PATRICK INDUSTRIES INC
Form 10-Q
May 05, 2016

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 27, 2016

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 000-03922

PATRICK INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

INDIANA	**35-1057796**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
107 WEST FRANKLIN STREET, P.O. Box 638, ELKHART, IN	**46515**
(Address of principal executive offices)	(ZIP Code)

(574) 294-7511
(Registrant'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] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ]	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

As of April 22, 2016, there were 15,284,245 shares of the registrant's common stock outstanding.

PATRICK INDUSTRIES, INC.

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PART 1: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PATRICK INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

(thousands)	As of **Mar. 27, 2016**	Dec. 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	**$10,659**	$87
Trade receivables, net	**67,443**	38,213
Inventories	**100,080**	89,478
Prepaid expenses and other	**3,636**	6,119
Total current assets	**181,818**	133,897
Property, plant and equipment, net	**70,803**	67,878
Goodwill	**77,488**	68,606
Other intangible assets, net	**120,152**	106,759
Deferred financing costs, net (Note 3)	**1,714**	1,690
Deferred tax assets, net (Note 2)	**1,754**	2,004
Other non-current assets	**539**	555
TOTAL ASSETS	**$454,268**	$381,389
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	**$10,714**	$10,714
Accounts payable	**48,096**	28,744
Accrued liabilities	**23,238**	18,468
Total current liabilities	**82,048**	57,926
Long-term debt, less current maturities, net (Note 3)	**230,808**	192,947
Deferred compensation and other	**1,901**	1,919
TOTAL LIABILITIES	**314,757**	252,792
SHAREHOLDERS' EQUITY		
Common stock	**58,217**	57,683
Additional paid-in-capital	**9,212**	8,308
Accumulated other comprehensive income	**32**	32
Retained earnings	**72,050**	62,574
TOTAL SHAREHOLDERS' EQUITY	**139,511**	128,597

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$454,268**	$381,389

See accompanying Notes to Condensed Consolidated Financial Statements.

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PATRICK INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(thousands except per share data)	First Quarter Ended	
	Mar. 27, 2016	Mar. 29, 2015
NET SALES	**$278,637**	$223,388
Cost of goods sold	**233,285**	187,994
GROSS PROFIT	**45,352**	35,394
Operating Expenses:		
Warehouse and delivery	**7,699**	6,659
Selling, general and administrative	**14,233**	11,519
Amortization of intangible assets	**2,768**	1,659
(Gain) loss on sale of fixed assets	**38**	(6)
Total operating expenses	**24,738**	19,831
OPERATING INCOME	**20,614**	15,563
Interest expense, net	**1,649**	804
Income before income taxes	**18,965**	14,759
Income taxes	**6,932**	5,609
NET INCOME	**$12,033**	$9,150
BASIC NET INCOME PER COMMON SHARE (1)	**$0.81**	$0.60
DILUTED NET INCOME PER COMMON SHARE (1)	**$0.80**	$0.59
Weighted average shares outstanding - Basic (1)	**14,948**	15,327
Weighted average shares outstanding - Diluted (1)	**15,130**	15,477

(1) Net income per common share and weighted average shares outstanding, on both a basic and diluted basis, reflect the impact of the three-for-two common stock split paid on May 29, 2015.

See accompanying Notes to Condensed Consolidated Financial Statements.

PATRICK INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(thousands)	Three Months Ended	
	Mar. 27, 2016	Mar. 29, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$12,033**	$9,150
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**2,444**	1,891
Amortization of intangible assets	**2,768**	1,659
Stock-based compensation expense	**1,501**	1,024
Deferred financing cost amortization	**145**	101
Deferred income taxes	**250**	341
(Gain) loss on sale of fixed assets	**38**	(6)
Other non-cash items	**105**	106
Change in operating assets and liabilities, net of effects of acquisitions:		
Trade receivables	**(25,148)**	(31,691)
Inventories	**(1,663)**	(1,301)
Prepaid expenses and other	**2,617**	3,841
Accounts payable and accrued liabilities	**18,938**	12,124
Payments on deferred compensation obligations	**(75)**	(80)
Net cash provided by (used in) operating activities	**13,953**	(2,841)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	**(2,913)**	(1,866)
Proceeds from sale of property and equipment	**179**	26
Business acquisitions	**(36,384)**	(39,579)
Other investing activities	**(6)**	(7)
Net cash used in investing activities	**(39,124)**	(41,426)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on revolver	**112,424**	97,318
Repayments on revolver	**(74,731)**	(48,613)
Stock repurchases under buyback program	**(2,865)**	(5,650)
Realization of excess tax benefit on stock-based compensation	**942**	1,204
Proceeds from exercise of stock options, including tax benefit	-	16
Other financing activities	**(27)**	(62)
Net cash provided by financing activities	**35,743**	44,213
Increase (decrease) in cash and cash equivalents	**10,572**	(54)
Cash and cash equivalents at beginning of year	**87**	123
Cash and cash equivalents at end of period	**$10,659**	$69

