

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 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.

## **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 will not have a material impact on the Company's 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)	<b>June 28, 2015</b>	Dec. 31, 2014
Raw materials	<b>\$39,450</b>	\$39,283
Work in process	<b>5,817</b>	5,607
Finished goods	<b>4,852</b>	4,897
Less: reserve for inventory obsolescence	<b>(1,681 )</b>	(1,288 )
Total manufactured goods, net	<b>48,438</b>	48,499
Materials purchased for resale (distribution products)	<b>26,037</b>	23,049
Less: reserve for inventory obsolescence	<b>(1,047 )</b>	(528 )
Total materials purchased for resale (distribution products), net	<b>24,990</b>	22,521
Total inventories	<b>\$73,428</b>	\$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"), and Structural Composites of Indiana, Inc. ("SCI"). While Gravure Ink, AIA, Infinity Graphics, Décor, Creative Wood, Middlebury Hardwoods, Frontline, Premier, Precision, Foremost, PolyDyn3, Charleston, Better Way and SCI 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 second quarter and six months ended June 28, 2015 and June 29, 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 six months of 2015.

In February 2015, the Company acquired the business and certain assets of Better Way. The purchase was determined to be a business combination and the intangible assets recorded as a result of the acquisition included (in thousands): customer relationships - \$15,935; trademarks - \$3,340; non-compete agreements - \$630; and goodwill - \$11,177. The goodwill recognized in this transaction is expected to be deductible for income tax purposes. Better Way is included in the Manufacturing segment. See Note 5 for further details.

In May 2015, the Company acquired the business and certain assets of SCI. The purchase was determined to be a business combination and the intangible assets recorded as a result of the acquisition included (in thousands): customer relationships - \$9,301; trademarks - \$1,723; non-compete agreements - \$363; and goodwill - \$6,744. The

goodwill recognized in this transaction is expected to be deductible for income tax purposes. SCI is included in the Manufacturing segment. See Note 5 for further details.

## Goodwill

Changes in the carrying amount of goodwill for the six months ended June 28, 2015 by segment are as follows:

(thousands)	Manufacturing	Distribution	Total
Balance - December 31, 2014	\$ 25,309	\$ 6,321	\$31,630
<b>Acquisitions</b>	<b>17,921</b>	<b>-</b>	<b>17,921</b>
<b>Balance - June 28, 2015</b>	<b>\$ 43,230</b>	<b>\$ 6,321</b>	<b>\$49,551</b>

## 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 June 28, 2015, the other intangible assets balance of \$77.2 million is comprised of \$14.1 million of trademarks which have an indefinite life, and therefore, no amortization expense has been recorded, and \$63.1 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 and SCI, the useful life pertaining to non-compete agreements was five years and three years, respectively, and the useful life pertaining to customer relationships for both of these acquisitions was 10 years.

Other intangible assets, net consist of the following as of June 28, 2015 and December 31, 2014:

(thousands)	June 28, 2015	Weighted	Dec. 31, 2014	Weighted
		Average Useful Life (years)		Average Useful Life (years)
Customer relationships	\$69,505	10	\$44,269	11
Non-compete agreements	7,393	3.5	6,350	3
Trademarks	14,057		8,994	
	90,955		59,613	
Less: accumulated amortization	(13,710)		(10,069)	
<b>Other intangible assets, net</b>	<b>\$77,245</b>		<b>\$49,544</b>	

Changes in the carrying value of other intangible assets for the six months ended June 28, 2015 by segment are as follows:

(thousands)	Manufacturing	Distribution	Total
Balance - December 31, 2014	\$ 36,491	\$ 13,053	\$49,544
<b>Acquisitions</b>	<b>31,342</b>	<b>-</b>	<b>31,342</b>
<b>Amortization</b>	<b>(2,815)</b>	<b>(826)</b>	<b>(3,641)</b>
<b>Balance - June 28, 2015</b>	<b>\$ 65,018</b>	<b>\$ 12,227</b>	<b>\$77,245</b>

## 5. ACQUISITIONS

### General

The Company completed a total of four acquisitions in 2014 and two acquisitions in the first six 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 second quarter ended June 28, 2015, revenue and operating income of approximately \$13.8 million and \$2.2 million, respectively, was included in the Company's condensed consolidated statements of income pertaining to the two businesses acquired in 2015. The comparable six months period included revenue and operating income of approximately \$20.3 million and \$3.0 million, respectively. Acquisition-related costs associated with the businesses acquired in 2015 were immaterial.

For both the second quarter and six months ended June 29, 2014, revenue of approximately \$1.6 million was included in the Company's condensed consolidated statements of income pertaining to the two businesses acquired in the second quarter of 2014. Operating income for both the comparable periods was immaterial. Acquisition-related costs associated with the businesses acquired in 2014 were immaterial.

## 2015 Acquisitions

### *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 second half 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 purchase price	\$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 \$40.4 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 third 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	11,177
Total net purchase price	\$40,450

### *Pro Forma Information*

The following pro forma information for the second quarter and six months ended June 28, 2015 and June 29, 2014 assumes the Better Way and SCI 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, 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. There were no actual operating results in the second quarter and six months of 2014 related to the acquisition of Foremost since Foremost was acquired on the last business day of the second quarter ended June 29, 2014. 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) \$0.2 million and \$0.7 million for the second quarter and six months ended June 28, 2015, respectively, and (ii) \$0.7 million and \$1.4 million for the second quarter and six months ended June 29, 2014, respectively.

Six Months Ended

	Second Quarter			
	Ended		Ended	
(thousands except per share data)	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Revenue	\$236,255	\$237,112	\$470,213	\$453,955
Net income	12,376	11,357	22,814	20,136
Net income per share – basic	0.81	0.70	1.49	1.25
Net income per share – diluted	0.80	0.70	1.47	1.25

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 second quarters ended June 28, 2015 and June 29, 2014, respectively, for its stock-based compensation plans on the condensed consolidated statements of income. For the comparable six months periods, the Company recorded \$2.2 million and \$1.6 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 six months of 2015: 127,629 shares on February 16, 2015, 300 shares on April 1, 2015, and 12,064 shares on May 19, 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 June 28, 2015, there was approximately \$8.2 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 21.0 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 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 second quarter and six months periods as follows:

	Second Quarter Ended		Six Months Ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
(thousands except per share data)				
Net income for basic and diluted per share calculation	\$12,073	\$9,231	\$21,223	\$16,127
Weighted average common shares outstanding - basic	15,312	16,061	15,319	16,057
Effect of potentially dilutive securities	201	81	179	75
Weighted average common shares outstanding - diluted	15,513	16,142	15,498	16,132
Basic net income per common share	\$0.79	\$0.57	\$1.39	\$1.00
Diluted net income per common share	\$0.78	\$0.57	\$1.37	\$1.00



**8. DEBT**

A summary of total debt outstanding at June 28, 2015 and December 31, 2014 is as follows:

(thousands)	<b>June 28, 2015</b>	Dec. 31, 2014
Long-term debt:		
Revolver	<b>\$75,000</b>	\$101,054
Term loan	<b>75,000</b>	-
Total long-term debt	<b>150,000</b>	101,054
Less: current maturities of long-term debt	<b>10,714</b>	-
Total long-term debt, less current maturities	<b>\$139,286</b>	\$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 discussed below.

**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.

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 Company has the option to increase the 2015 Revolver by an amount up to \$50.0 million, subject to certain conditions.

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 June 28, 2015, the Company had (i) \$75.0 million outstanding under the Term Loan, which consisted of \$72.3 million of borrowings under the LIBOR-based option and \$2.7 million of borrowings under the Based Rate-based option, and (ii) \$75.0 million outstanding under its 2015 Revolver under the LIBOR-based option. 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 Base Rate-based option. The interest rate for borrowings at both June 28, 2015 and December 31, 2014 was the Prime Rate plus 0.50% (or 3.75%), or LIBOR plus 1.50% (or 1.6875%). The fee payable on committed but unused portions of the Revolver was 0.20% for both of these periods.

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

The consolidated total leverage ratio is the ratio for any period of (i) consolidated total indebtedness 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) principal payments on outstanding indebtedness under the Term Loan.

As of and for the June 28, 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 and for the fiscal six-month period ended June 28, 2015 are as follows:

	Required	Actual
Consolidated total leverage ratio (12-month period)	3.00	1.64
Consolidated fixed charge coverage ratio (12-month period)	1.50	3.57

Interest paid for the second quarter and first six months of 2015 was \$0.9 million and \$1.7 million, respectively. For the comparable 2014 periods, interest paid was \$0.5 million and \$1.0 million, respectively.

## **9. FAIR VALUE MEASUREMENTS**

The carrying amounts of cash and cash equivalents, trade receivables, and accounts payable approximated fair value as of June 28, 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 June 28, 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 full year effective rate of 38.0% in the second quarter and first six months of 2015. For the comparable 2014 periods, the estimated full year 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 \$1.1 million were remaining to be utilized as of June 28, 2015. The Company estimates that it will utilize a significant majority of the remaining state NOLs by the end of 2015.

In the first six months of 2015 and 2014, the Company realized approximately \$1.2 million and \$1.1 million, respectively, of excess tax benefits on stock-based compensation, which had not been recorded as deferred tax assets at December 31, 2014 and 2013, respectively. These tax benefits were recorded to shareholders’ equity upon realization in 2015 and 2014.

The Company paid income taxes of \$10.3 million and \$12.0 million in the second quarter and first six months of 2015, respectively. For both the comparable periods in 2014, the Company paid income taxes of \$10.4 million.

## 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 a cabinet door division, a fiberglass bath fixtures division, a hardwood furniture division, a vinyl printing division, a solid surface, granite, and quartz countertop fabrication division, an exterior graphics division, an RV painting division, a fabricated aluminum products division, a simulated wood and stone products division, and a fiberglass and plastic components division. 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 76% of the Company's net sales for the six months ended June 28, 2015 and June 29, 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 24% of the Company's net sales for the six months ended June 28, 2015 and June 29, 2014, respectively.

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

**Second Quarter Ended June 28, 2015**

(thousands)	Manufacturing	Distribution	Total
Net outside sales	\$ 179,613	\$ 53,868	\$233,481
Intersegment sales	4,875	635	5,510
Total sales	184,488	54,503	238,991
Operating income	21,211	3,562	24,773

**Second Quarter Ended June 29, 2014**

(thousands)	Manufacturing	Distribution	Total
Net outside sales	\$ 142,948	\$ 44,907	\$187,855
Intersegment sales	5,253	634	5,887
Total sales	148,201		\$- \$-

(dollars in thousands)	June 30, 2015					
	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for loan losses:						
Balance, end of period	\$2,819	\$ 899	\$ 4,956	\$ 758	\$ 2,866	\$12,298
Ending Balance: individually evaluated for impairment	\$-	\$ -	\$ -	\$ -	\$ 160	\$160
Ending Balance: collectively evaluated for impairment	\$2,819	\$ 899	\$ 4,956	\$ 758	\$ 2,706	\$12,138
Ending Balance: loans acquired with deteriorated credit quality	\$-	\$ -	\$ -	\$ -	\$ -	\$-
Loans:						
Ending Balance: individually evaluated for impairment	\$-	\$ -	\$ -	\$ -	\$ 675	\$675
Ending Balance: collectively evaluated for impairment	\$374,186	\$ 42,655	\$ 394,028	\$ 46,560	\$ 190,128	\$1,047,557
Ending Balance: loans acquired with deteriorated credit quality	\$3,279	\$ 1,861	\$ 10,692	\$ 210	\$ 1,083	\$17,125

Management's opinion as to the ultimate collectability of loans is subject to estimates regarding future cash flows from operations and the value of property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of borrowers.

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to cover probable credit losses inherent in the loan portfolio at the balance sheet date. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when an amount is determined to be uncollectible, based on management's analysis of expected cash flow (for non-collateral-dependent loans) or collateral value (for collateral-dependent loans). Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

Under the Company's methodology, loans are first segmented into 1) those comprising large groups of smaller-balance homogeneous loans, including single-family mortgages and installment loans, which are collectively evaluated for impairment, and 2) all other loans which are individually evaluated. Those loans in the second category are further segmented utilizing a defined grading system which involves categorizing loans by severity of risk based on conditions that may affect the ability of the borrowers to repay their debt, such as current financial information, collateral valuations, historical payment experience, credit documentation, public information, and current trends. The loans subject to credit classification represent the portion of the portfolio subject to the greatest credit risk and where adjustments to the allowance for losses on loans as a result of provision and charge offs are most likely to have a significant impact on operations.

