

PATRICK INDUSTRIES INC
Form 10-Q
November 05, 2015
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 SEPTEMBER 27, 2015

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
(State or other jurisdiction of
incorporation or organization)

35-1057796
(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 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 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 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

As of October 23, 2015, there were 15,553,338 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	
	Sept. 27, 2015	Dec. 31, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$1,410	\$123
Trade receivables, net	63,301	32,637
Inventories	96,183	71,020
Deferred tax assets	6,174	4,563
Prepaid expenses and other	3,579	6,453
Total current assets	170,647	114,796
Property, plant and equipment, net	66,661	57,353
Goodwill	78,331	31,630
Other intangible assets, net	100,381	49,544
Deferred financing costs, net	2,566	1,024
Other non-current assets	562	1,214
TOTAL ASSETS	\$419,148	\$255,561
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	\$10,714	\$-
Accounts payable	34,686	29,754
Accrued liabilities	21,957	15,388
Total current liabilities	67,357	45,142
Long-term debt, less current maturities	214,107	101,054
Deferred compensation and other	2,155	2,239
Deferred tax liabilities	3,290	4,358
TOTAL LIABILITIES	286,909	152,793
SHAREHOLDERS' EQUITY		
Common stock	57,933	54,769
Additional paid-in-capital	8,444	7,459
Accumulated other comprehensive income	31	31
Retained earnings	65,831	40,509

TOTAL SHAREHOLDERS' EQUITY	132,239	102,768
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$419,148	\$255,561

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)	Third Quarter Ended		Nine Months Ended	
	Sept. 27, 2015	Sept. 28, 2014 (1)	Sept. 27, 2015 (1)	Sept. 28, 2014 (1)
NET SALES	\$214,805	\$188,138	\$671,674	\$546,143
Cost of goods sold	179,764	158,110	560,846	457,149
GROSS PROFIT	35,041	30,028	110,828	88,994
Operating Expenses:				
Warehouse and delivery	6,669	6,842	20,154	19,613
Selling, general and administrative	10,805	9,339	33,543	26,604
Amortization of intangible assets	2,354	1,408	5,995	3,036
(Gain) loss on sale of fixed assets	11	(51)	-	(27)
Total operating expenses	19,839	17,538	59,692	49,226
OPERATING INCOME	15,202	12,490	51,136	39,768
Interest expense, net	1,153	694	2,855	1,750
Income before income taxes	14,049	11,796	48,281	38,018
Income taxes	5,089	4,542	18,098	14,637
NET INCOME	\$8,960	\$7,254	\$30,183	\$23,381
BASIC NET INCOME PER COMMON SHARE	\$0.58	\$0.45	\$1.97	\$1.46
DILUTED NET INCOME PER COMMON SHARE	\$0.58	\$0.45	\$1.95	\$1.45
Weighted average shares outstanding - Basic	15,342	15,986	15,327	16,033
- Diluted	15,532	16,081	15,507	16,115

(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)	Nine Months Ended	
	Sept. 27, 2015	Sept. 28, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$30,183	\$23,381
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,796	4,282
Amortization of intangible assets	5,995	3,036
Stock-based compensation expense	3,426	2,460
Deferred income taxes	(2,679)	20
Other non-cash items	593	507
Change in operating assets and liabilities, net of business acquisitions:		
Trade receivables	(17,648)	(15,175)
Inventories	(3,695)	(8,305)
Prepaid expenses and other	3,044	1,382
Accounts payable and accrued liabilities	580	11,852
Payments on deferred compensation obligations	(255)	(240)
Net cash provided by operating activities	25,340	23,200
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(4,731)	(4,184)
Proceeds from sale of property and equipment	100	97
Business acquisitions	(139,168)	(62,620)
Other investing activities	651	(43)
Net cash used in investing activities	(143,148)	(66,750)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on revolver and term loan, net	126,446	52,261
Payments on term loan	(2,679)	-
Payment of deferred financing costs	(1,887)	(93)
Stock repurchases under buyback program	(5,650)	(6,928)
Realization of excess tax benefit on stock-based compensation	1,080	1,071
Proceeds from exercise of stock options, including tax benefit	1,861	26
Other financing activities	(76)	(109)
Net cash provided by financing activities	119,095	46,228
Increase in cash and cash equivalents	1,287	2,678
Cash and cash equivalents at beginning of year	123	34
Cash and cash equivalents at end of period	\$1,410	\$2,712

See accompanying Notes to Condensed Consolidated Financial Statements.

