

PATRICK INDUSTRIES INC
Form 10-Q
November 03, 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 SEPTEMBER 25, 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 ☒ 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 21, 2016, there were 15,333,993 shares of the registrant's common stock outstanding.

PATRICK INDUSTRIES, INC.

TABLE OF CONTENTS

	Page No.
PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS (Unaudited)	
Condensed Consolidated Statements of Financial Position September 25, 2016 and December 31, 2015	<u>3</u>
Condensed Consolidated Statements of Income Third Quarter and Nine Months Ended September 25, 2016 and September 27, 2015	<u>4</u>
Condensed Consolidated Statements of Cash Flows Nine Months Ended September 25, 2016 and September 27, 2015	<u>5</u>
Notes to Condensed Consolidated Financial Statements	<u>6</u>
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	<u>21</u>
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	<u>32</u>
ITEM 4. CONTROLS AND PROCEDURES	<u>32</u>
PART II. OTHER INFORMATION	
ITEM 1A. RISK FACTORS	<u>33</u>
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	<u>33</u>
ITEM 6. EXHIBITS	<u>34</u>
SIGNATURES	<u>35</u>

PART 1: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PATRICK INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

(thousands)	As of	
	Sep. 25, 2016	Dec. 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$1,477	\$87
Trade receivables, net	75,739	38,213
Inventories	116,115	89,478
Prepaid expenses and other	4,856	6,119
Total current assets	198,187	133,897
Property, plant and equipment, net	81,439	67,878
Goodwill	100,800	68,606
Other intangible assets, net	150,846	106,759
Deferred financing costs, net (Note 3)	1,830	1,885
Deferred tax assets, net (Note 2)	435	2,004
Other non-current assets	528	555
TOTAL ASSETS	\$534,065	\$381,584
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	\$15,766	\$10,714
Accounts payable	58,133	28,744
Accrued liabilities	23,017	18,468
Total current liabilities	96,916	57,926
Long-term debt, less current maturities, net (Note 3)	264,479	193,142
Deferred compensation and other	1,867	1,919
TOTAL LIABILITIES	363,262	252,987
SHAREHOLDERS' EQUITY		
Common stock	62,117	57,683
Additional paid-in-capital	9,504	8,308
Accumulated other comprehensive income	32	32
Retained earnings	99,150	62,574
TOTAL SHAREHOLDERS' EQUITY	170,803	128,597
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$534,065	\$381,584

See accompanying Notes to Condensed Consolidated Financial Statements.

PATRICK INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Third Quarter Ended		Nine Months Ended	
(thousands except per share data)	Sep. 25, 2016	Sep. 27, 2015	Sep. 25, 2016	Sep. 27, 2015
NET SALES	\$304,151	\$214,805	\$897,951	\$671,674
Cost of goods sold	255,299	179,764	748,463	560,846
GROSS PROFIT	48,852	35,041	149,488	110,828
Operating Expenses:				
Warehouse and delivery	9,165	6,669	26,149	20,154
Selling, general and administrative	15,877	10,805	44,874	33,543
Amortization of intangible assets	3,687	2,354	9,680	5,995
Loss on sale of fixed assets	6	11	47	—
Total operating expenses	28,735	19,839	80,750	59,692
OPERATING INCOME	20,117	15,202	68,738	51,136
Interest expense, net	1,917	1,153	5,198	2,855
Income before income taxes	18,200	14,049	63,540	48,281
Income taxes	6,175	5,089	22,779	18,098
NET INCOME	\$12,025	\$8,960	\$40,761	\$30,183
 BASIC NET INCOME PER COMMON SHARE	 \$0.80	 \$0.58	 \$2.72	 \$1.97
DILUTED NET INCOME PER COMMON SHARE	\$0.79	\$0.58	\$2.68	\$1.95
 Weighted average shares outstanding - Basic	 15,048	 15,342	 15,002	 15,327
Weighted average shares outstanding - Diluted	15,235	15,532	15,182	15,507

See accompanying Notes to Condensed Consolidated Financial Statements.