A periodic review of selected credits (based on loan size and type) is conducted to identify loans with heightened risk or probable losses and to assign risk grades. The primary responsibility for this review rests with loan administration personnel. This review is supplemented with periodic examinations of both selected credits and the credit review process by the Company's internal audit function and applicable regulatory agencies. The information from these reviews assists management in the timely identification of problems and potential problems and provides a basis for deciding whether the credit represents a probable loss or risk that should be recognized.

A loan is considered impaired when, based on current information and events, it is probable that the scheduled payments of principal or interest will not be able to be collected when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and agricultural loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair

value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, individual consumer and residential loans are not separately identified for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

The general component covers non-impaired loans and is based on quantitative and qualitative factors. The loan portfolio is stratified into homogeneous groups of loans that possess similar loss characteristics and an appropriate

loss ratio adjusted for qualitative factors is applied to the homogeneous pools of loans to estimate the incurred losses in the loan portfolio.

Included in the Company's loan portfolio are certain loans accounted for in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. These loans were written down at acquisition to an amount estimated to be collectible. As a result, certain ratios regarding the Company's loan portfolio and credit quality cannot be used to compare the Company to peer companies or to compare the Company's current credit quality to prior periods. The ratios particularly affected by accounting under ASC 310-30 include the allowance for loan losses as a percentage of loans, nonaccrual loans, and nonperforming assets, and nonaccrual loans and nonperforming loans as a percentage of total loans.

The following tables present the credit risk profile of the Company's loan portfolio (excluding loans in process and deferred loan fees) based on rating category and payment activity as of September 30, 2015 and June 30, 2015. These tables include purchased credit impaired loans, which are reported according to risk categorization after acquisition based on the Company's standards for such classification:

(dollars in thousands)	September 30, 2015				
	Residential		Construction	Commercial	
	Estate	Real Estate	Real Estate	Consumer	Commercial
Pass	\$379,327	\$ 43,200	\$ 396,398	\$ 46,319	\$ 196,490
Watch	1,068	-	4,204	68	102
Special Mention	-	-	-	-	-
Substandard	3,286	133	8,369	194	2,661
Doubtful	-	-	-	-	-
Total	\$383,681	\$ 43,333	\$ 408,971	\$ 46,581	\$ 199,253

(dollars in thousands)	June 30, 2015				
	Residential		Construction	Commercial	
	Estate	Real Estate	Real Estate	Consumer	Commercial
Pass	\$372,797	\$ 44,383	\$ 392,063	\$ 46,513	\$ 188,784
Watch	1,155	-	4,636	72	119
Special Mention	-	-	-	-	-
Substandard	3,513	133	8,021	185	2,983
Doubtful	-	-	-	-	-
Total	\$377,465	\$ 44,516	\$ 404,720	\$ 46,770	\$ 191,886

The above amounts include purchased credit impaired loans. At September 30, 2015, purchased credited impaired loans comprised \$6.4 million of credits rated "Pass"; \$3.6 million of credits rated "Watch"; none rated "Special Mention"; \$6.7 million of credits rated "Substandard"; and none rated "Doubtful". At June 30, 2015, purchased credit impaired loans accounted for \$6.4 million of credits rated "Pass"; \$4.0 million of credits rated "Watch"; none rated "Special Mention"; \$6.7 million of credits rated "Substandard"; and none rated "Doubtful".

Credit Quality Indicators. The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on all loans at origination, and is updated on a quarterly basis for loans risk rated "Special Mention", "Substandard", or "Doubtful". In addition, lending



relationships over \$250,000 are subject to an independent loan review following origination, and lending relationships in excess of \$1.0 million are subject to an independent loan review annually, in order to verify risk ratings. The Company uses the following definitions for risk ratings:

**Watch** – Loans classified as watch exhibit weaknesses that require more than usual monitoring. Issues may include deteriorating financial condition, payments made after due date but within 30 days, adverse industry conditions or management problems.

**Special Mention** – Loans classified as special mention exhibit signs of further deterioration but still generally make payments within 30 days. This is a transitional rating and loans should typically not be rated Special Mention for more than 12 months

**Substandard** – Loans classified as substandard possess weaknesses that jeopardize the ultimate collection of the principal and interest outstanding. These loans exhibit continued financial losses, ongoing delinquency,

overall poor financial condition, and insufficient collateral. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all the weaknesses of substandard loans, and have deteriorated to the level that there is a high probability of substantial loss.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass rated loans.

The following tables present the Company's loan portfolio aging analysis (excluding loans in process and deferred loan fees) as of September 30 and June 30, 2015. These tables include purchased credit impaired loans, which are reported according to aging analysis after acquisition based on the Company's standards for such classification:

September 30, 2015

(dollars in thousands)	30-59	60-89	Greater	Total	Current	Total	Total
	Days	Days	Than				
	Past	Past	90	Past		Loans	Loans >
	Due	Due	Days	Due		Receivable	90
							Days &
							Accruing
Real Estate Loans:							
Residential	\$1,339	\$ 61	\$1,755	\$3,155	\$380,526	\$383,681	\$ -
Construction	101	-	132	233	43,100	43,333	-
Commercial	450	-	344	794	408,177	408,971	-
Consumer loans	1,161	-	78	1,239	45,342	46,581	50
Commercial loans	250	-	6	256	198,997	199,253	-
Total loans	\$3,301	\$ 61	\$2,315	\$5,677	\$1,076,142	\$1,081,819	\$ 50

June 30, 2015

(dollars in thousands)	30-59	60-89	Greater	Total	Current	Total	Total
	Days	Days	Than				
	Past	Past	90	Past		Loans	Loans >
	Due	Due	Days	Due		Receivable	90
							Days &
							Accruing
Real Estate Loans:							
Residential	\$1,143	\$1,645	\$ 439	\$3,227	\$374,238	\$377,465	\$ -
Construction	113	-	132	245	44,271	44,516	-
Commercial	350	246	34	630	404,090	404,720	-
Consumer loans	260	11	48	319	46,451	46,770	34
Commercial loans	375	127	30	532	191,354	191,886	11
Total loans	\$2,241	\$2,029	\$ 683	\$4,953	\$1,060,404	\$1,065,357	\$ 45

At September 30, 2015, there were two purchased credit impaired loan totaling \$1.5 million that were greater than 90 days past due, and none at June 30, 2015.

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans, as well as performing loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The tables below present impaired loans (excluding loans in process and deferred loan fees) as of September 30 and June 30, 2015. These tables include purchased credit impaired loans. Purchased credit impaired loans are those for which it was deemed probable, at acquisition, that the Company would be unable to collect all contractually required payments receivable. In an instance where, subsequent to the acquisition, the Company determines it is probable, for a specific loan, that cash flows received will exceed the amount previously expected, the Company will recalculate the amount of accretable yield in order to recognize the improved cash flow expectation as additional interest income over the remaining life of the loan. These loans, however, will continue to be reported as impaired loans. In an instance where, subsequent to the acquisition, the Company determines it is probable, for a specific loan, that cash flows received will be less than the amount previously expected, the Company will allocate a specific allowance under the terms of ASC 310-10-35.

	September 30, 2015		
		Unpaid	
(dollars in thousands)	Recorded	Principal	Specific
	Balance	Balance	Allowance
Loans without a specific valuation allowance:			
Residential real estate	\$3,458	\$ 3,714	\$ -
Construction real estate	1,832	2,783	-
Commercial real estate	12,689	14,473	-
Consumer loans	33	33	-
Commercial loans	1,890	1,981	-
Loans with a specific valuation allowance:			
Residential real estate	\$-	\$-	\$ -
Construction real estate	-	-	-
Commercial real estate	-	-	-
Consumer loans	-	-	-
Commercial loans	651	651	144
Total:			
Residential real estate	\$3,458	\$ 3,714	\$ -
Construction real estate	\$1,832	\$ 2,783	\$ -
Commercial real estate	\$12,689	\$ 14,473	\$ -
Consumer loans	\$33	\$ 33	\$ -
Commercial loans	\$2,541	\$ 2,632	\$ 144

	June 30, 2015		
		Unpaid	
(dollars in thousands)	Recorded	Principal	Specific
	Balance	Balance	Allowance
Loans without a specific valuation allowance:			
Residential real estate	\$3,552	\$ 3,814	\$ -
Construction real estate	1,861	2,806	-
Commercial real estate	12,772	14,602	-
Consumer loans	245	241	-
Commercial loans	1,340	1,437	-
Loans with a specific valuation allowance:			
Residential real estate	\$-	\$-	\$ -
Construction real estate	-	-	-
Commercial real estate	-	-	-
Consumer loans	-	-	-
Commercial loans	675	675	160
Total:			
Residential real estate	\$3,552	\$ 3,814	\$ -
Construction real estate	\$1,861	\$ 2,806	\$ -
Commercial real estate	\$12,772	\$ 14,602	\$ -
Consumer loans	\$245	\$ 241	\$ -
Commercial loans	\$2,015	\$ 2,112	\$ 160

The above amounts include purchased credit impaired loans. At September 30, 2015, purchased credit impaired loans comprised \$16.7 million of impaired loans without a specific valuation allowance; none with a specific valuation allowance; and \$16.7 million of total impaired loans. At June 30, 2015, purchased credit impaired loans comprised

\$17.1 million of impaired loans without a specific valuation allowance; none with a specific valuation allowance; and \$17.1 million of total impaired loans.

The following tables present information regarding interest income recognized on impaired loans:

(dollars in thousands)	For the three-month period ended September 30, 2015	
	Average Investment in Impaired Loans	Interest Income Recognized
Residential Real Estate	\$3,210	\$ 28
Construction Real Estate	1,847	37
Commercial Real Estate	10,655	184
Consumer Loans	105	2
Commercial Loans	1,077	19
Total Loans	\$16,894	\$ 270

(dollars in thousands)	For the three-month period ended September 30, 2014	
	Average Investment in Impaired Loans	Interest Income Recognized
Residential Real Estate	\$2,952	\$ 69
Construction Real Estate	1,324	50
Commercial Real Estate	6,818	189
Consumer Loans	98	3
Commercial Loans	617	14
Total Loans	\$11,809	\$ 325

Interest income on impaired loans recognized on a cash basis in the three-month periods ended September 30, 2015 and 2014, was immaterial.

For the three-month period ended September 30, 2015, the amount of interest income recorded for impaired loans that represented a change in the present value of cash flows attributable to the passage of time was approximately \$49,000, as compared to \$30,000, for the three-month period ended September 30, 2014.

The following table presents the Company's nonaccrual loans at September 30 and June 30, 2015. The table excludes performing troubled debt restructurings.

(dollars in thousands)	September 30, 2015	June 30, 2015
Residential real estate	\$ 2,109	\$2,202
Construction real estate	133	133
Commercial real estate	1,664	1,271
Consumer loans	96	88

Commercial loans	20	63
Total loans	\$ 4,022	\$ 3,757

The above amounts include purchased credit impaired loans. At September 30 and June 30, 2015, these loans comprised \$2.8 million and \$2.4 million of nonaccrual loans, respectively.

Included in certain loan categories in the impaired loans are troubled debt restructurings (TDRs), where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities, and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructuring and typically are returned to performing status after considering the borrower's sustained repayment performance for a reasonable period of at least six months.

When loans and leases are modified into a TDR, the Company evaluates any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan or lease agreement, and uses the current fair value of the collateral, less selling costs, for collateral dependent loans. If the Company determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs, and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to

modification, the Company evaluates all TDRs, including those that have payment defaults, for possible impairment and recognizes impairment through the allowance.

During the three-month periods ended September 30, 2015 and 2014, certain loans were classified as TDRs. They are shown, segregated by class, in the table below:

(dollars in thousands)	For the three-month period ended			
	September 30, 2015		September 30, 2014	
	Number	Recorded Investment	Number	Recorded Investment
	of	of	of	of
	modification	modification	modification	modification
Residential real estate	2	\$ 49	-	\$ -
Construction real estate	-	-	-	-
Commercial real estate	-	-	-	-
Consumer loans	-	-	-	-
Commercial loans	2	564	-	-
Total	4	\$ 613	-	\$ -

Performing loans classified as TDRs and outstanding at September 30 and June 30, 2015, segregated by class, are shown in the table below. Nonperforming TDRs are shown as nonaccrual loans.

