

PATRICK INDUSTRIES INC
Form DEF 14A
October 09, 2007
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant X

Filed by a Party other than the Registrant O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Sections 240.14a-11(c) or Section 240.14a-12

PATRICK INDUSTRIES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required
 - Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11
- 1) Title of each class of securities to which transaction applies:
 - 2) Aggregate number of securities to which transaction applies:
 - 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - 4) Proposed maximum aggregate value of transaction:
 - 5) Total fee paid:
- Fee paid previously with preliminary materials
 - Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- 1) Amount Previously Paid:
 - 2) Form, Schedule or Registration Statement No.:
 - 3) Filing Party:
 - 4) Date Filed:
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PATRICK INDUSTRIES, INC.

107 West Franklin Street

P.O. Box 638

Elkhart, Indiana 46515-0638

574-294-7511

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To Be Held November 1, 2007

TO OUR SHAREHOLDERS:

NOTICE IS HEREBY GIVEN that a Special Meeting of Shareholders of Patrick Industries, Inc., an Indiana corporation, will be held at the Company's corporate offices, 107 W. Franklin Street, Elkhart, Indiana, on Thursday, November 1, 2007 at 10:00 a.m., Indiana time, for the following purposes:

1. To approve a rights offering granting shareholders one right to purchase 0.2 of a share of common stock, for each share of the Company's common stock they own, at a purchase price of \$11.25 per share, or an aggregate of approximately 1,200,000 shares of common stock for an aggregate purchase price of approximately \$13,500,000 (the "Rights Offering");
2. To approve the Standby Purchase Agreement and the transactions contemplated thereunder (the "Standby Purchase Agreement"), pursuant to which Tontine Capital Partners, L.P. and Tontine Capital Overseas Master Fund, L.P. (collectively, "Tontine") have committed to purchase at \$11.25 per share, any shares not purchased in the Rights Offering;
3. To approve the sale of up to 130,000 shares of common stock to certain management employees at \$11.25 per share, or an aggregate purchase price of up to \$1,462,500; and
4. To amend our Articles of Incorporation to increase the number of authorized shares of common stock, without par value, from 12,000,000 to 20,000,000 and the aggregate number of shares of capital stock to 21,000,000.

The Board of Directors has fixed the close of business on October 2, 2007, as the record date for the determination of the holders of shares of the Company's outstanding common stock entitled to notice of and to vote at the Special Meeting of Shareholders. Each shareholder is entitled to one vote per share on all matters to be voted on at the meeting.

Your vote is important. Whether or not you expect to attend the meeting, please vote your shares using the Internet, by telephone, or by mail by signing, dating, and returning the enclosed proxy. Your shares will then be represented at the meeting if you are unable to attend. You may, of course, revoke your proxy and vote in person at the meeting, if you desire.

By Order of the Board of Directors,

October 5, 2007

ANDY L. NEMETH
SECRETARY

PATRICK INDUSTRIES, INC.

107 West Franklin Street

P.O. Box 638

Elkhart, Indiana 46515-0638

574-294-7511

PROXY STATEMENT

Special Meeting of Shareholders

To Be Held November 1, 2007

This Proxy Statement and the accompanying Proxy Card are being mailed to shareholders of Patrick Industries, Inc. (the Company, we, us, and our) on or about October 5, 2007, and are being furnished in connection with the Board of Directors solicitation of proxies for the Special Meeting of Shareholders (Special Meeting) to be held on November 1, 2007 for the purpose of considering and acting upon the matters specified in the Notice of Special Meeting of Shareholders accompanying this Proxy Statement. Expenses incurred in the solicitation of proxies, including postage, printing and handling, and actual expenses incurred by brokerage houses, custodians, nominees, and fiduciaries in forwarding documents to beneficial owners, will be paid by the Company.

PROXY INFORMATION

Your vote is important. Whether or not you expect to attend the meeting, please vote your shares using the Internet, by telephone, or by mail by signing, dating, and returning the enclosed proxy in the enclosed envelope. A shareholder who has submitted a Proxy may revoke it at any time before it is voted, but only by executing and returning to the Company Secretary at 107 West Franklin Street, P.O. Box 638, Elkhart, Indiana, 46515-0638, notice of revocation or by attending the meeting and voting in person. Attendance at the meeting does not, by itself, revoke a Proxy.