PATRICK INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(thousands)	Nine Months Ended	
	Sep. 25, 2016	Sep. 27, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$40,761	\$30,183
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,994	5,796
Amortization of intangible assets	9,680	5,995
Stock-based compensation expense	4,798	3,426
Deferred financing cost amortization	453	345
Deferred income taxes	(1,931)	(2,679)
Loss on sale of fixed assets	47	—
Other non-cash items	296	248
Change in operating assets and liabilities, net of effects of acquisitions:		
Trade receivables	(27,207)	(17,648)
Inventories	(9,683)	(3,695)
Prepaid expenses and other	1,387	3,044
Accounts payable and accrued liabilities	23,376	580
Payments on deferred compensation obligations	(238)	(255)
Net cash provided by operating activities	49,733	25,340
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(10,866)	(4,731)
Proceeds from sale of property and equipment	241	100
Business acquisitions	(112,080)	(139,168)
Other investing activities	(21)	651
Net cash used in investing activities	(122,726)	(143,148)
CASH FLOWS FROM FINANCING ACTIVITIES		
Term debt borrowings	29,002	75,000
Term debt repayments	(5,358)	(2,679)
Borrowings on revolver	262,583	231,502
Repayments on revolver	(209,856)	(180,056)
Payment of deferred financing costs	(380)	(1,887)
Stock repurchases under buyback program	(4,667)	(5,650)
Realization of excess tax benefit on stock-based compensation	1,256	1,080
Proceeds from exercise of stock options, including tax benefit	1,865	1,861
Other financing activities	(62)	(76)
Net cash provided by financing activities	74,383	119,095
Increase in cash and cash equivalents	1,390	1,287
Cash and cash equivalents at beginning of year	87	123
Cash and cash equivalents at end of period	\$1,477	\$1,410

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 25, 2016 and December 31, 2015, and its results of operations and cash flows for the third quarter and nine months ended September 25, 2016 and September 27, 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 third quarter and nine months ended September 25, 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.

In preparation of Patrick's condensed consolidated financial statements as of and for the third quarter and nine months ended September 25, 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 that required recognition or disclosure in the consolidated financial statements. See Note 7 for events that occurred subsequent to the balance sheet date.

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. Based on an initial evaluation, the Company anticipates that the implementation of this guidance will not have a material impact on its condensed consolidated financial statements.

Debt Financing / 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 \$0.6 million of deferred financing costs related to 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 deferred tax 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 plans to adopt this new guidance in the first quarter of 2017 as required. The adoption is not expected to have a material impact on the Company's condensed consolidated financial statements.

Cash Flow Statement Classifications

In August 2016, the FASB issued new accounting guidance related to the classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for financial statements issued for annual and interim periods beginning after December 15, 2017. The guidance may be applied on a retrospective basis and early adoption is permitted. The Company anticipates adopting the new guidance as of January 1, 2018 as required and has determined that the implementation of this guidance will have no impact on its condensed consolidated statements of cash flows.

3. DEFERRED FINANCING / DEBT ISSUANCE COSTS

The condensed consolidated statements of financial position at September 25, 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 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. 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 because the guidance does not apply to line-of-credit arrangements. In the first quarter of 2016, the Company adopted this guidance as required on a retrospective basis.

At December 31, 2015, the total maximum borrowing limit under the Company's 2015 Credit Facility was \$300.0 million, of which \$75.0 million or 25% represented the total commitment under the Term Loan and was the basis for allocating a portion of the deferred financing costs to the Term Loan. Unamortized total deferred financing costs were

\$2.4 million and \$2.5 million at September 25, 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)	Sep. 25, 2016	Dec. 31, 2015
Total long-term debt	\$280,855	\$204,484
Less: Net deferred financing costs related to Term Loan	(610)	(628)
Total long-term debt, net of deferred financing costs	280,245	203,856
Less: current maturities of long-term debt	(15,766)	(10,714)
Total long-term debt, less current maturities, net	\$264,479	\$193,142