(dollars in thousands)	September 30, 2015				June 30, 2015			
	Number	Recorded Investment	Number	Recorded Investment	Number	Recorded Investment	Number	Recorded Investment
	of	of	of	of	of	of	of	of
	modification	modification	modification	modification	modification	modification	modification	modification
Residential real estate	7	\$ 488	7	\$ 602				
Construction real estate	-	-	-	-				
Commercial real estate	14	4,626	14	4,666				
Consumer loans	-	-	-	-				
Commercial loans	5	1,835	3	1,280				
Total	26	\$ 6,949	24	\$ 6,548				

Note 5: Accounting for Certain Loans Acquired in a Transfer

The Company acquired loans in transfers during the fiscal years ended June 30, 2011 and June 30, 2015. At acquisition, certain transferred loans evidenced deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

Loans purchased with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of the purchase date may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. Purchased credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30) and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for credit losses related to these loans is not carried over and recorded at the acquisition date. Management estimated the cash flows expected to be collected at acquisition using our internal risk models, which



incorporate the estimate of current key assumptions, such as default rates, severity and prepayment speeds.

The carrying amount of those loans is included in the balance sheet amounts of loans receivable at September 30 and June 30, 2015. The amount of these loans is shown below:

(dollars in thousands)	September 30, 2015	June 30, 2015
Residential real estate	\$ 3,397	\$3,542
Construction real estate	2,783	2,806
Commercial real estate	12,401	12,523
Consumer loans	-	207
Commercial loans	1,161	1,180
Outstanding balance	\$ 19,742	\$20,258
Carrying amount, net of fair value adjustment of \$3,083 and \$3,132 at September 30, 2015 and June 30, 2015, respectively	\$ 16,659	\$17,126

Accretable yield, or income expected to be collected, is as follows:

(dollars in thousands)	For the three-month period ending September	
	30, 2015	September 30, 2014
Balance at beginning of period	\$547	\$ 380
Additions	-	4
Accretion	(49 )	(60 )
Reclassification from nonaccretable difference	84	-
Disposals	-	-
Balance at end of period	\$582	\$ 324

During the three-month periods ended September 30, 2015 and September 30, 2014, the Company did not increase the allowance for loan losses related to these purchased credit impaired loans. During the same periods, the Company did not reverse the allowance for loan losses related to these loans.

Note 6: Deposits

Deposits are summarized as follows:

(dollars in thousands)	September 30, 2015	June 30, 2015
Non-interest bearing accounts	\$122,341	\$117,471
NOW accounts	348,014	336,097
Money market deposit accounts	68,348	67,752
Savings accounts	123,137	131,884
Certificates	395,876	402,038
Total Deposit Accounts	\$1,057,716	\$1,055,242

Note 7: Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

(dollars in thousands except per share data)	Three months ended September 30,	
	2015	2014
Net income	\$3,635	\$3,299
Charge for early redemption of preferred stock issued at discount	-	-
Dividend payable on preferred stock	50	50
Net income available to common shareholders	\$3,585	\$3,249

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Average Common shares – outstanding basic	7,422,354	7,113,872
Stock options under treasury stock method	31,503	194,070
Average Common shares – outstanding diluted	7,453,857	7,307,942
Basic earnings per common share	\$0.48	\$0.46
Diluted earnings per common share	\$0.48	\$0.44

At September 30, 2015 and 2014, no options outstanding had an exercise price exceeding the market price.

Note 8: Income Taxes

The Company and its subsidiary files income tax returns in the U.S. Federal jurisdiction and various states. The Company is no longer subject to U.S. federal and state examinations by tax authorities for fiscal years before 2011. The Company recognized no interest or penalties related to income taxes.

The Company's income tax provision is comprised of the following components:

(dollars in thousands)	For the three-month period ended September 30, September 2015 30, 2014	
Income taxes		
Current	\$2,203	\$ 2,316
Deferred	(538 )	(935 )
Total income tax provision	\$ 1,665	\$ 1,381

The components of net deferred tax assets are summarized as follows:

	September 30, 2015	June 30, 2015
Deferred tax assets:		
Provision for losses on loans	\$ 5,295	\$5,037
Accrued compensation and benefits	322	538
Other-than-temporary impairment on available for sale securities	136	137
NOL carry forwards acquired	745	768
Minimum Tax Credit	130	130
Unrealized loss on other real estate	6	6
Other	881	319
Total deferred tax assets	7,515	6,935
Deferred tax liabilities:		
FHLB stock dividends	5	39
Purchase accounting adjustments	2,022	1,985
Depreciation	1,006	992
Prepaid expenses	106	81
Unrealized gain on available for sale securities	645	502
Total deferred tax liabilities	3,784	3,599
Net deferred tax asset	\$ 3,731	\$3,336

As of September 30 and June 30, 2015, the Company had approximately \$1.8 and \$5.2 million in federal and state net operating loss carryforwards, which were acquired in the July 2009 acquisition of Southern Bank of Commerce, the February 2014 acquisition of Citizens State Bankshares of Bald Knob, Inc. and the August 2014 acquisition of Peoples Service Company. The amount reported is net of the IRC Sec. 382 limitation, or state equivalent, related to utilization of net operating loss carryforwards of acquired corporations. Unless otherwise utilized, the net operating losses will begin to expire in 2027.

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax is shown below:

For the  
three-month period

	ended	
	September	
(dollars in thousands)	30,	September
	2015	30, 2014
Tax at statutory rate	\$1,855	\$ 1,591
Increase (reduction) in taxes		
resulting from:		
Nontaxable municipal income	(143 )	(131 )
State tax, net of Federal benefit	150	120
Cash surrender value of		
Bank-owned life insurance	(51 )	(49 )
Tax credit benefits	(63 )	(98 )
Other, net	(83 )	(53 )
Actual provision	\$1,665	\$ 1,381

Tax credit benefits are recognized under the flow-through method of accounting for investments in tax credits.

Note 9: 401(k) Retirement Plan

The Bank has a 401(k) retirement plan that covers substantially all eligible employees. The Bank makes "safe harbor" matching contributions of up to 4% of eligible compensation, depending upon the percentage of eligible pay deferred into the plan by the employee. Additional profit-sharing contributions of 4% of eligible salary were accrued for the plan year ended June 30, 2015, based on the financial performance for fiscal 2015. During the three-month period ended September 30, 2015, retirement plan expenses recognized for the Plan totaled approximately \$213,000, as compared to \$166,000 for the same period of the prior fiscal year.

Note 10: Subordinated Debt

Southern Missouri Statutory Trust I issued \$7.0 million of Floating Rate Capital Securities (the "Trust Preferred Securities") with a liquidation value of \$1,000 per share in March 2004. The securities bear interest at a floating rate based on LIBOR, are now redeemable at par, and mature in 2034. The securities represent undivided beneficial interests in the trust, which was established by Southern Missouri for the purpose of issuing the securities. The Trust Preferred Securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended (the "Act") and have not been registered under the Act. The securities may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Southern Missouri Statutory Trust I used the proceeds from the sale of the Trust Preferred Securities to purchase Junior Subordinated Debentures of Southern Missouri Bancorp. Southern Missouri Bancorp, Inc. used its net proceeds for working capital and investment in its subsidiaries.

In connection with its October 2013 acquisition of Ozarks Legacy Community Financial, Inc. (OLCF), the Company assumed \$3.1 million in floating rate junior subordinated debt securities. The debt securities had been issued in June 2005 by OLCF in connection with the sale of trust preferred securities, bear interest at a floating rate based on LIBOR, are now redeemable at par, and mature in 2035. The carrying value of the debt securities was approximately \$2.5 million at September 30, and June 30, 2015.

In connection with its August 2014 acquisition of Peoples Service Company, Inc. (PSC), the Company assumed \$6.5 million in floating rate junior subordinated debt securities. The debt securities had been issued in 2005 by PSC's subsidiary bank holding company, Peoples Banking Company, in connection with the sale of trust preferred securities, bear interest at a floating rate based on LIBOR, are now redeemable at par, and mature in 2035. The carrying value of the debt securities was approximately \$4.9 million at September 30, and June 30, 2015.

Note 11: Small Business Lending Fund

On July 21, 2011, as part of the Small Business Lending Fund (SBLF) of the United States Department of the Treasury (Treasury), the Company entered into a Small Business Lending Fund-Securities Purchase Agreement (Purchase Agreement) with the Secretary of the Treasury, pursuant to which the Company (i) sold 20,000 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series A (SBLF Preferred Stock) to the Secretary of the Treasury for a purchase price of \$20,000,000. The SBLF Preferred Stock was issued pursuant to the SBLF program, a \$30 billion fund established under the Small Business Jobs Act of 2010 that was created to encourage lending to small business by providing capital to qualified community banks with assets of less than \$10 billion.

The SBLF Preferred Stock qualifies as Tier 1 capital. The SBLF Preferred Stock is entitled to receive non-cumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first 10 quarters during which the SBLF Preferred Stock is outstanding, based upon changes in the Bank's level of Qualified Small

Business Lending (QBSL), as defined in the Purchase Agreement. Based upon the increase in the Bank's level of QBSL over the baseline level calculated under the terms of the Purchase Agreement, the dividend rate for the initial dividend period was set at 2.8155%. For the second through ninth calendar quarters, the dividend rate was adjusted to between one percent (1%) and five percent (5%) per annum, to reflect the amount of change in the Bank's level of QBSL. For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at between one percent (1%) and seven percent (7%) based upon the increase in QBSL as compared to the baseline. The

dividend rate for the quarter ended September 30, 2015, was 1%. After four and one half years from issuance, the dividend rate increases to 9% (including a quarterly lending incentive fee of 0.5%).

The SBLF Preferred Stock is non-voting, except in limited circumstances. In the event that the Company misses five dividend payments, the holder of the SBLF Preferred Stock will have the right to appoint a representative as an observer on the Company's Board of Directors. In the event that the Company misses six dividend payments, the holder of the SBLF Preferred Stock will have the right to designate two directors to the Board of Directors of the Company.

The SBLF Preferred Stock may be redeemed at any time at the Company's option, at a redemption price of 100% of the liquidation amount plus accrued but unpaid dividends to the date of redemption for the current period, subject to the approval of its federal banking regulator.

As indicated in Note 14, Subsequent Events, the Company redeemed all 20,000 shares of SBLF Preferred stock on October 16, 2015, at their liquidation amount of \$1,000 per share plus accrued but unpaid dividends to the redemption date.

As required by the Purchase Agreement, \$9,635,000 of the proceeds from the sale of the SBLF Preferred Stock was used to redeem the 9,550 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A issued in 2008 to the Treasury in the Troubled Asset Relief Program (TARP), plus the accrued dividends owed on those preferred shares. As part of the 2008 TARP transaction, the Company had issued a ten-year warrant to Treasury to purchase 228,652 shares (split-adjusted) of the Company's common stock at an exercise price (split-adjusted) of \$6.27 per share. The Company repurchased the warrant on May 29, 2015, for \$2.7 million. Immediately prior to repurchase, the warrant had been exercisable for the purchase of 231,891 shares (split-adjusted) at an exercise price of \$6.18 per share.

#### Note 12: Fair Value Measurements

ASC Topic 820, Fair Value Measurements, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1                      Quoted prices in active markets for identical assets or liabilities

Level 2                      Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3                      Unobservable inputs supported by little or no market activity that are significant to the fair value of the assets or liabilities

Recurring Measurements. The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2015 and June 30, 2014:



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Fair Value Measurements at September 30, 2015,  
Using:

(dollars in thousands)	Fair Value	Quoted	Significant	Significant
		Prices in	Other	Unobservable
		Active	Observable	Inputs
		Markets	Inputs	
		for		
		Identical		
		Assets		
		(Level 1)	(Level 2)	(Level 3)
U.S. government sponsored enterprises (GSEs)	\$ 13,940	\$ -	\$ 13,940	\$ -
State and political subdivisions	44,314	-	44,314	-
Other securities	2,696	-	2,696	-
Mortgage-backed GSE residential	66,535	-	66,535	-

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Fair Value Measurements at June 30, 2015,  
Using:

(dollars in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets		
		Significant Other Observable Inputs	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
U.S. government sponsored enterprises (GSEs)	\$14,814	\$ -	\$ 14,814	\$ -
State and political subdivisions	42,021	-	42,021	-
Other securities	2,704	-	2,478	226
Mortgage-backed GSE residential	70,054	-	70,054	-

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended September 30, 2015.