Each shareholder is entitled to one vote for each share of the Company's common stock held as of the record date. For purposes of the Special Meeting, a quorum means a majority of the outstanding shares. As of the close of business on October 2, 2007, there were outstanding 5,997,177 shares of common stock entitled to one vote each. In determining whether a quorum exists at the Special Meeting, all shares represented in person or by proxy will be counted. Broker non-votes occur when a nominee holding common shares for a beneficial owner of those common shares has not received voting instructions from the beneficial owner with respect to a particular matter and such nominee does not possess or choose to exercise discretionary authority with respect thereto. Broker non-votes and abstentions will be included in the determination of the number of common shares present at our special meeting for quorum purposes but will not be counted as votes cast on any matter presented at our Special Meeting, except with respect to Proposal No. 4. Proposal No. 4 requires the affirmative vote of the holders of a majority of the stock entitled to vote and, therefore, broker non-votes and abstentions will count as a vote against the proposal. With respect to each of the proposals, a shareholder may vote for, against or abstain. Proxies properly executed and received by the Company prior to the meeting and not revoked will be voted as directed therein on all matters presented at the meeting.

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Proposal Nos. 1, 2, and 3 in this Proxy Statement require the affirmative vote of a majority of the votes cast, provided a quorum (50% of the outstanding shares of common stock) is present as required under Indiana law. Proposal No. 4 a proposal to amend the Company's Articles of Incorporation to increase the authorized number of shares of common stock requires the affirmative vote of the holders of a majority of the stock entitled to vote. For the corporate actions proposed in this Proxy Statement, shareholders are not entitled to a dissenter's right of appraisal under Indiana law.

The Board of Directors, in a meeting held on July 9, 2007, approved each of the aforementioned proposals and recommends that shareholders vote FOR each of the proposals. Tontine, a holder of 38.2% of the Company's common stock, has indicated its intention to vote in favor all four proposals. This Proxy Statement and the accompanying Proxy Card are first being mailed to shareholders on or about October 5, 2007.

This Proxy Statement is not an offer to sell or the solicitation of an offer to buy shares of common stock or any other securities, whether under the terms of the Rights Offering, the Standby Purchase Agreement, or otherwise. Offers and sales of common stock issuable in the Rights Offering will only be made by means of a prospectus meeting the requirements of the Securities Act of 1933, as amended, and applicable state securities laws, on the terms and subject to the conditions set forth in such prospectus. Offers and sales of shares of common stock pursuant to the Standby Purchase Agreement will only be made in a private placement transaction exempt from the registration requirements of the Securities Act and applicable state securities laws on the terms and subject to the conditions of the Standby Purchase Agreement.

STOCK OWNERSHIP INFORMATION

The following table sets forth, as of the record date, information concerning the only parties known to the Company as having beneficial ownership of more than 5 percent of its outstanding common stock and information with respect to the stock ownership of all directors and executive officers of the Company individually and as a group. The table also set forth the percentage ownership for the same persons after the Rights Offering, assuming all shareholders exercise their subscription rights. The address of each director and executive officer listed below is 107 West Franklin Street, P.O. Box 638, Elkhart, Indiana, 46515-0638.

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares of Common Stock Beneficially Owned Before the Rights Offering</u>	<u>Percent of Common Stock Beneficially Owned Before the Rights Offering</u>	<u>Maximum Number of Shares of Common Stock Offered</u>	<u>Number of Shares of Common Stock Beneficially Owned After the Rights Offering (1)</u>	<u>Percent of Common Stock Beneficially Owned After the Rights Offering (2)</u>
Jeffrey L. Gendell c/o Tontine Capital Management, L.L.C. 55 Railroad Avenue, 1st Floor, Greenwich, CT 06830 Clearbridge Advisors, LLC	2,293,089 (3)	38.2%	458,618	2,751,707	38.2%
399 Park Avenue New York, NY 10022	584,125 (4)	9.7%	116,825	700,950	9.7%

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Heartland Advisors, Inc.