(thousands)	Sep. 25, 2016	Dec. 31, 2015
Total deferred financing costs, net	\$2,440	\$2,513
Less: Net deferred financing costs related to Term Loan	(610)	(628)
Net deferred financing costs related to 2015 Revolver	\$1,830	\$1,885

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)	Sep. 25, 2016	Dec. 31, 2015
Raw materials	\$72,852	\$52,601
Work in process	6,045	5,529
Finished goods	10,266	10,450
Less: reserve for inventory obsolescence	(2,757)	(1,897)
Total manufactured goods, net	86,406	66,683
Materials purchased for resale (distribution products)	31,315	24,406
Less: reserve for inventory obsolescence	(1,606)	(1,611)
Total materials purchased for resale (distribution products), net	29,709	22,795
Total inventories	\$116,115	\$89,478

5. GOODWILL AND INTANGIBLE ASSETS

The Company acquired intangible assets in various acquisitions in 2015 and through the first nine months of 2016 that were determined to be business combinations. The goodwill recognized is expected to be deductible for income tax purposes for each of the 2015 and 2016 acquisitions with the exception of the acquisition of BH Electronics, Inc. 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 third quarter and nine months ended September 25, 2016 and September 27, 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 nine months of 2016.

The Company acquired intangible assets in various acquisitions in the first nine months of 2016 that are shown in the table below on a preliminary basis pending the finalization of all required purchases accounting adjustments. See Note 6 for additional details.

(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	\$ 5,325	\$ 16,125
The Progressive Group	3,840	410	1,280	5,530	2,951	8,481
Canam Holdings, Inc.	4,592	510	1,531	6,633	3,572	10,205
Mishawaka Sheet Metal, LLC	4,399	489	1,466	6,354	3,421	9,775
L.S. Manufacturing, Inc.	3,982	443	1,327	5,752	3,096	8,848
BH Electronics, Inc.	13,063	1,451	4,354	18,868	13,660	32,528

Goodwill

Changes in the carrying amount of goodwill for the nine months ended September 25, 2016 by segment are as follows:

(thousands)	Manufacturing	Distribution	Total
Balance - December 31, 2015	\$ 62,285	\$ 6,321	\$68,606
Acquisitions	29,074	2,951	32,025
Other	169	—	169
Balance - September 25, 2016	\$ 91,528	\$ 9,272	\$100,800

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 25, 2016, the other intangible assets balance of \$150.8 million is comprised of \$37.9 million of trademarks which have an indefinite life, and therefore, no amortization expense has been recorded, and \$112.9 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., The Progressive Group, Canam Holdings, Inc., Mishawaka Sheet Metal, LLC, Vacuplast, LLC d/b/a L.S. Manufacturing, Inc., and BH Electronics, Inc., the useful life pertaining to non-compete agreements and to customer relationships for all six of these acquisitions was 5 years and 10 years, respectively.

Amortization expense for the Company's intangible assets in the aggregate was \$9.7 million and \$6.0 million for the nine months ended September 25, 2016 and September 27, 2015, respectively.

Other intangible assets, net consist of the following as of September 25, 2016 and December 31, 2015:

(thousands)	Sep. 25, 2016	Weighted Average Useful Life (in years)	Dec. 31, 2015	Weighted Average Useful Life (in years)
Customer relationships	\$128,364	10.2	\$91,164	10.4
Non-compete agreements	13,120	3.7	9,012	3.4
Trademarks	37,946	Indefinite	25,487	Indefinite

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	179,430	125,663
Less: accumulated amortization (28,584)		(18,904)
Other intangible assets, net	\$ 150,846	\$ 106,759

9

Changes in the carrying value of other intangible assets for the nine months ended September 25, 2016 by segment are as follows:

(thousands)	Manufacturing	Distribution	Total
Balance - December 31, 2015	\$ 95,359	\$ 11,400	\$ 106,759
Acquisitions	48,407	5,530	53,937
Amortization	(7,639)	(2,041)	(9,680)
Other	(170)	—	(170)
Balance - September 25, 2016	\$ 135,957	\$ 14,889	\$ 150,846

6. ACQUISITIONS

General

The Company completed six acquisitions in the first nine months of 2016 and three acquisitions in 2015, each of which occurred in the first nine 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 third quarter ended September 25, 2016, revenue and operating income of approximately \$32.9 million and \$3.5 million, respectively, were included in the Company's condensed consolidated statements of income relating to the businesses acquired in 2016. The first nine months of 2016 included revenue and operating income of approximately \$52.9 million and \$5.8 million, respectively, related to the businesses acquired in 2016.

