



PARTNERSHIP DISSOLUTION AGREEMENT & GUIDE

Included:

Overview

Dos and Don'ts Checklist

Partnership Dissolution Agreement Instructions

Sample Partnership Dissolution Agreement

1. Overview

A change in the business climate or individual goals may signal that it's time to terminate a partnership and release the parties from their duties. If one of the partners retires, dies, or enters bankruptcy, the partnership may be dissolved automatically under the terms of its governing agreement. Alternatively, the objectives of the partnership may have been met and the parties' official relationship may no longer be necessary. Whatever the reason, a clean break will give peace of mind to all of the parties, discharging any remaining obligations and concluding the arrangement amicably.

Note that dissolutions are not ends in themselves: they may open avenues of discussion with the other party or parties. You can review your mutual expectations and concerns, perhaps even laying the groundwork for future partnerships or agreements. Indeed, the termination of the partnership may signal a business' success: a growing company may require the larger protections of a corporate structure and the end of the partnership may be the beginning of a new phase. An assessment of the parties' performance during the partnership term and their future goals will afford you both a better understanding of what should be required on dissolution.

A well-drafted partnership dissolution agreement can both terminate the parties' commitments and help prevent future misunderstandings and disputes. Although no document can insulate you from later lawsuits or claims, a clear dissolution form can strengthen your defense if such claims arise. This packet is designed to help you create an agreement that will work for you and your business, but it too is just a starting point. Consult with your partners to construct a dissolution that will fit with your precise needs.

2. Dos & Don'ts Checklist

- The procedure for dissolving your general partnership depends on why you are dissolving. The partnership formation agreement should provide specific details about termination procedures for a number of different circumstances. In some cases, you and your partners may need to take an official vote to make the dissolution effective. If your agreement is silent about what procedures apply to your situation, review your state's business regulations for additional assistance. It is essential to make sure your partnership is completely and correctly dissolved or your obligations under the arrangement will continue.
- Make sure you and your partners have performed all of your duties under the original agreement before signing the dissolution: once the dissolution has been signed, the original agreement is void. Review the original agreement and draft a list of each party's rights and duties. Take a moment to ensure that your interests have been satisfied.
- You will be required to file a statement of dissolution (sometimes called a certificate of cancellation) with the government agency with which your business was originally registered. Check with your county clerk and your Secretary of State's office for additional information about requirements in your area and about applicable termination fees.

- Terminate (or transfer) your partnership's permits, licenses, and fictitious business name registrations. For example, a seller's permit or a business license should be cancelled with the agency that issued it. Abandoning a fictitious business name may require additional steps, including notification of your county clerk and publication of the abandonment in your local newspaper.
- An essential part of dissolving a partnership is informing colleagues that the partners will no longer be responsible for each other's debts and obligations. Give actual written notice of the dissolution to all of the partnership's suppliers, customers, and clients. Do not assume that publishing notice of the dissolution in a newspaper (or where your state's laws may otherwise require) is sufficient: in many cases it is not.
- Generally, the partner initiating the dissolution is the one responsible for sending notice of the end of the partnership. The enclosed form allows you to designate a "liquidating partner" to be solely responsible for winding up activities for the partnership.
- Examine contracts, leases, loan agreements, and other contracts to see how your dissolution will affect them. Agreements may contain provisions making them void if the partnership dissolves. Alternatively, those agreements may indicate that the partners must continue to perform during the contract period, even if the partnership is itself terminated. Consider assigning those agreements to one or more partners individually: in some cases, performing under the contract will be taken as a sign that the partnership has not been terminated and new obligations may be forced onto the dissolved partnership.
- If you have (or had) employees at your general partnership, make sure that all payroll tax deposits have been made and all of your employment tax paperwork is complete and on time. Inform all local, state, and federal tax agencies about the dissolution of your business. In some cases this is quite simple: a number of tax returns have checkboxes that you can select indicating that you will not be filing any future returns.
- The dissolution of a partnership can have serious tax and legal consequences. Talk with your accountant and your lawyer before entering into a dissolution agreement for additional information about how those consequences might affect you and your business.
- Each party should be given ample time to review and sign the document, and to seek counsel if desired. This will reduce the likelihood, or at least the efficacy, of a claim that one party did not understand the dissolution agreement's terms.
- Both parties should review the completed agreement carefully to ensure that **all relevant deal points** have been included. It is better to be over-inclusive than under-inclusive. Do not assume that certain expectations or terms are agreed to if they are not stated expressly in the document.
- Each party should be given at least one original, signed copy of the dissolution agreement.
- Keep your copy of the signed partnership dissolution agreement with the original agreement. Once the dissolution has been drafted and signed, it is the concluding part of the original agreement and should be treated accordingly.