Available-for-sale Securities. When quoted market prices are available in an active market, securities are classified within Level 1. The Company does not have Level 1 securities. If quoted market prices are not available, then fair values are estimated using pricing models, or quoted prices of securities with similar characteristics. For these securities, our Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Level 2 securities include U.S. Government-sponsored enterprises, state and political subdivisions, other securities, mortgage-backed GSE residential securities and mortgage-backed other U.S. Government agencies. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

During fiscal 2011, a pooled trust preferred security was reclassified from Level 2 to Level 3 due to the unavailability of third-party vendor valuations determined by observable inputs – either quoted prices for similar assets; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full terms of the assets. During the three months ended September 30, 2015, that pooled trust preferred security was reclassified from Level 3 back to Level 2, as third-party vendor valuations are now available. The following table presents a reconciliation of activity for available for sale securities measured at fair value based on significant unobservable (Level 3) information for the three month periods ended September 30, 2015 and 2014:

(dollars in thousands)	For the three months ended	
	September 30, 2015	September 30, 2014
Available-for-sale securities, beginning of period	\$226	\$ 133
Total unrealized gains included in comprehensive income	26	29
Transferred from Level 3 to Level 2	(252)	-



Fair Value Measurements at June 30, 2015,  
Using:

(dollars in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans (collateral dependent)	\$515	\$ -	\$ -	\$ 515
Foreclosed and repossessed assets held for sale	4,504	-	-	4,504

The following table presents gains and (losses) recognized on assets measured on a non-recurring basis for the three-month periods ended September 30, 2015 and 2014:

(dollars in thousands)	For the three months ended September	
	30, 2015	September 30, 2014
Impaired loans (collateral dependent)	\$(144)	\$ -
Foreclosed and repossessed assets held for sale	(37 )	3
Total (losses) gains on assets measured on a non-recurring basis	\$(181)	\$ 3

The following is a description of valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. For assets classified within Level 3 of fair value hierarchy, the process used to develop the reported fair value process is described below.

**Impaired Loans (Collateral Dependent).** A collateral dependent loan is considered to be impaired when it is probable that all of the principal and interest due may not be collected according to its contractual terms. Generally, when a collateral dependent loan is considered impaired, the amount of reserve required is measured based on the fair value of the underlying collateral. The Company makes such measurements on all material collateral dependent loans deemed impaired using the fair value of the collateral for collateral dependent loans. The fair value of collateral used by the Company is determined by obtaining an observable market price or by obtaining an appraised value from an independent, licensed or certified appraiser, using observable market data. This data includes information such as selling price of similar properties and capitalization rates of similar properties sold within the market, expected future cash flows or earnings of the subject property based on current market expectations, and other relevant factors. In addition, management applies selling and other discounts to the underlying collateral value to determine the fair value. If an appraised value is not available, the fair value of the collateral dependent impaired loan is determined by an adjusted appraised value including unobservable cash flows.

On a quarterly basis, loans classified as special mention, substandard, doubtful, or loss are evaluated including the loan officer's review of the collateral and its current condition, the Company's knowledge of the current economic environment in the market where the collateral is located, and the Company's recent experience with real estate in the area. The date of the appraisal is also considered in conjunction with the economic environment and any decline in the

real estate market since the appraisal was obtained. For all loan types, updated appraisals are obtained if considered necessary. Of the Company's \$16.7 million (carrying value) in impaired loans (collateral-dependent and purchased credit-impaired), excluding TDR's at September 30, 2015, the Company utilized a real estate appraisal more than 12 months old to serve as the primary basis of our valuation for impaired loans with a carrying value of approximately \$15.7. The remaining \$1.0 million was secured by machinery, equipment and accounts receivable. In instances where the economic environment has worsened and/or the real estate market declined since the last appraisal, a higher distressed sale discount would be applied to the appraised value.

The Company records collateral dependent impaired loans based on nonrecurring Level 3 inputs. If a collateral dependent loan's fair value, as estimated by the Company, is less than its carrying value, the Company either records a charge-off of the portion of the loan that exceeds the fair value or establishes a specific reserve as part of the allowance for loan losses.

**Foreclosed and Repossessed Assets Held for Sale.** Foreclosed and repossessed assets held for sale are valued at the time the loan is foreclosed upon or collateral is repossessed and the asset is transferred to foreclosed or repossessed assets held for sale. The value of the asset is based on third party or internal appraisals, less estimated costs to sell and appropriate discounts, if any. The appraisals are generally discounted based on current and expected market conditions that may impact the sale or value of the asset and management's knowledge and experience with similar assets. Such discounts typically may be significant and result in a Level 3 classification of the inputs for determining fair value of these assets. Foreclosed and repossessed assets held for sale are continually evaluated for additional impairment and are adjusted accordingly if impairment is identified.

Unobservable (Level 3) Inputs. The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

(dollars in thousands)	Fair value at September 30, 2015	Valuation technique	Unobservable inputs	Range of inputs applied	Weighted-average inputs applied
<b>Nonrecurring Measurements</b>					
Impaired loans (collateral dependent)	\$ 507	Internal evaluation of closely held stock	Discount to reflect realizable value	n/	a 29.9 %
Foreclosed and repossessed assets	4,502	Third party appraisal	Marketability discount	0.0% - 76.0 %	32.7 %
<b>Recurring Measurements</b>					
(dollars in thousands)	Fair value at June 30, 2015	Valuation technique	Unobservable inputs	Range of inputs applied	Weighted-average inputs applied
Available-for-sale securities (pooled trust preferred security)	\$266	Discounted cash flow	Discount rate	n/	a 11.3 %
			Annual prepayment rate	n/	a 1.0 %
			Projected defaults and deferrals (% of pool balance)	n/	a 32.1 %
			Anticipated recoveries (% of pool balance)	n/	a 6.1 %
<b>Nonrecurring Measurements</b>					
Impaired loans (collateral dependent)	\$515	Internal evaluation of closely held stock	Discount to reflect realizable value	n/	a 28.7 %
Foreclosed and repossessed assets	4,504	Third party appraisal	Marketability discount	0.0% - 76.0 %	33.0 %

Fair Value of Financial Instruments. The following table presents estimated fair values of the Company's financial instruments not reported at fair value and the level within the fair value hierarchy in which the fair value measurements fell at September 30 and June 30, 2015.

September 30, 2015		
Quoted Prices in Active Markets for	Significant Other	Significant Unobservable

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(dollars in thousands)	Carrying Amount	Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
<b>Financial assets</b>				
Cash and cash equivalents	\$18,531	\$18,531	\$ -	\$ -
Interest-bearing time deposits	1,719	-	1,719	-
Stock in FHLB	4,823	-	4,823	-
Stock in Federal Reserve Bank of St. Louis	2,340	-	2,340	-
Loans receivable, net	1,069,087	-	-	1,072,140
Accrued interest receivable	5,663	-	5,663	-
<b>Financial liabilities</b>				
Deposits	1,057,716	661,952	-	395,882
Securities sold under agreements to repurchase	24,429	-	24,429	-
Advances from FHLB	82,110	41,400	42,219	-
Accrued interest payable	696	-	696	-
Subordinated debt	14,682	-	-	12,002
<b>Unrecognized financial instruments (net of contract amount)</b>				
Commitments to originate loans	-	-	-	-
Letters of credit	-	-	-	-
Lines of credit	-	-	-	-

June 30, 2015

(dollars in thousands)	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial assets</b>				
Cash and cash equivalents	\$16,775	\$16,775	\$ -	\$ -
Interest-bearing time deposits	1,944	-	1,944	-
Stock in FHLB	4,127	-	4,127	-
Stock in Federal Reserve Bank of St. Louis	2,340	-	2,340	-
Loans receivable, net	1,053,146	-	-	1,057,677
Accrued interest receivable	5,168	-	5,168	-
<b>Financial liabilities</b>				
Deposits	1,055,242	653,294	-	401,820
Securities sold under agreements to repurchase	27,332	-	27,332	-
Advances from FHLB	64,794	23,500	42,870	-
Accrued interest payable	777	-	777	-
Subordinated debt	14,658	-	-	12,290
<b>Unrecognized financial instruments (net of contract amount)</b>				
Commitments to originate loans	-	-	-	-
Letters of credit	-	-	-	-
Lines of credit	-	-	-	-

The following methods and assumptions were used in estimating the fair values of financial instruments:

Cash and cash equivalents and interest-bearing time deposits are valued at their carrying amounts, which approximates book value. Stock in FHLB and the Federal Reserve Bank of St. Louis is valued at cost, which approximates fair value. Fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amounts of accrued interest approximate their fair values.

The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. Non-maturity deposits and securities sold under agreements are valued at their carrying value, which approximates fair value. Fair value of advances from the FHLB is estimated by discounting maturities using an estimate of the current market for similar instruments. The fair value of subordinated debt is estimated using rates currently available to the Company for debt with similar terms and maturities. The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and committed rates. The fair value of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.



Note 13: Acquisitions

On August 5, 2014, the Company completed its acquisition of Peoples Service Company and its subsidiary, the Peoples Bank of the Ozarks, Nixa, Missouri (herein collectively, "Peoples Bank"). Peoples was merged into the Company's bank subsidiary, Southern Bank, in early December, 2014, in connection with the conversion of Peoples' data system. Included in noninterest expense for the three-month period ended September 30, 2014, was \$127,000 in third-party acquisition related costs, with no comparable expenses in the current period.

The following unaudited pro forma condensed financial information presents the results of operations of the Company, including the effects of the purchase accounting adjustments and acquisition expenses, had the acquisition taken place at the beginning of each period:

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	For the three months ended	
	September 30, 2015	September 30, 2014
(dollars in thousands except per share data)		
Interest income	13,971	14,394
Interest expense	2,266	2,190
Net interest income	11,705	12,204
Provision for loan losses	618	827
Noninterest income	2,201	1,978
Noninterest expense	7,988	9,388
Income before income taxes	5,300	3,967
Income taxes	1,665	1,301
Net income	3,635	2,666
Dividends on preferred shares	50	50
Net income available to common stockholders	3,585	2,616
Earnings per share		
Basic	\$0.48	\$0.35
Diluted	\$0.48	\$0.35
Basic weighted average shares outstanding - split adjusted	7,422,354	7,377,051
Diluted weighted average shares outstanding - split adjusted	7,453,857	7,571,121

The unaudited pro forma condensed combined financial statements do not reflect any anticipated cost savings and revenue enhancements. Accordingly, the pro forma results of operations of the Company as of and after the business combination may not be indicative of the results that actually would have occurred if the combination had been in effect during the periods presented or of the results that may be attained in the future.

#### Note 14: Subsequent Events

The Company noted in a Current Report on Form 8-k filed October 16, 2015, that it redeemed all 20,000 shares of the Company's Senior Preferred Non-Cumulative Perpetual Preferred Stock, Series A (the "Preferred Stock"), which were issued to the U.S. Department of the Treasury in July 2011 pursuant to Treasury's Small Business Lending Fund (SBLF) program. The shares of Preferred Stock were redeemed at their liquidation amount of \$1,000 per share plus accrued but unpaid dividends to the redemption date.

PART I: Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

SOUTHERN MISSOURI BANCORP, INC.

General

Southern Missouri Bancorp, Inc. (Southern Missouri or Company) is a Missouri corporation and owns all of the outstanding stock of Southern Bank (the Bank). The Company's earnings are primarily dependent on the operations of the Bank. As a result, the following discussion relates primarily to the operations of the Bank. The Bank's deposit accounts are generally insured up to a maximum of \$250,000 by the Deposit Insurance Fund (DIF), which is administered by the Federal Deposit Insurance Corporation (FDIC). At September 30, 2015, the Bank operated from its headquarters, 31 full-service branch offices, and three limited-service branch offices. The Bank owns the office building and related land in which its headquarters are located, and 29 of its other branch offices. The remaining five branches are either leased or partially owned.

