

PATRICK INDUSTRIES INC  
Form 10-K/A  
December 12, 2007  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

**AMENDMENT NO. 1**

to

**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, 2006 or

**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  No

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  No

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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  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 Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the voting stock held by non-affiliates of the Company on June 30, 2006 (based upon the closing price on the Nasdaq Stock Market LLC and an estimate that 68.9% of the shares are owned by non-affiliates) was \$38,119,625. The closing market price was \$11.27 on that day and 4,885,658 shares of the Company's common stock were outstanding.

As of December 1, 2007 there were 6,002,461 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 held on May 10, 2007 are incorporated by reference into Part III of this Form 10-K.

### **EXPLANATORY NOTE:**

This amendment to the Form 10-K of Patrick Industries, Inc. (the Company) is being amended to include the signature of the Company's independent registered public accounting firm on the report to the Company included in Item 8 of the Form 10-K.

**PATRICK INDUSTRIES, INC.**

**FORM 10-K**

**FISCAL YEAR ENDED DECEMBER 31, 2006**

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**PART I**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by this item is set forth in Item 15(a)(1) on page 24 of this Annual Report.

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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(3) EXHIBITS	

The exhibits listed in the accompanying Exhibit Index on pages 26 and 27 are filed and incorporated by reference as part of this Annual Report.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the date indicated.

December 12, 2007

PATRICK INDUSTRIES, INC

By /s/ Paul E. Hassler

Paul E. Hassler, President and Chief Executive Officer

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**Patrick Industries, Inc.**

**And Subsidiaries**

Consolidated Financial Report

12.31.2006



-- an affiliation of separate and independent legal entities.

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors

**Patrick Industries, Inc.**

Elkhart, Indiana

We have audited the accompanying consolidated balance sheets of **Patrick Industries, Inc. and Subsidiaries** as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Patrick Industries, Inc. and Subsidiaries** as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R) Share Based Payment. As also discussed in Note 1, the Company adopted the provisions of Statement of Financial Accounting Standards No. 158 Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans as of December 31, 2006.

/s/ McGladrey & Pullen, LLP

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Elkhart, Indiana

April 2, 2007

McGladrey & Pullen, LLP is a member firm of RSM International

an affiliation of separate and independent legal entities.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

**Note 1. Nature of Business, Use of Estimates, Risks and Uncertainties, and Significant Accounting Policies**

**Nature of business:**

The Company's operations consist of the manufacture and distribution of building products and materials for use primarily by the Manufactured Housing, Recreational Vehicle, and Industrial markets for customers throughout the United States.

**Use of estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Risks and uncertainties:**

The Company purchases significant amounts of materials, which are commodities, from a limited number of suppliers. The purchase price of such items can be volatile as it is subject to prevailing market conditions, both domestically and internationally. The Company's purchases of these items can be based on supplier allocations.

**Significant accounting policies:**

**Principles of consolidation:**

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The consolidated financial statements include the accounts of Patrick Industries, Inc., and its wholly-owned subsidiaries, Harlan Machinery Company, Inc. and Machinery Repair Company, Inc. ( the Company ). All significant intercompany accounts and transactions have been eliminated in consolidation.

### **Cash and cash equivalents:**

The Company has cash on deposit in financial institutions in amounts which, at times, may be in excess of insurance coverage provided by the Federal Deposit Insurance Corporation.

For purposes of the statement of cash flows, the Company considers all overnight repurchase agreements and commercial paper with a maturity of 30 days or less acquired in connection with its sweep account arrangements with its bank to be cash equivalents.

### **Reclassifications:**

Certain items in the prior years' financial statements have been reclassified to conform to the current year classification.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

**Trade receivables:**

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Trade receivables in the accompanying balance sheets at December 31, 2006 and 2005 are stated net of an allowance for doubtful accounts of \$150. Management determines the allowance for doubtful accounts by evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. In conjunction with the Company's credit terms, trade receivables are considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. Customer terms are generally on an unsecured basis for terms of 30 days.

