PATRICK INDUSTRIES INC
Form 10-Q
May 19, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 30, 2008

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from .... to ....

Commission file number 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 (I.R.S. Employer Identification No.)

107 West Franklin Street, Elkhart, IN 46516

(Address of principal executive offices)

(ZIP Code)

(574) 294-7511

(Company s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] Noo

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer [X] Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No [X]

As of May 14, 2008, there were 7,168,618 shares of the Company s Common Stock outstanding.

PATRICK INDUSTRIES, INC.

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PATRICK INDUSTRIES, INC.

CONDENSED BALANCE SHEETS

(dollars in thousands)

	Unaudited March 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 66	$ 151
Trade receivables	26,197	15,251
Inventories	41,177	43,566
Income taxes receivable	3,361	3,728
Prepaid expenses and other	2,081	4,621
Deferred tax assets	1,605	1,605
Assets held for sale	1,694	---
Total current assets	76,181	68,922
PROPERTY AND EQUIPMENT	110,031	112,665
Less accumulated depreciation	57,024	57,910
Net property and equipment, at cost	53,007	54,755
INTANGIBLE AND OTHER ASSETS		
Goodwill	29,514	29,514
Intangible assets, net of accumulated amortization of $1,430 in 2008 and $1,001 in 2007	38,040	38,469
Deferred financing costs, net of accumulated amortization of $372 in 2008 and $265 in 2007	2,091	1,861
Other assets	3,002	2,721
Total intangible and other assets	72,647	72,565
Total assets	$ 201,835	$ 196,242
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 8,628	$ 8,628
Short-term borrowings	---	1,479
Accounts payable	25,063	14,349
Accrued expenses	6,668	7,568
Total current liabilities	40,359	32,024

LONG-TERM DEBT, less current maturities	63,658	71,501
DEFERRED COMPENSATION AND OTHER	4,881	4,180
DEFERRED TAX LIABILITIES	15,238	16,604
Total liabilities	$ 124,136	$ 124,309
SHAREHOLDERS EQUITY		
Common stock	40,704	32,635
Accumulated other comprehensive loss	(1,106)	(672)
Additional paid-in capital	148	148
Retained earnings	37,953	39,822
Total shareholders equity	$ 77,699	$ 71,933
Total liabilities and shareholders equity	$ 201,835	$ 196,242

See accompanying notes to Unaudited Condensed Financial Statements.

PATRICK INDUSTRIES, INC.

UNAUDITED CONDENSED STATEMENTS OF OPERATIONS

(dollars and weighted average shares in thousands, except per share amounts)

	THREE MONTHS ENDED	
	March 30, 2008	March 31, 2007
Net sales	$ 111,011	$ 78,148
Cost of goods sold	98,914	69,334
Restructuring charges	446	---
Gross profit	11,651	8,814
Operating expenses:		
Warehouse and delivery expenses	5,052	3,767
Selling, general, and administrative expenses	7,756	5,576
Amortization of intangible assets	429	---
Total operating expenses	13,237	9,343
Operating loss	(1,586)	(529)
Interest expense, net	1,812	571
Other income	(430)	---
Loss before income taxes	(2,968)	(1,100)
Income tax benefit	(1,098)	(446)
Net loss	$ (1,870)	$ (654)
Basic loss per common share	$ (0.30)	$ (0.13)
Diluted loss per common share	$ (0.30)	$ (0.13)
Weighted average common shares outstanding, basic	6,256	4,906
Weighted average common shares outstanding, diluted	6,256	4,906

See accompanying notes to Unaudited Condensed Financial Statements.

PATRICK INDUSTRIES, INC.

UNAUDITED CONDENSED STATEMENTS OF

CASH FLOWS

(dollars in thousands)

	THREE MONTHS ENDED	
	March 30, 2008	March 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,870)	$ (654)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,510	959
Amortization	429	---
Deferred compensation	76	---
Share based compensation expense	378	255
Gain on sale of fixed assets	(430)	(5)
Decrease in cash surrender value of life insurance	---	3
Deferred income taxes	(1,367)	(223)
Other	(2)	348
Change in assets and liabilities:		
Decrease (increase) in:		
Trade receivables	(10,945)	(2,972)
Inventories	2,389	2,376
Prepaid expenses and other	2,540	(736)
Income taxes receivable	366	---
Increase (decrease) in:		
Accounts payable and accrued liabilities	9,830	2,866
Income taxes payable	(16)	(512)
Net cash provided by operating activities	2,888	1,705
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(1,585)	(1,439)
Proceeds from sale of property and equipment	558	5
Life insurance premiums	(500)	(28)
Life insurance proceeds	101	---
Acquisition of American Hardwoods	---	(7,136)
Net cash used in investing activities	(1,426)	(8,598)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under long-term debt agreements	---	7,500
Short-term payments	(1,479)	---
Principal payments on long-term debt	(7,843)	(417)
Payments on deferred compensation obligations	(98)	(82)
Proceeds from issuance of private placement of securities, net of expenses	7,875	---
Other	(2)	(10)
Net cash provided by (used in) financing activities	(1,547)	6,991

Increase (decrease) in cash and cash equivalents	(85)	98
Cash and cash equivalents, beginning	151	357
Cash and cash equivalents, ending	$ 66	$ 455

See accompanying notes to Unaudited Condensed Financial Statements.

