

Portable Shredder Services (PSS) is a partnership that operates a mobile shredding business. When a client needs paper shredded, PSS sends a truck and a crew to perform the operation.

Adam, Beth, and Chris are partners in PSS. Each of them contributed \$50,000 in start-up capital, and each actively works in the business.

The PSS partnership agreement provides in relevant part that (1) each partner is required to devote substantially all of the partner's working efforts to the business and (2) any partner can withdraw from the partnership upon giving six months' written notice. The partnership agreement contains no other relevant provisions modifying any of the statutory default rules.

PSS has not been profitable. Adam is convinced that the assets of PSS are worth more than the value of the business as a going concern. He believes that the only way he can receive a fair price for his share of partnership assets is if those assets are sold. Beth and Chris, on the other hand, wish to continue operating the business, if they can.

Adam would like to withdraw immediately from the partnership in order to force Beth and Chris to cease the operations of PSS immediately and sell the partnership's assets.

Adam has asked your law firm to answer the following three questions:

1. If Adam immediately withdraws from the partnership, what will be the consequences (a) to him and (b) to the partnership? Explain.
2. If Adam gives six months' written notice before withdrawing from the partnership, what will be the consequences (a) to him and (b) to the partnership? Explain.
3. If the partnership's business is wound up after Adam's withdrawal, will he be liable for partnership debts incurred during the winding-up process after his withdrawal? Explain.

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Question Presented

Adam, Beth, and Chris are partners in PSS, each contributing \$50,000 and working in the business. Their agreement requires each to devote substantially all efforts and lets any partner withdraw on six months' written notice; it makes no other changes to the default rules.

← no definite term or undertaking = partnership AT WILL; the notice term only limits the manner of leaving

PSS is unprofitable. Adam believes the assets are worth more sold than as a going concern, so he wants to withdraw immediately to force Beth and Chris to stop operating and sell the assets; Beth and Chris want to continue.

← an at-will withdrawal dissolves the firm and forces winding up either way

Adam asks: (1) immediate withdrawal, consequences to him and PSS; (2) withdrawal on six months' notice, the same; (3) is he liable for debts incurred during winding up after he leaves?

← the power to leave always exists; the right to leave depends on the agreement

Issue 1: The Partnership Is At Will

Issue. Whether PSS is a partnership at will or one for a definite term or particular undertaking.

classification drives everything

Rule. G/R: A partnership is at will unless the partners have agreed to remain partners for a definite term or until a particular undertaking is completed. A provision that only sets the manner of withdrawal, such as a notice requirement, does not by itself create a term.

notice clause is not a term

Analysis. Here, the agreement fixes no end date and no particular undertaking; it only requires notice before withdrawing. PSS is therefore a partnership at will. This matters because in an at-will partnership a partner's express withdrawal dissolves the firm and triggers winding up.

at will = withdrawal dissolves

Conclusion. Therefore, PSS is at will, and any partner's withdrawal will dissolve it.

key premise for Q1 and Q2

Issue 2: Immediate Withdrawal (Power vs. Right)

Issue. Whether Adam may withdraw immediately, and the consequences to him and to PSS.

Rule. G/R: A partner always has the power to dissociate at any time by express will. The dissociation is wrongful, though, if it breaches an express provision of the agreement. A partner who wrongfully dissociates is liable to the partnership and the other partners for damages caused and may not participate in winding up. In an at-will partnership the withdrawal still dissolves the firm and the business must be wound up.

Analysis. Here, Adam can withdraw now, but doing so breaches the six-month-notice term, making the dissociation wrongful. As to Adam: he is liable to Beth and Chris for damages the early withdrawal causes and is barred from participating in the winding up. As to PSS: because it is at will, Adam's withdrawal dissolves it and forces winding up and a sale of the assets, exactly the result Adam wants; Beth and Chris cannot compel the firm to continue.

Conclusion. Therefore, Adam can force the sale by withdrawing now, but wrongfully, exposing himself to damages and losing his winding-up role.

Question 1.

power to leave vs. right to leave

wrongful, yet still forces the sale

answer to Question 1

Issue 3: Withdrawal on Six Months' Notice

Issue. Whether giving six months' notice changes the consequences to Adam and to PSS.

Rule. G/R: A dissociation that complies with the agreement is rightful. A partner who rightfully dissociates is not liable for damages for the withdrawal and may participate in winding up. In an at-will partnership the withdrawal still dissolves the firm.

Analysis. Here, if Adam gives the required six months' notice his dissociation is rightful. He avoids damages liability and may take part in the winding up, and the partnership still dissolves so the assets are sold. The only practical difference from an immediate withdrawal is wrongful versus rightful: the sale happens either way.

Conclusion. Therefore, Adam should give notice; he achieves the same dissolution and sale while avoiding damages and keeping his winding-up rights.

Question 2.

compliance makes it rightful

same dissolution, no damages

answer to Question 2

Issue 4: Liability for Winding-Up Debts

Issue. Whether Adam is liable for partnership debts incurred during winding up after his withdrawal.

Rule. G/R: Debts properly incurred to wind up the business are partnership obligations, and partners share partnership losses. As between the partners, each must contribute toward partnership liabilities, including winding-up debts, in proportion to the loss shares; a dissociating partner is not excused from this.

Analysis. Here, the debts arise from winding up PSS's business, so they are partnership losses. Adam, though dissociating, must bear his share, whether or not he participates in the winding up.

Conclusion. Therefore, Adam remains liable for his share of the winding-up debts.

Question 3.

winding-up debts are shared losses

no escape by leaving

answer to Question 3

Step-by-Step: Withdrawing From an At-Will Partnership

Separate the power to leave from the right to leave; the at-will classification drives the rest.

1. At will, or for a term or undertaking?

→ No term or undertaking; the notice clause only limits the manner = at will. **at-will partnership**



2. Withdraw with no notice?

→ Power exists but breaches the agreement = wrongful: damages, no winding-up role; still dissolves. **wrongful, but forces the sale**



3. Withdraw on six months' notice?

→ Rightful: no damages, may wind up; still dissolves and sells. **rightful, same sale**



4. Debts incurred while winding up?

→ Partnership losses shared by all partners, including Adam. **Adam shares the debt**



Bottom line

→ The sale happens either way; giving notice just makes it rightful.