes on Final Passage:**

Senate	48	0	
House	97	0	(House amended)
Senate	45	0	(Senate concurred)

**Effective:** January 1, 2016.