The significant accounting policies followed by Southern Missouri Bancorp, Inc. and its wholly owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments, which are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported, have been included in the accompanying consolidated condensed financial statements.

The consolidated balance sheet of the Company as of September 30, 2015, has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report filed with the Securities and Exchange Commission.

Management's discussion and analysis of financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited consolidated financial statements and accompanying notes. The following discussion reviews the Company's condensed consolidated financial condition at September 30, 2015, and results of operations for the three-month periods ended September 30, 2015 and 2014.

Forward Looking Statements

This document contains statements about the Company and its subsidiaries which we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include, without limitation, statements with respect to anticipated future operating and financial performance, growth opportunities, interest rates, cost savings and funding advantages expected or anticipated to be realized by management. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify these forward looking statements. Forward-looking statements by the Company and its management are based on beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions of management and are not guarantees of future performance. The important factors we discuss below, as well as other factors discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and identified in this filing and in our other filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this document:

the strength of the United States economy in general and the strength of the local economies in which we conduct operations;

- fluctuations in interest rates and in real estate values;
- monetary and fiscal policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and the U.S. Government and other governmental initiatives affecting the financial services industry;
- the risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;

the timely development of and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;

expected cost savings, synergies and other benefits from our merger and acquisition activities, including our acquisition of Peoples Service Company and our other recently completed acquisitions, might not be realized within the anticipated time frames or at all, and costs or difficulties relating to integration matters, including but not limited to customer and employee retention, might be greater than expected;

fluctuations in real estate values and both residential and commercial real estate market conditions;

demand for loans and deposits in our market area;

legislative or regulatory changes that adversely affect our business;

results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our reserve for loan losses or to write-down assets;

the impact of technological changes; and

our success at managing the risks involved in the foregoing.

The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise.

#### Non-GAAP Disclosures

The following financial measures contain information determined by methods other than in accordance with accounting principles generally accepted in the United States (commonly referred to as GAAP):

net income available to common shareholders excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits;

return on average assets excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits;

return on average common equity excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits;

net interest margin excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits;

These measures indicate what net income available to common shareholders, return on average assets, return on average common equity, and net interest margin would have been without the impact of the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits resulting from the August 2014 acquisition of Peoples Service Company and its subsidiary, Peoples Bank of the Ozarks (the Peoples Acquisition). Management believes that showing these measures excluding these items provides useful information by which to evaluate the Company's operating performance on an ongoing basis from period to period. Other acquisitions, with smaller acquired loan balances remaining, result in less variation between GAAP and what management believes to be core operating results and are therefore not reflected in this disclosure, although they may have been included in prior presentations.

These non-GAAP financial measures are supplemental and are not a substitute for an analysis based on GAAP measures. Because not all companies use identical calculations, these non-GAAP financial measures might not be comparable to other similarly-titled measures as determined and disclosed by other companies. Reconciliations to GAAP of these non-GAAP financial measures presented are set forth below.

The following table presents reconciliation to GAAP of net income available to common stockholders excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits

related to the Peoples Acquisition:

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(dollars in thousands)	For the three months ended September	
	30, 2015	September 30, 2014
Net income available to common stockholders	\$3,585	\$ 3,249
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax	257	244
Net income available to common shareholders - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax	\$3,328	\$ 3,005

The following table presents reconciliation to GAAP of return on average assets excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Peoples Acquisition:

	For the three months ended September		
	30, 2015	September 30, 2014	
Return on average assets	1.12%	1.09	%
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax	0.08%	0.08	%
Return on average assets - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax	1.04%	1.01	%

The following table presents reconciliation to GAAP of return on average common equity excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Peoples Acquisition:

	For the three months ended September	
	30, 2015	September 30, 2014

Return on average common equity	12.55 %	13.16	%
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax	0.90 %	0.99	%
Return on average common equity - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax	11.65 %	12.17	%



The following table presents reconciliation to GAAP of net interest margin excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Peoples Acquisition:

	For the three months ended September 30,      September 2015    30, 2014		
Net interest margin	3.87%	3.93	%
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition	0.13%	0.14	%
Net interest margin - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition	3.74%	3.79	%

#### Critical Accounting Policies

Accounting principles generally accepted in the United States of America are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of the Company must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. For a complete discussion of the Company's significant accounting policies, see "Notes to the Consolidated Financial Statements" in the Company's 2015 Annual Report. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. Management has reviewed the application of these policies with the Audit Committee of the Company's Board of Directors. For a discussion of applying critical accounting policies, see "Critical Accounting Policies" beginning on page 57 in the Company's 2015 Annual Report.

#### Executive Summary

Our results of operations depend primarily on our net interest margin, which is directly impacted by the interest rate environment. The net interest margin represents interest income earned on interest-earning assets (primarily real estate loans, commercial and agricultural loans, and the investment portfolio), less interest expense paid on interest-bearing liabilities (primarily certificates of deposit, interest-bearing transaction accounts, savings and money market deposit accounts, repurchase agreements, and borrowed funds), as a percentage of average interest-earning assets. Net interest margin is directly impacted by the spread between long-term interest rates and short-term interest rates, as our interest-earning assets, particularly those with initial terms to maturity or repricing greater than one year, generally price off longer term rates while our interest-bearing liabilities generally price off shorter term interest rates. This difference in longer term and shorter term interest rates is often referred to as the steepness of the yield curve. A steep yield curve – in which the difference in interest rates between short term and long term periods is relatively large – could be beneficial to our net interest income, as the interest rate spread between our interest-earning assets and interest-bearing liabilities would be larger. Conversely, a flat or flattening yield curve, in which the difference in rates between short term and long term periods is relatively small or shrinking, or an inverted yield curve, in which short term rates exceed long term rates, could have an adverse impact on our net interest income, as our interest rate spread

could decrease.

Our results of operations may also be affected significantly by general and local economic and competitive conditions, particularly those with respect to changes in market interest rates, government policies and actions of regulatory authorities.

During the first three months of fiscal 2016, we grew our balance sheet by \$19.7 million. Balance sheet growth was primarily attributable to loan growth. Loans, net of the allowance for loan losses, increased \$15.9 million. Available-for-sale investments decreased \$2.1 million, cash equivalents and time deposits increased a combined \$1.5 million, and fixed assets increased \$3.1 million. Deposits increased \$2.5 million, securities sold under agreements to repurchase decreased \$2.9 million, and advances from the Federal Home Loan Bank (FHLB) increased \$17.3 million, with the increase coming in the form of overnight borrowings utilized to fund much of the Company's asset growth during the quarter. Equity increased \$3.2 million, primarily as a result of retention of net income, along with a smaller increase in accumulated other comprehensive income.

Net income for the first three months of fiscal 2016 was \$3.6 million, an increase of \$336,000, or 10.2% as compared to the same period of the prior fiscal year. After accounting for dividends on preferred stock of \$50,000, net earnings available to common shareholders were \$3.6 million in the three-month period ended September 30, 2015, an increase of 10.3% as compared to the same period of the prior fiscal year. Compared to the year-ago period, the Company's increase in net income was the result of an increase in net interest income and noninterest income, and a decrease in provision for loan losses, partially offset by increases in non-interest expense and provision for income taxes. Diluted net income available to common shareholders was \$0.48 per share for the first three months of fiscal 2016, as compared to \$0.44 per share for the same period of the prior fiscal year, adjusted for the two-for-one common stock split in the form of a 100% common stock dividend paid in January 2015. For the first three months of fiscal 2016, net interest income increased \$575,000, or 5.2%; noninterest income increased \$222,000, or 11.2%; provision for loan losses decreased \$209,000, or 25.3%; noninterest expense increased \$386,000, or 5.1%; and provision for income taxes increased \$284,000, or 20.6%, as compared to the same period of the prior fiscal year. For more information see "Results of Operations."

Interest rates during the first three months of fiscal 2016 moved lower. Yields were relatively unchanged on the shortest-term Treasuries, while decreasing on medium- and longer-term Treasuries, flattening the yield curve. Our average yield on earning assets decreased slightly, as reinvestment at relatively low market rates was partially offset by a shift in the earning asset mix towards higher-yielding investment types (see "Results of Operations: Comparison of the three-month periods ended September 30, 2015 and 2014 – Net Interest Income"). A flat or flattening yield curve is generally detrimental to the Company, but the recently flattening has been from a period in which the curve was relatively steep by historical comparisons. In December 2008, the FOMC cut the targeted Federal Funds rate to a range of 0.00% to 0.25%, and beginning in March 2009, embarked on a series of periodic quantitative easing programs, acquiring US Treasuries, mortgage-backed securities, and agency debt, through late 2014. Throughout most of calendar year 2015, it was assumed that the FOMC would begin gradually increasing short-term interest rates in the second half of the year, but this "liftoff" has not yet occurred.

Our net interest margin decreased slightly when comparing the first three months of fiscal 2016 to the same period of the prior fiscal year. The deterioration was attributable primarily to lower loan yields, partially offset by holding an increased percentage of our earning assets in loans, versus securities and cash equivalents. Purchase accounting adjustments related to the Peoples Acquisition, in the Company acquired loans at a material discount, were relatively stable, as the lower average balance of those acquired loans was roughly offset by the impact of the Company's ownership of the underlying assets for a full quarter during the current period, while in the prior period similar benefits would have been realized from the August 5, 2014, closing of the acquisition through the September 30, 2014, quarter end. Net interest income resulting from the accretion of this discount (and a smaller premium on acquired time deposits) in the first three months of fiscal 2016 increased to \$412,000, as compared to \$390,000 in the first three months of fiscal 2015. In both periods, this component of net interest income contributed 14 basis points to the net interest margin, as the increase in the dollar amount was roughly matched by the increase in average earning assets. The Company expects that as the acquired loan portfolio pays down, the positive impact on net interest income of discount accretion resulting from the acquisition will be reduced. Our core net interest margin, excluding this income, decreased to 3.73% in the current three-month period, as compared to 3.79% in the prior year's three-month period.

The Company's net income is also affected by the level of its noninterest income and noninterest expenses. Non-interest income generally consists primarily of deposit account service charges, bank card interchange income, loan-related fees, increases in the cash value of bank-owned life insurance, gains on sales of loans, and other general operating income. Noninterest expenses consist primarily of compensation and employee benefits, occupancy-related expenses, deposit insurance assessments, professional fees, advertising, postage and office expenses, insurance, bank card network expenses, the amortization of intangible assets, and other general operating expenses. During the three-month period ended September 30, 2015, noninterest income increased \$222,000, or 11.2%, as compared to the

same period of the prior fiscal year, attributable to increased bank card interchange income, collection of deposit account service charges and fees, loan origination fees, and loan servicing income, partially offset by decreased gains on secondary market loan sales and loan late charges. Noninterest expense for the three-month period ended September 30, 2015, increased \$386,000, or 5.1%, as compared to the same period of the prior fiscal year. The increase was primarily attributable to higher employee compensation and benefits, and occupancy expenses, partially offset by a decrease in legal and professional fees. Included in noninterest expense for the quarter ended September 30, 2014, was \$128,000 in merger-related charges, with no comparable expenses in the current period.

We expect, over time, to continue to grow our assets through the origination and occasional purchase of loans, and purchases of investment securities. The primary funding for this asset growth is expected to come from retail deposits, brokered funding, and short- and long-term FHLB borrowings. We have grown and intend to continue to grow deposits by offering desirable deposit products for our current customers and by attracting new depository relationships. We will also continue to explore strategic expansion opportunities in market areas that we believe will be attractive to our business model.

#### Comparison of Financial Condition at September 30 and June 30, 2015

The Company experienced balance sheet growth in the first three months of fiscal 2016, with total assets of \$1.3 billion at September 30, 2015, reflecting an increase of \$19.7 million, or 1.5%, as compared to June 30, 2015. Balance sheet growth was funded primarily with Federal Home Loan Bank (FHLB) overnight borrowings and deposit growth.

Available-for-sale (AFS) securities were \$127.5 million at September 30, 2015, a decrease of \$2.1 million, or 1.6%, as compared to June 30, 2015. The decrease was attributable to principal payments received on mortgage-backed securities and U.S. government agency obligations, partially offset by purchases of municipal securities. Cash equivalents and time deposits were \$20.2 million, an increase of \$1.5 million, or 8.2%, as compared to June 30, 2015.