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 September 27, 2015 and December 31, 2014, and its results of operations and cash flows for the three and nine months ended September 27, 2015 and September 28, 2014.

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, 2014. The December 31, 2014 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 third quarter and nine months ended September 27, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015. Certain prior year amounts have been reclassified to conform to the current year presentation.

In preparation of Patrick’s condensed consolidated financial statements as of and for the third quarter and nine months ended September 27, 2015, 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. See Note 12 for events that occurred subsequent to the balance sheet date.

The number of shares and per share amounts for the third quarter and nine months ended September 28, 2014 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.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance on revenue from contracts with customers, which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principal of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract.

The guidance permits two methods of transition upon adoption: full retrospective and modified retrospective. Under the full retrospective method, prior periods would be restated under the new revenue standard, providing a comparable view across all periods presented. Under the modified retrospective method, prior periods would not be restated. Rather, revenue and other disclosures for periods prior to the effective date would be provided in the notes to the financial statements as previously reported under the current revenue standard.

In August 2015, the FASB issued final revised guidance that defers the effective date of the revenue recognition standard to be for annual and interim periods 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.

Stock Compensation

In June 2014 the FASB issued revised guidance on accounting for share-based payments that will require that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. The revised guidance is effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance and 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 would require that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance is effective for financial statements issued for annual and interim periods beginning after December 15, 2015 and early adoption is permitted.

The guidance should be applied on a retrospective basis in which the statement of financial position of each period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (i.e., debt issuance cost asset and the debt liability). Upon adoption of the new guidance, assets related to deferred financing/debt issuance costs will be reclassified and presented net of debt outstanding. The Company plans to adopt the guidance in the first quarter of 2016.

Inventory

In July 2015, the FASB issued new accounting guidance for measuring the value of inventory. The core principal of the guidance is that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion,

disposal, and transportation. This guidance does not apply to inventory that is being measured using the Last-In, First-Out (LIFO) or the retail inventory method.

The guidance is effective for financial statements issued for annual and interim periods beginning after December 15, 2016 on a prospective basis. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

Business Combinations

In September 2015, the FASB issued new accounting guidance on business combinations simplifying the accounting for measurement-period adjustments. This new guidance requires an acquirer to recognize adjustments for provisional amounts that are identified during the measurement period of an acquisition in the reporting period in which the adjustment amounts are determined. The guidance is effective for financial statements issued for annual and interim periods beginning after December 15, 2015. The Company is currently evaluating the provisions of this 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. INVENTORIES

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

(thousands)	Sept. 27, 2015	Dec. 31, 2014
Raw materials	\$62,283	\$39,283
Work in process	5,871	5,607
Finished goods	5,410	4,897
Less: reserve for inventory obsolescence	(1,880)	(1,288)
Total manufactured goods, net	71,684	48,499
Materials purchased for resale (distribution products)	25,853	23,049
Less: reserve for inventory obsolescence	(1,354)	(528)
Total materials purchased for resale (distribution products), net	24,499	22,521
Total inventories	\$96,183	\$71,020

4. GOODWILL AND INTANGIBLE ASSETS

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. The Company's Manufacturing segment includes goodwill originating from the acquisitions of Gravure Ink (acquired in the Adorn Holdings, Inc. acquisition), Quality Hardwoods Sales ("Quality Hardwoods"), A.I.A. Countertops, LLC ("AIA"), Infinity Graphics, Décor Mfg., LLC ("Décor"), Creative Wood Designs, Inc. ("Creative Wood"), Middlebury Hardwood Products, Inc. ("Middlebury Hardwoods"), Frontline Mfg., Inc. ("Frontline"), Premier Concepts, Inc. ("Premier"), Precision Painting Group ("Precision"), Foremost Fabricators, LLC ("Foremost"), PolyDyn3, LLC ("PolyDyn3"), Charleston Corporation ("Charleston"), Better Way Partners, LLC d/b/a Better Way Products ("Better Way"), Structural Composites of Indiana, Inc. ("SCI") and North American Forest Products, Inc. and its wholly owned subsidiary, North American Moulding, LLC (collectively, "North American"). While Gravure Ink, AIA, Infinity Graphics, Décor, Creative Wood, Middlebury Hardwoods, Frontline, Premier, Precision, Foremost, PolyDyn3, Charleston, Better Way, SCI and North American remain reporting units of the Company for which impairment is assessed, Quality Hardwoods is assessed for impairment as part of the Company's hardwood door reporting unit. The Company's Distribution segment includes goodwill originating from the acquisitions of Blazon International Group ("Blazon"), John H. McDonald Co., Inc. d/b/a West Side Furniture ("West Side"), and Foremost, which remain reporting units for which impairment is assessed.