The following table summarizes the changes in the Company's allowance for doubtful accounts for 2006 and 2005:

**Inventories:**

Inventories are stated at the lower of cost (first-in, first-out (FIFO) method) or market. Inventories are also written-down for management's estimates of product which will not sell at historical cost. Write-downs of inventories establish a new cost basis which is not adjusted for future increases in the market value of inventories or changes in estimated obsolescence.

The following table summarizes the reserve for inventory obsolescence:

**Property and equipment:**

Property and equipment is recorded at cost. Depreciation has been computed primarily by the straight-line method applied to individual items based on estimated useful lives which generally range from 10 to 40 years for buildings and improvements and from 3 to 15 years for machinery and equipment, and transportation equipment. Leasehold improvements are amortized over the lesser of their useful lives or the related lease term.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

**Shareholder s Equity:**

SFAS No. 130, *Reporting Comprehensive Income*, defines comprehensive income as non-shareholder changes in equity. Accumulated other comprehensive loss at the end of each year, in thousands, included the following components:

**Long-lived assets:**

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( SFAS No. 144 ), when current events or circumstances indicate that the carrying value of an asset may not be recoverable, the Company tests the carrying value of the asset. If the tests indicate that the carrying value of the asset is greater than the expected undiscounted cash flows to be generated by such asset, then an impairment adjustment needs to be recognized. Such adjustment consists of the amount by which the carrying value of such asset exceeds its fair value. The Company generally measures fair value by considering sale prices for similar assets or by discounting estimated future cash flows from such asset using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of assets, and accordingly, actual results could vary significantly from such estimates. Assets to be disposed of are carried at the lower of their carrying value or fair value less costs to sell.

**Revenue recognition:**

The Company ships product based on specific orders from customers and revenue is recognized at the time of passage of title and risk of loss to the customer, which is generally upon delivery. The Company s selling price is fixed and determined at the time of shipment and collectibility is reasonably assured and not contingent upon the customer s use or resale of the product.

**Costs and expenses:**

Cost of goods sold includes material costs, direct and indirect labor, overhead expenses, inbound freight charges, inspection costs, internal transfer costs, receiving costs, and other costs.

Warehouse and delivery costs include salaries and wages, building rent and insurance, and other overhead costs related to distribution operations and delivery costs related to the shipment of finished and distributed products to customers.

Purchasing costs are included in selling, general, and administrative expenses.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

**Derivative financial instruments:**

All derivatives are recognized on the balance sheet at their fair value. On the date the derivative contract is entered into, the Company designates the derivative as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability cash flow hedge. Changes in the fair value of a derivative that is highly effective as - and that is designated and qualifies as - a cash-flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings).

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as cash-flow hedges to specific assets and liabilities on the balance sheet or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when (1) it is determined that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item (including forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) the derivative is designated as a hedge instrument, because it is unlikely that a forecasted transaction will occur; or (4) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with subsequent changes in its fair value recognized in current-period earnings.

**Stock options plan:**

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share Based Payment ( SFAS 123R ), and began recognizing compensation expense in its consolidated statements of operations as a selling, general, and administrative expense for its stock option grants based on the fair value of the awards. Prior to January 1, 2006, the Company accounted for stock option grants under the

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recognition and measurement provisions of APB Opinion 25, Accounting for Stock Issued to Employees, and related interpretations, as permitted by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). The Company elected to use the modified prospective method in applying this standard in which, as of January 1, 2006, compensation cost related to the non-vested portion of the awards outstanding was based on the grant-date fair value of those awards as calculated under the original provisions of Statement No. 123. Therefore, the Company was not required to, and did not re-measure, the grant-date fair value estimate of the unvested portion of awards prior to January 1, 2006. Further, the Company did not restate prior period financial statements. As a result of adopting SFAS 123R, the Company's pretax income and net income for the year to date period ending December 31, 2006 is \$148 and \$89 (\$.02 per share basic and diluted) lower respectively, than if it had continued to account for stock-based compensation under APB 25. The effect of adoption on cash flows from operating activities and cash flows from financing activities was not material.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