Loans, net of the allowance for loan losses, were \$1.1 billion at September 30, 2015, an increase of \$15.9 million, or 1.5%, as compared to June 30, 2015. The increase was primarily attributable to increased balances for commercial and agricultural operating and equipment loans, residential real estate loans (primarily multifamily real estate), and commercial real estate loans, partially offset by declines in drawn construction loan balances and consumer loan balances.

Premises and equipment, net of accumulated depreciation, were \$42.8 million at September 30, 2015, an increase of \$3.1 million, or 7.7%, as compared to June 30, 2015. The increase was primarily attributable to ongoing construction of a new corporate headquarters office in Poplar Bluff, Missouri, and the finishing of leased office space in Springfield, Missouri, partially offset by an increase in accumulated depreciation.

Deposits were \$1.1 billion at September 30, 2015, an increase of \$2.5 million, or 0.2%, as compared to June 30, 2015. The increase was primarily attributable to increased interest-bearing and noninterest-bearing transaction account balances, partially offset by decreases in savings account and certificate of deposit balances. The average loan-to-deposit ratio for the first quarter of fiscal 2016 was 101.8%, unchanged from the same period of the prior fiscal year.

FHLB advances were \$82.1 million at September 30, 2015, an increase of \$17.3 million, or 26.7%, as compared to June 30, 2015. The increase was attributable to overnight borrowings utilized to fund asset growth. Securities sold under agreements to repurchase totaled \$24.4 million at September 30, 2015, a decrease of \$2.9 million, or 10.6%, as compared to June 30, 2015. At both dates, the full balance of repurchase agreements was due to local small business and government counterparties.

The Company's stockholders' equity was \$135.9 million at September 30, 2015, an increase of \$3.2 million, or 2.4%, as compared to June 30, 2015. The increase was attributable primarily to the retention of net income and an increase in accumulated other comprehensive income, partially offset by dividends paid on common and preferred stock.

Average Balance Sheet, Interest, and Average Yields and Rates for the Three-Month Periods Ended September 30, 2015 and 2014

The tables below present certain information regarding our financial condition and net interest income for the three-month periods ended September 30, 2015 and 2014. The tables present the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. Yields on tax-exempt obligations were not computed on a tax equivalent basis.

	Three-month period ended September 30, 2015			Three-month period ended September 30, 2014		
	Average Balance	Interest and Dividends	Yield/ Cost (%)	Average Balance	Interest and Dividends	Yield/ Cost (%)
(dollars in thousands)						
Interest earning assets:						
Mortgage loans (1)	\$ 833,779	\$ 10,208	4.90	\$ 753,165	\$ 9,581	5.09
Other loans (1)	230,072	2,890	5.02	196,895	2,644	5.37
Total net loans	1,063,851	13,098	4.92	950,060	12,225	5.15
Mortgage-backed securities	67,848	370	2.18	76,975	415	2.16
Investment securities (2)	67,858	495	2.92	79,167	544	2.75
Other interest earning assets	9,488	7	0.30	27,326	34	0.50
Total interest earning assets (1)	1,209,045	13,970	4.62	1,133,528	13,218	4.66
Other noninterest earning assets (3)	91,437	-		76,890	-	
Total assets	\$ 1,300,482	\$ 13,970		\$ 1,210,418	\$ 13,218	
Interest bearing liabilities:						
Savings accounts	\$ 130,390	105	0.32	\$ 119,551	98	0.33
NOW accounts	340,479	649	0.76	275,336	555	0.81
Money market deposit accounts	68,423	45	0.26	63,154	45	0.29
Certificates of deposit	395,797	986	1.00	375,437	903	0.96
Total interest bearing deposits	935,089	1,785	0.76	833,478	1,601	0.77
Borrowings:						
Securities sold under agreements to repurchase	25,885	29	0.45	24,599	28	0.46
FHLB advances	68,844	317	1.84	119,043	339	1.14
Subordinated debt	14,670	135	3.68	12,569	121	3.85
Total interest bearing liabilities	1,044,488	2,266	0.87	989,689	2,089	0.84
Noninterest bearing demand deposits	120,283	-		99,879	-	
Other noninterest bearing liabilities	1,472	-		2,086	-	
Total liabilities	1,166,243	2,266		1,091,654	2,089	
Stockholders' equity	134,239	-		118,764	-	
Total liabilities and stockholders' equity	\$ 1,300,482	\$ 2,266		\$ 1,210,418	\$ 2,089	
Net interest income		\$ 11,704			\$ 11,129	
Interest rate spread (4)			3.75 %			3.82 %

Net interest margin (5)		3.87 %	3.93 %
Ratio of average interest-earning assets to average interest-bearing liabilities	115.75 %	114.54 %	

- (1) Calculated net of deferred loan fees, loan discounts and loans-in-process. Non-accrual loans are included in average loans.
- (2) Includes FHLB and Federal Reserve Bank of St. Louis membership stock and related cash dividends. Includes average balances for fixed assets and BOLI of \$38.7 million and \$19.7 million, respectively, for the
- (3) three-month period ended September 30, 2015, as compared to \$27.9 million and \$19.2 million, respectively, for the same period of the prior fiscal year.
- (4) Interest rate spread represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities.
- (5) Net interest margin represents net interest income divided by average interest-earning assets.

Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on the Company's net interest income for the three-month period ended September 30, 2015, compared to the three-month period ended September 30, 2014. Information is provided with respect to (i) effects on interest income and expense attributable to changes in volume (changes in volume multiplied by the prior rate), (ii) effects on interest income and expense attributable to change in rate (changes in rate multiplied by prior volume), and (iii) changes in rate/volume (change in rate multiplied by change in volume).

(dollars in thousands)	Three-month period ended September 30, 2015 Compared to three-month period ended September 30, 2014 Increase (Decrease) Due to			
	Rate	Volume	Rate/ Volume	Net
<b>Interest-earning assets:</b>				
Loans receivable (1)	\$(527)	\$ 1,464	\$ (64 )	\$ 873
Mortgage-backed securities	4	(49 )	-	(45 )
Investment securities (2)	32	(78 )	(3 )	(49 )
Other interest-earning deposits	(12 )	(22 )	7	(27 )
Total net change in income on interest-earning assets	(503)	1,315	(60 )	752
<b>Interest-bearing liabilities:</b>				
Deposits	(4 )	193	(5 )	184
Securities sold under agreements to repurchase	-	1	-	1
Subordinated debt	(6 )	20	-	14
FHLB advances	209	(143 )	(88 )	(22 )
Total net change in expense on interest-bearing liabilities	199	71	(93 )	177
Net change in net interest income	\$(702)	\$ 1,244	\$ 33	\$ 575

(1) Does not include interest on loans placed on nonaccrual status.

(2) Does not include dividends earned on equity securities.

Results of Operations – Comparison of the three-month periods ended September 30, 2015 and 2014

General. Net income for the three-month period ended September 30, 2015, was \$3.6 million, an increase of \$336,000, or 10.2%, as compared to the same period of the prior fiscal year. After preferred dividends of \$50,000 paid in each of the three-month periods ended September 30, 2015 and 2014, net income available to common shareholders was \$3.3 million for the three-month period ended September 30, 2015, an increase of \$336,000, or 10.3%, as compared to the same period of the prior fiscal year.

For the three-month period ended September 30, 2015, both basic and fully-diluted net income per share available to common shareholders was \$0.48, which, compared to the same period of the prior fiscal year, represented an increase of \$0.02, or 4.3%, as compared to basic net income per share available to common shareholders, and an increase



\$0.04, or 9.1%, as compared to fully-diluted net income per share available to common shareholders. Our annualized return on average assets for the three-month period ended September 30, 2015, was 1.12%, as compared to 1.09% for the same period of the prior fiscal year. For the three-month period ended September 30, 2015, return on average assets excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Peoples Acquisition was 1.05%, as compared to 1.01% for the same period of the prior fiscal year. Our return on average common stockholders' equity for the three-month period ended September 30, 2015, was 12.6%, as compared to 13.2% in the same period of the prior fiscal year.

Net Interest Income. Net interest income for the three-month period ended September 30, 2015, was \$11.7 million, an increase of \$575,000, or 5.2%, as compared to the same period of the prior fiscal year. Net interest income attributable to the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Peoples Acquisition was \$412,000 in the current three-month period, as compared to \$390,000 in the same period of the prior fiscal year.

Our net interest margin for the three-month period ended September 30, 2014, determined by dividing annualized net interest income by total average interest-earning assets, was 3.87%, as compared to 3.93% in the same period of the prior fiscal year. Our net interest margin excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Peoples Acquisition was 3.74% for the three-month period ended September 30, 2015, as compared to 3.79% for the same period of the prior fiscal year. Our average net interest rate spread for the three-month period ended September 30, 2015, was 3.75%, as compared to 3.82% for the same period of the prior fiscal year.

For the three-month period ended September 30, 2015, the deterioration in net interest rate spread, compared to the same period a year ago, resulted from a four basis point decrease in the average yield on interest-earning assets, combined with a three basis point increase in the average cost of interest-bearing liabilities. The general decline in yields earned was attributable to the continued low rate environment, partially offset by a shift in the earning asset mix towards loans and away from cash equivalents and securities, while the increase in our cost of funds was attributable to a reduction in the average balance of relatively low-cost overnight FHLB borrowings. Our average balance of interest-earning assets increased \$75.5 million, or 6.7%, when comparing the three-month period ended September 30, 2015, with the same period of the prior fiscal year, attributable in part to the mid-quarter closing of the Peoples Acquisition during the three months ended September 30, 2014.

**Interest Income.** Total interest income for the three-month period ended September 30, 2015, was \$14.0 million, an increase of \$752,000, or 5.7%, as compared to the same period of the prior fiscal year. The increase was attributed to a 6.7% increase in the average balance of interest-earning assets, partially offset by a four basis point decline in the average yield earned on interest-earning assets, as compared to the same periods of the prior fiscal year. Increased average balances were attributable in part to the mid-quarter closing of the Peoples Acquisition during the three months ended September 30, 2014, while the decline in the average yield on interest-earning assets was attributable to the continued low rate environment, partially offset by a shift in the earning asset mix toward loans and away from cash equivalents and securities.

**Interest Expense.** Total interest expense for the three-month period ended September 30, 2015 was \$2.3 million, an increase of \$177,000, or 8.5%, as compared to the same period of the prior fiscal year, attributable to the \$54.8 million, or 5.5%, increase in the average balance of interest-bearing liabilities, combined with a three basis point increase in the average cost of interest-bearing liabilities, as compared to the same period of the prior fiscal year. Increased average balances were attributable in part to the mid-quarter closing of the Peoples Acquisition during the three months ended September 30, 2014, while the increase in the average cost of interest-bearing liabilities was attributable to a reduction in the average balance of relatively low-cost overnight FHLB borrowings.

**Provision for Loan Losses.** The provision for loan losses for the three-month period ended September 30, 2015, was \$618,000, as compared to \$827,000 in the same period of the prior fiscal year. As a percentage of average loans outstanding, provision for loan losses in the current three-month period represented a charge of .23% (annualized), while the Company recorded net charge offs during the period of .04% (annualized). During the same period of the prior fiscal year, provision for loan losses as a percentage of average loans outstanding represented a charge of .35% (annualized), while the Company recorded a net recovery of .01% (annualized). The decrease in provision was attributable primarily to slower loan growth during the current period. (See "Critical Accounting Policies", "Allowance for Loan Loss Activity" and "Nonperforming Assets").

**Noninterest Income.** The Company's noninterest income for the three-month period ended September 30, 2015, was \$2.2 million, an increase of \$222,000, or 11.2%, as compared to the same period of the prior fiscal year. The increase was attributable to increases in bank card interchange income, deposit account service charges, and loan fees, partially offset by a decrease in gains realized on secondary market loan originations. Increased bank card interchange income, deposit account service charges, and loan fees were attributable in part to the current period's full quarter operation of

the branch network added through Peoples Acquisition, as compared to operation for a partial quarter during the three months ended September 30, 2014. Additionally, an increase in the Company's nonsufficient funds charge, and consolidation of bank card operations to a single network provider under a more favorable contract, contributed to improved results.