789 North Water Street Milwaukee, WI 53202 Dimensional Fund Advisors, Inc.	390,925 (5)	6.5%	78,185	469,110	6.5%
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1299 Ocean Avenue, 11th Floor, Santa Monica, CA 90401 Wilens Management Company, Inc.	353,193 (6)	5.9%	70,639	423,832	5.9%
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2360 West Joppa Road, Suite 226 Lutherville, MD 21093	301,728 (7)	5.0%	60,346	362,074	5.0%
Robert C. Timmins	63,800	1.1%	12,760	76,560	1.1%
Paul Hassler	65,553 (8)	*	6,986	72,539	*
John H. McDermott	38,500	*	7,700	46,200	*
Andy L. Nemeth	39,363 (9)	*	5,248(10)	44,611	*
Keith V. Kankel	29,186	*	5,837	35,023	*
Larry D. Renbarger	29,000	*	5,800	34,800	*
Terrence D. Brennan	21,500	*	4,300	25,800	*
Walter E. Wells	21,500	*	4,300	25,800	*
Harold E. Wyland	14,000	*	2,800	16,800	*
Gregory J. Scharnott	5,288 (11)	*	1,058	6,346	*

Directors and Executive Officers as a group (10 persons)	327,690	5.5%	56,789	384,479	5.5%
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* Less than 1%.

- (1) Percentage assumes all shareholders subscribe in full to their pro rata portion of the shares offered in the Rights Offering.
- (2) If shareholders subscribe fully to the Rights Offering, their percentage interest remains constant. If no holder other than Tontine were to subscribe for their portion of the shares offered in the Rights Offering and Tontine purchases all unsubscribed shares, pursuant to its obligations as set forth in the Standby Purchase Agreement, Tontine's ownership would be 48.5% of the outstanding shares of the company.
- (3) Information based on the Schedule 13D/A filed jointly by Tontine Capital Management, L.L.C. (TCM), Tontine Capital Partners, L.P. (TCP), Tontine Capital Overseas Master Fund, L.P. (TCO), Tontine Capital Overseas GP, L.L.C. (TCO GP) and Jeffrey L. Gendell on May 24, 2007. Includes 1,834,469 shares owned directly by TCP and 458,620 shares owned directly by TCO. Mr. Gendell is the managing member of TCM, the general partner of TCP. Mr. Gendell is also the managing member of TCO GP, the general partner of TCO.
- (4) Information based on latest Schedule 13G filed by Clearbridge Advisors, LLC on February 9, 2007.
- (5) Information based on latest Schedule 13G filed by Heartland Advisors, Inc. on February 12, 2007.
- (6) Information based on latest Schedule 13G filed by Dimensional Fund Advisors, Inc. on February 9, 2007.
- (7) Information based on latest Schedule 13G filed by Wilens Management Company, Inc. on January 26, 2007.
- (8) Includes 30,625 options which are exercisable within 60 days of the record date.
- (9) Includes 18,125 options which are exercisable within 60 days of the record date.
- (10) Includes 1,000 shares to be offered to Mr. Nemeth as a management employee under Proposal No. 3.
- (11) Mr. Scharnott resigned from the Company on March 12, 2007. Because Mr. Scharnott was one of our most highly compensated executive officers during the last completed fiscal year, Mr. Scharnott is considered a named executive officer under the securities laws and therefore appears in the table above.

PROPOSAL NO. 1

APPROVAL OF THE RIGHTS OFFERING

General Background

Our Board has approved a proposal that we raise equity capital by offering holders of our common stock an opportunity to purchase additional shares in a rights offering. If Proposal No. 1 is approved by our shareholders, the Company will distribute at no cost to shareholders non-transferable rights to purchase, in aggregate, approximately 1,200,000 shares of common stock for an aggregate purchase price of approximately \$13,500,000. Each shareholder will receive, for each share of common stock owned on the record date, one right to purchase 0.2 of a share of common stock at \$11.25 per whole share. The rights will be evidenced by subscription certificates. We expect to set the record date for the Rights Offering shortly before commencement of the offering. Holders of rights will be permitted to purchase a whole number of shares, with fractional shares rounded down.

In connection with the Rights Offering, we will file a registration statement with the Securities and Exchange Commission (the "SEC"). Once the registration statement becomes effective, we will commence the Rights Offering and mail the Rights Offering prospectus to holders of our common stock. The prospectus will contain important information about the Rights Offering. You should not make a decision to participate in the Rights Offering until you read the prospectus.

We are asking our shareholders, at the Special Meeting, to approve the Rights Offering. A vote in favor of the Rights Offering will not obligate any shareholder to purchase shares in the Rights Offering.

