

1 State of Arkansas
2 95th General Assembly
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4

As Engrossed: S3/12/25

A Bill

SENATE BILL 319

5 By: Senator J. Boyd
6 By: Representative Maddox
7

For An Act To Be Entitled

9 AN ACT TO AMEND THE UNIFORM LIMITED LIABILITY COMPANY
10 ACT; TO CLARIFY CHARGING ORDERS UNDER THE UNIFORM
11 LIMITED LIABILITY COMPANY ACT; AND FOR OTHER
12 PURPOSES.
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Subtitle

15 TO AMEND THE UNIFORM LIMITED LIABILITY
16 COMPANY ACT; AND TO CLARIFY CHARGING
17 ORDERS UNDER THE UNIFORM LIMITED
18 LIABILITY COMPANY ACT.
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21 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:
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23 SECTION 1. Arkansas Code § 4-38-503 is amended to read as follows:
24 4-38-503. Charging order.

25 (a) On application to a court of competent jurisdiction by a judgment
26 creditor of a member, ~~or transferee, or any other owner of a membership~~
27 interest in a limited liability company, the a court having jurisdiction may
28 charge the ~~transferable membership interest of the judgment debtor~~ with
29 payment of the unsatisfied amount of the judgment with interest. ~~A charging~~
30 ~~order constitutes a lien on a judgment debtor's transferable interest and~~
31 ~~requires the limited liability company to pay over to the person to which the~~
32 ~~charging order was issued any distribution that otherwise would be paid to~~
33 ~~the judgment creditor.~~

34 (b) ~~On application to a court of competent jurisdiction by a judgment~~
35 ~~creditor of a member or transferee against whose transferable interest a~~
36 ~~charging order was issued, and a showing to the satisfaction of the court~~



1 ~~that one (1) or more members of the limited liability company have engaged in~~
2 ~~bad faith or intentional misconduct in managing the limited liability~~
3 ~~company's operations or finances so as to reduce or eliminate distributions~~
4 ~~to the judgment debtor, and thereby effectively defeat the charging order,~~
5 ~~the court may foreclose the lien and order the sale of the judgment debtor's~~
6 ~~transferrable interest. Except as otherwise provided in subsection (c), the~~
7 ~~purchaser at the foreclosure sale obtains only the transferable interest,~~
8 ~~does not thereby become a member, and is subject to § 4-38-502. At any time~~
9 ~~before foreclosure under this subsection (b), the member or transferee whose~~
10 ~~transferable interest is subject to a charging order under subsection (a) may~~
11 ~~extinguish the charging order by satisfying the judgment and filing a~~
12 ~~certified copy of the satisfaction with the court that issued the charging~~
13 ~~order. At any time before foreclosure under this subsection (b), a limited~~
14 ~~liability company or one (1) or more members whose transferable interests are~~
15 ~~not subject to the charging order may pay to the judgment creditor the full~~
16 ~~amount due under the judgment and thereby succeed to the rights of the~~
17 ~~judgment creditor, including the charging order. If a court charges a~~
18 ~~membership interest with payment of a judgment as provided under subsection~~
19 ~~(a) of this section, the judgment creditor has only the right to receive a~~
20 ~~distribution to which the judgment debtor would otherwise be entitled in~~
21 ~~respect of the membership interest.~~

22 ~~(c)(1) On application to a court of competent jurisdiction by a~~
23 ~~judgment creditor of the sole member of a limited liability company against~~
24 ~~whose transferable interest a charging order was issued, and a showing to the~~
25 ~~satisfaction of the court that distributions under a charging order will not~~
26 ~~pay the judgment debt within a reasonable time, the court may foreclose the~~
27 ~~lien and order the sale of the transferable interest. If a court orders~~
28 ~~foreclosure of a charging order lien against the sole member of a limited~~
29 ~~liability company:~~

- 30 ~~(1) the court shall confirm the sale;~~
31 ~~(2) the purchaser at the sale obtains the member's entire~~
32 ~~interest, not only the member's transferable interest;~~
33 ~~(3) the purchaser thereby becomes a member; and~~
34 ~~(4) the person whose interest was subject to the foreclosed~~
35 ~~charging order is dissociated as a member. A charging order constitutes a lien~~
36 ~~on the judgment debtor's membership interest.~~

1 (2) The charging order lien shall not be foreclosed on under
2 this subchapter or any other law.

3 (d) *This section:*

4 (1)~~(A)~~ Is specific to a lien created by a charging order; or

5 (2) Shall not:

6 (A) Apply to a creditor's secured lien created under the
7 Uniform Commercial Code; or

8 (B) ~~operate~~ Operate to invalidate any provision of any
9 written agreement between a member and a creditor, including without
10 limitation a security agreement, assignment, pledge, hypothecation, or other
11 instrument giving the creditor a security interest in, or assignment of, the
12 transferable interest, where at the time the written agreement, security
13 agreement, assignment, or other instrument was executed by the member and the
14 creditor, the member's executing such written agreement, security agreement,
15 assignment, or other instrument did not violate a provision of the limited
16 liability company's certificate of organization or operating agreement.

17 ~~(B) Except as provided in subsection (c), the foreclosure of a~~
18 ~~charging order does not grant the creditor who receives the transferable~~
19 ~~interest any rights in the transferable interest beyond the rights of a~~
20 ~~transferee;~~

21 ~~(2)(A) Provides the exclusive remedy by which a judgment~~
22 ~~creditor of a member or a transferee of a member may satisfy a judgment out~~
23 ~~of the member's interest in the limited liability company, where the limited~~
24 ~~liability company has more than one (1) member.~~

25 ~~(B)(i) In the case of a limited liability company with~~
26 ~~more than one (1) member, other remedies, including without limitation~~
27 ~~foreclosure on the member's interest, except as provided in subsection (b),~~
28 ~~or a court order for directions, accounts, and inquiries that the debtor or~~
29 ~~member might have made, are not available to the judgment creditor attempting~~
30 ~~to satisfy the judgment out of the judgment debtor's transferable interest in~~
31 ~~the limited liability company; and~~

32 ~~(3) Does not deprive a member of the benefit of any exemption~~
33 ~~applicable to his or her interest.~~

34 (e) The entry of a charging order is the exclusive remedy by which a
35 judgment creditor of a member or of another owner of a membership interest
36 may satisfy a judgment out of the judgment debtor's membership interest.

1 (f) This section shall not be construed to deprive a member of a
2 limited liability company or another owner of a membership interest in a
3 limited liability company of the benefit of an exemption applicable to the
4 membership interest of the member or owner.

5 (g) A creditor of a member or of another owner of a membership
6 interest does not have the right to obtain possession of or otherwise
7 exercise legal or equitable remedies with respect to the property of the
8 limited liability company.

9 (h) This section applies to:

10 (1) A single-member limited liability company; and

11 (2) A multiple-member limited liability company.

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13 */s/J. Boyd*
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