See accompanying Notes to Condensed Consolidated Financial Statements.

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PATRICK INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

In the opinion of Patrick Industries, Inc. (“Patrick” or the “Company”), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the Company’s financial position as of March 27, 2016 and December 31, 2015, and its results of operations and cash flows for the three months ended March 27, 2016 and March 29, 2015.

Patrick’s unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules or regulations. For a description of significant accounting policies used by the Company in the preparation of its consolidated financial statements, please refer to Note 2 of the Notes to Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. The December 31, 2015 condensed consolidated statement of financial position data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Operating results for the first quarter ended March 27, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016.

Certain amounts in the prior year’s condensed consolidated financial statements and notes have been reclassified to conform to the current year presentation. See Notes 2 and 3 for additional details.

The number of shares and per share amounts for the first quarter ended March 29, 2015 have been retroactively adjusted to reflect the three-for-two stock split of the Company's common stock, which was effected in the form of a common stock dividend paid on May 29, 2015.

In preparation of Patrick’s condensed consolidated financial statements as of and for the first quarter ended March 27, 2016, management evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date of issuance of the Form 10-Q for potential recognition or disclosure in the consolidated financial statements.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance which specifies how and when to recognize revenue as well as providing informative, relevant disclosures. In August 2015, the FASB deferred the effective date of this standard by one year, which would become effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating both the effect of adopting this new accounting guidance and determining the appropriate method of transition it will use to apply the new standard. It has not yet determined the impact, if any, that the implementation of this guidance will have on its condensed consolidated financial statements.

Debt Issuance Costs

In April 2015, the FASB issued guidance that requires that debt issuance costs be presented in the statement of financial position as a reduction in the carrying amount of debt, consistent with the presentation of debt issuance discounts. The Company adopted this new guidance, on a retrospective basis, in the first quarter of 2016 as required. Total assets and total liabilities on the Company's condensed consolidated statement of financial position as of December 31, 2015 were reduced by the reclassification of $0.8 million of deferred financing costs associated with the Term Loan (as defined herein) to the long-term debt, less current maturities, net line on the condensed consolidated statement of financial position. See Note 3 for a description of the impact of the adoption of this guidance on the Company's condensed consolidated statements of financial position for the periods presented.

Income Taxes

In November 2015, the FASB issued new accounting guidance that simplifies the presentation of deferred income taxes. Under the new guidance, deferred tax assets and liabilities are required to be classified, on a net basis, as noncurrent on the condensed consolidated statement of financial position. The guidance is effective for financial statements issued for annual and interim periods beginning after December 15, 2016 and early adoption is permitted.

During the first quarter of 2016, the Company elected to adopt this guidance, thus reclassifying current deferred tax assets to noncurrent, net of deferred tax liabilities, on the condensed consolidated statements of financial position. The prior year reporting period was retrospectively adjusted. Current assets on the Company's condensed consolidated statement of financial position as of December 31, 2015 were reduced by the reclassification of $5.8 million of current deferred tax assets to long-term assets. Total assets and total liabilities on the Company's condensed consolidated statement of financial position as of December 31, 2015 were reduced by the reclassification of $3.8 million of long-term deferred tax liabilities to long-term deferred tax assets. The adoption of this guidance had no impact on the Company's condensed consolidated statements of income.

Leases

In February 2016, the FASB issued new accounting guidance that will require that an entity recognize lease assets and lease liabilities on its balance sheet for leases in excess of one year that were previously classified as operating leases under U.S. GAAP. The guidance also requires companies to disclose in the footnotes to the financial statements information about the amount, timing, and uncertainty for the payments made for the lease agreements. The guidance is effective for financial statements issued for annual and interim periods beginning after December 15, 2018 on a retrospective basis. Early adoption is permitted. The Company is currently evaluating the effect of adopting this new accounting guidance and has not yet determined the impact that the implementation of this guidance will have on its condensed consolidated financial statements.

