

PATRICK INDUSTRIES INC
Form 10-K
April 15, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2008**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to**

Commission file number 000-03922

PATRICK INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

INDIANA
(State or other jurisdiction of
incorporation or organization)

35-1057796
(I.R.S. Employer
Identification No.)

107 W. FRANKLIN STREET, P.O. Box 638, ELKHART, IN
(Address of principal executive offices)

46515
(Zip Code)

(574) 294-7511

(Registrant'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 registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

Indicate by check mark whether the registrant (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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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 registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form

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10 K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 27, 2008 (based upon the closing price on the Nasdaq Stock Market LLC and an estimate that 39.6% of the shares are owned by non-affiliates) was \$23,194,490. The closing market price was \$6.50 on that day and 9,018,618 shares of the Company's common stock were outstanding. As of March 13, 2009, there were 9,025,939 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its Annual Meeting of Shareholders scheduled to be held on May 21, 2009 are incorporated by reference into Part III of this Form 10-K.

PATRICK INDUSTRIES, INC.

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FISCAL YEAR ENDED DECEMBER 31, 2008

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Exhibit 23.1 - Consent of Independent Registered Public Accounting Firm, Ernst & Young LLP

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Exhibit 31.1 - Certifications of Chief Executive Officer

Exhibit 31.2 - Certifications of Chief Financial Officer

Exhibit 32 - Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive position, growth opportunities for existing products, plans and objectives of management, markets for the common stock of Patrick Industries, Inc. and other matters. Statements in this Form 10-K as well as other statements contained in the annual report and statements contained in future filings with the Securities and Exchange Commission and publicly disseminated press releases, and statements which may be made from time to time in the future by management of the Company in presentations to shareholders, prospective investors, and others interested in the business and financial affairs of the Company, which are not historical facts, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements. Patrick Industries, Inc. does not undertake to publicly update or revise any forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made, except as required by law. You should consider forward-looking statements, therefore, in light of various important factors, including those set forth in the reports and documents that Patrick Industries, Inc. files with the Securities and Exchange Commission, including this Annual Report on Form 10-K for the year ended December 31, 2008.

There are a number of factors, many of which are beyond the control of Patrick Industries, Inc., which could cause actual results and events to differ materially from those described in the forward-looking statements. These factors include pricing pressures due to competition, costs and availability of raw materials, availability of retail and wholesale financing for manufactured homes, availability and costs of labor, inventory levels of retailers and manufacturers, levels of repossessed manufactured homes, the financial condition of our customers, the ability to generate cash flow or obtain financing to fund growth, future growth rates in the Company's core businesses, interest rates, oil and gasoline prices, the outcome of litigation, adverse weather conditions impacting retail sales, and our ability to remain in compliance with our credit agreement covenants. In addition, national and regional economic conditions and consumer confidence may affect the retail sale of recreational vehicles and manufactured homes.

Any projections of financial performance or statements concerning expectations as to future developments should not be construed in any manner as a guarantee that such results or developments will, in fact, occur. There can be no assurance that any forward-looking statement will be realized or that actual results will not be significantly different from that set forth in such forward-looking statement. See Part I, Item 1A Risk Factors below for further discussion.

PART I

ITEM 1. BUSINESS

Company Overview

Patrick Industries, Inc. (collectively, the Company, we, our or Patrick), which was founded in 1959 and incorporated in Indiana in 1961, is a major manufacturer and supplier of building products and materials to the manufactured housing (MH) and recreational vehicle (RV) industries. In addition, we are a supplier to certain other industrial markets, such as kitchen cabinet, home and office furniture, commercial fixtures and furnishings, marine, architectural, and the automotive aftermarket. We manufacture a variety of products including decorative vinyl and paper panels, wrapped moldings, hardwood, cabinet doors and components, slotwall and slotwall components, components for electronic desks, countertops, and printed decorative vinyl.

We are also an independent wholesale distributor of pre-finished wall and ceiling panels, drywall and drywall finishing products, floor covering products, vinyl and cement siding, interior passage doors, roofing products, ceramic tile, electronics, insulation, and other related products. We have a nationwide network of manufacturing and distribution centers for our products, thereby reducing in-transit delivery time and cost to the regional manufacturing plants of our customers. We believe that we are one of the few suppliers to the MH and RV industries that has such a nationwide network. We maintain four manufacturing plants and a distribution facility near our principal offices in Elkhart, Indiana, and operate nine other warehouse and distribution centers and ten other manufacturing plants in thirteen other states.

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Beginning in 2007 and continuing throughout 2008, we explored, initiated and completed a number of cost reduction and efficiency improvements designed to address the downturn in general worldwide economic conditions that adversely affected demand for our products and services and to leverage our position to drive future growth. These improvements included the restructuring and integration of operations, consolidation of facilities, disposition of non-core operations, streamlining of administrative and support activities, and the management of inventory levels. The Company also continued to enhance its products and services through the integration of new and expanded product lines designed to create additional scale advantages and offer both increased breadth and depth of products and services. In the Executive Summary section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, we provide an overview of the impact that the deterioration in macroeconomic conditions had on our operations and in the RV, MH, and residential housing industries in 2008.