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 third quarter and nine months ended September 27, 2015 and September 28, 2014 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 nine months of 2015.

The Company acquired the following intangible assets in various acquisitions in the first nine months of 2015 that were determined to be business combinations. The goodwill recognized is expected to be deductible for income tax purposes. All three of the 2015 acquisitions are included in the Manufacturing segment. See Note 5 for further details.

(thousands)	Customer Relationships	Non-Compete Agreements	Trademarks	Total Other Intangible Assets	Goodwill	Total Intangible Assets
Better Way	\$ 15,935	\$ 630	\$ 3,340	\$ 19,905	\$ 11,212	\$ 31,117
SCI	9,301	363	1,723	11,387	6,744	18,131
North American	18,983	1,084	5,423	25,490	28,745	54,235

Goodwill

Changes in the carrying amount of goodwill for the nine months ended September 27, 2015 by segment are as follows:

(thousands)	Manufacturing	Distribution	Total
Balance - December 31, 2014	\$ 25,309	\$ 6,321	\$31,630
Acquisitions	46,701	-	46,701
Balance - September 27, 2015	\$ 72,010	\$ 6,321	\$78,331

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 September 27, 2015, the other intangible assets balance of \$100.4 million is comprised of \$19.5 million of trademarks which have an indefinite life, and therefore, no amortization expense has been recorded, and \$80.9 million pertaining to customer relationships and non-compete agreements which are being amortized over periods ranging from two to 19 years.

For the finite-lived intangible assets attributable to the 2015 acquisitions of Better Way, SCI and North American, the useful life pertaining to non-compete agreements was five years, three years, and two years, respectively, and the useful life pertaining to customer relationships for each of these acquisitions was 10 years.

Other intangible assets, net consist of the following as of September 27, 2015 and December 31, 2014:

(thousands)

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	Sept. 27, 2015	Weighted Average Useful Life (years)	Dec. 31, 2014	Weighted Average Useful Life (years)
Customer relationships	\$88,488	10	\$44,269	11
Non-compete agreements	8,477	3.4	6,350	3
Trademarks	19,480		8,994	
	116,445		59,613	
Less: accumulated amortization	(16,064)		(10,069)	
Other intangible assets, net	\$ 100,381		\$49,544	

Changes in the carrying value of other intangible assets for the nine months ended September 27, 2015 by segment are as follows:

(thousands)	Manufacturing	Distribution	Total
Balance - December 31, 2014	\$ 36,491	\$ 13,053	\$49,544
Acquisitions	56,832	-	56,832
Amortization	(4,756)	(1,239)	(5,995)
Balance - September 27, 2015	\$ 88,567	\$ 11,814	\$100,381

5. ACQUISITIONS

General

The Company completed three acquisitions in the first nine months of 2015 as discussed below. 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 4 for information regarding the amortization periods assigned to finite-lived intangible assets.

For the third quarter ended September 27, 2015, revenue and operating income of approximately \$26.1 million and \$2.9 million, respectively, was included in the Company's condensed consolidated statements of income pertaining to the three businesses acquired in the first nine months of 2015. The nine months 2015 period included revenue and operating income of approximately \$46.4 million and \$5.9 million, respectively, from these 2015 acquisitions. Acquisition-related costs associated with the businesses acquired in 2015 were immaterial.

For the third quarter ended September 28, 2014, revenue and operating income of approximately \$25.0 million and \$1.6 million, respectively, was included in the Company's condensed consolidated statements of income pertaining to three businesses acquired in the first nine months of 2014. The nine months 2014 period included revenue and operating income of approximately \$26.6 million and \$1.6 million, respectively, from these 2014 acquisitions. Acquisition-related costs associated with the businesses acquired in 2014 were immaterial.

2015 Acquisitions

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 MH industries. The Company acquired North American for a net purchase price of approximately \$78.6 million.

The acquisition of North American provides 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 provides 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 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 fourth quarter of 2015. The following summarizes the estimated fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

(thousands)	
Trade receivables	\$6,862
Inventories	19,189
Property, plant and equipment	5,747
Prepaid expenses	139
Accounts payable and accrued liabilities	(7,552)
Intangible assets	25,490
Goodwill	28,745
Total net assets acquired	\$78,620

SCI

In May 2015, the Company acquired the business and certain assets of Ligonier, Indiana-based SCI, a manufacturer of custom molded fiberglass large 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 approximately \$20.1 million.