The table below illustrates the effect on net income and earnings per share had compensation expense for the stock option plan been determined based on the fair value at the grant date for awards consistent with the provision of FASB No. 123:

**Fair value of financial instruments:**

The Company's financial instruments consist principally of cash and cash equivalents, receivables, long-term debt and accounts payable. The Company believes cash and cash equivalents, receivables, and accounts payable are recorded at amounts that approximate their current market values. The fair value of the long-term debt instruments approximates their carrying value based on the instrument's variable rates.

**Recently issued accounting pronouncements:**

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) 108 - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 requires that public companies utilize a dual-approach to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material effect on our consolidated financial position or results of operations.

**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* – an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158). This statement requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under SFAS 158, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in Accumulated Other Comprehensive Income, net of tax effects, until they are amortized as a component of net periodic benefit cost. In addition, the measurement date (the date at which plan assets and the benefit obligation are measured) is required to be the company's fiscal year end. Presently, we use a September 30 measurement date for our pension and postretirement benefit plan. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. Based on the funded status of our plans as of December 31, 2006, the adoption of SFAS 158 decreased total assets by approximately \$108, increased total liabilities by approximately \$270 and reduced total shareholders' equity by approximately \$108, net of taxes. The adoption of SFAS 158 did not affect our results of operations.

In June 2006, the Financial Accounting Standards Accounting Board (FASB) issued FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* (FIN 48) an interpretation of FASB Statement No. 109 (SFAS 109). This interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 details how companies should recognize, measure, present and disclose uncertain tax positions that have been or expect to be taken. As such, financial statements will reflect expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the position and all relevant facts. FIN 48 is effective for public companies for annual periods that begin after December 15, 2006. The Company is currently evaluating the impact of FIN 48.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). This standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. We have not yet determined the impact that the implementation of SFAS No. 157 will have on our results of operations or financial condition. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

**Earnings per common share:**

Following is information about the computation of the earnings per share data for the years ended December 31, 2006, 2005 and 2004:

**Note 2. Balance Sheet Data**

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

**Note 3. Note Payable, Pledged Assets and Long-Term Debt**

The Company has a secured revolving credit agreement which allows borrowings up to \$15,000, of which \$10,000 of borrowings were outstanding at December 31, 2006. Interest on this note is at prime or the Eurodollar rate plus a percentage based on the Company's cash flow. The Company pays a commitment fee of between .375% and .25% of the unused portion of the revolving line, based on the Company's cash flow. The agreement is secured by all of the Company's assets. In addition, this agreement requires the Company to, among other things; maintain minimum levels of debt service coverage, tangible net worth, working capital, and debt to net worth.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

Long-term debt at December 31, 2006 and 2005 is as follows:

On March 3, 2005, the Company entered into a \$15,000 variable interest rate term note with JP Morgan Chase, N.A. with a maturity on January 31, 2010. Interest on the note is variable at the 30 day Eurodollar rate plus a percentage based on the Company's cash flow. The effective rate at December 31, 2006 was 6.78%. The note is payable in monthly installments beginning February 2006 of \$139 and is secured by all of the Company's assets and is subject to certain financial covenants, primarily minimum tangible net worth and debt service coverage as defined in the agreement. The notes are being amortized over a 10 year payment schedule with a balloon payment due in March 2010.