Reasons for Rights Offering

We are undertaking the Rights Offering to provide our shareholders an opportunity to make an additional investment in the Company and to raise capital to prepay in part the \$13,975,000 in principal amount of 9.5% Senior Subordinated Promissory Notes that was provided by Tontine to fund the Company's acquisition of Adorn Holdings, Inc. in May 2007. The Company will use the net proceeds from the Rights Offering, along with the proceeds from the proposed sale of up to approximately 130,000 shares of our common stock to certain management employees at the same \$11.25 per share price (*see* Proposal No. 3), to prepay the 9.5% Senior Subordinated Promissory Notes, to pay related accrued interest, and to reduce borrowings under our senior secured credit facility. Under the Company's senior secured credit facility, lenders will permit the 9.5% Senior Subordinated Promissory Notes to be prepaid only with the proceeds of new equity. If the 9.5% Senior Subordinated Promissory Notes are not prepaid by May 18, 2008, the interest rate increases to 13.5%. If this Proposal No. 1 is not approved by our shareholders, we cannot conduct this Rights Offering and we would be required to seek alternative sources of equity capital to prepay the 9.5% Senior Subordinated Promissory Notes.

Our Board of Directors considered that the ownership percentage of our current holders of common stock could be diluted by the issuance of additional shares pursuant to this Rights Offering. While the ownership percentage of our current shareholders (other than Tontine) could decrease, the Board considered that the magnitude of this dilution would depend in part on the decision of each holder of common stock whether to subscribe for additional shares in the Rights Offering. In addition, the Board considered that this Rights Offering would only occur if our shareholders approve both the Rights Offering and the Standby Purchase Agreement. After weighing these factors and the importance of raising additional equity capital for the Company, and after considering that the Rights Offering would give each holder of our common stock the opportunity to purchase additional shares of common stock at

the same price, the Board concluded that the Rights Offering and Standby Purchase Agreement are in the best interests of the Company and our shareholders.

Significance of Tontine

Tontine currently owns 38.2% of our common stock. As more fully described below in Proposal No. 2, Tontine has agreed to act as a standby purchaser of any shares not subscribed for by other shareholders in the Rights Offering. Tontine's commitments are contained in the Standby Purchase Agreement, dated September 14, 2007, among the Company and Tontine, which is attached to this Proxy Statement as Exhibit 1. Pursuant to the Standby Purchase Agreement, Tontine has agreed to purchase any shares of our common stock not subscribed for by other shareholders in the Rights Offering at the same \$11.25 per share subscription price paid by our shareholders in the Rights Offering. Pursuant to the Standby Purchase Agreement, Tontine has also agreed to subscribe for and purchase its pro rata portion of the shares offered in the Rights Offering. We have agreed to register the shares of common stock owned by Tontine, including any shares purchased in the Rights Offering or pursuant to the Standby Purchase Agreement, pursuant to an Amended and Restated Registration Rights Agreement, dated May 18, 2007, among the Company and Tontine. On August 14, 2007, we filed a Registration Statement on Form S-3 with the SEC to register all 2,293,089 shares of common stock that are currently held by Tontine.

Certain Effects of Approving the Rights Offering

Our shareholders are being offered the opportunity to purchase a pro rata portion of the common stock offered for sale in the Rights Offering. In the case of shareholders who choose to subscribe for none or only a portion of their pro rata shares in the Rights Offering, the shareholder's unsubscribed shares will be purchased by Tontine under the terms of the Standby Purchase Agreement, which is also subject to approval by our shareholders (see Proposal No. 2). Shareholders participating in full in the Rights Offering will not suffer dilution of their share ownership as a percentage of the total number of shares outstanding, as their percentage of ownership will remain constant. Those shareholders who do not participate fully or at all in the Rights Offering will have their ownership percentage of the total common stock outstanding diluted. Tontine's opportunity to increase its ownership percentage will be available only if other shareholders choose not to exercise their subscription right fully or at all.

To the extent that holders of our common stock do not exercise their rights, Tontine will increase its substantial ownership interest in the company after the Rights Offering. As a result, Tontine may increase its ability to influence the election of our Board of Directors and the approval of other matters presented for consideration by the shareholders, which could include mergers, acquisitions, amendments to our charter, and various corporate governance actions.