Stock Compensation

In March 2016, the FASB issued new accounting guidance for share-based payments, which simplifies (i) the income tax consequences related to exercised or vested share-based payment awards; (ii) the classification of awards as assets or liabilities; and (iii) the classification in the condensed consolidated statements of cash flows. This guidance is effective for financial statements issued for annual and interim periods beginning after December 15, 2016 and early adoption is permitted. The Company is currently evaluating the effect of adopting this new accounting guidance and has not yet determined the impact, if any, that the implementation of this guidance will have on its condensed consolidated financial statements.

3. DEFERRED FINANCING / DEBT ISSUANCE COSTS

The condensed consolidated statements of financial position at March 27, 2016 and December 31, 2015 reflect the reclassification of assets related to deferred financing costs associated with the Term Loan outstanding under the Company's 2015 Credit Facility (as defined herein) that were reclassified and presented net of long-term debt outstanding. The deferred financing costs related to the 2015 Revolver (as defined herein) were not reclassified to long-term debt and are reflected as a component of non-current assets on the condensed consolidated statements of financial position for the periods presented. The reclassification is the result of the Company's adoption of new accounting guidance that requires debt issuance costs be presented in the statement of financial position as a reduction in the carrying amount of debt, consistent with the presentation of debt issuance discounts. In the first quarter of 2016, the Company adopted this guidance as required on a retrospective basis. See Note 2 "Debt Issuance Costs" for further details.

At both March 27, 2016 and December 31, 2015, the Company had $67.0 million outstanding under its Term Loan, which represented approximately 28% and 33%, respectively, of total debt outstanding at such dates. Unamortized deferred financing costs were $2.4 million and $2.5 million at March 27, 2016 and December 31, 2015, respectively. The following tables illustrate the effect of the change on certain line items within the condensed consolidated statements of financial position for the periods presented.

(thousands)	**Mar. 27, 2016**	Dec. 31, 2015
Total long-term debt	**$242,177**	$204,484
Less: deferred financing costs related to Term Loan	**(655)**	(823)
Total long-term debt, net of deferred financing costs	**241,522**	203,661
Less: current maturities of long-term debt	**(10,714)**	(10,714)
Total long-term debt, less current maturities, net	**$230,808**	$192,947

(thousands)	**Mar. 27, 2016**	Dec. 31, 2015
Total deferred financing costs	**$2,369**	$2,513
Less: deferred financing costs related to Term Loan	**(655)**	(823)
Deferred financing costs, net	**$1,714**	$1,690

4. INVENTORIES

Inventories are stated at the lower of cost (First-In, First-Out (FIFO) Method) and net realizable value and consist of the following classes:

(thousands)	**Mar. 27, 2016**	Dec. 31, 2015
Raw materials	**$58,965**	$52,601
Work in process	**5,672**	5,529
Finished goods	**9,568**	10,450
Less: reserve for inventory obsolescence	**(2,227)**	(1,897)
Total manufactured goods, net	**71,978**	66,683
Materials purchased for resale (distribution products)	**29,872**	24,406
Less: reserve for inventory obsolescence	**(1,770)**	(1,611)
Total materials purchased for resale (distribution products), net	**28,102**	22,795
Total inventories	**$100,080**	$89,478

5. GOODWILL AND INTANGIBLE ASSETS

The Company acquired intangible assets in various acquisitions in 2015 and through the first quarter of 2016 that were determined to be business combinations. The goodwill recognized is expected to be deductible for income tax purposes. See Note 6 for further details. Goodwill and other intangible assets are allocated to the Company's reporting units at the date they are initially recorded. Goodwill and indefinite-lived intangible assets are not amortized but are subject to an impairment test based on their estimated fair value performed annually in the fourth quarter (or under certain circumstances more frequently as warranted). Goodwill impairment testing is performed at the reporting unit level, one level below the business segment.

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 assesses finite-lived intangible assets for impairment if events or changes in circumstances indicate that the carrying value may exceed the fair value.

No impairment was recognized during the first quarter ended March 27, 2016 and March 29, 2015 related to goodwill, indefinite-lived intangible assets or finite-lived intangible assets. There have been no material changes to the method of evaluating impairment related to goodwill, indefinite-lived intangible assets or finite-lived intangible assets during the first three months of 2016.