On March 8, 2005, in connection with the term note, the Company entered into an interest rate swap agreement with JP Morgan Chase, N.A. with a notional amount of \$15,000 and a maturity date of January 31, 2015 to hedge against increases in variable interest rates associated with the term note and the revolving credit agreement. The terms of the agreement effectively fix the interest rate at 4.78% plus a percentage based on the Company's cash flow. Based on its terms and conditions, under SFAS No. 133, and SFAS No. 138, Accounting for Derivative Financial Instruments and Hedging Activities, the Company records the hedge at fair value as of the end of each fiscal quarter with the effective offsetting portion of the hedge being recorded as a component of accumulated other comprehensive income and the ineffective portion, if any, of the hedge being recorded in the Company's statement of operations.

The State of Oregon Economic Development Revenue Bonds are payable in annual installments of \$400 plus interest at a variable tax exempt bond rate (4.2% at December 31, 2006). The final installment is due December 1, 2009. The bonds are collateralized by real estate and equipment purchased with the bond funds, are backed by a bank standby letter of credit totaling approximately \$1,254 and are subject to certain financial covenants as defined in the agreement.

The State of North Carolina Economic Development Revenue Bonds are payable in annual installments of \$400 plus quarterly interest payments at a variable tax exempt bond rate (4.2% at December 31, 2006). Annual payments of \$500 are due in each of the last two years with a final payment due August 1, 2010. The bonds are collateralized by real estate and equipment purchased with the bond funds and are backed by a bank standby letter of credit totaling approximately \$1,865.

Aggregate maturities of long-term debt for the next five years ending December 31, are; 2007 \$2,467; 2008 \$2,467; 2009 \$2,567 and 2010 \$8,972.

In addition, the Company is contingently liable for standby letters of credit of approximately \$2,812 to meet credit requirements for the Company's insurance providers.

Interest expense for the years ended December 31, 2006, 2005, and 2004 was approximately \$1,648, \$1,395, and \$711 respectively.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

**Note 4. Equity Transactions**

**Shareholder Rights Plan:**

On March 21, 2006, in conjunction with the expiration of the Rights Agreement dated March 20, 1996, the Company's Board of Directors adopted a Shareholder Rights Agreement granting new rights to holders of the Company's Common Stock. Under the agreement, the Company authorized and declared a dividend distribution of one right payable on March 31, 2006 for each share of Common Stock of the Company outstanding on March 31, 2006, and the issuance of one right for each share of Common Stock subsequently issued prior to the separation date as defined in the Rights Agreement. Each right entitles the holder to purchase 1/100<sup>th</sup> of a Preferred Share at the exercise price (currently \$30), and in an unfriendly takeover situation, to purchase Company Common Stock having a market value equal to two times the exercise price. Also, if the Company is merged into another corporation, or if 50 percent or more of the Company's assets are sold, then right-holders are entitled, upon payment of the exercise price, to buy common shares of the acquiring corporation's common stock having a then current market value equal to two times the exercise price. In either situation, these rights are not available to the acquiring party. However, these exercise features will not be activated if the acquiring party makes an offer to acquire all of the Company's outstanding shares at a price which is judged by the Board of Directors to be fair to Patrick shareholders. The rights may be redeemed by the Company under certain circumstances at the rate of \$.01 per right. The rights will expire on March 21, 2016. The Company has authorized 100,000 shares of Preferred Stock Series A, no par value, in connection with this plan, none of which have been issued.

**Note 5. Commitments and Related Party Transactions**

The Company leases office, manufacturing, and warehouse facilities and certain equipment under various noncancelable agreements, which expire at various dates through 2009. These agreements contain various renewal options and provide for minimum annual rentals plus the payment of real estate taxes, insurance, and normal maintenance on the properties. Certain of the leases are with the former chairman emeritus/major shareholder and expire at various dates through 2011.

The total minimum rental commitment at December 31, 2006 under the facility leases mentioned above is approximately \$1,474 which is due approximately \$846 in 2007, \$457 in 2008, and \$171 in 2009.

The total minimum rental commitment at December 31, 2006 under the equipment leases mentioned above is approximately \$2,618 which is due approximately \$883 in 2007, \$700 in 2008, \$494 in 2009, and \$541 thereafter.

