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Keller begins to rebound, but questions remain

Now dealing in doors, former furniture manufacturer faces looming pension obligations

Business First of Louisville - January 13, 2006 by [Brent Adams](#) Business First Staff Writer

The announcement Monday that The Keller Manufacturing Co. had purchased an 85 percent share of Louisville door maker Paragon Door Designs Inc. marked a new era for a company that traces its roots back to 1885.

But Keller, which made its mark in the hardwood furniture business, still has a bit of the past to deal with.

Keller stopped producing furniture in late 2003 to focus on importing foreign-made furniture. It exited the furniture business altogether in early 2005.

But the company still has a pension obligation of about \$3.9 million to former workers who made furniture at Keller's now-closed plants in Corydon and New Salisbury, Ind., and Culpeper, Va.

When Keller ceased furniture sales, company officials announced that they would sell Keller's assets and seek to acquire another business.

At that time, Keller president and CEO David T. Richardson told shareholders that it was unclear whether Keller officials would be able to find a company that could generate enough cash to meet the pension obligations.

As of Sept. 30, the company had assets of \$1.5 million and \$4 million in liabilities, including \$3.9 million in accrued pension liabilities.

The company said Monday it paid \$1.14 million in cash for the equity interest in Paragon, which sells custom steel and fiberglass residential entry doors and storm windows through a network of window and door dealers, remodelers and home improvement companies in 20 states.

Keller's year-end figures currently are being audited and won't be made public until March, Richardson said, adding that to date, all required pension payments have been made to former Keller employees.

Company might have had to fold

In an interview this week, Richardson said he told the board in 2005 that if a deal to acquire a company wasn't reached by the end of the year, he would advise folding the shell company.

In that instance, the pensions would have been backed by the Pension Benefit Guaranty Corp., which will pay employee pensions up to about \$45,000 a year if the company runs out of assets, Richardson said.

"We could've easily packed it in and turned out the lights, and it seriously about came to that," he said.

Richardson credited Keller's board members with remaining committed to helping Keller identify an acquisition that would be in the interest of pensioners and the company's 150 shareholders.

The board consists of Don Humin, owner of Jeffersonville-based Flexible Materials Inc.; John Schenkenfelder, vice president of the local office of investment firm UBS; and S. Oden Howell Jr., owner of Louisville-based Howell & Howell Contractors Inc.

"They did not believe folding the company was the best thing to do," said Richardson, who does not hold a seat on Keller's board. "The board members, who are not paid for their service, persisted out of a desire to do the right thing."

'A noble effort'

Benjamin P. Foster, associate professor of accounting and a business distress expert at the University of Louisville, said Keller's situation is unusual, but in light of the circumstances, he believes Richardson and the Keller board members took an honorable course of action by choosing to find a way to honor the company's pension obligations.

"It sounds like a noble effort," Foster said. "But it may be difficult to generate enough cash flow to fund the pension obligation when you're a company with a small amount of sales and you're coming into it with that much liability."

Although optimistic about the opportunities that Paragon provides for Keller to fund the pension, which has been underfunded since 2002, Richardson cautions that the acquisition shouldn't be viewed as a silver bullet.

"Whether this works or not remains to be seen, but it puts us in a better position than we were in prior to the acquisition," Richardson said. "We were pretty much dead in the water, with cash but no operating business and no ability to create material shareholder value or resolve the pension obligation."

Paragon fit stringent criteria

Richardson, Keller's last remaining full-time employee, said he and the company's three board members investigated about 75 companies before whittling that number down to two or three companies that met the board's requirements.

The criteria included that the company had to be profitable; have a proven track record; preferably be located in the Greater Louisville area; exhibit growth potential; and have a leader with whom Richardson and the board members were comfortable, Richardson said.

Of the 75 companies, Paragon best fit all the criteria.

Richardson declined to disclose Paragon's net income, but he said the company is profitable. The 27-employee company, which is based at 7845 National Turnpike, had sales of \$3.9 million in 2005.

The opportunity to purchase Paragon came about when its silent, majority owner decided to sell his 85 percent share in the company, leaving president and CEO David N. Burks to find a new partner in the company he founded in 1993.

Ray Strothman, a partner with Strothman & Co. PSC, who handles accounting work for both companies, suggested to Richardson that he and the Keller board take a serious look at Paragon.

After weeks of due diligence, the men liked what they saw.

"They have vast industry experience in a large, fragmented market," Richardson said. "We believe Paragon has a significant opportunity to penetrate the market and grow its sales volume."

Richardson said the Keller leadership also was sold on Burks, who will remain in his position. Burks owns the remaining 15 percent stake in Paragon.

"He's a great leader who has a lot of knowledge about the market," Richardson said. "He has done a great job of producing organic growth since starting the company, and we think that is something that will continue under his leadership."

Planning for the future

In addition to helping Burks find a new partner, the acquisition benefits Paragon because it gives the company the expertise and contacts of Keller's board members, Burks said.

It also could mean additional liquidity for Burks to work with in the future if Keller and Paragon merge, as has been discussed by Burks and Keller officials, Burks said.

He declined to discuss any future involvement he would have with the Keller entity and referred to the company as an investor in Paragon.

Richardson said Paragon could shift into an acquisition mode by 2008.

But Burks was less committal, saying only that he intends to focus on the present, which includes hiring two upper-level executives to help him manage the company's anticipated growth.

He expects that growth to come from a new sales and marketing campaign targeting owners of aging homes in high-value communities from Chicago to Pittsburgh, and Virginia to Boston, Burks said.

Paragon also hopes to benefit from the recent Energy Star designation awarded to its windows and doors. President Bush's Energy Policy Act of 2005 provides for tax credits to homeowners who purchase windows and doors with the Energy Star designation.

"We're approaching this with excitement and anticipation," Burks said. "There are certainly a lot of good growth opportunities out there for us."

Keller CEO to remain as consultant
The Keller Manufacturing Co. president and CEO David T. Richardson, who announced on Monday that he will leave his post, will continue working with Keller as a contract consultant for about a year.

He also is reviewing multiple offers to lead young, venture-capital-backed companies in Louisville. He declined to identify those companies.

Richardson said he will not be replaced by the Keller board. He, the board members and two contract employees, Linda Rich and Pam Kelly, will address all company and pension matters on a part-time basis.

Keller will maintain an unstaffed office in the bCatalyst Advisors LLC building, 124 N. First St., with only a voice-mail system and an e-mail address.

Richardson and Paragon Door Designs Inc. president and CEO David N. Burks said it is possible that in the future Keller and Paragon could merge, with the merged company taking the Paragon name.

Paragon Door Designs Inc.
Address: 7845 National Turnpike, Unit 150

Phone: 363-2188

Web site: www.paragondoor.com

Founded: 1993

Employees: 27

Key figure: David N. Burks, founder, president and CEO

2005 revenue: \$3.9 million

Specialty: Maker of custom steel and fiberglass residential entry doors and storm windows

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