Reasons for Seeking Shareholder Approval

We are seeking shareholder approval of the Rights Offering because we are required to do so under the terms of the Standby Purchase Agreement, and because our Board considered that this Rights Offering would only occur if our shareholders approved both the Rights Offering and the Standby Purchase Agreement. In order for the Rights Offering to take place, our shareholders must approve both Proposal No. 1 (approval of the Rights Offering) and Proposal No. 2 (approval of the Standby Purchase Agreement). If this Proposal No. 1 is not approved by our shareholders, we cannot conduct this Rights Offering and we would be required to seek alternative sources of equity capital to prepay the 9.5% Senior Subordinated Promissory Notes.

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Further information concerning the Rights Offering, including a copy of the prospectus describing the Rights Offering and the shares of common stock to be issued pursuant thereto, will be

5

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distributed to those shareholders of record as of a date to be set shortly before commencement of the offering, if shareholders approve this Proposal No. 1.

This Proxy Statement is not an offer to sell or the solicitation of an offer to buy shares of our common stock or any other securities, whether under the terms of the Rights Offering, the Standby Purchase Agreement, or otherwise. Offers and sales of our common stock issuable in the Rights Offering will only be made by means of a prospectus meeting the requirements of the Securities Act of 1933, as amended, and applicable state securities laws, on the terms and subject to the conditions set forth in such prospectus.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE

"FOR" PROPOSAL NO. 1 APPROVING THE RIGHTS OFFERING

PROPOSAL NO. 2

APPROVAL OF THE STANDBY PURCHASE AGREEMENT

AND THE TRANSACTIONS CONTEMPLATED THEREUNDER

General Background

In connection with the Rights Offering described in Proposal No. 1 above, we entered into the Standby Purchase Agreement with Tontine. A copy of the Standby Purchase Agreement is set forth in full in Exhibit 1, and the description of the Standby Purchase Agreement in this Proxy Statement is qualified in its entirety by reference to Exhibit 1. The Standby Purchase Agreement obligates us to sell, and requires Tontine to subscribe for and purchase from us, its pro rata portion of the shares offered in the Rights Offering. In addition, Tontine has agreed to act as standby purchaser of any and all shares that are offered in the Rights Offering if those shares are not subscribed for by the other holders of our common stock.

In connection with our acquisition of Adorn Holdings, Inc. in May 2007, we entered into a private placement with Tontine, whereby Tontine purchased 980,000 shares of our common stock at \$11.25 per share for a total purchase price of \$11,025,000, and provided interim subordinated debt financing of \$13,975,000 in exchange for 9.5% Senior Subordinated Promissory Notes. The 980,000 shares constituted approximately 19.9% of our then issued and outstanding common stock. After making its investment in May 2007, Tontine now holds approximately 38.2% of our outstanding common stock.

Standby Purchase Agreement

Pursuant to the Standby Purchase Agreement, Tontine has committed to purchase, at the same \$11.25 per share subscription price paid by our shareholders in the Rights Offering, all shares that are unsubscribed for by the other shareholders upon the expiration of the Rights Offering. Because Tontine has committed to buy any unsubscribed shares, if this Rights Offering is completed, we are assured that our Rights Offering will generate approximately \$13,500,000 in proceeds. Under the Company's senior secured credit facility, lenders will permit the 9.5% Senior Subordinated Promissory Notes to be prepaid only with the proceeds of new equity.

Tontine's obligations under the Standby Purchase Agreement are subject to the following:

6

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customary closing conditions, including (i) that our representations and warranties in the Standby Purchase Agreement are true and correct in all material respects as of the date of signing the Standby Purchase Agreement and as of the closing date; (ii) subsequent to the execution and delivery of the Standby Purchase Agreement and prior to the closing date, there shall not have been any material adverse effect on our financial condition, earnings, financial position, operations, assets, results of operation, business or prospects, or any event or circumstance that is reasonably likely to result in a material adverse effect on our financial condition, earnings, financial position, operations, assets, results of operation, business or prospects and no event shall have occurred or circumstance shall exist which would reasonably likely result in a material adverse effect (Material Adverse Effect); (iii) that no market adverse effect (including (A) the suspension by the SEC or the Nasdaq Stock Market of trading in our common stock, the suspension or limitation of trading in securities generally on the Nasdaq Stock Market, the New York Stock Exchange or the American Stock Exchange or the establishment of minimum prices on any of these markets, (B) the declaration of a banking moratorium by the U.S. federal or New York State authorities, or (C) any material new outbreak or material escalation of hostilities or any declaration by the United States of a national emergency or war or other calamity or crisis which has a material adverse effect on the U.S. financial markets) has occurred and is continuing (Market Adverse Effect);