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The total rent expense included in the statements of operations for the years ended December 31, 2006, 2005, and 2004 is approximately \$2,253, \$2,300, and \$2,600 respectively, of which approximately \$110 was paid in 2006, \$240 was paid in 2005, and \$744 was paid in 2004, to the former chairman emeritus.

The Company is committed to equipment purchases in the amount of \$800 at December 31, 2006.

**Note 6. Major Customer**

Net sales for the years ended December 31, 2005, and 2004 included sales to one customer in the Primary Manufactured Products and Distribution segments accounting for 10.6%, and 13.4% respectively of total net sales of the Company.

The balance due from this customer at December 31, 2005 was approximately \$2,900.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

**Note 7. Income Tax Matters**

Federal and state income taxes (credits) for the years ended December 31, 2006, 2005, and 2004, all of which are domestic, consist of the following:

The provisions for income taxes (credits) for the years ended December 31, 2006, 2005, and 2004 are different from the amounts that would otherwise be computed by applying a graduated federal statutory rate to income before income taxes.

A reconciliation of the differences is as follows:

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the current period plus or minus the change during the period in deferred tax assets and liabilities.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

The composition of the deferred tax assets and liabilities at December 31, 2006 and 2005 is as follows:

The deferred tax amounts above have been reflected on the accompanying consolidated balance sheets as of December 31, 2006 and 2005 as follows:

At December 31, 2006, the Company has state net operating loss carryforwards of approximately \$412 available under various state revenue codes to be applied against future taxable income. These carryforwards expire in varying amounts between 2010 and 2024.

At December 31, 2006, the Company has federal AMT credit and state manufacturing credit carryforwards which are available to be directly offset against future federal and state income tax liabilities. These carryforwards expire in varying amounts between 2008 and 2020.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

(in thousands, except per share amounts)

**Note 8. Self-Insured Plans**

The Company has a self-insured health plan for its employees under which there is both a participant stop loss and an aggregate stop loss based on total participants. The Company is potentially responsible for annual claims not to individually exceed approximately \$225 at December 31, 2006. The excess loss portion of the employees' coverage has been insured with a commercial carrier.

The Company is partially self-insured for its workers' compensation liability, general liability and automobile insurance. The Company is responsible for a per occurrence limit, with an aggregate amount not to exceed approximately \$7,000 on an annual basis. The excess loss portion of the employees' coverage has been insured with a commercial carrier.

The Company has accrued an estimated liability for these benefits based upon claims incurred.

**Note 9. Compensation Plans**

**Deferred compensation obligations:**

The Company has deferred compensation agreements with certain key employees. The agreements provide for monthly benefits for ten years subsequent to retirement, disability, or death. The Company has accrued an estimated liability based upon the present value of an annuity needed to provide the future benefit payments. Life insurance contracts have been purchased which may be used to fund these agreements. The contracts are recorded at their cash surrender value in the accompanying balance sheet. Any differences between actual proceeds and cash surrender value are recorded as gains in the periods presented. Additionally, the Company records gains or losses in the cash surrender value in the period incurred. For the years ended December 31, 2006, 2005, and 2004, the Company recognized gains (losses) of (\$25), (\$8), and \$2, respectively.

**Bonus plan:**

The Company pays bonuses to certain management personnel. Historically, bonuses are determined annually and are based upon corporate and divisional income levels. The charge to operations amounted to approximately \$847, \$770, and \$720, for the years ended December 31, 2006,

2005, and 2004 respectively.

**Profit-sharing plan:**

The Company has a qualified profit-sharing plan, more commonly known as a 401(k) plan, for substantially all of its employees with over one year of service and who are at least 21 years of age. The plan provides for a matching contribution by the Company as defined in the agreement and, in addition, provides for a discretionary contribution annually as determined by the Board of Directors. The contributions for the years ended December 31, 2006, 2005, and 2004 were immaterial.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

**Stock option plan:**

The Company's 1987 Stock Option Plan, which is shareholder approved, permits the grant of share options and shares to its employees and Directors for up to 728 shares of stock at December 31, 2006. The Company believes that such awards better align the interests of its employees and Directors with those of its shareholders. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest over 4 years of continuous service and have 6 year contractual terms. Share awards generally vest over one year. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the Plan).