- Depending on the nature of its terms, you may decide to have your partnership dissolution agreement witnessed or notarized. This will limit later challenges to the validity of a party's signature.
- If the original agreement or the conditions of your dissolution are complicated, do not use the enclosed form. Contact an attorney to help you draft a document that will meet your specific needs.

3. Partnership Dissolution Agreement Instructions

The following provision-by-provision instructions will help you understand the terms of your agreement. You can use the sample included in this packet as a starting point when revising or drafting your own dissolution agreement.

The numbers below (e.g. Section 1, Section 2, etc.) refer to the corresponding provisions in the agreement. Please review the entire document before beginning your step-by-step process.

- **Introduction of Parties.** Identifies the document as a dissolution agreement. Write in the date on which the agreement is signed. Identify the partners and, if applicable, what type of organization they are. If there were additional partners involved in your partnership, you should add them as well.
- **Recitals.** The “whereas” clauses, referred to as recitals, define the world of the agreement and offer key background information about the parties. In the sample, complete the numbered blanks as follows:
 - (1) Provide a brief description of the purpose of your partnership.
 - (2) Enter the total amount of capital contributions that Partner One made to the Partnership. This should include both its initial capital contribution, and any later payments that were made specifically to the capital of the Partnership (i.e., not loans or other extensions of credit).
 - (3) Enter the total amount of capital contributions that Partner Two made to the Partnership. This should include both the initial capital contribution, and any later payments that were made specifically to the capital of the Partnership (i.e., not loans or other extensions of credit). If there were additional partners in your Partnership, add separate entries for each additional partner and his or her total capital contributions.
 - (4) This provision should track the language of your partnership formation agreement. Review that document and locate the clause governing dissolution (or termination) of the partnership. That section should list specific steps that must be taken before a dissolution can or will be completed. Summarize those steps (if any) and enter them in the space provided. If your partnership agreement does not have information about termination procedures, review your state’s laws governing partnership dissolution for additional assistance.