In the first quarter of 2009, we completed the divestiture of one of our non-core operations, American Hardwoods, Inc. (American Hardwoods), and in 2008 made the decision to divest our aluminum extrusion operation. See Strategic Divestitures below and Note 3 to the Consolidated Financial Statements in Item 8 of this report for further details.

Patrick had three reportable business segments in 2008 (based on continuing operations): Primary Manufactured Products, Distribution, and Other Component Manufactured Products. Financial information about Patrick's three segments is included in Note 16 to the Consolidated Financial Statements.

Competition

The MH and RV industries are highly competitive with low barriers to entry. This level of competition carries through to the suppliers to these industries. Across the Company's range of products and services, competition is based primarily on price, product features, quality, and service. We have several competitors in each class of our products. All of our competitors currently compete with us on a regional and local basis. In order for a competitor to compete with us on a national basis, we believe that a substantial capital commitment and investment and experienced personnel would be required. The other industrial markets in which we continue to expand are also highly competitive. In 2008, the declining sales volume and depressed economic conditions in all three of the primary markets we serve caused extreme pricing pressure on certain products as supply outweighed demand. As the RV and MH industries are projecting lower volume in 2009 compared to prior year levels, the Company expects competition in most of the products lines and industries we serve to remain intense in 2009 and potentially into 2010. Given this environment, the Company has identified several operating strategies to maintain or enhance earnings through productivity and fixed cost reduction initiatives, expansion into new product lines, and optimization of capacity utilization.

Strategy **Overview**

We believe that we have developed quality-working relationships with our customers and suppliers, and have oriented our business to the needs of these customers. These customers include all of the larger MH and RV manufacturers and a number of large to medium-sized industrial customers. Our industrial customers generally are directly linked to the residential housing markets. Our MH and RV customers generally demand the lowest competitive prices, high quality standards, short lead times, and a high degree of flexibility from their suppliers. Our industrial customers generally are less price sensitive than our MH and RV customers, and more focused on quality customer service and quick response time. Consequently, we have focused our efforts on maintaining and improving the quality of our manufactured products, developing a nationwide manufacturing and distribution presence in response to our customers' needs for flexibility and short lead times, and prioritizing the implementation of lean manufacturing principles and continuous improvement in all of our facilities including our corporate office. Additionally, because of the short lead times, which range from 24 hours to same day order receipt and delivery, we have intensified our focus on reducing our inventory levels with the help of some of our key suppliers with vendor managed inventory programs. These initiatives have been instrumental in improving our operating cash flow and liquidity. As we explore new markets and industries, we believe that these and other strategic initiatives provide us with a strong foundation for future growth. In 2008, approximately 45% of our sales were to the MH industry, 37% to the RV industry, and 18% to the industrial and other markets. In 2007, approximately 36% of our sales were to the MH industry, 39% to the RV industry, and 25% to the industrial and other markets.

Operating Strategies

Key operating strategies identified by management, include the following:

Strategic Acquisitions, Expansion and Restructuring

We supply a broad variety of building material products and, with our nationwide manufacturing and distribution capabilities, we believe that we are well positioned for the introduction of new products. We, from time to time, consider the acquisition of additional product lines, facilities, companies with a strategic fit, or other assets to complement or expand our existing businesses.

In May 2007, we purchased all of the outstanding stock of Adorn Holdings, Inc. (Adorn), an Elkhart, Indiana-based major manufacturer and supplier to the MH, RV, and industrial markets, for \$78.8 million. This acquisition represented the largest acquisition in our history, virtually doubled our manufacturing revenues, and immediately strengthened our market position and presence in the major industries that we serve. Due to the size and complexity of the acquisition, and the potential for synergy realization through facility rationalization, headcount reduction, vendor consolidation, and the implementation of best practices, we intensely focused our efforts for the remainder of 2007 and through the first nine months of 2008 on the consolidation of Adorn into Patrick in order to maximize the planned efficiencies as soon as possible.

In May 2007, we initiated a restructuring plan (the Restructuring Plan) to integrate Adorn with our existing businesses. The completion of the Restructuring Plan in the third quarter of 2008 resulted in cumulative pretax charges totaling approximately \$3.3 million. Expenses associated with the Restructuring Plan included the closure of duplicate facilities, severance related to the elimination of redundant jobs, and various asset write-downs related to the consolidation of product lines. We have realized, and expect to continue to realize, synergy savings from this acquisition on a go-forward basis.

While operating under the current depressed market and economic conditions, which we believe will continue through the end of 2009 and possibly into 2010, we expect to focus on fixed cost and debt reduction initiatives in order to reduce our leverage ratio, maintain operating cash flow, meet the covenants under our credit agreement and maximize efficiencies from the consolidation of Adorn into Patrick.

Strategic Divestitures

In an effort to strategically align our current operations with businesses within our core competencies and reduce overall fixed costs, we have explored and will continue to explore various alternatives for the divestiture of certain unprofitable, non-core operations. In 2008, we identified our American Hardwoods and aluminum extrusion operations as non-core operations. During the fourth quarter of 2008, we reclassified the carrying values of the assets of American Hardwoods and the aluminum extrusion operation to assets held for sale, which is included in current assets on the consolidated statements of financial position. The financial results of these operations have also been classified as discontinued operations in the consolidated financial statements and all prior period operating results have been reclassified to conform to the current year presentation. See Note 3 to the Consolidated Financial Statements for further details.