For purposes of this pro-forma disclosure, the value to the options is estimated using the Black-Scholes option pricing model and amortized to expense over the options' vesting periods using the following assumptions:

The Company estimates the fair value of all stock option awards as of the grant date by applying the Black-Scholes option pricing model. The use of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense and include the dividend yield, exercise price, and forfeiture rate. Expected volatilities are based on historical volatility of the Company stock. The expected term of options represents the period of time that options granted are expected to be outstanding based on historical company trends. The risk free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for instruments of a similar term. In accordance with SFAS 123R, the fair value of stock and options granted prior to adoption and determined for purposes of disclosure under SFAS 123 have not been changed.

As of December 31, 2006, there was approximately \$208 of total unrecognized compensation cost related to share-based compensation arrangements granted under incentive plans. That cost is expected to be recognized over a weighted-average period of two years. The total fair value of shares vested during the year ended December 31, 2006 was approximately \$158.



**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

Stock options issued prior to 2006 expire six years from the date of grant and are generally exercisable ratably over five years. The following table summarizes the Company's option activity for employees during the year ended December 31, 2006:

The aggregate intrinsic value in the table above is before income taxes, based on the Company's closing stock price of \$12.50 as of the last business day of the year ended December 31, 2006. The aggregate intrinsic value of options exercised for the year ended December 31, 2006 is \$244.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

A further summary about fixed options outstanding at December 31, 2006 is as follows:

Cash received from option exercises under the stock option plan for the year ended December 31, 2006 was \$303. The actual tax benefit realized from the tax deductions from option exercise of the share based payment arrangements totaled \$83 for the year ended December 31, 2006. The total income tax benefit recognized in the income statement for share based compensation arrangements, including the stock award plans, was approximately \$190.

**Stock award plans:**

The Company has adopted a stock award plan for the non-employee directors. Grants awarded during May 2006 of 21,000 shares are subject to forfeiture in the event the recipient terminates within one year from the date of grant as a director. The total fair value of unvested shares at December 31, 2006 is \$262,500. These shares will vest in May 2007. The related compensation expense is being recognized over the one-year vesting period. Total compensation expense for the years ended December 31, 2006, 2005, and 2004 were \$249, \$211, and \$202, respectively.

The Company has adopted a stock award plan for its officers. Grants awarded in January 2006 of 7,560 shares vest quarterly over a one year period and are subject to forfeiture in the event the officer terminates employment during the course of the year. The related compensation expense is recognized over a one year period. The total compensation expense for the year ended December 31, 2006 is \$80.

**Note 10. Contingencies**

The Company is subject to claims and suits in the ordinary course of business. In management's opinion, current pending legal proceedings and claims against the Company will not, individually or in the aggregate, have a material adverse effect on the Company's financial condition, results of operations, or cash flows.





**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

**Note 11. Cash Flows Information**

Supplemental information relative to the statements of cash flows for the years ended December 31, 2006, 2005, and 2004 is as follows:

**Note 12. Unaudited Interim Financial Information**

Presented below is certain selected unaudited quarterly financial information for the years ended December 31, 2006 and 2005:

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

**Note 13. Segment Information**

The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting, which segregates its business by product category and production/distribution process.

The Company's reportable segments are as follows:

**Primary Manufactured Products** - Utilizes 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. These products are utilized to produce furniture, shelving, wall, counter, and cabinet products with a wide variety of finishes and textures.

**Distribution** - Distributes primarily pre-finished wall and ceiling panels, particleboard, hardboard and vinyl siding, roofing products, high pressure laminates, passage doors, building hardware, insulation, and other products.