PATRICK INDUSTRIES, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

(dollars in thousands, except shares and per share amounts)

1. General

In the opinion of Patrick Industries, Inc. (the Company), the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company s financial position as of March 30, 2008, and December 31, 2007, and its results of operations and cash flows for the three months ended March 30, 2008 and March 31, 2007.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. For a description of significant accounting policies used by the Company, in the preparation of its consolidated financial statements, please refer to Note 1 of the Notes to the Financial Statements in the Company s Annual Report on Form 10-K and 10K/A for the year ended December 31, 2007. The results of operations for the three month periods ended March 30, 2008 and March 31, 2007 are not necessarily indicative of the results to be expected for the full year.

Certain reclassifications have been made in the 2007 consolidated financial statements to conform to the presentation used in 2008.

Summary of Accounting Policies

Inventories

The inventories on March 30, 2008 and December 31, 2007 consist of the following classes:

	March 30, 2008	December 31, 2007
Raw materials	$ 21,701	$ 23,768
Work in process	5,066	5,252
Finished goods	4,557	5,091
Total manufactured goods	31,324	34,111
Distribution products	9,853	9,455
Total inventories	$ 41,177	$ 43,566

Inventories are stated at the lower of cost or market using the weighted average cost method.

Goodwill

The Company s goodwill at March 30, 2008 is related to its Primary Manufactured Products Segment and its Other Component Manufactured Products segment. The Company accounts for its goodwill pursuant to the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. Goodwill and indefinite-lived intangible assets are not amortized but are subject to an annual (or under certain circumstances more frequent) impairment test based on their estimated fair value. Finite-lived intangible assets that meet certain criteria continue to be amortized over their useful lives and are also subject to an impairment test based on estimated undiscounted cash flows when impairment indicators exist. The Company performs the required impairment test of goodwill annually, as of October 1, or more frequently if conditions warrant. For purposes of the goodwill impairment test, the reporting units of the Company are utilized after considering the requirements of Statement of Financial

Accounting Standards (SFAS) No. 142 *Goodwill and Other Intangible Assets (as amended)* and the relevant provisions of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* , and related interpretive literature. No impairment was recognized during the three months ended March 30, 2008.

Deferred Financing Costs

Debt issuance costs and deferred financing costs are classified as non-current assets on the balance sheet and amortized over the life of the related debt or credit facility using the effective interest method.

2. Acquisitions

American Hardwoods, Inc.

On January 29, 2007, the Company acquired certain assets of American Hardwoods, Inc. (American Hardwoods), a Phoenix, Arizona based distributor of wood products to the industrial markets, for $7,136. The Company believes the acquisition of American Hardwoods will strengthen its platform in the industrial market sector, as well as provide diversification opportunities and add new products to its Distribution Segment. The purchase of American Hardwoods represents an acquisition of a business and has been accounted for in accordance with SFAS No. 141 *Business Combinations*. The results of operations for American Hardwoods are included in the Company s Distribution Segment for the three month period ended March 30, 2008 and the two month period ended March 31, 2007.

The cash consideration exchanged for the assets of American Hardwoods was funded with new debt totaling $7,500.

Assets acquired and liabilities assumed in the acquisition were recorded on the Company s consolidated balance sheets at their estimated fair values as of the date of the acquisition. The excess of the estimated fair values of the underlying assets acquired and liabilities assumed over the purchase price was allocated pro-rata to the long lived assets of American Hardwoods.

The following table summarizes the fair values of the assets acquired and liabilities assumed on January 29, 2007:

Current assets	$ 4,208
Property, plant and equipment	3,250
Total assets acquired	7,458
Current liabilities	(322)
Net assets acquired	$ 7,136

Adorn Holdings, Inc.