The acquisition of SCI provides 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 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 fourth quarter of 2015. The following summarizes the estimated fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

(thousands)	
Trade receivables	\$1,303
Inventories	450
Property, plant and equipment	750
Prepaid expenses	20

Accounts payable and accrued liabilities	(591)
Intangible assets	11,387
Goodwill	6,744
Total net assets acquired	\$20,063

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 approximately \$40.5 million.

The acquisition of Better Way, with operating facilities located in New Paris, Bremen and Syracuse, Indiana, provides 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 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 fourth quarter of 2015. The following summarizes the estimated 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	19,905
Goodwill	11,212
Total net assets acquired	\$40,485

Pro Forma Information

The following pro forma information for the third quarter and nine months ended September 27, 2015 and September 28, 2014 assumes the Better Way, SCI and North American acquisitions (which were acquired in 2015) and the Precision, Foremost and Charleston acquisitions (which were acquired in 2014) occurred as of the beginning of the year immediately preceding each such acquisition. The pro forma information contains the actual operating results of Better Way, SCI, North American, Precision, Foremost and Charleston, 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. Pro forma information related to the acquisition of PolyDyn3 in 2014 is not included in the table below, as its financial results were not considered significant to the Company's operating results for the periods presented.

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 each transaction of (i) \$0.4 million and \$2.3 million for the third quarter and nine months ended September 27, 2015, respectively, and (ii) \$1.4 million and \$5.4 million for the third quarter and nine months ended September 28, 2014, respectively.

	Third Quarter Ended		Nine Months Ended	
	Sept. 27, 2015	Sept. 28, 2014	Sept. 27, 2015	Sept. 28, 2014
(thousands except per share data)				
Revenue	\$243,161	\$252,344	\$804,474	\$784,453
Net income	10,636	9,154	36,630	30,698
Net income per share – basic	0.69	0.57	2.39	1.91
Net income per share – diluted	0.68	0.57	2.36	1.90

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.

6. STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with fair value recognition provisions. The Company recorded compensation expense of \$1.2 million and \$0.9 million for the third quarters ended September 27, 2015 and September 28, 2014, respectively, for its stock-based compensation plans on the condensed consolidated statements of income. For the comparable nine months periods, the Company recorded \$3.4 million and \$2.5 million, respectively. 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 2014 under the Company's 2009 Omnibus Incentive Plan (the "Plan"): 51,000 shares on February 12, 2014, 98,502 shares on February 18, 2014, 15,840 shares on May 22, 2014, and 444 shares on September 30, 2014. In addition, on February 18, 2014, the Board approved the issuance of a total of 66,002 restricted stock units ("RSUs"), of which 22,000 of those RSUs were granted on that same date.

The Board approved the following share grants under the Plan in the first nine months of 2015: 127,629 shares on February 16, 2015, 300 shares on April 1, 2015, 12,064 shares on May 19, 2015, and 447 shares on August 13, 2015. In addition, on March 30, 2015, the beginning of the Company's fiscal second quarter, the Board granted an additional 22,001 RSUs as discussed above.

As of September 27, 2015, there was approximately \$7.0 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 18.1 months.

7. 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 third quarter and nine months ended September 28, 2014 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 third quarter and nine months periods as follows:

	Third Quarter Ended		Nine Months Ended	
	Sept. 27, 2015	Sept. 28, 2014	Sept. 27, 2015	Sept. 28, 2014
(thousands except per share data)				
Net income for basic and diluted per share calculation	\$8,960	\$7,254	\$30,183	\$23,381
Weighted average common shares outstanding - basic	15,342	15,986	15,327	16,033
Effect of potentially dilutive securities	190	95	180	82
Weighted average common shares outstanding - diluted	15,532	16,081	15,507	16,115
Basic net income per common share	\$0.58	\$0.45	\$1.97	\$1.46
Diluted net income per common share	\$0.58	\$0.45	\$1.95	\$1.45

8. DEBT

A summary of total debt outstanding at September 27, 2015 and December 31, 2014 is as follows:

(thousands)	Sept. 27, 2015	Dec. 31, 2014
Long-term debt:		
Revolver	\$152,500	\$101,054
Term loan	72,321	-
Total long-term debt	224,821	101,054
Less: current maturities of long-term debt	(10,714)	-
Total long-term debt, less current maturities	\$214,107	\$101,054

2012 Credit Facility

Prior to April 28, 2015, the Company's debt financing was supported by its credit agreement, dated October 24, 2012, as amended (the "2012 Credit Agreement"), among the Company, Wells Fargo Bank, National Association, as the agent and lender ("Wells Fargo"), and Fifth Third Bank ("Fifth Third") and Key Bank National Association ("Key Bank"), as participants. The 2012 Credit Agreement consisted of a \$185.0 million revolving secured senior credit facility (the "2012 Credit Facility"). The 2012 Credit Facility, which was scheduled to mature on October 24, 2017, was replaced by the 2015 Credit Facility (as defined herein).