- **Section 1: Dissolution.** This section allows you to provide key details about the partnership as a legal entity. In the sample, three blanks are provided.
 - (1) Provide the name of the state in which the entity was established. For example, if your partnership was formed in Texas, write “Texas” in the blank provided.
 - (2) Enter the name of your partnership.
 - (3) Write in the current principal address of your partnership.
- **Section 2: Winding Up.** Provides the specifics of the dissolution, explaining that each partner will assume assets and liabilities in proportion with their interests in the partnership. If you and the other partner want to construct a different arrangement – with one partner assuming more of the assets and more of the responsibilities – you can revise the language to fit your agreement.
- **Section 3: Liquidating Partners.** Allows the parties to assign (or share) primary responsibility for the administrative tasks of dissolution. Describe the tasks that this party or parties will need to complete (e.g., termination of leases, filings with the state or local agencies, publication of dissolution notice in a newspaper, etc.).
- **(Optional) Section 4: Custodian of Partnership Books.** This is an optional provision that allows you and the other party to decide which one of you will be responsible for the partnership’s records after the dissolution. If this is not something that is necessary in your situation, or about which you do not wish to have a formal agreement, delete this section. If you do remove the provision, correct the section numbers and references in the agreement.
- **Section 5: Indemnification.** As part of the dissolution, the partners have agreed to split the assets and the debts of the partnership on a *pro rata* basis between them. This section guards against one party defaulting on its *pro rata* share of obligations. If one party defaults, that individual will be forced to reimburse its partners for payments they made to cover that default.
- **Section 6: Release and Discharge.** Indicates that after the dissolution, neither partner can bring a claim against the other for partnership-related issues. This section does, however, allow the parties to bring suit under the dissolution agreement (e.g., for failing to complete an obligation relating to dissolution) and related to the dissolution itself.
- **Section 7: Amendments.** Indicates that all changes to the agreement must be in writing and signed by all partners.
- **Section 8: Governing Law.** Allows the parties to choose the state laws that will be used to interpret the document. Note that this is not a venue provision. The included language will not impact where a potential claim can be brought. Write the applicable state law in the blank provided.
- **Section 9: No Implied Waiver.** Explains that even if one party allows the other to ignore or break an obligation under the agreement, it does not mean that party waives any future rights to require the other to fulfill those (or any other) obligations.
- **Section 10: Counterparts / Electronic Signatures.** The title of this provision sounds complicated, but it is simple to explain. It says that even if the partners sign the agreement in different locations, or use electronic devices to transmit signatures (e.g., fax machines or computers), all of the separate pieces will be considered part of the same agreement. In a modern world where

signing parties are often not in the same city - much less the same room - this provision ensures that business can be transacted efficiently, without sacrificing the validity of the agreement as a whole.

- **Section 11: Severability.** Protects the terms of the agreement as a whole, even if one part is later invalidated. For example, if a state law is passed prohibiting choice-of-law clauses, it will not undo the entire agreement. Instead, only the section dealing with choice of law would be invalidated, leaving the remainder of the contract enforceable.
- **Section 12: Headings.** Notes that the headings at the beginning of each section are meant to organize the document, and should not be considered operational parts of the agreement.
- **Section 13: Entire Agreement.** The partners' agreement that the document they're signing is "the agreement" about the issues involved. Unfortunately, the inclusion of this provision will not prevent a party from arguing that other enforceable promises exist, but it will provide some protection from these claims.

DISCLAIMER

LegalZoom is not a law firm. The information contained in the packet is general legal information and should not be construed as legal advice to be applied to any specific factual situation. The use of the materials in this packet does not create or constitute an attorney-client relationship between the user of this form and LegalZoom, its employees or any other person associated with LegalZoom. Because the law differs in each legal jurisdiction and may be interpreted or applied differently depending on your location or situation, you should not rely upon the materials provided in this packet without first consulting an attorney with respect to your specific situation.

The materials in this packet are provided "As-Is," without warranty or condition of any kind whatsoever. LegalZoom does not warrant the materials' quality, accuracy, timeliness, completeness, merchantability or fitness for use or purpose. To the maximum extent provided by law, LegalZoom, its agents and officers shall not be liable for any damages whatsoever (including compensatory, special, direct, incidental, indirect, consequential, punitive or any other damages) arising out of the use or the inability to use the materials provided in this packet.

PARTNERSHIP DISSOLUTION AGREEMENT

This Partnership Dissolution Agreement (the "Dissolution Agreement") is made on _____, 20__ (the "Dissolution Date") by and between by and between _____, a _____ [corporation] [limited liability company] [etc.] ("Partner One"), and _____, a _____ [corporation] [limited liability company] [etc.] (the "Partner Two") (each a "Partner" and collectively the "Partners").

RECITALS

WHEREAS, the Partners entered into that certain partnership agreement dated as of (the "Partnership Agreement"), relating to the Partnership (as defined below) for the purpose of

① _____
_____; and

WHEREAS, under the terms of the Partnership Agreement, Partner One made capital contributions totaling ② _____;

WHEREAS, under the terms of the Partnership Agreement, Partner Two made capital contributions totaling ③ _____;

WHEREAS, pursuant to the terms of the Partnership Agreement, the Partners have