On May 18, 2007, the Company consummated its acquisition of all of the outstanding capital stock of Adorn Holdings, Inc., (Adorn) an Elkhart, Indiana based manufacturer and supplier of interior components to the recreational vehicle and manufactured housing industries for $78,764 in cash. The acquisition was financed through both debt and equity financing which was structured to provide additional liquidity to facilitate the combined companies future growth plans and working capital needs. The purchase of Adorn represents an acquisition of a business and has been accounted for in accordance with SFAS No. 141 *Business Combinations*. The results of operations for Adorn are included in the Company s consolidated financial statements and respective operating segments for the quarter ended March 30, 2008.

The following table summarizes the aggregate consideration paid for the acquisition, with reconciliation to the total net assets acquired:

Cash consideration for repayment of all outstanding Adorn indebtedness	
and purchase of all outstanding Adorn common stock	$ 77,714
Transaction costs	1,050

Total cash consideration	$ 78,764

The cash consideration exchanged for the capital stock of Adorn was funded through the issuance of Patrick Industries, Inc. common stock in a private placement to Tontine Capital Partners, L.P. and Tontine Capital Overseas Master Fund, L.P., (collectively Tontine) of $11,025, the issuance of senior subordinated notes to Tontine of approximately $13,975, term debt of $50,000 under the Company s new $110 million credit facility, and borrowings under the Company s revolving line of credit of $3,814.

Assets acquired and liabilities assumed in the acquisition were recorded on the Company s consolidated balance sheet at their estimated fair values as of the date of the acquisition. The purchase price allocation is preliminary and a final determination of required purchase accounting adjustments will be made upon the conclusion of the consolidation activities which will occur in the second quarter of 2008. Revision to the fair values will be recorded by the Company as further adjustments to the purchase price allocation. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed on May 18, 2007:

Current assets		$ 33,030
Property, plant & equipment		12,529
Goodwill		29,514
Identifiable intangible assets:		
Trademarks (indefinite useful life)	$ 8,400	
Customer relationships (estimated useful lives 7-19 years)	30,760	
Non-compete agreements (estimated useful life 5 years)	310	
Total intangible assets		39,470
Current liabilities		(18,485)
Deferred income taxes		(17,294)
Net assets acquired		$ 78,764

As part of the purchase price allocation, the Company valued acquired inventory at fair value as of the date of the acquisition. The effect of this valuation adjustment was to increase the acquired inventory by $207. Based on the average rate at which inventory turns, this adjustment was fully expensed through cost of sales during the quarter ended June 30, 2007.

As of December 31, 2007, the Company has completed its analysis of the income tax matters and elections related to the Adorn acquisition.

The following unaudited pro forma information assumes the Adorn and American Hardwoods acquisitions occurred at the beginning of the period ended March 31, 2007. Pro forma adjustments include the amortization of acquired intangible assets and the interest expense on debt incurred to finance the transactions. The pro forma results are not necessarily indicative of what actually would have occurred had the acquisition been in effect for the periods presented:

	Quarter Ended March 31, 2007
Revenue	$ 138,555
Net loss	(634)
Basic loss per share	$ (0.11)
Diluted loss per share	$ (0.11)

3. Restructuring and Integration

During the quarter ended March 30, 2008, the Company continued with previously announced restructuring actions related to the integration of Adorn. The Company s plan to integrate the two businesses includes closure of duplicate facilities, elimination of redundant jobs, and consolidation of product lines. The restructuring plan includes severance, facility closures, and various asset write-downs. Asset write-downs include machinery and equipment, inventory, tooling, and other write-downs directly related to discontinued product lines. Restructuring charges of

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$446 were incurred in cost of goods sold in the quarter ended March 30, 2008, as the Company announced it was closing one operation and consolidating two other Patrick operations into Adorn operations, thus eliminating certain positions from the closed facilities. Additionally, during the first quarter of 2008, the Company incurred restructuring charges or approximately $96 related to severance costs as a result of the elimination of certain administrative positions which are included in selling, general and administrative expenses for the quarter ended March 30, 2008.

The following table summarizes the expected, incurred and remaining costs for the restructuring plans:

	Severance	Asset Write-Downs	Facility Exit Costs	Total
Balance at January 1, 2008	$ 206	$ ---	$ ---	$ 206
Restructuring charges	296	221	25	542
Cash payments/write-offs	(368)	(221)	(25)	(614)
Balance at March 30, 2008	$ 134	$ ---	$ ---	$ 134

The majority of the remaining restructuring activities are expected to be completed during the second quarter of 2008. Additional restructuring expenses may be necessary as the integration progresses.

4. Stock Based Compensation

The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of SFAS No. 123(R) "Share Based Payment". The Company recognized compensation cost of $378 and $255 and related income tax benefits of $151 and $102 for its stock-based compensation plans in the statements of operations for the three months ended March 30, 2008, and March 31, 2007, respectively.

