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Leaving Your Business Partnership

5 Things to Get Right Before You Walk Away

Not every partnership ends in a fight. Sometimes the vision diverges. Sometimes one partner wants to grow and the other wants to exit. Sometimes the relationship simply runs its course. But even amicable separations can turn adversarial when the exit is handled poorly—and most of them are. The operating agreement (if one exists) rarely covers what actually happens when someone leaves. The result is a dispute over valuation, ownership of clients, rights to intellectual property, and who owes what to whom. These five steps, taken before you announce your departure, are the difference between a clean exit and a lawsuit.

1 Read Your Operating Agreement — The Whole Thing

Most partners sign the operating agreement when the business is formed and never look at it again. That is a mistake at any stage of the business, but it is a critical one when you are considering an exit. The operating agreement almost certainly contains provisions governing withdrawal, buyout procedures, valuation methods, non-compete restrictions, and notice requirements. Some agreements require a specific written notice period—60, 90, even 180 days—before a partner can withdraw. Some impose liquidated damages for early departure. Some grant the remaining partners a right of first refusal to purchase the departing partner's interest at a formula price that may be far below fair market value.

What it costs you: A partner in a professional services firm announced his departure without reviewing the operating agreement. The agreement required 120 days' written notice and gave the remaining partners the right to purchase his interest at book value—roughly 40% of what he believed his share was worth on the open market. Because he announced verbally rather than in writing, the notice period had not even started. He was locked in for four additional months while his partners prepared to exercise the buyout at the formula price.

The fix:

Before you say a word to anyone, read the operating agreement cover to cover. Pay specific attention to: withdrawal and buyout provisions, valuation methodology (book value vs. fair market value vs. formula), notice requirements (length and form—written vs. oral), non-compete and non-solicitation restrictions that survive departure, and any liquidated damages or penalty provisions. If the agreement is ambiguous on any of these points, consult a litigator—not just a transactional attorney—before taking any action.

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2 Know What You Own — And What You Don't

When you leave a partnership, the question of who owns what becomes immediate and concrete. Clients you brought in. The brand you helped build. The software, content, or processes you developed. The customer list. The vendor relationships. Unless the operating agreement or a separate IP assignment addresses these assets explicitly, California law governs—and the default rules often surprise departing partners. Generally, assets created for the partnership belong to the partnership, regardless of which partner did the work. Your client list, your pitch deck, your proprietary spreadsheet—if you built them on partnership time, with partnership resources, they may not be yours to take.

What it costs you: A departing partner at a marketing agency took the client list, the agency's social media accounts, and several templates she had personally designed. She believed she was entitled to them because she had created them. The remaining partners filed suit for conversion, breach of fiduciary duty, and misappropriation of trade secrets under CUTSA. The litigation lasted 14 months. The departing partner ultimately returned the assets and paid a six-figure settlement—for property she believed was hers when she walked out the door.

The fix:

Before you exit, inventory every asset you intend to take, use, or reference after departure. For each one, determine: Was it created with partnership time, money, or resources? Does the operating agreement assign ownership? Is it covered by a trade secret or confidentiality provision? If there is any ambiguity, negotiate the asset division as part of the exit—not after. A written asset allocation agreement signed by all partners at the time of departure is the single best protection against a post-exit lawsuit.

3 Get the Valuation Right — Or It Will Be Done for You

The most contentious issue in any partnership exit is valuation: what is the departing partner's interest actually worth? If the operating agreement specifies a valuation method—book value, multiple of revenue, independent appraisal—you are bound by it, even if the result feels unfair. If the agreement is silent, California law provides default rules under the Revised Uniform Partnership Act (Corp. Code § 16701 et seq.) and the Revised Uniform Limited Liability Company Act (Corp. Code § 17704.01 et seq.), but those defaults may not reflect the economic reality of your business. Goodwill, client relationships, recurring revenue, and intellectual property may not be captured by a simple balance-sheet approach.