The Company acquired the following intangible assets in various acquisitions in the first three months of 2016:

(thousands)	Customer Relationships	Non-Compete Agreements	Trademarks	Total Other Intangible Assets	Goodwill	Total Intangible Assets
Parkland Plastics, Inc.	$ 7,500	$ 800	$ 2,500	$ 10,800	$ 5,762	$ 16,562
The Progressive Group	3,840	410	1,280	5,530	2,951	8,481

Goodwill

Changes in the carrying amount of goodwill for the three months ended March 27, 2016 by segment are as follows:

(thousands)	Manufacturing	Distribution	Total
Balance - December 31, 2015	$ 62,285	$ 6,321	$68,606
Acquisitions	**5,762**	**2,951**	**8,713**
Other	**169**	**-**	**169**
Balance - March 27, 2016	**$ 68,216**	**$ 9,272**	**$77,488**

Other Intangible Assets

Other intangible assets are comprised of customer relationships, non-compete agreements and trademarks. Customer relationships and non-compete agreements represent finite-lived intangible assets that have been recorded in the Manufacturing and Distribution segments along with related amortization expense. As of March 27, 2016, the other intangible assets balance of $120.2 million is comprised of $29.3 million of trademarks which have an indefinite life, and therefore, no amortization expense has been recorded, and $90.9 million pertaining to customer relationships and non-compete agreements which are being amortized over periods ranging from 2 to 19 years.

For the finite-lived intangible assets attributable to the 2016 acquisitions of Parkland Plastics, Inc. (“Parkland”) and The Progressive Group (“Progressive”), the useful life pertaining to non-compete agreements and to customer relationships for both of these acquisitions was five years and 10 years, respectively.

Amortization expense for the Company's intangible assets in the aggregate was $2.8 million and $1.7 million for the first quarter ended March 27, 2016 and March 29, 2015, respectively.

Other intangible assets, net consist of the following as of March 27, 2016 and December 31, 2015:

(thousands)	**Mar. 27, 2016**	Weighted Average Useful Life (years)	Dec. 31, 2015	Weighted Average Useful Life (years)
Customer relationships	**$102,329**	10.3	$91,164	10.4
Non-compete agreements	**10,228**	3.5	9,012	3.4
Trademarks	**29,267**		25,487	
	141,824		125,663	
Less: accumulated amortization	**(21,672)**		(18,904)	
Other intangible assets, net	**$120,152**		$106,759	

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Changes in the carrying value of other intangible assets for the three months ended March 27, 2016 by segment are as follows:

(thousands)	Manufacturing	Distribution	Total
Balance - December 31, 2015	$ 95,359	$ 11,400	$106,759
Acquisitions	**10,800**	**5,530**	**16,330**
Amortization	**(2,316)**	**(452)**	**(2,768)**
Other	**(169)**	**-**	**(169)**
Balance - March 27, 2016	**$ 103,674**	**$ 16,478**	**$120,152**

6. <u>ACQUISITIONS</u>

General

The Company completed two acquisitions in the first three months of 2016 and three acquisitions in 2015, including one in the first three months of 2015. Each of the acquisitions was funded through borrowings under the Company's credit facility in existence at the time of acquisition. Assets acquired and liabilities assumed in the individual acquisitions were recorded on the Company's condensed consolidated statements of financial position at their estimated fair values as of the respective dates of acquisition.

For each acquisition, the excess of the purchase consideration over the fair value of the net assets acquired was recorded as goodwill, which represents the value of leveraging the Company's existing purchasing, manufacturing, sales, and systems resources with the organizational talent and expertise of the acquired companies' respective management teams to maximize efficiencies, revenue impact, market share growth, and net income. Intangible asset values were estimated using income based valuation methodologies. See Note 5 for information regarding the amortization periods assigned to finite-lived intangible assets.

For the first quarter ended March 27, 2016, revenue and operating income of approximately $3.8 million and $0.4 million, respectively, were included in the Company's condensed consolidated statements of income relating to the two businesses acquired in the first three months of 2016. Acquisition-related costs associated with the businesses acquired in the first three months of 2016 were immaterial.

For the first quarter ended March 29, 2015, revenue and operating income of approximately $6.5 million and $0.8 million, respectively, were included in the Company's condensed consolidated statements of income relating to the business acquired in the first three months of 2015. Acquisition-related costs associated with the business acquired in the first three months of 2015 were immaterial.