**Other Component Manufactured Products** - Includes an adhesive division, a cabinet door division, and a machine manufacturing division. The Company closed its machine manufacturing division in the fourth quarter of 2006.

**Engineered Solutions** - Includes aluminum extrusion, distribution, and fabrication.

The accounting policies of the segments are the same as those described in **Significant Accounting Policies**, except that segment data includes intersegment revenues. Assets are identified with the segments with the exception of cash, prepaid expenses, land and buildings, and intangibles which are identified with the corporate division. The corporate division charges rents to the segment for use of the land and buildings based upon market rates. The Company accounts for intersegment sales as if the sales were to third parties, that is, at current market prices. The Company also records income from purchase incentive agreements as corporate division revenue. The Company evaluates the performance of its segments and allocates resources to them based on a variety of indicators including revenues, cost of goods sold, operating income, and total identifiable assets.



**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

The table below presents information about the net income (loss) and segment assets used by the chief operating decision makers of the Company as of and for the years ended December 31, 2006, 2005, and 2004:

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

A reconciliation of total segment sales, cost of goods sold, and operating income to consolidated sales, cost of goods sold, and segment information to the consolidated financial statements as of and for the years ended December 31, 2006, 2005, and 2004 is as follows:

Corporate incentive agreements include vendor rebate agreements and are included as a reduction of cost of goods sold.

Unallocated corporate expenses include corporate general and administrative expenses including wages, insurance, taxes, supplies, travel and entertainment, professional fees, and others.

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**Patrick Industries, Inc.**

**And Subsidiaries**

**Notes To Financial Statements**

**(in thousands, except per share amounts)**

**Note 14. Subsequent Event**

On January 29, 2007, the Company purchased all of the assets of American Hardwoods, Inc. in Phoenix, AZ for approximately \$7,500 financed with long-term debt. The debt consists of a \$7,500 term note with annual principal payments of \$750 with a ten year amortization and a balloon payment in 2012.

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### INDEX TO EXHIBITS

Exhibit Number	Exhibits
3.1	-Amended Articles of Incorporation of the Company as further amended (filed as Exhibit 3(a) to the Company's Form 10-K/A-1 amending its report on Form 10-K for the fiscal year ended December 31, 1992 and incorporated herein by reference) .....
3.2	-By-Laws of the Company (filed as Exhibit 3(b) to the Company's Form 10-K/A-1 amending its report on Form 10-K for the fiscal year ended December 31, 1992 and incorporated herein by reference) .....
3.3	-Rights Agreement, dated March 21, 2006, between Patrick Industries, Inc. and American Stock Transfer and Trust Company, as successor to National City Bank, as rights agent (filed as Exhibit 10.1 to the Company's Form 8-K dated March 21, 2006 and incorporated herein by reference).....
10.1	-Second Amendment to February 2, 1994 Credit Agreement, dated as of June 26, 1995 among the Company, NBD Bank, as agent, and NBD Bank, N.A. (filed as Exhibit 10(a) to the Company's Form 10-K for the fiscal year ended December 31, 1995 and incorporated herein by reference) .....
10.2	-First Amendment to Credit Agreement, dated as of October 27, 1994 among the Company, NBD Bank, as agent, and NBD Bank, N.A. (filed as Exhibit 10(a) to the Company's Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference) .....
10.3	-Loan Agreement dated as of December 1, 1994 between the State of Oregon Economic Development Commission, along with the Pledge and Security Agreement relating thereto (filed as Exhibit 10(b) to the Company's Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference) .....
10.4	-Credit Agreement dated as of February 2, 1994 among the Company, NBD Bank, as agent, and NBD Bank, N.A. (filed as Exhibit 10(a) to the Company's Form 10-K for the fiscal year ended December 31, 1993 and incorporated herein by reference) .....
10.5*	-Patrick Industries, Inc. 1987 Stock Option Program, as amended (filed as Exhibit 10(e) to the Company's Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference) .....
10.6	-Amendment to extend Patrick Industries, Inc. 1987 Stock Option Program to May 14, 2014 (filed as Exhibit 10(h)(1) to the Company's Form 10-K for the fiscal year ended December 31, 2004 and incorporated herein by reference) .....
10.7*	-Patrick Industries, Inc. 401(k) Employee Savings Plan (filed as Exhibit 10(a) to the Company's Form 10-K for the fiscal year ended December 31, 1993 and incorporated herein by reference) .....
10.8*	-Form of Employment Agreements with Executive Officers (filed as Exhibit 10(e) to the Company's Form 10-K/A-1 amending its report on Form 10-K for the fiscal year ended December 31, 1992 and incorporated herein by reference) .....
10.9*	-Form of Deferred Compensation Agreements with Executive Officers (filed as Exhibit 10(f) to the Company's Form 10-K/A-1 amending its report on Form 10-K for the fiscal year ended December 31, 1992 and incorporated herein by reference) .....





