PATRICK INDUSTRIES INC
Form 10-K/A
April 02, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

AMENDMENT NO. 1

TO

FORM 10-K

(Mark One)

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2007 or
o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission file Number 0-3922

PATRICK INDUSTRIES, INC.

(Exact name of Company as specified in its charter)

Indiana (State or other jurisdiction of incorporation or organization)	35-1057796 (IRS Employer identification No.)
107 West Franklin Street, P.O. Box 638, Elkhart, Indiana (Address of principal executive offices)	46515 (ZIP code)

(574) 294-7511
(Company s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common stock, without par value (Title of each class)	Nasdaq Stock Market LLC (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark if the Company is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the Company is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S K is not contained herein, and will not be contained, to the best of Company s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K o

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Indicate by check mark whether the Company is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer, or smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer x Smaller reporting company o

Indicate by check mark whether the Company is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the voting stock held by non-affiliates of the Company on June 30, 2007 (based upon the closing price on the Nasdaq Stock Market LLC and an estimate that 57.5% of the shares are owned by non-affiliates) was $54,209,451. The closing market price was $15.76 on that day and 5,984,427 shares of the Company s common stock were outstanding.

As of March 15, 2008 there were 7,133,033 shares of the Company s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s Proxy Statement for its Annual Meeting of Shareholders to be held on May 14, 2008 are incorporated by reference into Part III of this Form 10-K.

EXPLANATORY NOTE: This Amendment No. 1 to Form 10-K of Patrick Industries, Inc. (the "Company") corrects certain typographical errors and omissions in Items 7, 9A and 15. No other changes have been made in this Form 10-K/A that modify or update other disclosure as presented in the original report.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Fiscal 2007 for Patrick Industries (the Company) could be characterized from management s perspective as a time of transformation for the Company. In January 2007, we completed the acquisition of American Hardwoods, Inc. (American Hardwoods), an industrial distribution company located in Phoenix, Arizona, representing our first acquisition since 1998. In May 2007, we completed the largest acquisition in our history by acquiring Adorn Holdings, Inc., (Adorn) a well-known manufacturer and supplier to the manufactured housing, recreational vehicle, and industrial markets. The purchase price for American Hardwoods was $7.1 million and the purchase price for Adorn was approximately $78.8 million. The American Hardwoods acquisition allowed us to increase our industrial penetration through a new distribution channel and represents a potential model for future industrial expansion. The Adorn acquisition presents numerous synergistic opportunities, including facility rationalization, headcount reduction, increased capacity utilization, increased purchasing leverage and presence, and the combination of two strong management teams working together to facilitate best practices among industry leaders. Further, the Adorn acquisition allowed us to virtually double our manufacturing revenues and significantly increase our market share in the manufactured housing and recreational vehicle industries. Both acquisitions fit within the framework of our strategic plan as it relates to strong historical financial performance, solid management teams, positive profit analysis and projections, and competitive pricing multiples, among others.

As a result of the Adorn acquisition, much of our focus from May through December 2007 was on the execution of the consolidation plan and transition of Adorn into Patrick at all levels, from the closing and consolidation of seven manufacturing plants and two operating cells, to the administrative and corporate functions necessary to drive the business. Additionally, we continue to analyze the benefits of relocating certain divisions in order to capitalize on floor space, rail siding, and cost. The goal to have the majority of the transition completed by December 31, 2007 was met on time and according to plan. From a demographic and logistics perspective, Adorn in its original form, operated out of ten business units located in eight different states. The Patrick platform was comprised of twenty-seven different business units (including distribution) located in twelve different states. Together, the combined company facilities overlapped in six of the eight states in which Adorn was located. Specifically as a result of the Adorn acquisition through December 31, 2007, we have closed and consolidated five Adorn operations into Patrick facilities, four of which were leased, closed operations at the Company s unprofitable hardwood cabinet door division in Oregon and transferred that business to Adorn s state-of-the-art cabinet door operation in Elkhart, Indiana, closed and consolidated our moulding division in California, closed two unprofitable manufacturing lines in Elkhart, reduced overall hourly and salaried headcount by approximately 230 people, and reallocated business to more logistically superior locations to improve efficiencies. From a fixed cost perspective from January 1, 2007 through December 31, 2007, we eliminated approximately 75 salaried administrative and production positions representing approximately $4.7 million in fixed costs including benefits. Additionally, in March 2008, we eliminated another 82 administrative and production positions representing approximately $4.0 million in annualized fixed and variable costs including benefits. In the second quarter of 2007, we were able to capitalize on combined purchasing initiatives to facilitate certain inventory, cash flow, and pricing opportunities including vendor managed inventory programs and margin enhancement, resulting in increased cash flow and the pay-down of approximately $9.4 million in senior term debt. Since the May 18, 2007 acquisition date, we have reduced our senior term loan by approximately $16.1 million and reduced total debt under the facility by approximately $21.2 million. Management s debt reduction focus has resulted in overall debt reduction under the facility of approximately $17.2 million over and above its normal debt service requirements. Additionally, we have been able to capitalize on certain supply chain management programs resulting in approximately $1.4 million in improved gross margin dollars from these initiatives.