2016 Acquisitions

Parkland

In February 2016, the Company acquired the business and certain assets of Middlebury, Indiana-based Parkland, a fully integrated designer, manufacturer and distributor of innovative polymer-based products including wall panels, lay-in ceiling panels, coated and rolled floors, protective moulding, and adhesives and accessories, used in a wide range of applications primarily in the recreational vehicle (“RV”), architectural and industrial markets, for a net purchase price of $25.4 million.

The acquisition of Parkland provides the opportunity for the Company to establish a presence in the polymer-based products market and increase its product offering, market share and per unit content. The results of operations for Parkland are included in the Company’s condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The preliminary purchase price allocation is subject to final review and approval, and thus all required purchase accounting adjustments are expected to be finalized in the second half of 2016. The following summarizes the estimated fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

(thousands)	
Trade receivables	$2,984
Inventories	5,280
Property, plant and equipment	2,550
Prepaid expenses	96
Accounts payable and accrued liabilities	(2,100)
Intangible assets	10,800
Goodwill	5,762
Total net assets acquired	$25,372

Progressive

In March 2016, the Company acquired the business and certain assets of Progressive, a distributor and manufacturer's representative for major name brand electronics to small, mid-size and large retailers, distributors, and custom installers, primarily serving the auto and home electronics retail, custom integration, and commercial channels, for a net purchase price of $11.0 million.

The acquisition of Progressive, with six distribution facilities located in Arizona, Colorado, Indiana, Michigan and Utah, provides the opportunity for the Company to expand its product offerings in its existing electronics platform and increase its market share and per unit content. The results of operations for Progressive are included in the Company’s condensed consolidated financial statements and the Distribution operating segment from the date of acquisition. The preliminary purchase price allocation is subject to final review and approval, and thus all required purchase accounting adjustments are expected to be finalized in the second half of 2016. The following summarizes the estimated fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

(thousands)	
Trade receivables	$1,099
Inventories	3,659
Property, plant and equipment	100
Prepaid expenses	61
Accounts payable and accrued liabilities	(2,388)

Intangible assets	5,530
Goodwill	2,951
Total net assets acquired	$11,012

2015 Acquisitions

Better Way Partners, LLC d/b/a Better Way Products (“Better Way”)

In February 2015, the Company acquired the business and certain assets of Better Way, a manufacturer of fiberglass front and rear caps, marine helms and related fiberglass components primarily used in the RV, marine and transit vehicle markets, for a net purchase price of $40.5 million.

The acquisition of Better Way, with operating facilities located in New Paris, Bremen and Syracuse, Indiana, provided the opportunity for the Company to further expand its presence in the fiberglass components market and increase its product offerings, market share and per unit content. The results of operations for Better Way are included in the Company's condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The following summarizes the fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

(thousands)	
Trade receivables	$4,901
Inventories	1,829
Property, plant and equipment	3,907
Prepaid expenses	80
Accounts payable and accrued liabilities	(1,349)
Intangible assets	20,030
Goodwill	11,087
Total net assets acquired	$40,485

Structural Composites of Indiana, Inc. ("SCI")

In May 2015, the Company acquired the business and certain assets of Ligonier, Indiana-based SCI, a manufacturer of large, custom molded fiberglass front and rear caps and roofs, primarily used in the RV market, and specialty fiberglass components for the transportation, marine and other industrial markets, for a net purchase price of $20.0 million.

The acquisition of SCI provided the opportunity for the Company to further expand its presence in the fiberglass components market and increase its product offerings, market share and per unit content. The results of operations for SCI are included in the Company's condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The following summarizes the fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

(thousands)	
Trade receivables	$1,407
Inventories	482
Property, plant and equipment	750
Prepaid expenses	5
Accounts payable and accrued liabilities	(734)
Intangible assets	9,535
Goodwill	8,596
Total net assets acquired	$20,041

North American Forest Products, Inc. and North American Moulding, LLC (collectively, "North American")

In September 2015, the Company acquired the business and certain assets of Edwardsburg, Michigan-based North American, a manufacturer and distributor, primarily for the RV market, of profile wraps, custom mouldings, laminated panels and moulding products. North American is also a manufacturer and supplier of raw and processed softwoods products, including lumber, panels, trusses, bow trusses, and industrial packaging materials, primarily used in the RV and manufactured housing ("MH") industries. The Company acquired North American for a net purchase price of $79.7 million.

