

## Once-proud Keller Manufacturing now searching for value in its name

Business First of Louisville - June 3, 2005 by [Brent Adams](#) Business First Staff Writer

For more than a century, hundreds of Keller Manufacturing Co. employees in Indiana and Virginia built a proud company that staked its name on high-quality, solid-wood furniture.

Today, there aren't many takers for that name, and the company is little more than a shell.

Three full-time employees occupy a modest office in downtown Louisville, and part-time contract workers ship a stockpile of imported hardwood home furniture from a 50,000-square-foot warehouse in the South End.

After closing furniture manufacturing plants in Corydon and New Salisbury and making an unsuccessful attempt to sell imported furniture under the Keller mark, the company's board of directors decided in January to exit the furniture business.

The Keller Furniture brand name and remaining operating assets are for sale, and the company's board hopes to use the proceeds to purchase another business.

But in a May 16 letter to shareholders, Keller president and CEO David T. Richardson wrote that board members "are not optimistic about selling this intangible asset for a material amount of money."

He is expected to update shareholders on the company's efforts to shop the brand at Keller's annual meeting June 16 at Caesars Indiana.

"There is an overcapacity of furniture brands, including a lot of startup import companies," Richardson told Business First on Tuesday. "Keller is not viewed on the forefront of new product development, so the brand isn't attracting a lot of attention. We've had some interest, but not for the amount we'd like to get out of it."

### Financial woes looming large

The divestiture of Keller's name and operating assets was intended to fund the purchase of a light manufacturing, distribution or service business.

But a recent audit of the company's pension plan showed that proceeds from an asset liquidation might not even be enough to meet obligations to retirees.

As of March 31, Keller had total assets of \$2.3 million versus \$4.1 million in liabilities, including \$3.8 million in accrued pension liability.

"Our pension plan has been underfunded since 2002, and this deficit grew significantly in 2004," Richardson said.

The pension plan is insured by the federal government-backed Pension Benefit Guarantee Corp., which will pay employee pensions up to about \$45,000 a year if the company runs out of assets, Richardson said.

He said reduced investment returns, lower interest rates and an increase in lump-sum distribution to retirees has left Keller's financial obligation to the plan "significantly" higher than the value of the plan's assets.

Richardson said the company "has made all legal funding contributions to the pension and plans to make all 2004 funding contributions payable during 2005."

Keller is expected to make payments in July and September totaling about \$489,000. Beyond those payments, the company's ability to meet its obligation is uncertain, Richardson said.

Keller reported a loss of \$11.1 million on sales of \$10.6 million in 2004, compared with a loss of \$12.5 million on sales of \$21.5 million in 2003.

The company had assets of \$2.3 million -- including \$974,000 in cash -- and liabilities of \$4.1 million as of March 31.

"Our primary challenge is to address our underfunded pension obligation while considering acquisition of a new operating business," Richardson wrote to shareholders. "There is no guarantee that we will be successful in solving one or both of these challenges."

**Keller couldn't keep pace with imports**

Keller's decline wasn't unlike many of its U.S. competitors that either closed their doors or consolidated in the past decade in the face of rising sales of cheaper, imported furniture, said Brenda Swartz, director of the Regional Economic Development Resource Center at Indiana University Southeast.

Inflexible corporate cultures and outdated manufacturing processes have stifled many tradition-rich hardwood furniture manufacturers, said Swartz, who has worked with Southern Indiana furniture makers during the past few years to help them devise strategies for exporting furniture and improving technology to increase productivity.

"So many of these companies have been set in their ways, and you can't survive in today's global marketplace by resisting change," Swartz said. "The companies that will make it are the ones that are flexible and willing to change as business changes."

Keller attempted to respond to the market in spring 2000, when it built a \$500,000, 18,000-square-foot expansion of its 180,000-square-foot manufacturing and distribution center in New Salisbury, Ind.

At the time, the company employed about 725 people -- 237 in New Salisbury, 263 in Corydon, Ind., and the remaining third in a plant in Culpeper, Va.

Sales in 1999 declined to \$55.7 million from \$60.1 million in 1998, while net income fell to \$3.8 million from \$5.7 million.

The expansion was intended to address the declining sales, which the company attributed to slow order fulfillment.

But it might have been a case of too little, too late.