The $78.8 million acquisition price, including costs, paid for Adorn was funded through both debt and equity financing. The debt financing was provided in the form of a $110 million credit facility comprised of a $75 million term loan and a $35 million revolver. The credit facility (the facility) was provided by an eight-bank syndication led by JPMorgan Securities, Inc. and JPMorgan Chase Bank, N.A. The facility is structured to provide additional liquidity to facilitate the combined companies future growth plans and working capital needs. Additional financing for the acquisition was provided by Tontine Capital Partners, L.P. and Tontine Capital Overseas Master Fund, L.P. (collectively Tontine). Tontine, a significant shareholder of Patrick, purchased 980,000 shares of Patrick common stock in a private placement at a purchase price of $11.25, or approximately $11 million in the aggregate. Tontine also provided interim debt financing in the form of senior subordinated notes totaling approximately $14 million.

The Adorn opening balance sheet added approximately $33.0 million in current assets, $12.5 million in net property and equipment, $29.5 million in goodwill, and approximately $39.5 million in identifiable intangible assets. From a liability perspective, the Company recorded approximately $18.5 million in current liabilities and $17.3 million in deferred income taxes.

From a general business perspective, the current downturn in the residential housing market has had an adverse impact on our operations as the three primary industries in which we operate are experiencing overall declines and expected to continue through 2008. The manufactured housing industry continues to be negatively impacted by financing concerns and a lack of available financing sources, and the current credit situation in the residential housing market puts additional pressure on consumers, who are generally using financial institutions as a source for these purchases. Recreational vehicle purchases are generally consumer discretionary income purchases and therefore any situation which causes concerns related to discretionary income has a negative impact on these markets. Approximately 80%-85% of our industrial revenue base is associated with the residential housing market, and therefore there is a direct correlation between the demand for our products in this market and new residential housing production.

Our operations for 2007 were negatively affected by unfavorable market conditions and overall softness in the major domestic markets that we serve. The conditions in the residential housing market, which play a significant role in consumer confidence and discretionary spending as it relates to the products we sell, experienced significant declines from an extended period of prosperity due in part to weak credit standards in the subprime markets and excessive home prices resulting in an overall tightening of credit by the lenders, excess inventory levels of unsold homes in the marketplace resulting in less new construction, and a general skepticism by consumers resulting in less discretionary spending. These conditions are expected to continue at least through 2008, and potentially into 2009, and are expected to continue to impact the major markets that we serve.

The manufactured housing industry, which represents approximately 37% of our revenue base for 2007, continued to experience shipment declines and finished the year with shipments at approximately 95,800 units, levels not seen since 1961. This industry continues to be plagued by financing concerns including lack of funding sources, marketing and perception issues, excess capacity in apartment units, and low interest rates on traditional site-built housing mortgages, which directly compete with the manufactured housing loans generally carrying a financing risk-based premium. Industry shipment expectations for 2008 are projected to decline from the 2007 shipment levels. Factors that may favorably impact production levels in this industry include permanent rebuilding in hurricane damaged areas, rising interest rates, quality credit standards, mild inflation and improved job growth.

Today s current factory-built modular homes represent an attractive cost effective alternative to traditional site-built homes. As certain housing manufacturers continue their penetration into the modular housing sector, the demand for our manufactured custom panels continues to shift to our distribution products which include, but are not limited to, the raw substrates and tape and texture products.

The recreational vehicle industry, which represents approximately 35% of our combined annual sales, experienced shipment declines in all four quarters of 2007, from the prior year, and a year over year decline of approximately 10% to finish at approximately 353,400 units. While this market experienced some softening, the 2007 year represented the sixth consecutive year of shipment levels above the 300,000 unit level and the first decline in the last four years. Demographic projections for the recreational vehicle industry remain positive from a long-term perspective as the hassles of air travel, an aging baby-boomer population with more disposable income, the relatively low cost of recreational vehicle vacations, successful product development and enhancement campaigns, and a successful marketing campaign all point to projected long term growth for the industry.