Acquisition-related costs associated with the businesses acquired in 2016 were immaterial.

For the third quarter ended September 27, 2015, revenue and operating income of approximately \$26.1 million and \$2.9 million, respectively, were included in the Company's condensed consolidated statements of income relating to the businesses acquired in 2015. The first nine months of 2015 included revenue and operating income of approximately \$46.4 million and \$5.9 million, respectively, related to the businesses acquired in 2015.

Acquisition-related costs associated with the businesses acquired in 2015 were immaterial.

2016 Acquisitions

BH Electronics, Inc. ("BHE")

In July 2016, the Company acquired 100% of the outstanding capital stock of BHE, a major designer, engineer and manufacturer of custom thermoformed dash panel assemblies, center consoles and trim panels, complete electrical systems, and related components and parts, primarily for recreational boat manufacturers in the U.S., for a net purchase price of \$35.0 million.

The acquisition of BHE, with operating facilities located in Tennessee and Georgia, provides the opportunity for the Company to expand its product offerings to the marine industry and increase its market share and per unit content. The results of operations for BHE 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 first quarter of 2017. The following summarizes the estimated fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

10

(thousands)

Trade receivables	\$2,915
Inventories	3,799
Property, plant and equipment	704
Accounts payable and accrued liabilities	(4,946)
Intangible assets	18,868
Goodwill	13,660
Total net assets acquired	\$35,000

Vacuplast, LLC d/b/a L.S. Manufacturing, Inc. ("LS Mfg.")

In July 2016, the Company acquired the business and certain assets of Elkhart, Indiana-based LS Mfg., a manufacturer of a wide variety of thermoformed plastic parts and components, primarily serving the recreational vehicle ("RV") industry as well as certain industrial markets, for a net purchase price of \$10.3 million.

The acquisition of LS Mfg. provides the opportunity for the Company to expand its product offerings in its existing thermoformed parts and components platform and increase its market share and per unit content. The results of operations for LS Mfg. 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 first quarter of 2017. The following summarizes the estimated fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

(thousands)

Trade receivables	\$621
Inventories	1,455
Property, plant and equipment	400
Prepaid expenses	1
Accounts payable and accrued liabilities	(1,075)
Intangible assets	5,752
Goodwill	3,096
Total net assets acquired	\$10,250

Mishawaka Sheet Metal, LLC ("MSM")

In June 2016, the Company acquired the business and certain assets of Elkhart, Indiana-based MSM, a fabricator of a wide variety of aluminum and steel products primarily serving the RV and industrial markets, for a net purchase price of \$13.9 million.

The acquisition of MSM provides the opportunity for the Company to further expand its presence in the aluminum and steel products market and increase its product offerings, market share and per unit content. The results of operations for MSM 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 first quarter of 2017. The following summarizes the estimated fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

(thousands)

Trade receivables	\$2,054
Inventories	1,610
Property, plant and equipment	1,575
Prepaid expenses	4
Accounts payable and accrued liabilities	(1,091)
Intangible assets	6,354
Goodwill	3,421
Total net assets acquired	\$13,927

Cana Holdings Inc. ("Cana")

In May 2016, the Company acquired the business and certain assets of Cana, a custom cabinetry manufacturer, primarily serving the manufactured housing ("MH") industry and the residential, hospitality and institutional markets, for a net purchase price of \$16.5 million.