Sale of American Hardwoods, Inc. Operation

In January 2009, the Company sold certain assets and the business of the American Hardwoods operation, an industrial hardwood product distributor located in Phoenix, Arizona, and entered into a separate real estate purchase agreement with the buyer to sell the building that housed this operation, subject to certain conditions. At the time of the American Hardwoods purchase two years ago, we were focused on adding products that complemented Patrick's existing product lines while further diversifying our customer base and driving market penetration in growing economic regions. Since early 2008, the downturn in general economic conditions adversely affected the demand for building products in the Phoenix market and, ultimately, the sales volume from this operation. The decision to divest American Hardwoods and to seek to divest the aluminum extrusion operation (discussed below) was largely based on projected and potential operating losses under the current operating model and working capital requirements of these operations that forced us to assess the overall fit of these operations within the parameters of our strategic plan. Previously, the financial results of American Hardwoods had been included in the Distribution segment.

Sale of Aluminum Extrusion Operation

In the fourth quarter of 2008, the Company made the decision to divest certain assets of its aluminum extrusion operation located in Mishawaka, Indiana. Previously, the financial results of this operation comprised the entire Engineered Solutions business segment. Estimated pretax charges of approximately \$5 million associated with the planned divestiture are reflected in discontinued operations and consist of the write down to fair market value of trade receivables, inventories and fixed assets. These assets have been classified as held for sale.

Diversification into Other Markets

While we continually seek to improve our position as a leading supplier to the MH and RV industries and have substantially increased our presence in these markets through the acquisition of Adorn in 2007, we are also seeking to expand our product lines into other industrial, commercial and institutional markets. Many of our products, such as countertops, cabinet doors, laminated panels, and shelving, have applications in the kitchen cabinet, office furniture and fixture, and architectural markets. We have a dedicated sales force focused on increasing our industrial market penetration and on our diversification into more commercial and institutional markets.

Because order size from the industrial and commercial markets tends to be for larger numbers of units, we enjoy better production efficiencies for these orders. We believe that diversification into other industrial markets provides opportunities for improved operating margins with products that are complementary in nature to our current manufacturing processes. In addition, we believe that our nationwide manufacturing and distribution capabilities enable us to position ourselves for product expansion.

Utilization of Manufacturing Capacity

Efficiency utilization

Since we own a majority of our operating facilities, the acquisition and consolidation of Adorn into Patrick allowed us to increase capacity utilization at all of our consolidated manufacturing facilities. In 2008, we completed two plant expansion initiatives which were started in 2007 prior to the market declines, to allow for the increased volumes taken on at these operating facilities and to improve workflow and deliver efficiencies. Additionally, we are focused on cross-training all of our manufacturing work force in our manufacturing cells within each facility to maximize our efficiencies and increase the flexibility of our labor force. While we increased capacity utilization as a result of our facility consolidation, the decline in volume levels due to soft industry conditions in all of the major end markets we serve has left us with unused capacity. We have the ability to substantially increase volumes in almost all of our facilities without adding comparable incremental fixed costs. With the expected continued weak economic conditions, we are continually exploring opportunities for further facility consolidation.

Plant Consolidations / Closures and Division Changes

In 2008 and in the first quarter of 2009, we consolidated and closed certain manufacturing and distribution facilities in an effort to align operating costs with our revenue base and keep our overhead structure at a level consistent with operating needs, particularly given the overall soft economic conditions experienced in 2008 and further expected in 2009.

During the first quarter of 2008, the Company entered into a listing agreement to sell an idle manufacturing facility in Fontana, California, which was exited in 2007. In the second quarter of 2008, this facility was sold, resulting in a pretax gain on sale of approximately \$4.2 million. The building that was sold formerly housed the Company's west coast molding division. In 2007, the Company consolidated this molding division into its Fontana custom vinyls and distribution facility. The consolidation was part of a multiphase integration effort following the acquisition of Adorn.

Additionally during the first quarter of 2008, the Company closed its Sun Adhesives division located in our Decatur, Alabama facility. Due to the ever-increasing demand for technical expertise and the economies of scale related to being able to consolidate its purchases, the Company was able to improve profitability and eliminate certain fixed costs by negotiating a new nationwide agreement with a leading supplier of bonding systems to supply adhesives to all of our manufacturing facilities.

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During the fourth quarter of 2008, the Company entered into a listing agreement to sell its remaining manufacturing and distribution facility in Fontana, California. The Company will continue to assess the market conditions in California for its products and if appropriate will move to a leased facility in the event of a sale of this property. The Company has reclassified approximately \$1.6 million of carrying value for this facility to assets held for sale in the consolidated financial statements at December 31, 2008 and expects that the property will be sold in 2009.

Additionally during the fourth quarter of 2008, the Company entered into a listing agreement to sell its custom vinyls manufacturing facility in Ocala, Florida. It is anticipated that the sale of this facility will not be completed until 2010 due to unfavorable real estate market conditions, and therefore the property's carrying value was not included in assets held for sale at December 31, 2008.

In December 2008, the Company announced its decision to close its leased distribution facility in Woodland, California and consolidate operations into the existing Fontana, California facility in order to offset a sizable reduction in sales volumes that stemmed from the planned closure of one of our major customers' plants in the same location. The consolidation was completed in January 2009.