The acquisition of North American provided the opportunity for the Company to further expand its existing presence in the manufacture of laminated panels and moulding products and increase its product offerings, market share and per unit content, and provided a new opportunity in the softwoods lumber market. The results of operations for North American are included in the Company's condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The purchase price allocation and all required purchase accounting adjustments were finalized in the first quarter of 2016, with no material changes from previously reported estimated amounts. The following summarizes the fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

(thousands)	
Trade receivables	$8,924
Inventories	19,189
Property, plant and equipment	5,959
Prepaid expenses	139
Accounts payable and accrued liabilities	(8,209)
Intangible assets	36,185
Goodwill	17,463
Total net assets acquired	$79,650

Pro Forma Information

The following pro forma information for the first quarter ended March 27, 2016 and March 29, 2015 assumes the Parkland and Progressive acquisitions (which were acquired in 2016) and the Better Way, SCI and North American acquisitions (which were acquired in 2015) occurred as of the beginning of the year immediately preceding each such acquisition. The pro forma information contains the actual operating results of Parkland, Progressive, Better Way, SCI, and North American, combined with the results prior to their respective acquisition dates, adjusted to reflect the pro forma impact of the acquisitions occurring as of the beginning of the year immediately preceding each such acquisition.

The pro forma information includes financing and interest expense charges based on the actual incremental borrowings incurred in connection with each transaction as if it occurred as of the beginning of the year immediately preceding each such acquisition. In addition, the pro forma information includes amortization expense, in the aggregate, related to intangible assets acquired in connection with the transactions of $0.2 million and $1.4 million for the first quarter ended March 27, 2016 and March 29, 2015, respectively.

	First Quarter Ended	
(thousands except per share data)	**Mar. 27, 2016**	Mar. 29, 2015
Revenue	**$288,172**	$297,068
Net income	**13,039**	12,999

Basic net income per common share	**0.87**	0.85
Diluted net income per common share	**0.86**	0.84

The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of that time, nor is it intended to be a projection of future results.

7. STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with fair value recognition provisions. The Company recorded compensation expense of $1.5 million and $1.0 million for the first quarters ended March 27, 2016 and March 29, 2015, respectively, for its stock-based compensation plans on the condensed consolidated statements of income. The Company estimates the fair value of (i) all stock grants as of the grant date using the closing price per share of the Company’s common stock on such date, and (ii) all stock option and stock appreciation rights awards as of the grant date by applying the Black-Scholes option pricing model.

The Board of Directors (the “Board”) approved the following share grants in 2015 under the Company’s 2009 Omnibus Incentive Plan (the “Plan”): 127,629 shares on February 16, 2015, 300 shares on April 1, 2015, 12,064 shares on May 19, 2015, 447 shares on August 13, 2015, 2,250 shares on October 8, 2015, and 3,000 shares on October 12, 2015. In addition, on March 30, 2015, the beginning of the Company’s fiscal second quarter, the Board granted 22,000 restricted stock units (“RSUs”).

The Board approved the following share grants under the Plan in the first three months of 2016: 133,187 shares on February 23, 2016 and 3,500 shares on March 2, 2016. In addition, on February 23, 2016, the Board granted 22,000 RSUs.

As of March 27, 2016, there was approximately $10.8 million of total unrecognized compensation cost related to stock-based compensation arrangements granted under incentive plans. That cost is expected to be recognized over a weighted-average period of 20.2 months.

8. NET INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding, plus the dilutive effect of stock options, stock appreciation rights, and restricted stock units (collectively "Common Stock Equivalents"). The dilutive effect of Common Stock Equivalents is calculated under the treasury stock method using the average market price for the period. Certain Common Stock Equivalents were not included in the computation of diluted net income per common share because the exercise prices of those Common Stock Equivalents were greater than the average

market price of the common shares.

The number of shares and per share amounts for the first quarter ended March 29, 2015 have been retroactively adjusted to reflect the three-for-two stock split of the Company's common stock, which was effected in the form of a common stock dividend paid on May 29, 2015.