as of the closing date, we shall not have amended our Bylaws to opt back in to the provisions of the Indiana Business Corporation Law (the IBCL) pertaining to the acquisition of a controlling interest. Under Sections 23-1-42-1 to 23-1-42-11 of the IBCL, an acquiring person or group who makes a control share acquisition in an issuing public corporation may not exercise voting rights on any control shares unless these voting rights are conferred by a majority vote of disinterested shareholders of the issuing corporation at a special meeting of those shareholders held upon the request and at the expense of the acquiring person. We may, however, amend our Bylaws to opt back into the provisions of Chapter 42 of the IBCL once the purchase and issuance of the common stock is complete;

our Board shall have adopted resolutions approving and exempting the transactions contemplated in the Standby Purchase Agreement from the restrictions in Section 18 and Section 19 of Chapter 43 of the IBCL which, in general, prohibit an Indiana corporation from engaging in a business combination (defined as a variety of transactions) with an interested shareholder (defined generally as a person that is the beneficial owner of 10% or more of a corporation's outstanding voting stock) for a period of five years following the date that such person became an interested shareholder;

we shall have amended our Rights Agreement, dated March 21, 2006, between the Company and National City Bank to permit the acquisition of any shares of our common stock acquired by Tontine pursuant to the Rights Offering and the Standby Purchase Agreement, and such amendment shall continue to be in full force and effect as of the closing date;

the number of authorized shares of common stock in our Articles of Incorporation shall be increased from 12,000,000 to 20,000,000 (see Proposal No. 4);

there shall be no judgment or other legal restraint that prohibits or renders unachievable the completion of the Rights Offering or the transactions contemplated by the Standby Purchase Agreement;

the SEC shall have declared the registration statement for the Rights Offering effective, we shall have complied with any request of the SEC to include additional information in the registration statement, no stop order suspending the effectiveness of the registration statement shall have been issued, and the SEC shall not have initiated a proceeding seeking such an order;

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we shall have obtained the approval by our shareholders of the transactions contemplated by the Standby Purchase Agreement; and

the shares of common stock to be issued shall have been authorized for listing on the Nasdaq Stock Market.

Our obligation to fulfill the terms and obligations of the Standby Purchase Agreement are subject to the representations and warranties made by Tontine being true and correct in all material respects as of the date of the signing of the agreement and at and as of the closing date.

The Standby Purchase Agreement contains covenants that are customary for a transaction of this type. We have agreed, except as otherwise contemplated by the Standby Purchase Agreement, to (i) file this Proxy Statement and the registration statement for the Rights Offering, and to use our reasonable best efforts to have the SEC declare the Rights Offering registration statement effective; (ii) operate our business in the ordinary course, consistent with past practice; (iii) not issue any shares of its capital stock, or options, warrants, purchase rights, subscription rights, conversion rights, exchange rights, securities convertible into or exchangeable for our capital stock, or other agreements or rights to purchase or otherwise acquire its capital, except for (A) shares of common stock issuable upon exercise of stock options existing on the date hereof or pursuant to the management purchase as described in Proposal No. 3, and (B) in excess of an additional 50,000 shares of common stock in connection with a stock bonus program established by the Company for the benefit for certain Company employees in connection with integration activities relating to the Company's acquisition of Adorn Holdings, Inc.; (iv) not authorize any stock split, stock dividend, stock combination, or other similar transaction affecting the number of issued and outstanding shares of our common stock; (v) not declare or pay any dividends or repurchase any shares of our common stock; and (vi) not incur any indebtedness or guarantees thereof, other than borrowings in the ordinary course of business and consistent with past practice.

