We bought the company! Vermont takes leading role in employee-owned businesses

[Dan D'Ambrosio](), **Burlington Free Press**Published 10:00 p.m. ET June 16, 2019

ESSEX - Jason Patnaude calls it the worst day of his life.

Patnaude, 54, attended vocational school in Essex after graduating high school, leaving early to install Megabucks machines. Two and a half years later, he was let go when the machines became obsolete.

Jason Patnaude, left, and his brother, Shaun, co-founders of Alliance Group. *(Photo: Sara Munro)*

"My daughter was three months old, we built a house, and bought a car that weekend, and I got fired," Patnaude remembered.

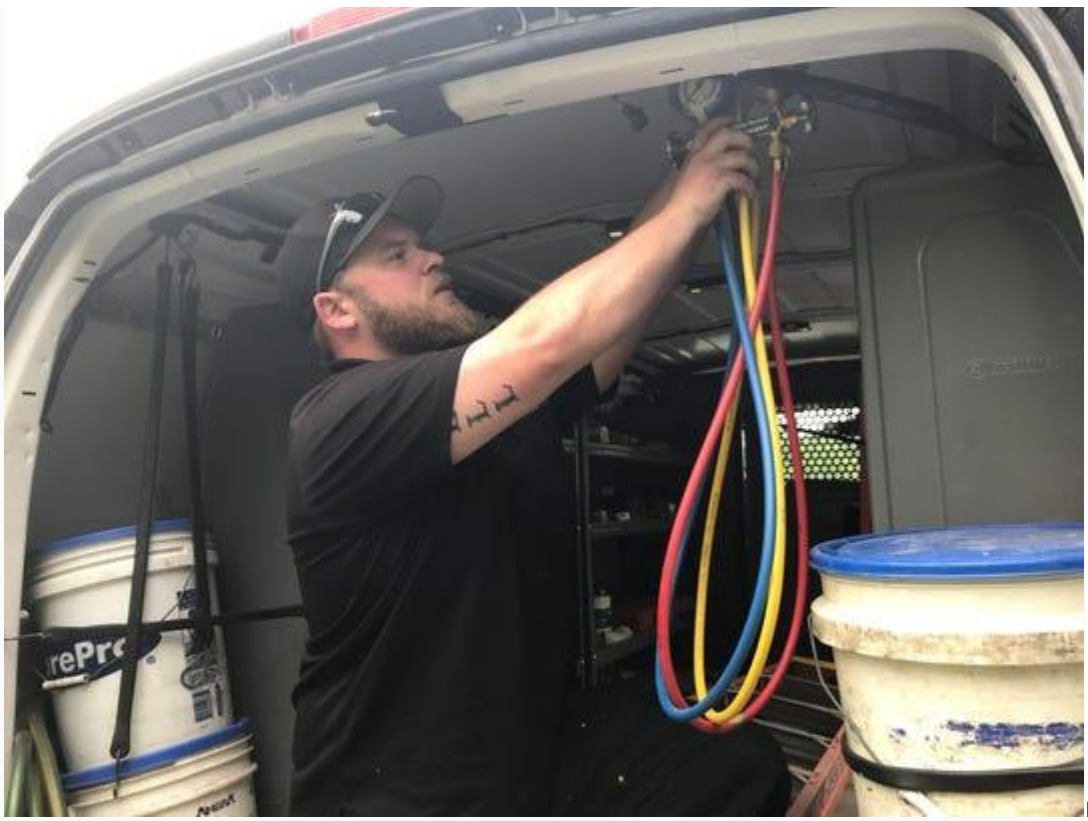
Desperate, Patnaude went to work at Radio Shack and Burger King. He called his older brother in Connecticut, who was an HVAC (heating, ventilation and air conditioning) technician.

"He said, 'You can't do that, rent your house, pack it up and come down here,'" Patnaude said.

In Connecticut, Patnaude learned HVAC, returning to Vermont in the late 1990s to start a mechanical company with his younger brother, Shaun. The brothers ended up selling the business and going to work for two of the largest HVAC companies in the state.