The industrial market sector has been negatively impacted by an approximate 25% decline in the residential housing market. Approximately 85% of our revenue base in these industries is tied to the residential housing market and includes kitchen cabinet and cabinet components, which relate to not only new home construction, but remodeling and upgrades as well. This market sector is expected to remain depressed for most of 2008, with improvement not anticipated until 2009.

While we have completed the majority of synergistic facility rationalization initiatives to improve operating efficiencies in our plants through increased capacity utilization, these soft market conditions have had, and are expected to continue to have a negative impact on our operations in 2008.

For the year ended December 31, 2007, we reported net sales of approximately $435.2 million and a net loss of approximately $5.8 million, or $1.05 per diluted share, compared with net sales of $347.6 million, and net earnings of $2.6 million, or $0.53 per diluted share for the prior year. The year over year increase in sales was from the Adorn and American Hardwoods acquisitions and new product introductions, partially offset by the softness in our core markets. The 2007 results included certain pre-tax expenses of approximately $7.9 million, or $0.88 per diluted share after tax. These items included restructuring and other costs related to the acquisition and integration of Adorn of approximately $5.6 million, or $0.63 per diluted share, net of tax, as well as severance and litigation settlement costs and the write-off of a potential overseas expansion initiative of approximately $1.0 million, or $0.11 per diluted share, net of tax. Also included in 2007 was pre-tax acquisition-related amortization of $1.3 million, or $0.14 per diluted share after tax. We reported gross profit of approximately $48.3 million, or 11.1 percent in 2007, compared with gross profit of $42.1 million, or 12.1 percent in 2006. The 2007 gross profit included the impact of approximately $2.2 million, or 0.5 percent of net sales, in restructuring charges related to the Adorn acquisition.

We reported an operating loss of $2.1 million for the year, compared to operating income of $6.1 million for the prior year. The year end 2007 operating loss reflected a total of approximately $2.4 million in restructuring charges related to the Adorn acquisition (including the $2.2 million described above), as well as approximately $4.2 million of other acquisition-related or integration-related expenses. These costs include approximately $3.0 million in retirement vesting, stock compensation, acquisition related incentive bonuses paid to key members of management, and $1.0 million in intangible asset amortization expense. Operating income in 2007 was further reduced by approximately $1.0 million in severance and litigation settlement costs and the write-off of a potential overseas expansion initiative, which are not included in restructuring and other acquisition related charges above.

Inventory and receivable levels increased slightly from the prior year due primarily to normal cyclical operating cycles and to the acquisition of Adorn and American Hardwoods in the first six months of 2007. At the acquisition date, these two acquisitions contributed an incremental $17.5 million to inventory and approximately $16.5 million to accounts receivable. We entered into a vendor managed inventory agreement with one of our suppliers in the second quarter resulting in approximately $9.4 million of operating cash flow and reduction of the

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overall inventory balance as it relates to a certain commodity. The proceeds from this agreement were used to reduce the senior term loan. From an overall debt perspective, since the acquisition of Adorn on May 18, 2007 through December 31, 2007, we have paid down approximately $17.2 million in additional revolving and term debt, over and above normal debt service requirements.

Prices for certain of our major commodity products continue to face pricing pressures as a result of the soft industry conditions and excess capacity. The majority of price increases over the past 24 months began in the first quarter of 2006 and on average continued through the third quarter of 2006. Economic conditions in the primary industries then began to soften resulting in downward pricing pressure beginning in the fourth quarter of 2006 and continuing through 2007. We expect the soft market conditions and excess supply to result in pricing erosion in 2008 in certain of our major commodity product categories.

With the recent strategic acquisitions of American Hardwoods and Adorn, we believe that we continue to establish our platform for future growth and create shareholder value, and are positioned to increase revenues in all of the markets that we serve upon improvement in the overall economic environment. While market conditions are expected to remain depressed for 2008, key focus areas include capturing market share, implementation of lean principles in all manufacturing operations and our corporate office, maintaining a lean organizational structure, reducing and controlling costs, future acquisitions, and growing all areas of the business. In conjunction with our strategic plan, we have invested significantly in capital over the past three years to increase efficiencies and automation, add capacity and value added capabilities, and appropriately maintain our facilities and equipment. The capital plan for 2008 includes expenditures up to $6.5 million. Our management team remains focused on earnings targets, cash flow, and debt reduction as we head into 2008.

The following table sets forth the percentage relationship to net sales of certain items in our statements of operations:

	Year Ended December 31,		
	2007	2006	2005
Net sales	100.0%	100.0%	100.0%
Cost of sales	88.4	87.9	88.2
Restructuring charges	0.5	- - -	- - -
Gross profit	11.1	12.1	11.8
Warehouse and delivery	4.7	4.2	4.3
Selling, general and administrative	6.6	6.1	6.3
Amortization of intangible assets			