In January 2009 in conjunction with the sale of the American Hardwoods operation, the Company entered into a separate real estate purchase agreement with the buyer to sell the building that housed this operation. The agreement includes a purchase price of \$2.5 million for the building and property and is subject to confirmatory due diligence by the buyer and is expected to be finalized by the end of the second quarter of 2009. The Company accordingly reclassified approximately \$2.5 million of carrying value for this property to assets held for sale in the Company's consolidated financial statements at December 31, 2008.

Product Development and New Product Introductions/Discontinuations

With our versatile manufacturing and distribution capabilities, we are continually striving to increase our market presence in all of the markets that we serve and gain entrance into other potential markets. We remain committed to new product development and introduction initiatives. New product development is critical to growing our revenue base and keeping up with changing market conditions and addressing customer demand. We plan to continue to devote our time and attention to distribution products that fit within the strategic parameters of our current business model including appropriate margin and inventory turn levels. In 2008 and early 2009, we introduced several new products.

To further enhance our product offerings to marine and RV customers, we established new relationships with several vendors to distribute a complete line of audio/video source units, televisions and microwaves to the marine, RV and recreational product markets. This newly formed electronics division within our Distribution segment was launched in the first quarter of 2009.

In January 2009, we discontinued certain distribution product lines including our line of resilient flooring products and the hardwood products associated with the American Hardwoods operation.

Principal Products

Through our manufacturing divisions, we manufacture a variety of products including decorative vinyl and paper panels, wrapped moldings, stiles and battens, hardwood, foil and membrane pressed cabinet doors, drawer sides and bottoms, slotwall and slotwall components, components for electronic desks, countertops, and printed decorative vinyl and paper. In conjunction with our manufacturing capabilities, we also provide value added processes, including custom fabrication, edge-banding, drilling, and cut-to-size capabilities.

We distribute pre-finished wall and ceiling panels, drywall and drywall finishing products, floor covering products, particleboard, vinyl and cement siding, interior passage doors, roofing products, decorative tile, mirrors and glass, electronics, insulation, and other related products.

Manufactured laminated panels contributed 45%, 39%, and 33% of total sales for the years ended December 31, 2008, 2007, and 2006, respectively. Pre-finished wall panels and finishing products contributed 8%, 10%, and 20% of total sales for the years ended December 31, 2008, 2007, and 2006, respectively.

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We have no material patents, licenses, franchises, or concessions and do not conduct significant research and development activities.

Manufacturing Processes and Operations

Our primary manufacturing facilities utilize various materials including gypsum, particleboard, plywood and fiberboard, which are bonded by adhesives or a heating process to a number of products, including vinyl, paper, foil and high-pressure laminate. Additionally, we offer high-pressure laminate laminated to substrates such as particleboard and lauan which has many uses, including counter tops and ambulance cabinetry. We manufacture laminate countertops and solid surface countertops, as well as slotwall and slotwall components for the store and office fixture markets. Laminated products are used in the production of wall, cabinet, shelving, counter and fixture products with a wide variety of finishes and textures.

We manufacture three distinct cabinet door product lines in both raised and flat panel designs, as well as square, cathedral and arched panels. One product line is manufactured from raw lumber using solid oak, maple and other hardwood materials. Another line of doors is made of laminated fiberboard, and a third line uses membrane press technology to produce doors and components with vinyls ranging from 2 mil to 14 mil in thickness. Several outside profiles are available on square, cathedral, and arched raised panel doors and the components include rosettes, arched window trim, blocks and windowsills, among others. Our doors are sold mainly to the MH and RV industries. We also market to the cabinet manufacturers and ready-to-assemble furniture manufacturers.

Our vinyl printing facility produces a wide variety of decorative vinyls which range from 4 mil to 5 mil in thickness and are shipped in rolls ranging from 350-700 yards in length. This facility produces material for both internal and external use.

Our aluminum extrusion operation, which is classified as held for sale on our December 31, 2008 consolidated statements of financial position, produces semi-fabricated and fabricated aluminum extrusions for structural and non-structural applications.

Markets

We are engaged in the manufacturing and distribution of building products and material for use primarily by the MH and RV industries, and in other industrial markets.

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 that are expected to continue through 2009 and potentially into 2010. 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 and conventional financing 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 70% of our industrial revenue base is associated with the U.S. residential housing market, and therefore there is a direct correlation between the demand for our products in this market and new residential housing production.

Manufactured Housing

The manufactured housing industry has historically served as a more affordable alternative to the traditional homebuyer. Because of the relative lower cost of construction as compared to site built homes, manufactured homes traditionally have been one of the principal means for first time homebuyers to overcome the obstacles of large down payments and higher monthly mortgage payments. Manufactured housing also presents an affordable alternative to site built homes for retirees and others desiring a lifestyle in which home ownership is less burdensome than in the case of site built homes. The increase in square footage of living space and updated modern designs in manufactured homes created by multi-sectional models has made them more attractive to a larger segment of homebuyers.

Manufactured homes are built in accordance with national, state and local building codes. Manufactured homes are factory built and transported to a site where they are installed, often permanently. Some manufactured homes have

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design limitations imposed by the constraints of efficient production and over-the-road transit. Delivery expense limits the effective competitive shipping range of the manufactured homes to approximately 400 to 600 miles.