The Company estimates the fair value of all stock option awards and stock grants as of the grant date by applying the Black-Scholes option pricing model. The Board of Directors approved approximately 5 shares granted on January 5, 2007, 12 shares granted on February 16, 2007, 25 shares granted on May 10, 2007, 60 shares granted on June 1, 2007, 12 shares granted on October 5, 2007, 8 shares granted on January 5, 2008, and 16 shares on March 26, 2008. The compensation cost associated with these grants has been appropriately recognized in the consolidated financial statements at March 30, 2008.

As of March 30, 2008, there was approximately $222 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 months.

5. Earnings Per Share

Basic earnings per share is based on the weighted average number of shares outstanding during the period. Diluted earnings per common share is based on the weighted average number of shares outstanding during the period, after consideration of the dilutive effect of stock options and awards. Basic and diluted earnings per share for the three-month periods were calculated using the weighted average shares as follows:

	Three Months Ended	
	March 30, 2008	March 31, 2007
Weighted average number of common shares used in basic EPS	6,256	4,906
Effect of dilutive securities	---	---

Weighted average diluted shares	6,256	4,906

As the Company reported a net loss for the three-month period ended March 30, 2008 and March 31, 2007, the dilutive effect of approximately 138 shares related to stock options were excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

6. Comprehensive Loss

The changes in the components of comprehensive loss for the three month periods ending March 30, 2008 and March 31, 2007 are as follows:

	Three Months Ended	
	March 30, 2008	March 30, 2007
Net loss	$ (1,870)	$ (654)
Unrealized losses on cash flow hedges, net of taxes	(433)	(32)
Comprehensive loss	$ (2,303)	$ (686)

As of March 30, 2008 and March 31, 2007, the accumulated other comprehensive loss, net of tax, relating to unrealized losses on cash flow hedges and changes in accumulated pension benefit was ($1,106) and ($129), respectively.

7. The Company entered into a listing agreement to sell one if its California facilities, which was exited in 2007. During the quarter ended March 30, 2008, the Company reclassified its carrying value of $1.7 million to assets held for sale included in current assets on the accompanying condensed balance sheet. The Company expects to sell this facility within the next year.

8. New Accounting Standards

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations.* SFAS No. 141R broadens the guidance of SFAS No. 141, extending its applicability to all transactions and other events in which one entity obtains control over one of more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. SFAS No. 141R expands on required disclosures to improve the statement users abilities to evaluate the nature and financial effects of business combinations. SFAS No. 141R is effective for the first annual reporting period beginning on or after December 15, 2008. The provisions of SFAS No. 141R will only impact the Company if it is a party to a business combination closing on or after January 1, 2009.

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), for financial assets and liabilities measured on a recurring basis. SFAS No. 157 applies to all financial assets and liabilities that are being measured and reported on a fair value basis and establishes a framework for measuring fair value of assets and liabilities and expands disclosures about fair value measurements. There was no impact to the Company s consolidated condensed financial statements as a result of the adoption of SFAS No. 157. As of March 30, 2008 and March 31, 2007, liabilities of $1,661 and assets of $54, respectively, have been recognized for the fair value of the interest rate swap agreements. In accordance with SFAS No. 157, these liabilities fall within Level 2 of the fair value hierarchy. Level 2 represents financial instruments lacking quoted prices (unadjusted) from active market exchanges, including over-the-counter exchange-traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs. The Company did not have any additional assets or liabilities that were measured at fair value on a recurring basis at March 30, 2008.

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* on January 1, 2008. This Statement allows companies the option to measure eligible financial instruments at fair value. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. The Company has elected not to apply the fair value option to any of its financial instruments except for those expressly required by U.S. GAAP.

The Company follows the provisions of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statements No. 137 and No. 138, in accounting for its derivative financial instruments. These Statements require the Company to recognize derivative financial instruments on the consolidated balance sheets at fair value.

In 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, *an amendment of ARB No. 51.* This Statement significantly changes the financial accounting and reporting of noncontrolling (or minority) interests of a subsidiary in consolidated financial statements. This Statement is effective prospectively for the Company beginning on January 1, 2009. The Company has not yet determined the impact, if any, the adoption of this Statement will have on the financial position of the Company.

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how the instruments are accounted for under SFAS No. 133 and its related interpretations, and how the instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The guidance in SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 (fiscal year 2009 for the Company). The Company is currently evaluating the potential impact of the adoption of SFAS No. 161 on its disclosures in the Company's consolidated condensed financial statements.

9. Segment Information

The Company has determined that our reportable segments are those 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 drywall and ceiling panels, drywall finishing products, hardboard and various sidings, roofing products, various flooring products, passage doors, insulation, and other products.