Income per common share is calculated for the first quarter periods as follows:

(thousands except per share data)	**Mar. 27, 2016**	Mar. 29, 2015
Net income for basic and diluted per share calculation	**$12,033**	$9,150
Weighted average common shares outstanding - basic	**14,948**	15,327
Effect of potentially dilutive securities	**182**	150
Weighted average common shares outstanding - diluted	**15,130**	15,477

Basic net income per common share	**$0.81**	$0.60
Diluted net income per common share	**$0.80**	$0.59

9. DEBT

A summary of total debt outstanding at March 27, 2016 and December 31, 2015 is as follows:

(thousands)	**Mar. 27, 2016**	Dec. 31, 2015
Long-term debt:		
Revolver	**$175,213**	$137,520
Term loan	**66,964**	66,964
Total long-term debt	**242,177**	204,484
Less: current maturities of long-term debt	**(10,714)**	(10,714)
Less: deferred financing costs related to Term Loan	**(655)**	(823)
Total long-term debt, less current maturities, net	**$230,808**	$192,947

2015 Credit Facility

The Company entered into an Amended and Restated Credit Agreement, dated as of April 28, 2015 (the “2015 Credit Agreement”), with Wells Fargo Bank, National Association, as Administrative Agent and a lender (“Wells Fargo”), and Fifth Third Bank (“Fifth Third”), Key Bank National Association (“Key Bank”), Bank of America, N.A., and Lake City Bank as participants, to expand its senior secured credit facility to $250.0 million and extend its maturity to 2020 (the “2015 Credit Facility”). The 2015 Credit Facility initially was comprised of a $175.0 million revolving credit loan (the “2015 Revolver”) and a $75.0 million term loan (the “Term Loan”). The 2015 Credit Agreement amends and restates the Company’s previous credit agreement entered into in 2012.

On August 31, 2015, the Company entered into a first amendment to the 2015 Credit Agreement to expand the 2015 Credit Facility to $300.0 million from $250.0 million by expanding the 2015 Revolver to $225.0 million. The 2015 Credit Agreement is secured by substantially all personal property assets of the Company and any domestic subsidiary guarantors. The 2015 Credit Agreement includes certain definitions, terms and reporting requirements and includes the following additional provisions:

The maturity date for the 2015 Credit Facility is April 28, 2020;

The Term Loan will be repaid in installments of approximately $2.7 million per quarter starting on June 30, 2015, with the remaining balance due at maturity;

The interest rates for borrowings under the 2015 Revolver and the Term Loan are the Base Rate plus the Applicable Margin or LIBOR plus the Applicable Margin, with a fee payable by the Company on unused but committed portions of the 2015 Revolver;

The 2015 Revolver includes a sub-limit up to $10.0 million for same day advances (“Swing Line”) which shall bear interest based upon the Base Rate plus the Applicable Margin;

Up to $10.0 million of the 2015 Revolver will be available as a sub facility for the issuance of standby letters of credit, which are subject to certain expiration dates;

The financial covenants include requirements as to a consolidated total leverage ratio and a consolidated fixed charge coverage ratio, and other covenants include limitations and restrictions concerning permitted acquisitions, investments, sales of assets, liens on assets, dividends and other payments; and

Customary prepayment provisions, representations, warranties and covenants, and events of default.

At March 27, 2016, the Company had $67.0 million outstanding under the Term Loan under the LIBOR-based option, and borrowings outstanding under the 2015 Revolver of (i) $169.0 million under the LIBOR-based option and (ii) $6.2 million under the Prime Rate-based option. The interest rate for borrowings at March 27, 2016 was the Prime Rate plus 1.00% (or 4.50%), or LIBOR plus 2.00% (or 2.50%). At December 31, 2015, the Company had $67.0 million outstanding under the Term Loan under the LIBOR-based option, and borrowings outstanding under the 2015 Revolver of (i) $133.0 million under the LIBOR-based option and (ii) $4.5 million under the Prime Rate-based option. The interest rate for borrowings at December 31, 2015 was the Prime Rate plus 1.00% (or 4.50%), or LIBOR plus 2.00% (or 2.4375%). The fee payable on committed but unused portions of the 2015 Revolver was 0.25% for both of these periods.

Pursuant to the 2015 Credit Agreement, the financial covenants include: (a) a maximum consolidated total leverage ratio, measured on a quarter-end basis, not to exceed 3.00:1.00 for the 12-month period ending on such quarter-end; and (b) a required minimum consolidated fixed charge coverage ratio, measured on a quarter-end basis, of at least 1.50:1.00 for the 12-month period ending on such quarter-end.