Modular homes, which are a component of the manufactured housing industry, are factory built homes that are built in sections and transported to the site for installation. These homes are generally set on a foundation and are subject to land/home-financing terms and conditions. In recent years, these units have been gaining in popularity due to their aesthetic similarity to site-built homes and their relatively less expensive cost, as well as their less restrictive access to financing when compared to the chattel lending market.

The manufactured housing industry is cyclical and is affected by the availability of alternative housing, such as apartments, town houses, condominiums and site-built housing. In addition, interest rates, availability of financing, regional population, employment trends, and general regional economic conditions affect the sale of manufactured homes. The manufactured housing industry has been operating at the cyclical low point of the cycle over the past nine years where shipments steadily decreased on an annual basis from 1999 to 2004. The 2005 shipment statistics showed improvement which was aided by the increased demand for FEMA units as a result of the hurricane damage in the southeast in the third quarter of 2005. The 2006 levels unfortunately reverted back to the lowest levels in more than 45 years at approximately 117,000 units or 20% less than in 2005. 2007 and 2008 levels fell even further to finish at approximately 95,700 units and 81,900 units, respectively. From its most recent highs in 1998 to its current lows in 2008, shipments have declined approximately 78%. The Company currently projects unit shipments for full year 2009 to decline by approximately 20% when compared to 2008 levels.

We believe that the factors responsible for the most recent declines include lack of available financing and access to the asset-backed securities markets, high vacancy rates in apartments, high levels of repossessed inventories, over-built housing markets in certain regions of the country that resulted in fewer sales of new manufactured homes, as well as the generally depressed economic environment. Additionally, low conventional mortgage rates and less restrictive lending terms for residential site built housing have contributed to the decline as manufactured home loans and chattel mortgage loans generally carry a higher interest rate and less competitive terms. Beginning in mid-1999 and continuing through 2008, the MH industry has also had to contend with credit requirements that became more stringent and a reduction in availability of lenders for manufactured homes for both retail and dealers. While there is demand for permanent rebuilding in the hurricane damaged areas, credit conditions remain adverse especially in conjunction with the current credit crisis, and current overall economic conditions are not favorable in relation to the factors which will promote positive growth. The availability of financing and access to the asset-backed securities market is still restricted, and we believe that employment growth and standard quality-oriented lending practices in the conventional site-built housing markets are needed to enable more balanced demand, thus resulting in the potential for increased production and shipment levels in the MH industry.

The following chart reflects the historical shipment levels in the MH industry from 1991 through 2008 per the Manufactured Housing Institute:

Recreational Vehicles

The recreational vehicle industry has been characterized by cycles of growth and contraction in consumer demand reflecting prevailing general economic conditions which affect disposable income for leisure time activities. In the past, fluctuations in interest rates, consumer confidence, and concerns about the availability and price of gasoline, have had an adverse impact on RV sales. From 2002-2006, the industry experienced increased demand as a result of an increasing number of baby-boomers reaching retirement age, continued growth in disposable incomes, and low inflation and low interest rates. Increased gasoline prices over the past five years appear to have adversely impacted the sales of motorized units. 2007 marked the fourth largest shipment level in 30 years despite an approximate 10% shipment decline for all RV's compared to 2006. Shipment levels in 2008 declined approximately 33% versus 2007, reflecting tighter credit conditions, higher unemployment levels, slower growth in real incomes, higher average gasoline prices, and rapid declining consumer confidence, specifically in the latter half of the year.

According to the Recreational Vehicle Industry Association's (RVIA) chief economist, unit shipments are expected to decline in 2009 as well (with the lowest point in the first quarter of 2009), as credit restrictions, declining consumer confidence, and reduced disposable income levels are causing RV dealers to keep inventories low and RV buyers to delay purchases as their priorities have shifted away from spending and toward debt repayment and the restoration of their savings and retirement funds. Demographic and ownership trends point to favorable market growth in the long-term as the number of baby-boomers reaching retirement is steadily increasing, products such as sports-utility RV's are becoming attractive to younger buyers, and RV manufacturers are producing lightweight towables and smaller, fuel efficient motorhomes. In addition, federal economic credit and stimulus packages that contain provisions to stimulate RV lending and provide favorable tax treatment for new RV purchases, may help promote sales and aid in the RV industry's economic recovery.

Recreational vehicle classifications are based upon standards established by the RVIA. The principal types of recreational vehicles include conventional travel trailers, folding camping trailers, fifth wheel trailers, motor homes, and conversion vehicles. These recreational vehicles are distinct from mobile homes, which are manufactured houses designed for permanent and semi-permanent residential dwelling.

Conventional travel trailers and folding camping trailers are non-motorized vehicles designed to be towed by passenger automobiles, pick-up trucks, or vans. They provide comfortable, self-contained living facilities for short periods of time. Conventional travel trailers and folding camping trailers are towed by means of a frame hitch attached to the towing vehicle. Fifth wheel trailers, designed to be towed by pick-up trucks, are constructed with a raised forward section that is attached to the bed area of the pick-up truck. This allows for a bi-level floor plan and more living space than a conventional travel trailer.