Neither brother was happy, and on April 1, 2010, they decided to start another HVAC business — Alliance Group in Essex.

In February, Jason Patnaude had one of the best days in his life. he and his brother announced to their 125 employees in Essex, Rutland and Lebanon, as well as Concord, New Hampshire, that they were the new owners of Alliance Group, which reached $24 million in revenue last year.



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Kyle Campbell, a field technician at Alliance Group in Essex. *(Photo: DAN D'AMBROSIO/FREE PRESS)*

"It was one of the best blindsides I've ever had," said Kyle Campbell, a field technician at Alliance. "Definitely a nice surprise."

Campbell, 26, suddenly found himself an owner of Alliance Group under an employee stock ownership plan, or ESOP. He has a long career ahead of him at Alliance, and many years to build up his equity in the company through his retirement account.

A fair price, and a fair shake for employees

For Jason and Shaun, an ESOP was the perfect exit strategy. The brothers did not want to leave the fate of the employees who helped them build Alliance into a powerhouse in the hands of a buyer that might gut the place. They had originally thought of selling it to a few key employees.

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Alliance Group had $24 million in revenue last year. *(Photo: DAN D'AMBROSIO/FREE PRESS)*

"Then we got so big, Shaun and I were talking, these guys can't afford this thing," Jason said.

With an ESOP, the brothers, who are equal owners, will receive a "fair price" for their company over 10 years, from revenue that previously went to paying federal taxes. A portion of that money will also go toward the employee/owners' retirement accounts, where the company can access it to invest in further growth. It will take five years for employees to be fully vested in the ESOP. The plan also includes some profit sharing for the employee/owners.

Other options

Jason declined to say how much the brothers are getting for Alliance, but said the price is 10 to 15 percent less than they could have gotten from other mechanical companies that regularly called to ask if he would sell the company.

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Kyle Campbell, left, and Tom Mooney of Alliance Group in Essex. *(Photo: DAN D'AMBROSIO/FREE PRESS)*

Tom Mooney, Alliance's sales manager, is well aware than Jason and Shaun had options.

"I've heard phone calls when they had offers for very good money and they could have rode off into the sunset," Mooney said. "And you wouldn't have to wait for your money."

Mooney was one of the company's first seven employees and has known Jason since 2003. The two are friends outside the workplace. Mooney said it wasn't a hard decision to take a chance on the startup company in 2010.

"We knew he wasn't going to fail, or let us fail," Mooney said of Jason. "He's that kind of guy. So whatever we were doing if we had to go mow lawns later in life, we'd be fine."

'A very high profile'

Matthew Cropp, co-executive director of the Vermont Employee Ownership Center in Burlington, said a report from the National Center for Employee Ownership showed that the average ESOP employee retires with two and a half times the retirement assets of a non-ESOP employee in a comparable company.

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Baker Carrie Brisson makes raspberry croissants at King Arthur Flour in Norwich in 2011. The company is employee-owned. *(Photo: Free Press file)*

"The ESOP model came out of this idea of having a good market-based way of allowing people to build more wealth from their work," Cropp said.

Joseph Blasi, a Rutgers University professor and director of the Institute for the Study of Employee Ownership and Profit Sharing, said the average ESOP worker has accumulated $134,000 from his or her stake in the company.

"We've done a lot of research on ESOP companies that shows modest income workers can build up stock accounts of several hundred thousand to several million dollars," Blasi said.

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The Garden of Eatin' Cafe at Gardener's Supply in Williston. Gardener's Supply is another employee -owned company. *(Photo: RYAN MERCER/FREE PRESS)*

Vermont has a "very high profile" in the employee ownership world because of the leadership roles Sen. Bernie Sanders, I-Vt., and the Vermont Employee Ownership Center have played.

Vermont has more than 40 companies that are at least partially employee owned, with more than 3,000 employees, according to the VEOC. The companies include Gardeners' Supply Co., PC Construction Co., and King Arthur Flour Co.