Tontine may terminate its rights and obligations under the Standby Purchase Agreement at any time prior to closing if there is a Material Adverse Effect or Market Adverse Effect that is not cured within 15 days after the occurrence thereof. If either we or Tontine materially breach the Standby Purchase Agreement, the non-breaching party may terminate its rights and obligations under the Standby Purchase Agreement if the breaching party does not cure the breach within 15 days after receiving written notice. In addition, either party may terminate its rights and obligations under the Standby Purchase Agreement, if the closing of the Rights Offering has not occurred on or prior to March 31, 2008, for any reason other than a material breach by the terminating party or a failure to meet a closing condition as defined in the Standby Purchase Agreement.

Registration Rights Agreement

We previously entered into an Amended and Restated Registration Rights Agreement with Tontine, dated May 18, 2007, in which we agreed under certain circumstances to register the resale of shares of common stock held by Tontine. The common stock purchased by Tontine both in the Rights Offering and pursuant to the Standby Purchase Agreement will be eligible to be registered for resale under the Amended and Restated Registration Rights Agreement. Should Tontine choose to resell the shares it purchases pursuant to the Rights Offering or the Standby Purchase Agreement, we will bear the costs of registering the common stock to be resold. We intend to file and maintain a registration statement on Form S-3 to be available for any sale of shares by Tontine.

Relationship with Tontine

Tontine currently owns 38.2% of our common stock. In connection with the Adorn acquisition in May 2007, we entered into a private placement with Tontine, whereby Tontine purchased 980,000 shares of our common stock at \$11.25 per share for a total purchase price of \$11,025,000, and provided interim subordinated debt financing of \$13,975,000 in exchange for 9.5% Senior Subordinated Promissory Notes. In connection with the private placement, we entered into a Securities Purchase Agreement in which we granted Tontine the right to appoint (i) one nominee to our Board of Directors so long as it holds between 7.5% and 14.9% of our common stock then outstanding, and (ii) two nominees to our Board of Directors so long as it holds at least 15.0% of our common stock then outstanding. In each case, the nominees must be reasonably acceptable to our Board of Directors. Pursuant to the Securities Purchase Agreement, we have also agreed to limit the number of directors serving on our Board, by the date of our 2008 Annual Meeting of Shareholders, to no more than nine directors for so long as Tontine has the right to appoint a director to the our Board. As of the date hereof, there are no appointed or elected Tontine representatives on our Board. We have also entered into an Amended and Restated Registration Rights Agreement, dated as of May 18, 2007, with Tontine under which we have agreed to register shares of our common stock held by Tontine. Our obligation to register shares held by Tontine for resale extends to any shares Tontine may acquire in the future, including shares acquired in the Rights Offering or pursuant to the Standby Purchase Agreement. If no holder other than Tontine were to subscribe for their portion of the shares offered in the Rights Offering and Tontine purchases all unsubscribed shares, pursuant to its obligations as set forth in the Standby Purchase Agreement, Tontine's ownership would be 48.5% of our outstanding common stock.

We are not aware of any current plans or proposals by Tontine with respect to any extraordinary corporate transactions involving us or any sale of our assets or change in our management, capitalization, dividend policy, charter or Bylaws (except as described in this Proxy Statement), or any other change in our business or corporate structure or with respect to the delisting or deregistration of any of our securities. However, any determination by Tontine to retain its interest in our Company will likely be subject to the continuing evaluation of pertinent factors related to its investment in us. We are not aware of any current plans by Tontine to resell any shares of our common stock, including any shares acquired in the Rights Offering or pursuant to the Standby Purchase Agreement. Depending upon the continuing assessment of these factors from time to time, Tontine may change its present intentions and may dispose of some or all of the shares of our common stock that it owns.

We are also not aware of any current plans by Tontine to acquire additional shares of our common stock. Any such acquisition would be subject to our amended Rights Agreement. That agreement may have the effect of deterring acquisitions of our stock or assets, mergers and tender offers, and proposals for the foregoing that have not been approved by our Board. We amended that agreement to permit Tontine to acquire the shares of common stock contemplated by the Standby Purchase Agreement. The acquisition of additional shares by Tontine may require an additional amendment to the Rights Agreement. The Board has the authority to amend the Rights Agreement, subject to the limitations contained therein.