Other Component Manufactured Products - Includes an adhesive division, two cabinet door divisions, and a vinyl printing division.

Engineered Solutions Includes aluminum extrusion, distribution, and fabrication operations.

The table below presents unaudited information about the revenue, gross profit, operating income, and total assets of those segments:

	THREE MONTHS ENDED MARCH 30, 2008				
	PRIMARY MANUFACTURED PRODUCTS	DISTRIBUTION	OTHER COMPONENT MFG PRODUCTS	ENGINEERED SOLUTIONS	SEGMENT TOTAL
Net outside sales	$ 66,595	$ 21,442	$ 12,054	$ 10,920	$ 111,011
Intersegment sales	$ 2,636	$ 16	$ 2,719	$ 934	$ 6,305
Operating income	$ 2,131	$ 252	$ 639	$ 207	$ 3,229

THREE MONTHS ENDED MARCH 31, 2007				
PRIMARY MANUFACTURED PRODUCTS	DISTRIBUTION	OTHER COMPONENT MFG PRODUCTS	ENGINEERED SOLUTIONS	SEGMENT TOTAL

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the documents that we incorporate by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but are not always, made through the use of words or phrases such as may, will, could, should, expects, intends, plans, anticipates, believes, estimates, predicts, projects, potential, continue, and similar expressions, or the negative of these terms, or similar expressions. Accordingly, these statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this report, and in particular those factors referenced in the section Risk Factors.

This prospectus, including the sections entitled About this Prospectus and Risk Factors, contains forward-looking statements that are based on our management s belief and assumptions and on information currently available to our management. These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- the initiation, timing, progress and results of our preclinical and clinical studies, and our research and development programs;

our ability to advance product candidates into, and successfully complete, clinical studies;

our ability to advance our viral vector manufacturing and transduction capabilities;

the timing or likelihood of regulatory filings and approvals;

the commercialization of our product candidates, if approved;

the pricing and reimbursement of our product candidates, if approved;

the implementation of our business model, strategic plans for our business, product candidates and technology;

the scope of protection we are able to establish and maintain for intellectual property rights covering our product candidates and technology;

estimates of our expenses, future revenues, capital requirements and our needs for additional financing;

the potential benefits of strategic collaboration agreements and our ability to enter into strategic arrangements;

our ability to maintain and establish collaborations or obtain additional grant funding;

our financial performance;

developments relating to our competitors and our industry; and

other risks and uncertainties, including those listed under the caption Risk Factors.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this prospectus, any supplements to this prospectus and the documents that we incorporate by reference in this prospectus with the understanding that our actual future results may be materially different from what we expect. Except as required by law, we do not undertake any obligation to update or revise any forward-looking statements contained in this prospectus or any supplement to this prospectus, whether as a result of new information, future events or otherwise.

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RISK FACTORS

Investing in our securities involves a high degree of risk. You should carefully consider the risks described in the documents incorporated by reference in this prospectus and any prospectus supplement, as well as other information we include or incorporate by reference into this prospectus and any applicable prospectus supplement, before making an investment decision. Our business, financial condition or results of operations could be materially adversely affected by the materialization of any of these risks. The trading price of our securities could decline due to the materialization of any of these risks, and you may lose all or part of your investment. This prospectus and the documents incorporated herein by reference also contain forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described in the documents incorporated herein by reference, including (i) our most recent annual report on

Form 10-K which is on file with the SEC and is incorporated herein by reference, (ii) our most recent quarterly report on Form 10-Q, which is on file with the SEC and is incorporated by reference into this prospectus, and (iii) other documents we file with the SEC that are deemed incorporated by reference into this prospectus.

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ABOUT THE COMPANY

We are a clinical-stage biotechnology company focused on transforming the lives of patients with severe genetic and orphan diseases using gene therapy.

We and our scientific collaborators have generated what we believe is human proof-of-concept data for our gene therapy platform in two underserved diseases, each of which has been granted orphan drug status by U.S. and European regulatory authorities. We are conducting a Phase II/III clinical study with our most advanced product candidate, Lenti-D, to evaluate its safety and efficacy in subjects with childhood cerebral adrenoleukodystrophy, or CCALD, a rare, hereditary neurological disorder affecting young boys that is often fatal. In October 2013, we announced that the first subject had been treated in this study. We are also planning to conduct an observational study of subjects with CCALD treated by allogeneic hematopoietic stem-cell transplant referred to as the ALD-103 study.