A motor home is a self-powered vehicle built on a motor vehicle chassis. The interior typically includes a driver's area, kitchen, bathroom, dining, and sleeping areas. Motor homes are self-contained with their own lighting, heating, cooking, refrigeration, sewage holding, and water storage facilities. Although they are not designed for permanent or semi-permanent living, motor homes do provide comfortable living facilities for short periods of time.

Sales of recreational vehicle products have been cyclical. Shortages of motor vehicle fuels and significant increases in fuel prices have had a material adverse effect on the market for recreational vehicles in the past, and could adversely affect demand in the future. The recreational vehicle industry is also affected by the availability and terms of financing to dealers and retail purchasers. Substantial increases in interest rates and decreases in the general availability of credit have had a negative impact upon the industry in the past and may do so in the future. Recession and lack of consumer confidence generally result in a decrease in the sale of leisure time products such as recreational vehicles.

The period beginning in 1999 and continuing through 2007 resulted in eight out of the nine years with shipment levels over 300,000 units primarily due to the favorable demographic trend of the aging baby-boomer population, improved consumer confidence, depleted dealer inventories, lower interest rates, and a fear of flying after the September 11, 2001 terrorist attacks. The damage from the hurricanes in the southeast in the third quarter of 2005 resulted in increased demand for temporary housing and it is estimated that almost 39,000 incremental units were shipped to support the FEMA orders from September through December 2005. The FEMA shipments, while at a lower

rate, continued into the first quarter of 2006. Shipment levels started to soften in the third and fourth quarters of 2006 and into 2007. 2007 shipments declined 10% from the 2006 levels, but still remained at historically high levels. In 2008, shipment levels declined approximately 33% to 237,000 units reflecting the tightest credit conditions in several decades, higher interest rates, declining consumer confidence, reduced disposable income levels and the generally depressed economic environment. While demographic trends point to positive conditions for this particular market sector in the foreseeable future, the RVIA's chief economist currently forecasts 2009 unit shipment levels declining by approximately 45% to 130,100 units, citing the overall uncertainty surrounding economic conditions, including the ongoing recession and tight credit restrictions.

The Company estimates that approximately 85% of its revenues related to the RV industry are derived from the towables sector of the market. The towable units are lighter and less expensive than standard gas or diesel powered units representing a more attractive solution for the cost-conscious buyer. From 2007 to 2008, motorized unit shipments declined approximately 49% and towable unit shipments declined approximately 30%. We believe that we are well-positioned with respect to our product mix within the RV industry to take advantage of any improved market conditions.

The following chart reflects the historical shipment levels in the RV industry from 1991 through 2008 per RVIA statistics:

Other Markets

Many of our core products, including paper/vinyl laminated panels, shelving, drawer-sides, and high-pressure laminated panels are routinely utilized in the kitchen cabinet, store fixture and commercial furnishings, and home and office furniture markets. These markets are generally categorized by a more performance than price driven customer base, and provide an opportunity for us to diversify our clientele while providing increased contribution to our core laminating and fabricating competencies. While the residential furniture markets have been severely impacted by import pressures, other segments have been less vulnerable, and therefore provide opportunities for increased sales penetration and market share gains.

Demand in the industrial markets in which the Company competes also fluctuates with economic cycles. Industrial demand tends to lag the housing cycle by six to twelve months, and will vary based on differences in regional economic prospects. As a result, we believe continued focus on industrial markets will reduce our reliance on the MH/RV markets and moderate the impact of their cyclical patterns on our operating results. We have the available capacity to increase industrial revenue and benefit from the diversity of multiple market segments, unique regional economies and varied customer strategies.

Marketing and Distribution

Our sales are to manufactured housing and recreational vehicle manufacturers and other industrial products manufacturers. We have approximately 800 customers. We have six customers, who together accounted for approximately 48% and 46% of our total sales in 2008 and 2007, respectively. We believe we have good relationships with our customers.

Sales to two different customers in the Primary Manufactured Products, Distribution and Other Component Manufactured Products segments accounted for approximately 13.1% and 11.5%, respectively, of consolidated net sales of the Company for the year ended December 31, 2008. No one customer accounted for 10% or more of consolidated net sales for the years ended December 31, 2007 or 2006.

Products for distribution are purchased in carload or truckload quantities, warehoused, and then sold and delivered by us. Approximately 33% and 38% of our distribution segment's products were shipped directly from the suppliers to our customers in 2008 and 2007, respectively. We typically experience a one to two week delay between issuing our purchase orders and the delivery of products to our warehouses or customers. As lead times have declined over the years, in some instances, certain customers have required same-day or next-day service. We generally keep backup supplies of various commodity products in our warehouses to ensure that we have product on hand at all times for our distribution customers. Our customers do not maintain long-term supply contracts, and therefore we must bear the risk of accurate advanced estimation of customer orders. We maintain an inventory to satisfy these orders. We have no significant backlog of orders.

We operate 10 warehouse and distribution centers and 14 manufacturing operations located in Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kansas, Minnesota, North Carolina, Oregon, Pennsylvania, Tennessee and Texas. Through the use of these facilities, we are able to minimize our in-transit delivery time and cost to the regional manufacturing plants of our customers.

Patrick does not engage in significant marketing efforts nor does it incur significant marketing or advertising expenditures other than the activities of its sales personnel and the maintenance of customer relationships through price, quality of its products, service and customer satisfaction.

