



SELECTED ISSUES IN THE CONVERSION OF AN EMPLOYEE TO A PARTNER/MEMBER

UT LAW CLE

27th Annual
LLC's, LP's and Partnerships
Austin – July 12-13, 2018

Haynes and Boone LLP
112 E. Pecan, Suite 1200
San Antonio, Texas 78205

Frank Z. Ruttenberg
Laura E. O'Donnell

1

© 2017 Haynes and Boone, LLP

haynesboone
Setting precedent.



OVERVIEW


“Employees are a company's greatest asset - they're your competitive advantage. You want to attract and retain the best; provide them with encouragement, stimulus, and make them feel that they are an integral part of the company's mission.” Anne Mulcahy

- Successful businesses have always understood that there is value in retaining good employees.
- This value shows up as a tangible cost.
- According to the Center for American Progress, it costs roughly 20% of an employee's salary to replace a lost employee.
- Very highly paid jobs and those at the senior or executive levels can cost a company even more.

2

© 2017 Haynes and Boone, LLP


haynesboone
Setting precedent.



➤ The value of retaining good employees also shows up as an intangible benefit:

- ✓ retention of knowledge
- ✓ consistency of performance
- ✓ the longer employees stay at the job, the more skills they acquire


When you lose good employees you lose ideas, talents and institutional knowledge.



There are times in the life of each company where an employee may become so integral to its operations it makes sense for them to move from the ranks of employee to “owner.”

To the employer, this may mean a greater more secure commitment from a key person in the business operations.

To the employee, this may mean the potential for greater economic reward.



The purpose of this outline is to highlight some selected issues you may want to consider when converting an employee to a partner of a partnership or member of a limited liability company.

For ease of presentation, we will refer to the employee as the “service partner” and the business entity which is admitting him as a partner as the “company.”



RECONCILE THE TWO RELATIONSHIPS

- When taking on a business partner it is important that each party has a full understanding of expectations.
- This is of even greater importance when the person involved is a key employee who is converting to an owner.
- The admittance of the employee into the company should be viewed as a benefit to both parties.
- With poor communication, a lack of understanding expectations can have the opposite effect.

Find the full text of this and thousands of other resources from leading experts in dozens of legal practice areas in the [UT Law CLE eLibrary \(utcle.org/elibrary\)](http://utcle.org/elibrary)

Title search: Selected Issues in the Conversion of an Employee to a Partner/Member

Also available as part of the eCourse

[Practical Consideration When Admitting an Employee as a Member of a Pass-Through Entity](#)

First appeared as part of the conference materials for the
27th Annual LLCs, LPs and Partnerships session

"Practical Consideration When Admitting an Employee as a Member of a Pass-Through Entity"