We also are conducting Phase I/II clinical studies in both the United States and Europe of our next most advanced product candidate, LentiGlobin, to evaluate its safety and efficacy in subjects with ß-thalassemia major and, in the European clinical study, sickle cell disease, or SCD, which are rare, hereditary blood disorders that often lead to severe anemia and shortened lifespans. In December 2013, we announced that the first subject with ß-thalassemia major had been treated in our European study. In March 2014, we announced that the first subject with ß-thalassemia major had been treated in our study in the United States. We presented initial results from the European clinical study of ß-thalassemia major at the European Hematology Association Congress in Milan, Italy in June 2014.

We also have an active investigational new drug application in the United States for a Phase I/II clinical study to evaluate the safety and efficacy of LentiGlobin in subjects with severe SCD. We are planning to treat the first SCD patient with our LentiGlobin product candidate in 2014. Orphan drug status has been granted for LentiGlobin for the treatment of SCD by U.S. regulatory authorities.

In March 2013, we announced a global strategic collaboration with Celgene Corporation to discover, develop and commercialize novel, potentially disease-altering gene therapies in oncology. The collaboration focuses on applying gene therapy technology to genetically modify a patient s own T cells to target and destroy cancer cells. Such modified T cells, called chimeric antigen receptor, or CAR, T cells have been shown to have beneficial effects in human clinical trials for patients with B cell lymphomas. The multi-year research and development collaboration has the potential to lead to the development and commercialization of multiple CAR T cell products.

We were incorporated in Delaware in April 1992 under the name Genetix Pharmaceuticals, Inc., and subsequently changed our name to bluebird bio, Inc. in September 2010. Our mailing address and executive offices are located at 150 Second Street, Third Floor, Cambridge, Massachusetts and our telephone number at that address is (339) 499-9300. We maintain an Internet website at the following address: www.bluebirdbio.com. The information on, or that can be accessed through, our website does not constitute part of this prospectus, and you should not rely on any such information in making the decision whether to purchase our common stock. Our common stock trades on the NASDAQ Global Select Market under the symbol BLUE.

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DESCRIPTION OF SECURITIES

We and/or any selling stockholder may offer shares of our common stock and preferred stock, various series of warrants to purchase common stock or preferred stock, debt securities, in one or more series, as either senior or subordinated debt or as senior or subordinated convertible debt, or any combination thereof from time to time in one or more offerings under this prospectus at prices and on terms to be determined at the time of any offering. This prospectus provides you with a general description of the securities we and/or any selling stockholder may offer. Each time we and/or any selling stockholder offer a type or series of securities under this prospectus, we will provide a prospectus supplement and/or free writing prospectus that will describe the specific amounts, prices and other important terms of the securities.

Common Stock. We and/or any selling stockholder may issue and/or sell, as applicable, shares of our common stock from time to time. Holders of shares of our common stock are entitled to one vote for each share held of record on all matters to be voted on by stockholders and do not have cumulative voting rights. Subject to the preferences that may be applicable to any then outstanding preferred stock, the holders of our outstanding shares of common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds. In the event of our liquidation, dissolution or winding up, holders of our common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities, subject to the satisfaction of any liquidation preference granted to the holders of any outstanding shares of preferred stock.

Preferred Stock. We may issue shares of our preferred stock from time to time, in one or more series. Our board of directors will determine the rights, preferences and privileges of the shares of each wholly unissued series, and any qualifications, limitations or restrictions thereon, including dividend rights, conversion rights, preemptive rights, terms of redemption or repurchase, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of any series. Convertible preferred stock will be convertible into our common stock or exchangeable for other securities. Conversion may be mandatory or at the holder s option and would be at prescribed conversion rates.

If we sell any series of preferred stock under this prospectus, we will fix the rights, preferences and privileges of the preferred stock of such series, as well as any qualifications, limitations or restrictions thereon, in the certificate of designation relating to that series. We will file as an exhibit to the registration statement of which this prospectus is a part, or will incorporate by reference from reports that we file with the SEC, the form of any certificate of designation that describes the terms of the series of preferred stock we are offering before the issuance of that series of preferred stock. We urge you to read the applicable prospectus supplement and any free writing prospectus that we may authorize to be provided to you related to the series of preferred stock being offered, as well as the complete certificate of designation that contains the terms of the applicable series of preferred stock.

Warrants. We may issue warrants for the purchase of common stock and/or preferred stock in one or more series. We may issue warrants independently or together with common stock and/or preferred stock, and the warrants may be attached to or separate from these securities. We urge you to read the applicable prospectus supplement and any free writing prospectus that we may authorize to be provided to you related to the particular series of warrants being offered, as well as the complete warrant agreements and warrant certificates that contain the terms of the warrants. Forms of the warrant agreements and forms of warrant certificates containing the terms of the warrants being offered will be filed as exhibits to the registration statement of which this prospectus is a part or will be incorporated by reference from reports that we file with the SEC.