## Edgar Filing: PATRICK INDUSTRIES INC - Form 10-K/A

- 10.10 -Credit Agreement dated as of January 28, 2000 among the Company, Bank One, Indiana, N.A. (filed as Exhibit 10(r) to the Company's Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference) .....
- 10.11 -Commercial Lease and Real Estate Purchase Agreement dated October 1, 2004 between Mervin D. Lung, as lessor, and the Company, as lessee (filed as Exhibit 10(u) to the Company's Form 10-K for the fiscal year ended December 31, 2004 and incorporated herein  
by reference) .....
- 10.12 -Commercial Lease dated December 1, 2004 between Teachers Insurance and Annuity Association of America (TIAA) as lessor, and the Company, as lessee (filed as Exhibit 10(v)  
to the Company's Form 10-K for the fiscal year ended December 31, 2004 and incorporated herein by reference)  
.....
- 10.13 -Amendment to Credit Facility and Loan Participation Agreement, dated March 3, 2004 among the Company, JPMorgan Chase Bank, N.A. formerly known as Bank One, N.A. and National City Bank of Indiana, and new Term Note Agreement dated March 3, 2004 among the Company, JPMorgan Chase Bank, N.A. (filed as Exhibit 10(w) to the Company's Form 10-K for the fiscal year ended December 31, 2004 and incorporated herein by reference) .....
- 10.14 -Patrick Industries, Inc. form of Stock Option (filed as Exhibit 10(x) to the Company's Form 10-K for the fiscal year ended December 31, 2004 and incorporated herein by reference) .....
- 10.15 -Patrick Industries, Inc. form of Directors' Annual Restricted Stock Grant (filed as Exhibit 10(y) to the Company's Form 10-K for the fiscal year ended December 31, 2004 and incorporated herein by reference) .....
- 10.16 -Registration Rights Agreement dated September 13, 2005, between the Company and Tontine Capital Partners, L.P. (filed as Exhibit 10.2 to the Company's Form 8-K dated September 13, 2005 and incorporated herein by reference).....
- 10.17+ -Amendment to Credit Facility and Loan Participation Agreement, dated January 29, 2007, among the Company, JPMorgan Chase Bank, N.A. and National City Bank of Indiana, and new Term Note, dated January 29, 2007, between the Company and JPMorgan Chase Bank, N.A.....
- 12.1+ -Computation of Operating Ratios.....
- 21.1+ -Subsidiaries of the Registrant .....
- 23.1\*\* -Consent of McGladrey & Pullen, LLP .....
- 31.1\*\* -Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer .....
- 31.2\*\* -Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer .....
- 32.1\*\* -Certification pursuant to 18 U.S.C. Section 1350 .....

\*Management contract or compensatory plan or arrangement.

\*\*Filed herewith.

+ Previously filed with the Company's initial filing of its Annual Report on Form 10-K on April 2, 2007.