What it costs you: Two co-founders of a SaaS company disagreed on the value of the departing founder's 40% interest. The operating agreement said nothing about valuation. One founder valued the company at $2 million based on annual revenue. The other valued it at $800,000 based on net assets. They spent $175,000 combined on dueling forensic accountants and 11 months in litigation before settling at $1.1 million—a number they could have reached in a two-hour mediation if they had started with a credible independent valuation.

The fix:

Commission an independent business valuation before you negotiate. A qualified appraiser (look for a CVA or ABV designation) will produce a defensible number that accounts for tangible assets, goodwill, intellectual property, and revenue streams. The cost—typically $5,000 to $15,000 for a small-to-mid-sized business—is a fraction of what a contested valuation costs in litigation. If the operating agreement specifies a method, have the appraiser confirm whether that method produces a fair result. If it doesn't, you'll want to negotiate an alternative before invoking the buyout.

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4 Protect Yourself from Post-Exit Liability

Walking away from a partnership does not walk you away from liability. If the business has outstanding debts, pending lawsuits, tax obligations, or contingent liabilities, a departing partner may remain personally liable—especially in a general partnership where partners are jointly and severally liable for partnership obligations. Even in an LLC, personal guarantees on leases, credit lines, or vendor contracts can follow you long after you leave. And if the business faces a lawsuit arising from work performed while you were a partner, you may be named as a defendant regardless of whether you are still involved in the company.

What it costs you: A partner left a construction company and assumed his liability ended when he signed over his interest. Eighteen months later, a subcontractor filed a breach-of-contract suit over a project completed during his tenure. Because the company was a general partnership, the departing partner was personally liable for the full judgment. He had no indemnification agreement with his former partners and no insurance coverage for post-exit claims. The judgment was $220,000.

The fix:

Before you finalize your exit, address liability explicitly. Require an indemnification clause in the separation agreement: the remaining partners or the entity indemnify you for any claims, debts, or obligations arising after your departure. Review every personal guarantee you signed—leases, credit lines, equipment financing—and negotiate a release or substitution. Confirm that the business's insurance (general liability, E&O;, D&O;) will cover claims arising from work performed during your tenure. If the remaining partners refuse to provide indemnification, that tells you something important about the risks they expect you to absorb.

5 Document Everything — Before, During, and After

Partnership exits generate disputes months and even years after the departing partner leaves. The client who was "yours" calls you six months later—and your former partners claim you solicited them in violation of a non-solicitation clause. The tax return shows a distribution you never received. The financials reflect expenses you never approved. Without contemporaneous documentation, these disputes come down to your word against theirs. And in litigation, the partner with better records wins.

What it costs you: A departing partner agreed to a verbal buyout price during a meeting with his co-founders. No one wrote it down. Two weeks later, the remaining partners claimed the agreed price was $50,000 lower than what the departing partner recalled. Without a written term sheet, a signed memo, or even a confirming email sent that same day, the departing partner had no proof of the original agreement. He accepted the lower number rather than litigate a he-said-she-said dispute.

The fix:

From the moment you begin considering an exit, document everything. Send confirming emails after every conversation about the separation ("Per our discussion today, we agreed to the following terms..."). Keep copies of all financial statements, tax returns, bank statements, and cap tables—before they can be altered. Photograph or copy the operating agreement and all amendments. Save all communications (emails, texts, Slack messages) related to the exit. And when the terms are finalized, reduce them to a written separation agreement signed by all parties. The agreement should cover: buyout price and payment schedule, asset allocation, non-compete and non-solicitation terms, liability allocation and indemnification, tax treatment, and a mutual release of claims.

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The Bottom Line

A partnership exit is a transaction, not a breakup. Treat it like one. Know your agreement, know what you own, get a credible valuation, protect yourself from trailing liability, and document every step. The partners who exit cleanly are the ones who planned the exit before they announced it—not the ones who walked out the door and hoped for the best.

Planning a Partnership Exit? Talk to a Litigator First.

Kolmogorov Law, P.C. represents partners, co-founders, and business owners navigating partnership exits, buyouts, and dissolution disputes across California. We bring a litigator's perspective to every exit—because we know exactly how they go wrong.

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Chambers Spotlight 2026 — Litigation: General Commercial (Orange County)

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