

PATRICK INDUSTRIES INC  
Form 10-Q  
August 06, 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 JUNE 28, 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)

**107 WEST FRANKLIN STREET, P.O. Box 638, ELKHART, IN**  
(Address of principal executive offices)

**35-1057796**  
(I.R.S. Employer  
Identification No.)

**46515**  
(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 July 24, 2015, there were 15,451,854 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 <b>June 28, 2015</b>	Dec. 31, 2014
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	<b>\$6,606</b>	\$123
Trade receivables, net	<b>51,345</b>	32,637
Inventories	<b>73,428</b>	71,020
Deferred tax assets	<b>4,427</b>	4,563
Prepaid expenses and other	<b>3,097</b>	6,453
<b>Total current assets</b>	<b>138,903</b>	114,796
Property, plant and equipment, net	<b>61,466</b>	57,353
Goodwill	<b>49,551</b>	31,630
Other intangible assets, net	<b>77,245</b>	49,544
Deferred financing costs, net	<b>2,420</b>	1,024
Other non-current assets	<b>1,232</b>	1,214
<b>TOTAL ASSETS</b>	<b>\$330,817</b>	<b>\$255,561</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Current maturities of long-term debt	<b>\$10,714</b>	\$-
Accounts payable	<b>36,429</b>	29,754
Accrued liabilities	<b>17,131</b>	15,388
<b>Total current liabilities</b>	<b>64,274</b>	45,142
Long-term debt, less current maturities	<b>139,286</b>	101,054
Deferred compensation and other	<b>2,177</b>	2,239
Deferred tax liabilities	<b>3,688</b>	4,358
<b>TOTAL LIABILITIES</b>	<b>209,425</b>	152,793
<b>SHAREHOLDERS' EQUITY</b>		
Common stock	<b>55,911</b>	54,769
Additional paid-in-capital	<b>8,579</b>	7,459
Accumulated other comprehensive income	<b>31</b>	31
Retained earnings	<b>56,871</b>	40,509

<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>121,392</b>	102,768
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$330,817</b>	\$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)	Second Quarter Ended		Six Months Ended	
	<b>June 28, 2015 (1)</b>	June 29, 2014 (1)	<b>June 28, 2015 (1)</b>	June 29, 2014 (1)
<b>NET SALES</b>	<b>\$233,481</b>	\$187,855	<b>\$456,869</b>	\$358,005
Cost of goods sold	<b>193,088</b>	156,036	<b>381,082</b>	299,039
<b>GROSS PROFIT</b>	<b>40,393</b>	31,819	<b>75,787</b>	58,966
Operating Expenses:				
Warehouse and delivery	<b>6,826</b>	6,659	<b>13,485</b>	12,771
Selling, general and administrative	<b>11,219</b>	8,765	<b>22,738</b>	17,265
Amortization of intangible assets	<b>1,982</b>	841	<b>3,641</b>	1,628
(Gain) loss on sale of fixed assets	<b>(5 )</b>	37	<b>(11 )</b>	24
Total operating expenses	<b>20,022</b>	16,302	<b>39,853</b>	31,688
<b>OPERATING INCOME</b>	<b>20,371</b>	15,517	<b>35,934</b>	27,278
Interest expense, net	<b>898</b>	507	<b>1,702</b>	1,056
<b>Income before income taxes</b>	<b>19,473</b>	15,010	<b>34,232</b>	26,222
Income taxes	<b>7,400</b>	5,779	<b>13,009</b>	10,095
<b>NET INCOME</b>	<b>\$12,073</b>	\$9,231	<b>\$21,223</b>	\$16,127
<b>BASIC NET INCOME PER COMMON SHARE</b>	<b>\$0.79</b>	\$0.57	<b>\$1.39</b>	\$1.00
<b>DILUTED NET INCOME PER COMMON SHARE</b>	<b>\$0.78</b>	\$0.57	<b>\$1.37</b>	\$1.00
Weighted average shares outstanding - Basic	<b>15,312</b>	16,061	<b>15,319</b>	16,057
- Diluted	<b>15,513</b>	16,142	<b>15,498</b>	16,132

(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)	Six Months Ended	
	<b>June 28,</b>	June 29,
	<b>2015</b>	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	<b>\$21,223</b>	\$16,127
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	<b>3,819</b>	2,688
Amortization of intangible assets	<b>3,641</b>	1,628
Stock-based compensation expense	<b>2,194</b>	1,626
Deferred compensation expense	<b>164</b>	165
Deferred income taxes	<b>(534 )</b>	(16 )
(Gain) loss on sale of fixed assets	<b>(11 )</b>	24
(Increase) decrease in cash surrender value of life insurance	<b>(5 )</b>	45
Deferred financing amortization	<b>215</b>	174
Change in operating assets and liabilities, net of business acquisitions:		
Trade receivables	<b>(12,554)</b>	(17,780)
Inventories	<b>(129 )</b>	(4,329 )
Prepaid expenses and other	<b>3,410</b>	1,820
Accounts payable and accrued liabilities	<b>6,104</b>	14,678
Payments on deferred compensation obligations	<b>(174 )</b>	(164 )
<b>Net cash provided by operating activities</b>	<b>27,363</b>	16,686
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	<b>(3,235 )</b>	(2,368 )
Proceeds from sale of property and equipment	<b>17</b>	37
Business acquisitions	<b>(60,513)</b>	(55,027)
Other	<b>(13 )</b>	(61 )
<b>Net cash used in investing activities</b>	<b>(63,744)</b>	(57,419)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings on revolver and term loan, net	<b>48,946</b>	46,685
Payment of deferred financing costs	<b>(1,611 )</b>	(4 )
Stock repurchases under buyback program	<b>(5,650 )</b>	(3,683 )
Realization of excess tax benefit on stock-based compensation	<b>1,215</b>	1,071
Proceeds from exercise of stock options, including tax benefit	<b>16</b>	26
Payments on capital lease obligations	<b>(52 )</b>	(73 )
<b>Net cash provided by financing activities</b>	<b>42,864</b>	44,022
<b>Increase in cash and cash equivalents</b>	<b>6,483</b>	3,289
Cash and cash equivalents at beginning of year	<b>123</b>	34
Cash and cash equivalents at end of period	<b>\$6,606</b>	\$3,323



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 June 28, 2015 and December 31, 2014, and its results of operations and cash flows for the three and six months ended June 28, 2015 and June 29, 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 second quarter and six months ended June 28, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015.

In preparation of Patrick’s condensed consolidated financial statements as of and for the second quarter and six months ended June 28, 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.

The number of shares and per share amounts 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, revenues 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.

The guidance was originally effective for annual and interim periods beginning after December 15, 2016 and early adoption was not permitted. In July 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. Under the final revised guidance, an entity would, however, be permitted to elect to adopt the amendments as of the original effective date. The impact from the adoption of this guidance on the Company's condensed consolidated financial statements cannot be determined at this time. The Company is also working to determine the appropriate method of transition to the guidance.

## **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