Suppliers

During the year ended December 31, 2008, we purchased approximately 72% of our raw materials and distributed products from twenty different suppliers. The five largest suppliers accounted for approximately 45% of our purchases. Our current major material suppliers with contracts include United States Gypsum through December 31, 2010, and Masonite through December 31, 2009. We have terms and conditions with these and other suppliers that specify exclusivity in certain areas, pricing structures, rebate agreements and other parameters.

Materials are primarily commodity products, such as lauan, gypsum, particleboard, and other lumber products, which are available from many suppliers. We maintain a long-term supply agreement with one of our major suppliers of materials to the MH industry. Our sales in the short-term could be negatively impacted in the event any unforeseen negative circumstances were to affect our major supplier. We believe that we have a good relationship with this supplier and all of our other suppliers. Alternate sources of supply are available for all of our major material purchases.

Seasonality

Manufacturing operations in the MH and RV industries historically have been seasonal and are generally at the highest levels when the climate is moderate. Accordingly, the Company's sales and profits are generally highest in the second and third quarters. However, depressed economic conditions in both industries distorted the historical trends in 2008.

Employees

As of December 31, 2008, we had 924 employees, 708 of which were engaged directly in production, warehousing, and delivery operations; 59 in sales; and 157 in office and administrative activities. There is one manufacturing plant

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and one distribution center covered by collective bargaining agreements. Patrick continuously reviews benefits and other matters of interest to its employees and considers its relations with its employees to be good.

Executive Officers of the Company

The following table sets forth our executive officers as of February 1, 2009:

Name	Position
Todd M. Cleveland	President and Chief Executive Officer
Andy L. Nemeth	Executive Vice President of Finance, Chief Financial Officer, and Secretary-Treasurer
Darin R. Schaeffer	Vice President, Corporate Controller, and Principal Accounting Officer

Todd M. Cleveland (age 40) was appointed Chief Executive Officer as of February 1, 2009. Mr. Cleveland assumed the position of President and Chief Operating Officer of the Company in May 2008. Prior to that, Mr. Cleveland served as Executive Vice President of Operations and Sales and Chief Operating Officer from August 2007 to May 2008 following the acquisition of Adorn by Patrick in May 2007. Mr. Cleveland spent 17 years with Adorn serving as President and Chief Executive Officer since 2004; President and Chief Operating Officer from 1998 to 2004; Vice President of Operations and Chief Operating Officer from 1994 to 1998; Sales Manager from 1992 to 1994; and Purchasing Manager from 1990 to 1992. Mr. Cleveland has over 18 years of manufactured housing, recreational vehicle, and industrial experience in various operating capacities.

Andy L. Nemeth (age 39) was elected Executive Vice President of Finance, Chief Financial Officer, and Secretary-Treasurer as of May 2004. Prior to that, Mr. Nemeth was Vice President-Finance, Chief Financial Officer, and Secretary-Treasurer from 2003 to 2004, and Secretary-Treasurer from 2002 to 2003. Mr. Nemeth was a Division Controller from 1996 to 2002 and prior to that, he spent five years in public accounting with Coopers & Lybrand (now Pricewaterhouse Coopers). Mr. Nemeth has over 16 years of manufactured housing, recreational vehicle, and industrial experience in various financial capacities.

Darin R. Schaeffer (age 41) was elected Vice President, Corporate Controller, and Principal Accounting Officer as of March 26, 2008. From September 2007 to March 26, 2008, Mr. Schaeffer served as the Company's Corporate Controller. From 2005 to 2007, Mr. Schaeffer was a Corporate Controller for Utilimaster Corporation. Mr. Schaeffer also served in a variety of roles, including plant controller, for Robert Bosch Corporation from 1996 to 2005. Prior to that, Mr. Schaeffer spent seven years in public accounting.

As announced in January 2009, effective February 1, 2009, Todd M. Cleveland succeeded Paul E. Hassler as Patrick's Chief Executive Officer in accordance with the Company's executive succession plan. Mr. Cleveland continues in his role as President and Mr. Hassler continues to serve in his role as Chairman of the Board of Directors.

Website Access to Company Reports

We make available free of charge through our website, www.patrickind.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). The charters of our Audit, Compensation, and Corporate Governance/Nominations Committees, our Corporate Governance Guidelines, our Code of Ethics and Business Conduct, and our Code of Ethics Applicable to Senior Executives are also available on the About Us Corporate Governance portion of our website. Our internet website and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K.

Additionally, the public may read or copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

ITEM 1A. RISK FACTORS

The Company's consolidated results of operations, financial position and cash flows can be adversely affected by various risks related to its business. These risks include, but are not limited to, the principal factors listed below and the other matters set forth in this Annual Report on Form 10-K. All of these risks should be carefully considered.

Our results of operations have been, and may continue to be, adversely impacted by a worldwide macroeconomic downturn.

In 2008, general worldwide economic conditions experienced a downturn due to the effects of the deterioration in the residential housing market, subprime lending crisis, general credit market crisis, collateral effects on the finance and banking industries, increased commodity costs, volatile energy costs, concerns about inflation, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns (the Economic Crisis). These conditions have adversely affected demand in the three major end-markets we serve (the recreational vehicle, manufactured housing and industrial markets), resulting in decreased sales of our component products into these markets and could negatively affect our operations and result in lower sales, income, and cash flows.