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, as Administrative Agent and a lender, and Fifth Third, 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 is 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 2012 Credit Agreement.

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 September 27, 2015, the Company had (i) \$72.3 million outstanding under the Term Loan, which consisted of borrowings under the LIBOR-based option, and (ii) \$152.5 million outstanding under its 2015 Revolver under the LIBOR-based option. The interest rate for borrowings at September 27, 2015 was the Prime Rate plus 1.00% (or 4.25%), or LIBOR plus 2.00% (or 2.250%). At December 31, 2014, the Company had \$101.1 million outstanding under the then current revolver, which consisted of \$97.0 million of borrowings under the LIBOR-based option and \$4.1 million of borrowings under the Prime Rate-based option. The fee payable on committed but unused portions of the Revolver was 0.25% at September 27, 2015.

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 (i) consolidated total indebtedness (as measured as of the second day following the end of the immediately preceding fiscal quarter) to (ii) 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 (i) consolidated EBITDA less restricted payments, taxes paid and capital expenditures as defined under the 2015 Credit Agreement to (ii) consolidated fixed charges. Consolidated fixed charges for any period is the sum of (i) interest expense and (ii) scheduled principal payments on outstanding indebtedness under the Term Loan.

As of and for the September 27, 2015 reporting date, the Company was in compliance with both of these financial covenants. The required maximum consolidated total leverage ratio and the minimum consolidated fixed charge coverage ratio compared to the actual amounts as of September 27, 2015 and for the fiscal 12-month period then ended are as follows:

	Required	Actual
Consolidated total leverage ratio (12-month period)	3.00	2.05
Consolidated fixed charge coverage ratio (12-month period)	1.50	4.75

Interest paid for the third quarter and first nine months of 2015 was \$0.9 million and \$2.6 million, respectively. For the comparable 2014 periods, interest paid was \$0.7 million and \$1.7 million, respectively.

9. FAIR VALUE MEASUREMENTS

The carrying amounts of cash and cash equivalents, trade receivables, and accounts payable approximated fair value as of September 27, 2015 and December 31, 2014 because of the relatively short maturities of these financial instruments. The carrying amount of debt approximated fair value as of September 27, 2015 and December 31, 2014 based upon terms and conditions available to the Company at those dates in comparison to the terms and conditions of its outstanding debt.

10. INCOME TAXES

The Company recorded income taxes at an estimated effective rate of 36.3% in the third quarter and 37.5% in the first nine months of 2015. For the comparable 2014 periods, the estimated effective tax rate was 38.5%.

The Company had various state net operating loss carry forwards (“NOLs”) of approximately \$1.6 million at December 31, 2014, of which approximately \$0.8 million were remaining to be utilized as of September 27, 2015. The Company estimates that it will utilize a majority of the remaining state NOLs by the end of 2015.

In both the first nine months of 2015 and 2014, the Company realized approximately \$1.1 million of excess tax benefits on stock-based compensation, which had not been recorded as deferred tax assets at December 31, 2014 and

2013. These tax benefits were recorded to shareholders' equity upon realization in 2015 and 2014.

The Company paid income taxes of \$6.3 million and \$18.3 million in the third quarter and first nine months of 2015, respectively. For the comparable periods in 2014, the Company paid income taxes of \$5.6 million and \$16.0 million, respectively.

11. 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, exterior graphics, RV painting, fabricated aluminum products, simulated wood and stone products, fiberglass and plastic components, and the recently acquired softwoods lumber division (North American). Patrick's major manufactured products also include wrapped vinyl, paper and hardwood profile mouldings, interior passage doors, and slotwall panels and components. The Manufacturing segment contributed approximately 77% and 75% of the Company's net sales for the nine months ended September 27, 2015 and September 28, 2014, respectively.

Distribution – The Company distributes pre-finished wall and ceiling panels, drywall and drywall finishing products, electronics, 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 23% and 25% of the Company’s net sales for the nine months ended September 27, 2015 and September 28, 2014, respectively.