Noninterest Expense. Noninterest expense for the three-month period ended September 30, 2015, was \$8.0 million, an increase of \$386,000, or 5.1%, as compared to the same period of the prior fiscal year. The increase in noninterest expense was attributable primarily to compensation and benefits and occupancy expenses, partially offset by a decline in legal and professional fees, losses on debit card fraud, and charges related to foreclosed real estate. Included in noninterest expense for the three-month period ended September 30, 2014, was \$128,000 in merger-

related charges, with no comparable expenses in the current period. Increased compensation and benefits and occupancy expenses were attributable, in part, to the current period's full quarter operation of the branch network added through the Peoples Acquisition, as compared to operation for a partial quarter during the three months ended September 30, 2014. The efficiency ratio for the three-month period ended September 30, 2015, was 57.4%, as compared to 58.0%, for the same period of the prior fiscal year. The improvement resulted from a combined 5.7% increase in net interest income and noninterest income, while noninterest expense increased 5.1%.

Income Taxes. Provision for income taxes for the three-month period ended September 30, 2015, was \$1.7 million, an increase of \$284,000, or 20.6%, as compared to the same period of the prior fiscal year, attributable to higher pre-tax income, as well as an increase in the effective tax rate, to 31.4% in the current three-month period, as compared to 29.5% in the same period of the prior fiscal year. The general trend in the effective tax rate has been upward, as the Company's taxable income has grown at a rate faster than its investments in tax-advantaged assets.

#### Allowance for Loan Loss Activity

The Company regularly reviews its allowance for loan losses and makes adjustments to its balance based on management's analysis of the loan portfolio, the amount of non-performing and classified loans, as well as general economic conditions. Although the Company maintains its allowance for loan losses at a level that it considers sufficient to provide for losses, there can be no assurance that future losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies, which can order the establishment of additional loss provision. The following table summarizes changes in the allowance for loan losses over the three-month periods ended September 30, 2015 and 2014:

(dollars in thousands)	For the three months ended September 30,	
	2015	2014
Balance, beginning of period	\$12,298	\$9,259
Loans charged off:		
Residential real estate	(64 )	(11 )
Construction	-	-
Commercial business	(12 )	-
Commercial real estate	(21 )	-
Consumer	(10 )	(20 )
Gross charged off loans	(107 )	(31 )
Recoveries of loans previously charged off:		
Residential real estate	1	8
Construction	-	-
Commercial business	1	3
Commercial real estate	-	18
Consumer	1	26
Gross recoveries of charged off loans	3	55
Net (charge offs) recoveries	(104 )	24
Provision charged to expense	618	827
Balance, end of period	\$12,812	\$10,110

The allowance for loan losses has been calculated based upon an evaluation of pertinent factors underlying the various types and quality of the Company's loans. Management considers such factors as the repayment status of a loan, the

estimated net fair value of the underlying collateral, the borrower's intent and ability to repay the loan, local economic conditions, and the Company's historical loss ratios. We maintain the allowance for loan losses through the provision for loan losses that we charge to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. The allowance for loan losses increased \$514,000 to \$12.8 million at September 30, 2015, from \$12.3 million at June 30, 2015. The increase was deemed appropriate in order to bring the allowance for loan losses to a level that reflects management's estimate of the incurred loss in the Company's loan portfolio at September 30, 2015.

At September 30, 2015, the Company had loans of \$14.6 million, or 1.35% of total loans, adversely classified (\$14.6 million classified "substandard"; none classified "doubtful" or "loss"), as compared to loans of \$14.8 million, or 1.39% of total loans, adversely classified (\$14.8 million classified "substandard"; none classified "doubtful" or "loss") at June 30, 2015, and \$13.0 million, or 1.26% of total loans, adversely classified (\$13.0 million classified "substandard"; none classified "doubtful" or "loss") at September 30, 2014. Classified loans were generally comprised of loans secured by

commercial and residential real estate loans, while a smaller amount of commercial operating loans and consumer loans were also classified. All loans were classified due to concerns as to the borrowers' ability to continue to generate sufficient cash flows to service the debt. Of our classified loans, the Company had ceased recognition of interest on loans with a carrying value of \$4.0 million at September 30, 2015. As noted in Note 4 to the condensed consolidated financial statements, the Company's total past due loans increased from \$5.0 million at June 30, 2015, to \$5.7 million at September 30, 2015.

In its quarterly evaluation of the adequacy of its allowance for loan losses, the Company employs historical data including past due percentages, charge offs, and recoveries for the previous five years for each loan category. The Company's allowance methodology considers the most recent twelve-month period's average net charge offs and uses this information as one of the primary factors for evaluation of allowance adequacy. Average net charge offs are calculated as net charge offs by portfolio type for the period as a percentage of the average balance of respective portfolio type over the same period.

The following table sets forth the Company's historical net charge offs as of September 30 and June 30, 2015:

Portfolio segment	September 30, 2015	June 30, 2015
	Net charge offs – 12-month historical	Net charge offs – 12-month historical
Real estate loans:		
Residential	0.03%	0.02%
Construction	0.00%	0.00%
Commercial	0.00%	(0.01%)
Consumer loans	0.32%	0.35%
Commercial loans	0.03%	0.03%

Additionally, in its quarterly evaluation of the adequacy of the allowance for loan losses, the Company evaluates changes in the financial condition of individual borrowers; changes in local, regional, and national economic conditions; the Company's historical loss experience; and changes in market conditions for property pledged to the Company as collateral. The Company has identified specific qualitative factors that address these issues and subjectively assigns a percentage to each factor. Qualitative factors are reviewed quarterly and may be adjusted as necessary to reflect improving or declining trends. At September 30, 2015, these qualitative factors included:

- Changes in lending policies
- National, regional, and local economic conditions
- Changes in mix and volume of portfolio
- Experience, ability, and depth of lending management and staff
- Entry to new markets
- Levels and trends of delinquent, nonaccrual, special mention and
- Classified loans
- Concentrations of credit
- Changes in collateral values
- Agricultural economic conditions
- Regulatory risk

The qualitative factors are applied to the allowance for loan losses based upon the following percentages by loan type:

Portfolio segment	Qualitative factor applied at interim period	Qualitative factor applied at fiscal year ended June 30, 2015
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ended September 30, 2015

Real estate loans:

Residential	0.76%	0.76%
Construction	1.87%	1.90%
Commercial	1.33%	1.33%
Consumer loans	1.29%	1.42%
Commercial loans	1.36%	1.38%

At September 30, 2015, the amount of our allowance for loan losses attributable to these qualitative factors was approximately \$11.5 million, as compared to \$10.8 million at June 30, 2015. The qualitative factors remained relatively unchanged due to regional economic factors; improving housing sales, increased 1-4 family building

permits, and unemployment continues to improve. While management believes that our asset quality remains strong, it recognizes that, due to the continued growth in the loan portfolio and potential changes in market conditions, our level of nonperforming assets and resulting charge offs may fluctuate. Higher levels of net charge offs requiring additional provision for loan losses could result. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change.

### Nonperforming Assets

The ratio of nonperforming assets to total assets and nonperforming loans to net loans receivable is another measure of asset quality. Nonperforming assets of the Company include nonaccruing loans, accruing loans delinquent/past maturity 90 days or more, and assets which have been acquired as a result of foreclosure or deed-in-lieu of foreclosure. The table below summarizes changes in the Company's level of nonperforming assets over selected time periods:

(dollars in thousands)	September 30, 2015	June 30, 2015	September 30, 2014
Nonaccruing loans:			
Residential real estate	\$ 2,109	\$2,202	\$ 639
Construction	133	133	-
Commercial real estate	1,664	1,271	2,074
Consumer	96	88	115
Commercial business	20	63	97
Total	4,022	3,757	2,925
Loans 90 days past due accruing interest:			
Residential real estate	-	-	15
Commercial real estate	-	-	8
Consumer	50	34	-
Commercial business	-	11	-
Total	50	45	23
Total nonperforming loans	4,072	3,802	2,948
Foreclosed assets held for sale:			
Real estate owned	4,392	4,440	3,804
Other nonperforming assets	109	64	9
Total nonperforming assets	\$ 8,573	\$8,306	\$ 6,761

At September 30, 2015, troubled debt restructurings (TDRs) totaled \$9.7 million, of which \$2.8 million was considered nonperforming and is included in the nonaccrual loan total above. The remaining \$6.9 million in TDRs have complied with the modified terms for a reasonable period of time and are therefore considered by the Company to be accrual status loans. In general, these loans were subject to classification as TDRs at September 30, 2015, on the basis of guidance under ASU No. 2011-02, which indicates that the Company may not consider the borrower's effective borrowing rate on the old debt immediately before the restructuring in determining whether a concession has been granted. At June 30, 2015, TDRs totaled \$9.3 million, of which \$2.8 million was considered nonperforming and is included in the nonaccrual loan total above. The remaining \$6.5 million in TDRs at June 30, 2015, had complied with the modified terms for a reasonable period of time and were therefore considered by the Company to be accrual status loans.



At September 30, 2015, nonperforming assets totaled \$8.6 million, as compared to \$8.3 million at June 30, 2015, and \$6.8 million at September 30, 2014. The increase in nonperforming assets from fiscal year end was attributable primarily to an increase in nonaccrual commercial real estate loans and other nonperforming assets, partially offset by declines in nonaccrual residential real estate loans and foreclosed real estate owned.

#### Liquidity Resources

The term "liquidity" refers to our ability to generate adequate amounts of cash to fund loan originations, loans purchases, deposit withdrawals and operating expenses. Our primary sources of funds include deposit growth, securities sold under agreements to repurchase, FHLB advances, brokered deposits, amortization and prepayment of loan principal and interest, investment maturities and sales, and funds provided by our operations. While the scheduled loan repayments and maturing investments are relatively predictable, deposit flows, FHLB advance redemptions, and loan and security prepayment rates are significantly influenced by factors outside of the Bank's

control, including interest rates, general and local economic conditions and competition in the marketplace. The Bank relies on FHLB advances and brokered deposits as additional sources for funding cash or liquidity needs.

The Company uses its liquid resources principally to satisfy its ongoing cash requirements, which include funding loan commitments, funding maturing certificates of deposit and deposit withdrawals, maintaining liquidity, funding maturing or called FHLB advances, purchasing investments, and meeting operating expenses.

At September 30, 2015, the Company had outstanding commitments and approvals to extend credit of approximately \$137.5 million (including \$94.8 million in unused lines of credit) in mortgage and non-mortgage loans. These commitments and approvals are expected to be funded through existing cash balances, cash flow from normal operations and, if needed, advances from the FHLB or the Federal Reserve's discount window. At September 30, 2015, the Bank had pledged residential real estate loan portfolios and a significant portion of their commercial real estate loan portfolios with the FHLB for available credit of approximately \$238.7 million, of which \$81.4 million had been advanced. The Bank has the ability to pledge several of their other loan portfolios, including, for example, their commercial and home equity loans, which could provide additional collateral for additional borrowings; in total, FHLB borrowings are generally limited to 35% of bank assets, or \$461.9 million, subject to available collateral. Also, at September 30, 2015, the Bank had pledged a total of \$152.5 million in loans secured by farmland and agricultural production loans to the Federal Reserve, providing access to \$102.2 million in primary credit borrowings from the Federal Reserve's discount window. Management believes its liquid resources will be sufficient to meet the Company's liquidity needs.

#### Regulatory Capital

The Company and Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory—and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Company and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Furthermore, the Company and Bank's regulators could require adjustments to regulatory capital not reflected in the condensed consolidated financial statements.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total capital, Tier 1 capital (as defined), and common equity Tier 1 capital (as defined) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average total assets (as defined). Management believes, as of September 30 and June 30, 2015, that the Company and the Bank met all capital adequacy requirements to which they are subject.

In July 2013, the Federal banking agencies announced their approval of the final rule to implement the Basel III regulatory reforms, among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The approved rule included a new minimum ratio of common equity Tier 1 (CET1) capital of 4.5%, raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, and included a minimum leverage ratio of 4.0% for all banking institutions. Additionally, the rule created a capital conservation buffer of 2.5% of risk-weighted assets, and prohibited banking organizations from making distributions or discretionary bonus payments during any quarter if its eligible retained income is negative, if the capital conservation buffer is not maintained. This new capital conservation buffer requirement is to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019. The phase-in of the enhanced capital requirements for

banking organizations such as the Company and the Bank began January 1, 2015. Other changes included revised risk-weighting of some assets, stricter limitations on mortgage servicing assets and deferred tax assets, and replacement of the ratings-based approach to risk weight securities.