We will evidence each series of warrants by warrant certificates that we will issue. Warrants may be issued under an applicable warrant agreement that we enter into with a warrant agent. We will indicate the name and address of the warrant agent, if applicable, in the prospectus supplement relating to the particular series of warrants being offered.

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Units. We may issue, in one or more series, units consisting of common stock, preferred stock, and/or warrants for the purchase of common stock and/or preferred stock in any combination. We urge you to read the applicable prospectus supplement and any free writing prospectus that we may authorize to be provided to you related to the series of units being offered, as well as the complete unit agreement that contains the terms of the units. We will file as exhibits to the registration statement of which this prospectus is a part, or will incorporate by reference from reports that we file with the SEC, the form of unit agreement and any supplemental agreements that describe the terms of the series of units we are offering before the issuance of the related series of units.

We will evidence each series of units by unit certificates that we will issue. Units may be issued under a unit agreement that we enter into with a unit agent. We will indicate the name and address of the unit agent, if applicable, in the prospectus supplement relating to the particular series of units being offered.

Debt Securities. We may issue debt securities, in one or more series, as either senior or subordinated debt or as senior or subordinated convertible debt. In this prospectus, we have summarized certain general features of the debt securities. We urge you, however, to read the applicable prospectus supplement and any free writing prospectus that we may authorize to be provided to you related to the particular series of debt securities being offered, as well as the complete indenture that contains the terms of the debt securities. We will file as exhibits to the registration statement of which this prospectus is a part, the form of indenture and any supplemental agreements that describe the terms of the series of debt securities we are offering before the issuance of the related series of debt securities.

We may evidence each series of debt securities we will issue by an indenture that we enter into with a trustee. We will indicate the name and address of the trustee, if applicable, in the prospectus supplement relating to the particular series of debt securities being offered.

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RATIO OF EARNINGS TO FIXED CHARGES

Our ratio of earnings to fixed charges for recently completed fiscal years and any required interim periods will be specified in a prospectus supplement or in a document that we file with the SEC and incorporate by reference in the future.

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USE OF PROCEEDS

Except as described in any prospectus supplement or in any related free writing prospectus that we may authorize to be provided to you, the net proceeds received by us from our sale of the securities described in this prospectus will be added to our general funds and will be used for our general corporate purposes. From time to time, we may engage in additional public or private financings of a character and amount which we may deem appropriate. Unless otherwise set forth in a prospectus supplement, we will not receive any proceeds from the sale of securities by any selling stockholder.

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SELLING STOCKHOLDERS

Selling stockholders are persons or entities that, directly or indirectly, have acquired or will from time to time acquire from us, our securities. Such selling stockholders may be parties to registration rights agreements with us, or we otherwise may have agreed or will agree to register their securities for resale. The initial purchasers of our securities, as well as their transferees, pledges, donees or successors, all of whom we refer to as selling stockholders, may from time to time offer and sell our securities pursuant to this prospectus and any applicable prospectus supplement.

The applicable prospectus supplement will set forth the name of each of the selling stockholders and the number of securities beneficially owned by such selling stockholder that are covered by such prospectus supplement. The applicable prospectus supplement will also disclose whether any of the selling stockholders has held any position or office with, has been employed by or otherwise has had a material relationship with us during the three years prior to the date of the applicable prospectus supplement.

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PLAN OF DISTRIBUTION

We and/or any selling stockholder may sell our securities from time to time in one or more transactions. We and/or any selling stockholder may sell our securities to or through agents, underwriters, dealers, remarketing firms or other third parties or directly to one or more purchasers or through a combination of any of these methods. In some cases, we and/or any selling stockholder or dealers acting with us and/or any selling stockholder or on behalf of us and/or any selling stockholder may also purchase our securities and reoffer them to the public. We and/or any selling stockholder may also offer and sell, or agree to deliver, our securities pursuant to, or in connection with, any option agreement or other contractual arrangement.

Agents whom we designate may solicit offers to purchase our securities.

We and/or any selling stockholder will name any agent involved in offering or selling our securities, and disclose any commissions that we will pay to the agent, in the applicable prospectus supplement.

Unless we and/or any selling stockholder indicate otherwise in the applicable prospectus supplement, agents will act on a best efforts basis for the period of their appointment.

Agents may be deemed to be underwriters under the Securities Act, of any of our securities that they offer or sell.

We and/or any selling stockholder may use an underwriter or underwriters in the offer or sale of our securities.

If we and/or any selling stockholder use an underwriter or underwriters, we will execute an underwriting agreement with the underwriter or underwriters at the time that we reach an agreement for the sale of our securities.