Reasons for Seeking Shareholder Approval

The Standby Purchase Agreement has as a condition to closing the approval by our shareholders of the Rights Offering and the transactions contemplated by the Standby Purchase Agreement. In order for the Rights Offering to take place, our shareholders must approve both Proposal No. 1 (approval of the Rights Offering) and Proposal No. 2 (approval of the Standby Purchase Agreement). If this Proposal No. 2 is not approved by our shareholders, we cannot conduct this Rights Offering and we would be required to seek alternative sources of equity capital to prepay the 9.5% Senior Subordinated Promissory Notes.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR"

PROPOSAL NO. 2 APPROVING THE STANDBY PURCHASE AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREUNDER

PROPOSAL NO. 3

APPROVAL OF THE SALE OF SHARES OF COMMON

STOCK TO CERTAIN MANAGEMENT EMPLOYEES

General Background

Our Board has approved a proposal offering shares of our common stock to certain members of our management at the same \$11.25 price per share as will be offered to shareholders in the proposed Rights Offering (*see* Proposal No. 1). The sale of common stock to certain management employees pursuant to this proposal is conditioned on the closing of the Rights Offering. If this Proposal No. 3 is approved, we will offer certain management employees the opportunity to purchase shares of common stock at \$11.25 per share. In total, we propose to offer management the opportunity to purchase up to 130,000 shares in total for an aggregate purchase price of \$1,462,500.

Reasons to Offer Management Shares of Common Stock

We are proposing to offer certain management employees the opportunity to buy our common stock (1) to encourage additional investment in the Company by management to better align the interests of shareholders and management, and (2) to raise additional capital to repay certain indebtedness incurred to finance our acquisition of Adorn Holdings, Inc. If the management share purchase is approved and management elects to purchase all 130,000 shares of common stock for an aggregate purchase price of \$1,462,500, the proceeds, along with the proceeds from the Rights Offering, will be used to prepay the \$13,975,000 in principal amount of 9.5% Senior Subordinated Promissory Notes issued to Tontine, to pay related accrued interest and to reduce borrowings under our senior credit facility. In an effort to better align the interests of these management employees with those of our shareholders, the Board believes it is appropriate to offer management the opportunity to purchase shares of common stock at the same \$11.25 per share price as offered to shareholders in the Rights Offering.

The majority of shares to be issued to management employees under this proposal will go to individuals who became employees as a result of our acquisition of Adorn Holdings, Inc. These individuals do not currently own shares of our common stock.

Management Purchase

Any offer to purchase shares of our common stock for the same price as is offered to shareholders pursuant to the proposed Rights Offering is within the total discretion of the Compensation Committee and the Board. The following table sets forth the number of shares of common stock to be offered under this proposal to each executive officer named in the Summary Compensation Table, all executive officers as a group, and all other current employees (including all current officers who are not executive officers), the aggregate purchase price of the shares offered and the dollar value of the potential benefit of the offering if the management employees sold the shares at market value as of the date of this proxy. The purchasers will pay cash to the Company for the shares in the amount of the purchase price. Non-employee directors are not being offered shares of our common stock under this proposal.

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Name and Principal Position	Number of Shares of		Dollar Value of (4)	
	Common Stock Be Purchased	To Aggregate Purchase Price	Potential Benefit \$(1)	Tax Bonus
Andy L. Nemeth				
Executive Vice President of Finance, Secretary-Treasurer, and Chief Financial Officer	1,000	\$11,250	\$450	\$87
Gregory G. Lee				
Executive Vice President of Distribution	1,000	11,250	450	87
Todd M. Cleveland				
Executive Vice President of Operations and Chief Operating Officer	45,500	511,875	20,475	3,964
Gregory J. Scharnott (2)				
Former Executive Vice President of Operations and Distribution	—	—	—	—
All current executive officers as a group	47,500	534,375	21,375	4,138
All employees, including all current officers who are not executive officers, as a group (3)	130,000	1,462,500	58,500	11,325

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- (1) Calculated by determining the difference between the market value of the shares offered at October 1, 2007 (\$11.70) and the purchase price of \$11.25 per share.
- (2) Mr. Scharnott resigned from the Company on March 12, 2007. Because Mr. Scharnott was one of our most highly compensated executive officers during the last completed fiscal year, Mr. Scharnott is considered a named executive officer under the securities laws and therefore appears in the table above. Mr. Scharnott will not be offered shares of common stock under this proposal.
- (3) This group includes 42 management employees, including executive officers, sales managers, general managers, and national account managers.