The acquisition of Cana, with operating facilities located in Elkhart, Indiana and Americus, Georgia, provides the opportunity for the Company to capitalize on its existing cabinetry manufacturing expertise and increase its product offerings, market share and per unit content. The results of operations for Cana 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 first quarter of 2017. The following summarizes the estimated fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

(thousands)

Trade receivables	\$646
Inventories	1,151
Property, plant and equipment	5,145
Prepaid expenses	29
Accounts payable and accrued liabilities	(655)
Intangible assets	6,633
Goodwill	3,572
Total net assets acquired	\$16,521

Parkland Plastics, Inc. ("Parkland")

In February 2016, the Company acquired 100% of the outstanding capital stock of Middlebury, Indiana-based Parkland, a fully integrated designer and manufacturer 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 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 offerings, 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 first quarter of 2017. 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	2,986
Prepaid expenses	96
Accounts payable and accrued liabilities	(2,100)
Intangible assets	10,800
Goodwill	5,325
Total net assets acquired	\$25,371

The Progressive Group ("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 first quarter of 2017. 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 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 \$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 third quarter and nine months ended September 25, 2016 and September 27, 2015, assumes the Parkland, Progressive, Cana, MSM, LS Mfg. and BHE 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, Cana, MSM, LS Mfg., BHE, 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 (i) \$0.1 million and \$1.9 million for the third quarter and nine months ended September 25, 2016, respectively, and (ii) \$1.6 million and \$5.7 million for the third quarter and nine months ended September 27, 2015, respectively.

	Third Quarter		Nine Months	
	Ended	Ended	Ended	Ended
(thousands except per share data)	Sep. 25, 2016	Sep. 27, 2015	Sep. 25, 2016	Sep. 27, 2015
Revenue	\$306,611	\$278,248	\$957,177	\$910,163
Net income	12,220	12,331	45,300	41,926
Basic net income per common share	0.81	0.80	3.02	2.74
Diluted net income per common share	0.80	0.80	2.98	2.71

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 \$1.7 million and \$1.2 million for the third quarters ended September 25, 2016 and September 27, 2015, respectively, for its stock-based compensation plans on the condensed consolidated statements of income. For the first nine months of 2016 and 2015, the Company recorded \$4.8 million and \$3.4 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.

For the full year 2015, the Board of Directors (the “Board”) approved various share grants under the Company’s 2009 Omnibus Incentive Plan (the “Plan”) totaling 145,690 shares in the aggregate, of which grants of 140,440 shares were approved in the first nine months of 2015. In addition, on March 30, 2015, the Board granted 22,001 restricted stock units (“RSUs”).

In the first nine months of 2016, the Board approved various share grants under the Plan totaling 154,981 shares in the aggregate. In addition, on February 23, 2016, the Board granted 22,000 RSUs.

As of September 25, 2016, there was approximately \$8.7 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 15.8 months

At the beginning of the Company’s fiscal fourth quarter of 2016, the Board approved the issuance of 80,592 shares that may be issued upon the exercise of stock options that were granted on September 26, 2016, and the issuance of 80,592 shares that may be issued upon the exercise of stock appreciation rights that were granted on September 26, 2016.

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.

Income per common share is calculated for the third quarter and nine months periods as follows:

	Third Quarter Ended		Nine Months Ended	
(thousands except per share data)	Sep. 25, 2016	Sep. 27, 2015	Sep. 25, 2016	Sep. 27, 2015
Net income for basic and diluted per share calculation	\$12,025	\$8,960	\$40,761	\$30,183
Weighted average common shares outstanding - basic	15,048	15,342	15,002	15,327
Effect of potentially dilutive securities	187	190	180	180
Weighted average common shares outstanding - diluted	15,235	15,532	15,182	15,507
Basic net income per common share	\$0.80	\$0.58	\$2.72	\$1.97
Diluted net income per common share	\$0.79	\$0.58	\$2.68	\$1.95

9. DEBT

A summary of total debt outstanding at September 25, 2016 and December 31, 2015 is as follows:

(thousands)	Sep. 25, 2016	Dec. 31, 2015
Long-term debt:		
2015 Revolver	\$190,246	\$137,520
Term Loan	90,609	66,964

Total long-term debt	280,855	204,484
Less: current maturities of long-term debt		