Keeping It All in the Company, Bader Continues to Grow

By Laura Williams-Tracy

A major transition has occurred at Bader Companies, the nation's largest provider of self storage insurance products. But unlike most change, which tends to bring uncertainty and upheaval, this shift has invigorated an already strong company's aims to make its longtime employees richer.

Indianapolis-based Bader Companies has evolved from a family-owned company to one owned by its 55 employees. Through an employee stock ownership plan, or ESOP, Bader's employees are steadily buying the company from founder and long-time president Bob Bader.

"I've always had this vision of building something that was going to grow long after I was gone," says Bader, 68. "I love the business, our clients and our employees. Being in the storage industry has been one of most rewarding industries we've worked with. They are open and honest, and we do the same."

Selling the business to the company's dedicated employees enabled Bader Companies to evade some of the turmoil that often results when a company is sold. Clients have experienced continuity during the transition, says Lawrence Friedman, Bader's new president and CEO.

"The company has been reinvigorated," Friedman says. "We've grown more than 20% in the past year in a recession to beat all recessions."

Making the Transition

Bader, who over the course of a 37-year-career shaped Bader Companies into the largest provider of point-of-sale and point-of-lease niche insurance products in the U.S., announced in the spring of 2007 that he was ready to step away from daily operations. With no children actively involved in the business, Bader was unsure how to proceed. Bader's corporate counsel suggested an ESOP that would transfer ownership of the company from Bader (who owned 81% along with three minority investors who held the other 19%) fully to the company's employees.

"It was something none of us had ever thought of before," Bader says. He explored the idea and by September decided it made sense. The company could continue to grow under the same leadership, its culture, products and name would remain intact, and he could step away.

Bader Companies' transition to an employee-owned ESOP occurred January 30, 2008. The company was sold to a trust benefiting the employees, which borrowed half of the value of the company from a bank and the other half from Bader to purchase all of the company stock, says Steve Smith, an attorney specializing in ESOPs with the Indianapolis firm Krieg DeVault LLP.

Bader is a subordinate creditor to the bank, so he will be paid for the company he built after the bank debt is paid, Smith says.

"It takes certain type of owner to do an ESOP because they don't walk away from table with full cash," Smith says.

Bader Companies also proved its mettle with a debt-free balance sheet that enabled it to take on debt equivalent to its value.

"It's unusual for a company to have the financial capability to have self-funded the stock all at one time," Smith says. "Usually a company is so valuable that there is a limit to the debt service it can take on and continue to operate. Bader was not in that category."

Sharing the Wealth

The ESOP will also provide an opportunity for employees to share the wealth.

"It's a wonderful opportunity for a rank-and-file employee who could in no way through a 401K or a pension plan, and other than inheritance or winning the lottery, be able to accumulate true wealth," Smith says

Of course, the payoff isn't guaranteed. The company must do well. Bader employees become vested in the trust based on years of service. As the debt is paid from corporate earnings the company becomes more valuable, as does their company stock.

Bader's strong performance over the past two years has accelerated the

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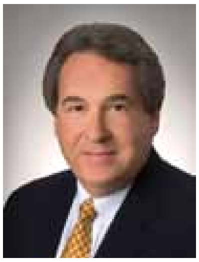
payoff, Friedman says, and he expects the company to be debt-free before the seven years originally anticipated.



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Friedman joined the company two months after the sale, and brought his business acumen to the company. Friedman is the former director of the Executive Office for the U.S. Trustee Program, a component of the Justice Department that oversees the bankruptcy system. In that role he oversaw the largest corporate bankruptcy reorganizations in history, including Enron Corp. and WorldCom Inc. A bankruptcy attorney, Friedman is a former managing director with Bear Stearns Companies. Before becoming president and CEO of Bader Companies, Friedman launched Bankruptcy Insurance Solutions, a joint venture with Bader Company.

"Employees don't just come to work anymore," Friedman says. "They come to a place where they have a stake in its performance, and once a year they get a statement telling them how that stake has performed. What better way is there to motivate employees for them to see that the value of their shares has doubled from last year," a performance Friedman says occurred from 2008 to 2009.

"It takes a unique and special kind of person to sell his company, agree to get paid later, and turn it over to the employees to run," Friedman says of Bader. "That shows the dedication and confidence that Bob had in the employees in the company he had built."

For his part, Bader stepped down as chairman of the board in July, a role assumed by outside director and insurance executive Darrell Gambero, thus adding a new level of transparency as the company transitions from family-owned to employee-owned.

"It's an appropriate way to reward them by making them the owners," Bader says of his former employees. "It's their company now." ❖