In addition, it has become more difficult for our customers and us to accurately forecast and plan future business activities, and ultimately our profitability has been adversely affected. If our business conditions continue to deteriorate, we may be forced to close and/or consolidate certain of our operating facilities, sell assets, and/or reduce our workforce, which may result in our incurring restructuring charges. We cannot predict the duration of the Economic Crisis, the timing or strength of a subsequent economic recovery or the extent to which the Economic Crisis will continue to negatively impact our business, financial condition and results of operations.

The current downturn in the residential housing market has had an adverse impact on our operations, and is expected to continue throughout 2009.

The residential housing market has experienced overall declines and credit concerns that are expected to continue throughout 2009. Approximately 70% of our industrial revenue is directly or indirectly influenced by conditions in the residential housing market. The decline in demand for residential housing and the tightening of consumer credit have lowered demand for our industrial products and have had an adverse impact on our operations as a whole. In addition, the impact of the sub-prime mortgage crisis and housing downturn on consumer confidence, discretionary spending, and general economic conditions has decreased and may continue to decrease demand for our products sold to the manufactured housing and recreational vehicle industries.

We may incur significant charges or be adversely impacted by the closure of all or part of a manufacturing facility.

We periodically assess the cost structure of our manufacturing facilities to manufacture and sell our products in the most efficient manner. Based on our assessments, we may make capital investments to move, discontinue manufacturing capabilities, or close all or part of a manufacturing facility. These changes could result in significant future charges or disruptions in our operations, and we may not achieve the expected benefits from these investments which could result in an adverse impact on our operating results, cash flows and financial condition.

The financial condition of our customers and suppliers may deteriorate as a result of the current economic environment and competitive conditions in their markets.

The Economic Crisis may lead to increased levels of restructurings, bankruptcies, liquidations and other unfavorable events for our customers, suppliers and other service providers and financial institutions with whom we do business. Such events could, in turn, negatively affect our business either through loss of sales or inability to meet our commitments (or inability to meet them without excess expense) because of loss of suppliers or other providers. In addition, several of our major customers are undergoing unprecedented financial distress which may result in such customers undergoing major restructuring, reorganization or other significant changes. The occurrence of any such event could have further adverse consequences to our business including a decrease in demand for our products. If such customers become insolvent or file for bankruptcy, our ability to recover accounts receivables from that customer would be adversely affected and any payments we received in the preference period prior to a bankruptcy filing may be potentially recoverable by the bankruptcy trustee.

Many of our customers participate in highly competitive markets, and their financial condition may deteriorate as a result. A decline in the financial condition of our customers could hinder the Company's ability to collect amounts owed by customers. In addition, such a decline could result in lower demand for the Company's products and services.

We have a number of large customers, the loss of any of which could have a material adverse impact on our operating results.

We have a number of customers which account for a significant percentage of our net sales. Specifically, two customers of the RV Segment accounted for a combined 25%, and another customer of the MH Segment accounted for 10% of consolidated net sales in 2008. The loss of any of these large customers could have a material adverse impact on our operating results.

We do not have long-term agreements with customers and cannot predict that we will maintain our current relationships with these customers or that we will continue to supply them at current levels. In addition, if any of our significant customers were to encounter financial difficulties, work stoppages or seek bankruptcy protection, our business could be adversely affected.

The manufactured housing and recreational vehicle industries are highly competitive, and some of our competitors may have greater resources than we do.

We operate in a highly competitive business environment and our sales could be negatively impacted by our inability to maintain or increase prices, changes in geographic or product mix, or the decision of our customers to purchase our competitors' products instead of our products. We compete not only with other suppliers to the manufactured housing and recreational vehicle producers, but also with suppliers to traditional site-built homebuilders and suppliers of cabinetry and flooring. Sales could also be affected by pricing, purchasing, financing, advertising, operational, promotional, or other decisions made by purchasers of our products. Additionally, we cannot control the decisions made by suppliers of our distributed and manufactured products and therefore our ability to maintain our exclusive and non-exclusive distributor contracts and agreements may be adversely impacted.

As a result of highly competitive market conditions in the industries in which we participate, some of our competitors have been forced to seek bankruptcy protection. These competitors may emerge from bankruptcy protection with stronger balance sheets and a desire to gain market share by offering their products at a lower price than our products, which would have an adverse impact on our financial condition and results of operations and cash flows.

Seasonality and cyclical economic conditions affect the markets the Company serves.

The manufactured housing and recreational vehicle markets are cyclical and dependent upon various factors, including the general level of economic activity, consumer confidence, interest rates, access to financing, inventory and production levels, and the cost of fuel. Economic and demographic factors can cause substantial fluctuations in production, which in turn impact sales and operating results. Demand for recreational vehicles and manufactured housing generally declines during the winter season. Our sales levels and operating results could be negatively impacted by changes in any of these items.

The cyclical nature of the domestic housing market has caused our sales and operating results to fluctuate. These fluctuations may continue in the future, which could result in operating losses during downturns.

The U.S. housing industry is highly cyclical and is influenced by many national and regional economic and demographic factors, including:

- terms and availability of financing for homebuyers and retailers;
- consumer confidence;
- interest rates;
- population and employment trends;
- income levels;