As of September 30, 2015, the most recent notification from the Federal banking agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The tables below summarize the Company and Bank's actual and required regulatory capital:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2015 (dollars in thousands)						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 158,335	14.22 %	\$ 89,071	8.00 %	n/ a	n/ a
Southern Bank	153,312	13.86 %	88,499	8.00 %	110,624	10.00 %
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	144,787	13.00 %	66,803	6.00 %	n/ a	n/ a
Southern Bank	139,764	12.63 %	66,375	6.00 %	88,499	8.00 %
Tier I Capital (to Average Assets)						
Consolidated	144,787	11.17 %	51,833	4.00 %	n/ a	n/ a
Southern Bank	139,764	10.78 %	51,837	4.00 %	64,797	5.00 %
Common Equity Tier I Capital (to Risk-Weighted Assets)						
Consolidated	110,635	9.94 %	58,312	4.50 %	n/ a	n/ a
Southern Bank	139,764	12.63 %	58,317	4.50 %	84,236	6.50 %
As of June 30, 2015 (dollars in thousands)						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 154,171	14.22 %	\$ 86,708	8.00 %	n/ a	n/ a
Southern Bank	149,744	13.82 %	86,708	8.00 %	108,384	10.00 %
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	141,168	13.02 %	65,031	6.00 %	n/ a	n/ a
Southern Bank	136,741	12.62 %	65,031	6.00 %	86,708	8.00 %
Tier I Capital (to Average Assets)						
Consolidated	141,168	10.98 %	51,412	4.00 %	n/ a	n/ a
Southern Bank	136,741	10.65 %	51,362	4.00 %	64,203	5.00 %
Common Equity Tier I Capital (to Risk-Weighted Assets)						
Consolidated	107,040	9.88 %	57,838	4.50 %	n/ a	n/ a
Southern Bank	136,741	12.62 %	57,783	4.50 %	83,464	6.50 %

PART I: Item 3: Quantitative and Qualitative Disclosures About Market Risk  
SOUTHERN MISSOURI BANCORP, INC.

Asset and Liability Management and Market Risk

The goal of the Company's asset/liability management strategy is to manage the interest rate sensitivity of both interest-earning assets and interest-bearing liabilities in order to maximize net interest income without exposing the Bank to an excessive level of interest rate risk. The Company employs various strategies intended to manage the potential effect that changing interest rates may have on future operating results. The primary asset/liability management strategy has been to focus on matching the anticipated re-pricing intervals of interest-earning assets and interest-bearing liabilities. At times, however, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the Company may determine to increase its interest rate risk position somewhat in order to maintain its net interest margin.

In an effort to manage the interest rate risk resulting from fixed rate lending, the Bank has utilized longer term FHLB advances (with maturities up to ten years), subject to early redemptions and fixed terms. Other elements of the Company's current asset/liability strategy include (i) increasing originations of commercial business, commercial real estate, agricultural operating lines, and agricultural real estate loans, which typically provide higher yields and shorter repricing periods, but inherently increase credit risk; (ii) actively soliciting less rate-sensitive deposits, including aggressive use of the Company's "rewards checking" product, and (iii) offering competitively-priced money market accounts and CDs with maturities of up to five years. The degree to which each segment of the strategy is achieved will affect profitability and exposure to interest rate risk.

The Company continues to originate long-term, fixed-rate residential loans. During the first three months of fiscal year 2016, fixed rate 1- to 4-family residential loan production totaled \$11.5 million, as compared to \$10.4 million during the same period of the prior fiscal year. At September 30, 2015, the fixed rate residential loan portfolio was \$135.6 million with a weighted average maturity of 122 months, as compared to \$147.6 million at September 30, 2014, with a weighted average maturity of 127 months. The Company originated \$7.3 million in adjustable-rate 1- to 4-family residential loans during the three-month period ended September 30, 2015, as compared to \$10.8 million during the same period of the prior fiscal year. At September 30, 2015, fixed rate loans with remaining maturities in excess of 10 years totaled \$39.3 million, or 3.7% of net loans receivable, as compared to \$44.3 million, or 4.3% of net loans receivable at September 30, 2014. The Company originated \$39.0 million in fixed rate commercial and commercial real estate loans during the three-month period ended September 30, 2015, as compared to \$28.3 million during the same period of the prior fiscal year. The Company also originated \$4.0 million in adjustable rate commercial and commercial real estate loans during the three-month period ended September 30, 2015, as compared to \$13.9 million during the same period of the prior fiscal year. At September 30, 2015, adjustable-rate home equity lines of credit increased to \$23.3 million, as compared to \$22.5 million at September 30, 2014. At September 30, 2015, the Company's investment portfolio had an expected weighted-average life of 3.8 years, compared to 4.3 years at September 30, 2014. Management continues to focus on customer retention, customer satisfaction, and offering new products to customers in order to increase the Company's amount of less rate-sensitive deposit accounts.

Interest Rate Sensitivity Analysis

The following table sets forth as of September 30, 2015, management's estimates of the projected changes in net portfolio value ("NPV") in the event of 100, 200, and 300 basis point ("bp") instantaneous and permanent increases, and 100, 200, and 300 basis point instantaneous and permanent decreases in market interest rates. Dollar amounts are expressed in thousands.

September 30, 2015

Change in Rates	Net Portfolio			NPV as Percentage of PV of Assets NPV			
	Value	Change	% Change	Ratio	Change		
+300 bp	\$116,256	\$(22,527)	-16	% 9.01	% -1.49	%	
+200 bp	124,029	(14,754)	-11	% 9.54	% -0.97	%	
+100 bp	130,861	(7,922)	-6	% 9.99	% -0.52	%	
0 bp	138,783	-	0	% 10.51	% 0.00	%	
-100 bp	147,587	8,804	6	% 11.08	% 0.57	%	
-200 bp	157,138	18,355	13	% 11.70	% 1.19	%	
-300 bp	166,611	27,828	20	% 12.30	% 1.79	%	

June 30, 2015

Change in Rates	Net Portfolio			NPV as Percentage of PV of Assets NPV			
	Value	Change	% Change	Ratio	Change		
+300 bp	\$109,800	\$(24,425)	-18	% 8.67	% -1.65	%	
+200 bp	118,317	(15,908)	-12	% 9.25	% -1.06	%	
+100 bp	125,745	(8,480)	-6	% 9.75	% -0.56	%	
0 bp	134,226	-	0	% 10.32	% 0.00	%	
-100 bp	143,417	9,192	7	% 10.92	% 0.61	%	
-200 bp	153,515	19,289	14	% 11.58	% 1.27	%	
-300 bp	163,386	29,160	22	% 12.22	% 1.90	%	

Computations of prospective effects of hypothetical interest rate changes are based on an internally generated model using actual maturity and repricing schedules for the Bank's loans and deposits, and are based on numerous assumptions, including relative levels of market interest rates, loan repayments and deposit run-offs, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates.

Management cannot predict future interest rates or their effect on the Bank's NPV in the future. Certain shortcomings are inherent in the method of analysis presented in the computation of NPV. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in differing degrees to changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have an initial fixed rate period typically from one to seven years and over the remaining life of the asset changes in the interest rate are restricted. In addition, the

proportion of adjustable-rate loans in the Bank's portfolios could decrease in future periods due to refinancing activity if market interest rates remain steady in the future. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in the table. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

The Bank's Board of Directors (the "Board") is responsible for reviewing the Bank's asset and liability policies. The Board's Asset/Liability Committees meets monthly to review interest rate risk and trends, as well as liquidity and capital ratios and requirements. The Bank's management is responsible for administering the policies and determinations of the Boards with respect to the Bank's asset and liability goals and strategies.



PART I: Item 4: Controls and Procedures  
SOUTHERN MISSOURI BANCORP, INC.

An evaluation of Southern Missouri Bancorp's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended, (the "Act")) as of September 30, 2015, was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, and several other members of our senior management. The Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2015, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to management (including the Chief Executive and Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the quarter ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company does not expect that its disclosures and procedures will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.



## PART II: Other Information

SOUTHERN MISSOURI BANCORP, INC.

Item 1: Legal Proceedings

In the opinion of management, the Company is not a party to any pending claims or lawsuits that are expected to have a material effect on the Company's financial condition or operations. Periodically, there have been various claims and lawsuits involving the Company mainly as a defendant, such as claims to enforce liens, condemnation proceedings on properties in which the Company holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank's business. Aside from such pending claims and lawsuits, which are incident to the conduct of the Company's ordinary business, the Company is not a party to any material pending legal proceedings that would have a material effect on the financial condition or operations of the Company.

Item 1a: Risk Factors

There have been no material changes to the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended June 30, 2015.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Program
7/1/2015 thru 7/31/2015	-	-	-	-
8/1/2015 thru 8/31/2015	-	-	-	-
9/1/2015 thru 9/30/2015	-	-	-	-
Total	-	-	-	-

Item 3: Defaults upon Senior Securities

Not applicable

Item 4: Mine Safety Disclosures

Not applicable

Item 5: Other Information

None

Item 6: Exhibits

(a) Exhibits

- 3 (a) Articles of Incorporation of the Registrant+
- 3 (b) Certificate of Designation for the Registrant's Senior Non-Cumulative Perpetual Preferred Stock, Series A++
- 3 (c) Bylaws of the Registrant+++
- 4 Form of Stock Certificate of Southern Missouri Bancorp++++
- 10 Material Contracts
  - (a) Registrant's 2008 Equity Incentive Plan+++++
  - (b) Registrant's 2003 Stock Option and Incentive Plan+++++
  - (c) Southern Missouri Savings Bank, FSB Management Recognition and Development Plan+++++
  - (d) Employment Agreements
    - (i) Greg A. Steffens\*
    - (e) Director's Retirement Agreements
      - (i) Sammy A. Schalk\*\*
      - (ii) Ronnie D. Black\*\*
      - (iii) L. Douglas Bagby\*\*
      - (iv) Rebecca McLane Brooks\*\*\*
      - (v) Charles R. Love\*\*\*
      - (vi) Charles R. Moffitt\*\*\*
      - (vii) Dennis Robison\*\*\*\*
      - (viii) David Tooley\*\*\*\*\*
      - (ix) Todd E. Hensley\*\*\*\*\*
  - (f) Tax Sharing Agreement\*\*\*\*\*
- 31.1 Rule 13a-14(a) Certification of Principal Executive Officer
- 31.2 Rule 13a-14(a) Certification of Principal Financial Officer
- 32 Section 1350 Certification

Attached as Exhibit 101 are the following financial statements from the Southern Missouri Bancorp, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of income, (iii) consolidated statements of cash flows and (iv) the notes to consolidated financial statements.

- + Filed as an exhibit to the Registrant's Annual Report on Form 10-KSB for the year ended June 30, 1999.
- ++ Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 26, 2011.
- +++ Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on December 6, 2007.
- ++++ Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (File No. 333-2320) as filed with the SEC on January 3, 1994.
- +++++ Filed as an attachment to the Registrant's definitive proxy statement filed on September 19, 2008.
- ++++++ Filed as an attachment to the Registrant's definitive proxy statement filed on September 17, 2003.
- +++++++ Filed as an attachment to the Registrant's 1994 Annual Meeting Proxy Statement dated October 21, 1994.
- \* Filed as an exhibit to the Registrant's Annual Report on Form 10-KSB for the year ended June 30, 1999.
- \*\* Filed as an exhibit to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000.
- \*\*\* Filed as an exhibit to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2004.
- \*\*\*\* Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008.
- \*\*\*\*\* Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011.
- \*\*\*\*\* Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended June 30, 2014.
- \*\*\*\*\* Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHERN MISSOURI BANCORP, INC.  
Registrant

Date: November 9, 2015 /s/ Greg A. Steffens  
Greg A. Steffens  
President & Chief Executive Officer  
(Principal Executive Officer)

Date: November 9, 2015 /s/ Matthew T. Funke  
Matthew T. Funke  
Executive Vice President & Chief Financial Officer  
(Principal Financial and Accounting Officer)