The consolidated total leverage ratio is the ratio for any period of consolidated total indebtedness (as measured as of the second day following the end of the immediately preceding fiscal quarter) to consolidated adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"). Consolidated total indebtedness for any period is the sum of: (i) total debt outstanding under the 2015 Revolver and the Term Loan; (ii) capital leases and letters of credit outstanding; and (iii) deferred payment obligations. The consolidated fixed charge coverage ratio for any period is the ratio of consolidated EBITDA less restricted payments, taxes paid and capital expenditures as defined under the 2015 Credit Agreement to consolidated fixed charges. Consolidated fixed charges for any period is the sum of interest expense and scheduled principal payments on outstanding indebtedness under the Term Loan.

As of and for the March 27, 2016 reporting date, the Company was in compliance with both of these financial debt covenants as required under the terms of the 2015 Credit Agreement. The required maximum consolidated total leverage ratio and the minimum consolidated fixed charge coverage ratio compared to the actual amounts as of March 27, 2016 and for the fiscal period then ended are as follows:

	Required	Actual
Consolidated total leverage ratio (12-month period)	3.00	2.00
Consolidated fixed charge coverage ratio (12-month period)	1.50	4.82

Interest paid for the first quarter of 2016 and 2015 was $1.3 million and $0.8 million, respectively.

10. FAIR VALUE MEASUREMENTS

The carrying amounts of cash and cash equivalents, trade receivables, and accounts payable approximated fair value as of March 27, 2016 and December 31, 2015 because of the relatively short maturities of these financial instruments. The carrying amount of debt approximated fair value as of March 27, 2016 and December 31, 2015 based upon terms and conditions available to the Company at those dates in comparison to the terms and conditions of its outstanding debt.

11. INCOME TAXES

The Company recorded income taxes at an estimated effective rate of 36.6% in the first quarter of 2016. For the comparable 2015 period, the estimated effective tax rate was 38.0%.

The Company had various state net operating loss carry forwards (“NOLs”) of approximately $0.7 million at December 31, 2015, of which approximately $0.6 million were remaining to be utilized as of March 27, 2016. The Company estimates that it will utilize a majority of the remaining state NOLs by the end of 2016.

In the first three months of 2016 and 2015, the Company realized approximately $0.9 million and $1.2 million of excess tax benefits on stock-based compensation, which had not been recorded as deferred tax assets at December 31, 2015 and 2014. These tax benefits were recorded to shareholders’ equity upon realization in 2016 and 2015.

The Company paid income taxes of $0.1 million and $1.7 million in the first quarter of 2016 and 2015, respectively. Due to the timing of tax payments, the Company paid an additional $5.7 million in income taxes in April 2016 (the beginning of the Company's 2016 second fiscal quarter) and $2.0 million in April 2015 (the beginning of the Company's 2015 second fiscal quarter).

12. **SEGMENT INFORMATION**

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

A description of the Company's reportable segments is as follows:

Manufacturing – The Company's lamination operations utilize various materials, such as lauan, medium-density fiberboard ("MDF"), gypsum, and particleboard, which are bonded by adhesives or a heating process to a number of products, including vinyl, paper, foil, and high-pressure laminates. These products are utilized to produce furniture, shelving, wall, counter, and cabinet products with a wide variety of finishes and textures. This segment also includes the following divisions: cabinet doors, fiberglass bath fixtures, hardwood furniture, vinyl printing, solid surface, granite, and quartz countertop fabrication, RV painting, fabricated aluminum products, simulated wood and stone products, fiberglass and plastic components, softwoods lumber, and polymer-based flooring and other products. Patrick's major manufactured products also include wrapped vinyl, paper and hardwood profile mouldings, interior passage doors, slide-out trim and fascia, and slotwall panels and components. The Manufacturing segment contributed approximately 81% and 76% of the Company's net sales for the three months ended March 27, 2016 and March 29, 2015, respectively.

Distribution – The Company distributes pre-finished wall and ceiling panels, drywall and drywall finishing products, electronics and audio systems components, wiring, electrical and plumbing products, fiber reinforced polyester products, cement siding, interior passage doors, roofing products, laminate and ceramic flooring, shower doors, furniture, fireplaces and surrounds, interior and exterior lighting products, and other miscellaneous products. The Distribution segment contributed approximately 19% and 24% of the Company's net sales for the three months ended March 27, 2016 and March 29, 2015, respectively.

The tables below present unaudited information about the sales and operating income of those segments.