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

Third Quarter Ended September 27, 2015

(thousands)	Manufacturing	Distribution	Total
Net outside sales	\$ 169,202	\$ 45,603	\$214,805
Intersegment sales	4,531	545	5,076
Total sales	173,733	46,148	219,881
Operating income	17,243	2,522	19,765

Third Quarter Ended September 28, 2014

(thousands)	Manufacturing	Distribution	Total
Net outside sales	\$ 138,512	\$ 49,626	\$188,138
Intersegment sales	4,861	639	5,500
Total sales	143,373	50,265	193,638
Operating income	13,647	2,673	16,320

Nine Months Ended September 27, 2015

(thousands)	Manufacturing	Distribution	Total
Net outside sales	\$ 519,162	\$ 152,512	\$671,674
Intersegment sales	13,909	1,981	15,890
Total sales	533,071	154,493	687,564
Operating income	56,775	9,377	66,152

Nine Months Ended September 28, 2014

(thousands)	Manufacturing	Distribution	Total
Net outside sales	\$ 410,146	\$ 135,997	\$546,143
Intersegment sales	15,176	1,874	17,050
Total sales	425,322	137,871	563,193
Operating income	43,062	7,522	50,584

The table below presents a reconciliation of segment operating income to consolidated operating income:

	Third Quarter		Nine Months	
	Ended	Ended	Ended	Ended
	Sept.	Sept.	Sept.	Sept.
(thousands)	27,	28,	27,	28,
	2015	2014	2015	2014
Operating income for reportable segments	\$19,765	\$16,320	\$66,152	\$50,584
Unallocated corporate expenses	(2,209)	(2,422)	(9,021)	(7,780)
Amortization of intangible assets	(2,354)	(1,408)	(5,995)	(3,036)
Consolidated operating income	\$15,202	\$12,490	\$51,136	\$39,768

Unallocated corporate expenses include corporate general and administrative expenses comprised of wages, insurance, taxes, supplies, travel and entertainment, professional fees and other.

12. STOCK REPURCHASE PROGRAM

On February 17, 2015, the Company's Board authorized an increase in the amount of the Company's common stock that may be acquired under its existing stock buyback program over the following 12 months to \$20.0 million.

In the first nine months of 2015, the Company repurchased 195,750 shares at an average price of \$28.86 per share for a total cost of approximately \$5.7 million. There were no stock repurchases in the third quarter of 2015 under the stock buyback program. In the first fiscal month of the fourth quarter of 2015, the Company repurchased 25,000 shares at an average price of \$38.94 for a total cost of approximately \$974,000.

Since the inception of the stock repurchase program in February 2013 through October 23, 2015, the Company has repurchased in the aggregate 1,348,870 shares at an average price of \$19.74 per share for a total cost of approximately \$26.6 million.

Common Stock

The Company's common stock does not have a stated par value. As a result, repurchases of common stock have been reflected, using an average cost method, as a reduction of common stock, additional paid-in-capital, and retained

earnings on the Company's condensed consolidated statements of financial position.

13. OTHER EVENTS

Termination of Shareholder Rights Agreement

On April 16, 2015, the Company accelerated the expiration date of the Rights Agreement, dated March 21, 2006, between Patrick Industries, Inc. and National City Bank, as Rights Agent (as so amended, the "Rights Agreement") so that the Rights Agreement terminated at the close of business on April 16, 2015 and, therefore, the Rights issued under the Rights Agreement expired at that time.

Common Stock Split

On April 27, 2015, the Company's Board declared a three-for-two stock split, to be effected in the form of a stock dividend, payable in the form of one share of common stock for every two shares of the Company's common stock held. The split was effective for shareholders of record as of May 15, 2015 and was paid on May 29, 2015.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's Condensed Consolidated Financial Statements and Notes thereto included in Item 1 of this Report. In addition, this MD&A contains certain statements relating to future results which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. See "Information Concerning Forward-Looking Statements" on page 29 of this Report. The Company undertakes no obligation to update these forward-looking statements.