In September 2002, Keller closed its Culpeper plant and laid off 120 workers in what the company said was part of a comprehensive plan to consolidate production into the two remaining plants.

According to Business First reports, about 28 percent of Keller's production employees and 20 percent of its managers were laid off between the first quarter of 2001 and the third quarter of 2002.

In 2002, Keller reported a loss of \$4.3 million on sales of \$35.9 million, after posting a loss of \$2.3 million on sales of \$43.4 million in 2001.

**New management hoped to find competitive edge**

Continued losses prompted the Keller board to shake up the company's front office. Three Keller stalwarts -- chairman Robert Byrd, president and CEO Steven W. Robertson and Scott Armstrong, the company's vice president of marketing -- were ousted by the board of directors in August 2003 in favor of an aggressive management team with experience in the furniture industry.

Keith Williams, president and CEO of Louisville-based bCatalyst Inc. was tapped to lead a team that included Richardson as chief financial officer. He formerly had been managing partner of Capital Consulting Group LLC and vice president of finance for High Speed Access Corp.

Williams resigned as president and CEO in January and left the company's board in April.

He could not be reached for comment.

"The intent of the new management team (under Williams) was to save the company's furniture interest," Richardson said. "We thought we could do that by pursuing a mixed model of domestic production with a substantial amount of import product."

But as the new management team sized up the cost of producing furniture in Southern Indiana versus importing from a contract manufacturer, it became apparent that importing was the clear-cut choice.

After less than two months at the helm, the new team closed the century-old Corydon plant, eliminating between 50 and 80 jobs.

In November 2003, the Keller board of directors voted unanimously to take the company private.

Seven months later, they put the brakes on Keller's manufacturing operations, closing the 150-employee New Salisbury factory, which subsequently was sold to Child Craft Industries Inc., a children's furniture manufacturer in Salem, Ind.

"That was a painful decision because we had to terminate a lot of people," Richardson said. "But I think the process was handled in a fair and equitable manner."

Grasping at any hope of clawing its way back into the furniture market, Keller concentrated solely on importing wood home furniture from June through December 2004.

But again, Keller acted too late, Richardson said. The company's board decided in January to cease importing furniture and continue to sell Keller furniture until stock is depleted in the company's warehouse.

Much of that furniture is being sold through Burdorf's in St. Matthews.

"It's good quality stuff, and we're selling the daylights out of it," said Burdorf's owner and president Allan Morris. "Keller has a good name and a good history and the whole nine yards, but they came to the party about two years too late when it comes to outsourcing."

Because affordable furniture can be purchased at the big-box stores and an increasing number of discount furniture outlets, domestic hardwood furniture companies are seeing their sales and profit margins continue to shrink, Morris said.

According to U.S. Commerce Department data, the United States imported \$9.5 billion of wood home furniture in 2004, up from \$3.1 billion in 1996. The United States exported \$946 million of wood home furniture in 2004, up from \$648 million in 1996.

"We entered the international outsourcing arena far too late," Richardson said. "That's something (Keller) really should've done in the late 1990s."

Robertson, who succeeded Byrd as president and CEO in January 2000, acknowledged that in hindsight, the company probably should have begun outsourcing in the late 1990s.

But the decision to stay the course with domestic furniture was made because the company felt it had a strong enough brand name and reputation for quality to compete with the growing import market.

"It is sad to see the company in the situation it is in," said Robertson, who had been with Keller since 1979. He now lives in Prospect and serves as president of Southport Furniture Inc., an Indianapolis-based furniture company that outsources its manufacturing to companies in Mexico and Brazil.

"The furniture environment is in a lot of turmoil, and there has been a shakeout similar to what we saw in the past in the textile industry," Robertson said. "But with those challenges come some great opportunities. There are a lot of startups that have come on the scene in the last couple of years who are doing well for themselves because they lined up the right outsourcing partners."

*Company hopes for a future*

Despite the uncertainty surrounding Keller's future, the company's directors are continuing to shop for other companies to invest in if its financial picture improves.

"The positive is that we don't have any debt, and we have cash on hand," Richardson said. "This has been a painful process, but it hasn't resulted in bankruptcy, and we don't think we're in danger of that happening."

"Right now, we're proceeding cautiously and trying to do the right thing by being transparent about the situation."

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