We and/or any selling stockholder will include the names of the specific managing underwriter or underwriters, as well as the names of any other underwriters, and the terms of the transactions, including the compensation the underwriters and dealers will receive, in the applicable prospectus supplement.

The underwriters will use the applicable prospectus supplement, together with the prospectus, to sell our securities.

We may use a dealer to sell our securities.

If we and/or any selling stockholder use a dealer, we will sell our securities to the dealer, as principal.

The dealer will then sell our securities to the public at varying prices that the dealer will determine at the time it sells our securities.

We and/or any selling stockholder will include the name of the dealer and the terms of the transactions with the dealer in the applicable prospectus supplement.

We and/or any selling stockholder may solicit directly offers to purchase our securities, and we may directly sell our securities to institutional or other investors. We and/or any selling stockholder will describe the terms of direct sales in the applicable prospectus supplement.

We and/or any selling stockholder may engage in at the market offerings into an existing trading market in accordance with Rule 415(a)(4) of the Securities Act.

We and/or any selling stockholder will indemnify agents, underwriters and dealers against certain liabilities, including liabilities under the Securities Act. Agents, underwriters and dealers, or their affiliates, may be customers of, engage in transactions with or perform services for us or our respective affiliates, in the ordinary course of business.

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We and/or any selling stockholder may authorize agents and underwriters to solicit offers by certain institutions to purchase our securities at the public offering price under delayed delivery contracts.

If we and/or any selling stockholder use delayed delivery contracts, we will disclose that we are using them in the prospectus supplement and will tell you when we will demand payment and when delivery of our securities will be made under the delayed delivery contracts.

These delayed delivery contracts will be subject only to the conditions that we describe in the prospectus supplement.

We and/or any selling stockholder will describe in the applicable prospectus supplement the commission that underwriters and agents soliciting purchases of our securities under delayed delivery contracts will be entitled to receive.

Unless otherwise specified in connection with a particular underwritten offering of our securities, the underwriters will not be obligated to purchase offered securities unless specified conditions are satisfied, and if the underwriters do purchase any offered securities, they will purchase all offered securities.

In connection with underwritten offerings of the offered securities and in accordance with applicable law and industry practice, the underwriters in certain circumstances are permitted to engage in certain transactions that stabilize the price of our securities. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of our securities. If the underwriters create a short position in our securities in connection with the offering (*i.e.,* if they sell more securities than are set forth on the cover page of the applicable prospectus supplement), the underwriters may reduce that short position by purchasing our securities in the open market or as otherwise provided in the applicable prospectus supplement. The underwriters may also impose a penalty bid, whereby selling concessions allowed to dealers participating in the offering may be reclaimed if the securities sold by them are repurchased in connection with stabilization transactions. In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of our securities to the extent that it were to discourage resales of our securities. The underwriters are not required to engage in these activities and may end any of these activities at any time.

We and/or any selling stockholder may effect sales of securities in connection with forward sale, option or other types of agreements with third parties. Any distribution of securities pursuant to any forward sale agreement may be effected from time to time in one or more transactions that may take place through a stock exchange, including block trades or ordinary broker s transactions, or through broker-dealers acting either as principal or agent, or through privately-negotiated transactions, or through an underwritten public offering, or through a combination of any such methods of ale, at market prices prevailing at the time of sale, prices relating to such prevailing market prices or at negotiated or fixed prices.

The specific terms of the lock-up provisions, if any, in respect of any given offering will be described in the applicable prospectus supplement.

In compliance with the guidelines of the Financial Industry Regulatory Authority, or FINRA, the maximum consideration or discount to be received by any FINRA member or independent broker dealer may not exceed 8.0% of the aggregate amount of the securities offered by this prospectus.

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LEGAL MATTERS

The validity of the securities being offered by this prospectus will be passed upon by Goodwin Procter LLP, Boston, Massachusetts.

EXPERTS

The consolidated financial statements of bluebird bio, Inc. as of December 31, 2013 and 2012 and for each of the two years in the period ended December 31, 2013 appearing in the Company s Annual Report (Form 10-K) for the year ended December 31, 2013 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of bluebird bio, Inc. for the year ended December 31, 2011 incorporated by reference in this prospectus by reference to the Annual Report on Form 10-K for the year ended

December 31, 2013, have been audited by McGladrey LLP, an independent registered public accounting firm, as stated in their report incorporated by reference herein, and have been so incorporated in reliance upon such report and upon the authority of such firm as experts in accounting and auditing.

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$400,000,000

Common Stock

PROSPECTUS SUPPLEMENT

BofA Merrill Lynch

Morgan Stanley

Cowen and Company

SunTrust Robinson Humphrey

Wedbush PacGrow

Roth Capital Partners

June , 2015