The MD&A is divided into seven major sections:

OVERVIEW OF MARKETS AND RELATED INDUSTRY PERFORMANCE

REVIEW OF CONSOLIDATED OPERATING RESULTS

Third Quarter and Nine Months Ended September 27, 2015 Compared to 2014

REVIEW BY BUSINESS SEGMENT

Third Quarter and Nine Months Ended September 27, 2015 Compared to 2014

Unallocated Corporate Expenses

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Capital Resources

Summary of Liquidity and Capital Resources

CRITICAL ACCOUNTING POLICIES

OTHER

Seasonality

Inflation

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

OVERVIEW OF MARKETS AND RELATED INDUSTRY PERFORMANCE

Summary

The third quarter and first nine months of 2015 reflected a continuation of growth in the recreational vehicle (“RV”) market, which includes growth in both towables and motorized units, and improving conditions in the industrial markets, as evidenced by year over year growth in new housing starts. As anticipated, we also saw some normal seasonal softening in the third quarter of 2015 as RV dealers generally tend to delay purchases of new units until new product lines, patterns, and features are introduced at the original equipment manufacturers (“OEMs”) shows in the months of September and December. We expect that the positive sentiment exhibited by both RV dealers and OEMs during the September shows, which represent the start to the primary dealer show season, will be reflected in industry order levels consistent with recent seasonal trends as we move into the latter part of 2015 and into the first quarter of 2016.

The manufactured housing (“MH”) industry appears to have gained modest strength based on a year-over-year improvement in wholesale unit shipments in the third quarter and first nine months of 2015 as this industry experienced seasonally typical sales activity. Additionally, both our MH and industrial businesses continue to outperform the markets. Overall, we have continued to capture market share through strategic acquisitions, addition of new business, and the introduction of new and innovative products.

RV Industry

The RV industry, which is our primary market and comprised 75% of the Company’s nine months 2015 sales, continued to strengthen as evidenced by higher OEM production levels and wholesale unit shipments versus the prior year. According to the Recreational Vehicle Industry Association (“RVIA”), wholesale shipment levels reached 82,396 units in the third quarter of 2015, representing an increase of approximately 4% versus the prior year period, and resulted in year-over-year shipment increases in all but one quarter since the fourth quarter of 2009. In the first nine months of 2015, shipment levels reached 285,049 units, an increase of approximately 5% over 2014. Recent acquisitions, new products, market share gains, and the ongoing strength of retail RV sales, as evidenced by an approximate 11% combined increase in industry-wide retail sales of towables and motorized units in the first eight months of 2015, based on the most recent available survey data, have led to a significant increase in our net sales in both the third quarter and the first nine months of 2015.

In the second quarter of 2015, we started to see a shift in the RV industry towards a larger concentration of entry level and lower priced units, which has negatively impacted content per unit growth over the last two quarters. As a result of this mix shift, we may continue to see some content volatility in the short-term. Further, we believe this mix shift is reflective of younger and first-time consumers entering the market, as supported by recent dealer surveys, thus broadening the market's foundation and extending the opportunity for future long-term industry growth. Additionally, we believe our commitment to quality customer service and our large complement of innovative product lines at various price points position us to address our customers' changing needs and buying patterns.

As it relates to the correlation between retail inventories and overall production levels, industry reports and dealer surveys continue to indicate that RV dealer inventory levels are in line with retail demand with strong retail traffic on dealer lots expected for the first half of the 2016 retail selling season. Despite the RV industry approaching prior wholesale production peaks, we continue to believe the future looks promising for the RV industry based on a number of factors including: positive industry demographic trends with younger buyers and an increasing number of baby boomers reaching retirement age, readily available financing, new and innovative products coming to market, increasing strength in the overall economic environment, and the value of the RV lifestyle related to spending quality time with families. On a macroeconomic level, as consumer confidence has generally trended higher over the last five years, there has been a related consistent trend of a year-over-year increase in RV shipments for the same time period. The strong demographic indicators mentioned above point to a generally positive long-term outlook in the RV market, notwithstanding any major global events.

MH Industry

The MH industry represented approximately 14% of the Company's nine months 2015 sales. As estimated by the Company, wholesale unit shipments in the industry increased 8% in both the third quarter and first nine months of 2015 from the comparable prior year periods. Growth prospects in the MH industry remain tempered based on financing and regulatory constraints imposed on lenders. While we believe the MH industry has several hurdles to overcome related to the lack of financing alternatives, current credit standards and requirements, slow job growth, and limited access to the asset backed securities market, we are optimistic about the long-term potential in this industry as pent up demand continues to be created based on improving consumer credit, rising rents, and capacity constraints in multi-family housing.

We expect to see continued year over year improvement with limited risk in the near term and believe that there is the potential for this market to grow at a much higher rate in the future, especially given historical trends when compared to residential housing starts. We believe we are well positioned to capitalize on the upside potential of the MH market, especially given the combination of our nationwide geographic footprint, available capacity in our current MH concentrated locations, and our current content per unit levels.