Bernie Sanders co-sponsors bipartisan bill

Blasi said Sanders was a co-sponsor of the Main Street Employee Ownership Act, signed into law by President Donald Trump last year. The legislation directs the U.S. Small

Business Administration to take a more active role in helping businesses implement employee ownership plans, by guaranteeing loans and providing technical assistance.

Sen. Bernie Sanders waves to audience members before a Fox News town-hall style event Monday April 15, 2019 in Bethlehem, Pa. Sanders co-sponsored the Main Street Employee Ownership Act. *(Photo: Matt Rourke/AP)*

The rare bipartisan effort was prompted by Congress' concern that the thousands of small businesses owned by retiring Baby Boomers across the country will soon be changing hands. Those jobs and businesses could be lost to local communities if private equity firms, for example, scoop up the businesses and relocate them, or load them up with debt.

Blasi said there are a "stunning" number of family businesses nationwide that don't have a son or daughter willing to continue running the business, or don't have a buyer who would keep the business in the community.

"Let me say that Vermont is probably sensitive to this," Blasi added. "In many small towns and cities a handful of these family businesses can be very central for jobs and economic stabilization."

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Jaquelyn Rieke of Nutty Steph's in Middlesex. *(Photo: DAN D'AMBROSIO/FREE PRESS)*

Kind of like a bonus

Another type of employee ownership is more direct, a cooperative with each employee owning one share of the company, and is better suited to smaller companies, like Nutty Steph's in Middlesex.

On April 1, 2019, Jaquelyn Rieke sold the small chocolate company she started 15 years ago to the four founding owners of a new worker-owned cooperative. The owners include Rieke and her husband, Rauli Fernandez, along with Liz Knapp and Martina Anderson. Future owners will rise to ownership "continually," according to the company, through a two-year process.

Nutty Steph's occupies a cozy, intimate space in the same building as Red Hen Baking Co., with a retail space filled with sweet-smelling chocolates sold individually in an L-shaped glass display, and walls of shelves with boxed and bagged chocolates and confections.

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Liz Knapp making chocolate confections in the Nutty Steph's kitchen. *(Photo: DAN D'AMBROSIO/FREE PRESS)*

A kitchen in back is the production area, where everything is handmade and hand-dipped. Next to the kitchen is the packing area, along with 8,000 pounds of Central American 70 percent dark chocolate buttons, packed in black plastic bags piled on shelves nearly to the ceiling — a six-month supply, according to Liz Knapp.

Matt Cropp of the Vermont Employee Ownership Center, explained that in co-ops like Nutty Steph's, rather than accumulating shares in your retirement account like an ESOP, you own the shares.

"Then every year the profits are divided up, paid out usually on the basis of hours worked," Cropp said. "It essentially feels like a bonus. Some comes in cash, some in retained earnings going forward."

In terms of managing the company, Cropp said one share equals one vote.

"A key co-op principle is it's a democratic organization," he said.

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Tempting truffles in the display case at Nutty Steph's in Middlesex. *(Photo: DAN D'AMBROSIO/FREE PRESS)*

Rieke said she never enjoyed being a sole proprietor, "never a minute of it for all 15 and a half years." She got the idea to form a cooperative from Digger's Mirth Collective Farm in Burlington's Intervale.

"I thought, 'Oh, I wish I had a farm!' What a great business model,'" Rieke said. "I thought it was something only farms could do. It took another five years before I even learned that any business can be a co-op."

Each owner of Nutty Steph's paid $2,000 for his or her share of the business, with Rieke receiving a $200,000 payout, which the company borrowed and will pay back with profits.

"It's not like I gave it away after 15 years," Rieke said. "The buyout is necessary to all these democratic ideals."

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Three of the four owners of Nutty Steph's (left to right): Liz Knapp, Martina Anderson and Jaquelyn Rieke. *(Photo: DAN D'AMBROSIO/FREE PRESS)*

Both Liz Knapp and Martina Anderson were hired with the understanding that they would be owners one day, but it's still a little hard for them to believe.

"None of us here ever in our life before Nutty Steph's thought we would own a chocolate shop," Anderson said.

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