Industrial Market

The industrial market, which accounted for 11% of our first nine months 2015 sales and is comprised primarily of the kitchen cabinet industry, retail and commercial fixture market, office and household furniture market and regional distributors, is primarily impacted by macroeconomic conditions and more specifically, conditions in the residential housing market. The Company's industrial sales have increased over the last several years, reflecting both acquisition and organic growth, the addition of new sales territories over the past two years, and a focus on opportunities in the commercial markets. We estimate approximately half of our industrial revenue base was directly tied to the residential housing market in the first nine months of 2015 with the remaining half tied mainly to the retail fixture, office and commercial furnishings markets. New housing starts in the third quarter and first nine months of 2015 increased approximately 13% and 12%, respectively, compared to the prior year periods (as reported by the U.S. Department of Commerce). In addition, our sales in the first nine months of 2015 benefited primarily from continued market share gains, particularly in the office and institutional furniture markets, as well as improved sales to the retail and commercial fixtures markets. Our sales to the industrial market generally lag new residential housing starts by six to nine months.

In order to offset some of the impacts of the weakness in the residential housing market in recent years, we have focused on diversification efforts, strategic acquisitions, and increased penetration into the commercial and multi-family housing markets with the addition of new sales territories and personnel. Additionally, we have targeted certain sales efforts towards market segments that are less directly tied to new single and multi-family home construction, including the marine, retail fixture, and office, furniture, and countertop markets. As a result, we have seen a shift in our product mix, which has had a positive impact on revenue from the industrial markets. In addition, we believe that projected continued low interest rates, overall expected economic improvement, and pent up demand are some of the drivers that will continue to positively impact the housing industry for the next several years.

Fourth Quarter 2015 / Fiscal 2016 Outlook

In general, the three primary markets that we serve experienced improved growth in the first nine months of 2015, which we expect to continue throughout the remainder of the year with full year seasonal patterns tracking recent trends. While we may not see the same year over year strength in the fourth quarter of 2015 that we experienced in the fourth quarter of 2014, the market conditions, trends, retail sentiment and demand, and dealer inventory levels point towards slow and steady growth for the 2016 fiscal year. As the RV lifestyle continues to attract new buyers to the market, the RVIA currently forecasts that RV unit shipment levels in 2015 will increase approximately 5% when compared to the full year 2014. In addition, we anticipate a further increase in production levels in the MH industry in 2015, reflecting improvement in the overall economy and consistent with the improvement in single-family residential housing starts as projected by the National Association of Home Builders (the "NAHB") for the full year 2015. Based on the industry's current annualized run rates, the Company projects wholesale MH unit shipments for full year 2015 to increase by approximately 8% compared to 2014. We currently expect continued slow and steady growth in this market for 2016, with growth rates and seasonality consistent with prior years. New housing starts in 2015 are estimated to improve by approximately 10% year-over-year (as forecasted by the NAHB as of September 25, 2015) consistent with improving overall economic conditions.

We will continue to review our operations on a regular basis, balance appropriate risks and opportunities, and maximize efficiencies to support the Company's long-term strategic growth goals. Our team remains focused on strategic acquisitions in our existing businesses and similar markets, capturing market share and increasing our per unit content, keeping costs aligned with revenue, maximizing operating efficiencies, talent management, and the execution of our organizational strategic agenda. Key focus areas for the remainder of 2015 and into 2016 include strategic revenue growth, improved operating income and net income, earnings per share, earnings before interest, taxes, depreciation, and amortization ("EBITDA"), and free cash flow.

In conjunction with our organizational strategic agenda, we will continue to make targeted capital investments to support new business and leverage our operating platform. The current capital plan for full year 2015 includes expenditures approximating \$8.0 million, and includes the strategic replacement and upgrading of production equipment to ensure that our facilities have the capacity, capabilities and technology to facilitate our growth plans, the ongoing replacement of our Enterprise Resource Planning ("ERP") system at our operating divisions that have not yet been converted, which is progressing in accordance with plans, and other strategic capital and maintenance

improvements.

REVIEW OF CONSOLIDATED OPERATING RESULTS

Third Quarter and Nine Months Ended September 27, 2015 Compared to 2014

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The following table sets forth the percentage relationship to net sales of certain items on the Company's condensed consolidated statements of income.

	Third Quarter Ended		Nine Months Ended	
	Sept. 27, 2015	Sept. 28, 2014	Sept. 27, 2015	Sept. 28, 2014
Net sales	100.0 %	100.0%	100.0 %	100.0%
Cost of goods sold				