

## ***PATRICK INDUSTRIES, INC. CORPORATE GOVERNANCE GUIDELINES***

Over the course of the Company's history, the Board has developed corporate governance practices to help it fulfill its responsibilities to shareholders to oversee the work of management and the Company's business results. The governance practices are memorialized in these guidelines to assure that the Board will have the necessary authority and practices in place to review and evaluate the Company's business operations as needed and to make decisions that are independent of the Company's management. The guidelines are also intended to align the interests of directors and management with those of Patrick's shareholders.

The guidelines are subject to future refinement or changes as the Board may find necessary or advisable for Patrick in order to achieve these objectives.

### **Board Composition and Selection; Independent Directors**

**1. Board Size.** The Board believes 8 to 10 is an appropriate size based on the Company's present circumstances. The Board periodically evaluates whether a larger or smaller number of directors would be preferable.

**2. Selection of Board Members.** Board members are elected to serve one (1) year terms by the Company's shareholders, except as noted below with respect to vacancies. Each year at the Company's annual meeting, the Board recommends a slate of directors for election by shareholders. The Board's recommendations are based on its determination (using advice and information supplied by the Governance and Nominating Committee) as to the suitability of each individual, and the slate as a whole, to serve as directors of the Company, taking into account the membership criteria discussed below. The Board's recommendations must be approved by a majority of the independent directors.

The Board may fill vacancies in existing or new director positions. Such directors elected by the Board serve only until the next election of directors

**3. Board Membership Criteria.** The Governance and Nominating Committee works with the Board on an annual basis to determine the appropriate characteristics, skills and experience for the Board as a whole and its individual members. In evaluating the suitability of individual Board members, the Board takes into account many factors, including general understanding of marketing, finance and other disciplines relevant to the success of a publicly-traded company in today's business environment; understanding of Patrick's business on a technical level; and educational and professional background. The Board evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best perpetuate the success of the business and represent shareholder interests through the exercise of sound judgment, using its diversity of experience. In determining whether to recommend a director for re-election, the Governance and Nominating Committee also considers the director's past attendance at meetings and participation in and contributions to the activities of the Board.

**4. Board Composition – Mix of Management and Independent Directors.** The Board believes that, except during periods of temporary vacancies, a majority of its directors must be independent. In determining the independence of a director, the Board will apply the definition of "independent director" in the listing standards of the NASDAQ Stock Market and applicable laws and regulations.

**5. Term Limits.** The Board does not believe it should limit the number of terms for which an individual may serve as a director. Directors who have served on the Board for an extended period of time are able to provide valuable insight into the operations and future of the Company based on their experience with and understanding of the Company's history, policies and objectives. The Board

believes that, as an alternative to term limits, it can ensure that the Board continues to evolve and adopt new viewpoints through the evaluation and nomination process described in these guidelines.

**6. Directors with Significant Job Changes.** The Board believes that any director who retires from his or her present employment, or who materially changes his or her position, should tender resignation to the Board. The Board, and specifically the Governance and Nominating Committee, would then evaluate whether the Board should accept the resignation based on a review of whether the individual continues to satisfy the Board's membership criteria in light of his or her new occupational status.

**7. Selection of CEO and Chairman.** The Board selects the Company's CEO and Chairman in the manner that it determines to be in the best interests of the Company's shareholders.

**8. No Specific Limitation on Other Board Service.** The Board does not believe that its members should be prohibited from serving on boards and/or committees of other organizations, and the board has not adopted any guidelines limiting such activities. However, the Governance and Nominating Committee and the Board will take into account the nature of and time involved in a director's service on other boards in evaluating the suitability of individual directors and making its recommendations to Company shareholders. Service on boards and/or committees of other organizations should be consistent with the Company's conflict of interest policies.

#### **Board Meetings; Involvement of Senior Management**

**9. Board Meetings – Agenda.** The Chairman and CEO, taking into account suggestions from other members of the Board, will set the agenda for each Board meeting, and will distribute this agenda in advance to each director.

**10. Advance Distribution of Materials.** All information relevant to the Board's understanding of matters to be discussed at an upcoming Board meeting should be distributed in writing or electronically to all members in advance, whenever feasible and appropriate. This will help facilitate the efficient use of meeting time. In preparing this information, management should ensure that the materials distributed are as concise as possible, yet give directors sufficient information to make informed decisions. The Board acknowledges that certain items to be discussed at Board meetings are of an extremely sensitive nature and that the distribution of materials on these matters prior to Board meetings may not be appropriate.

**11. Access to Employees.** The Board should have access to Company employees in order to ensure that directors can ask all questions and glean all information necessary to fulfill their duties. The Board may specify a protocol for making such inquiries. Management is encouraged to invite Company personnel to any Board meeting at which their presence and expertise would help the Board have a full understanding of matters being considered.

**12. Executive Sessions of Independent Directors.** The independent directors of the Company will meet at least two times per year in executive session, i.e., with no management directors or management present. These executive session discussions may include such topics as the independent directors determine.

#### **Performance Evaluation; Succession Planning**

**13. Succession Planning.** As part of the annual officer evaluation process, the Compensation Committee works with the CEO to plan for CEO succession, as well as to develop plans for interim succession for the CEO in the event of an unexpected occurrence. Succession planning may be reviewed more frequently by the Board as it deems necessary.

**14. Board Self-Evaluation.** The Governance and Nominating Committee is responsible for conducting an annual evaluation of the performance of the full Board and reports its conclusions to the Board. The Governance and Nominating Committee's report should generally include an assessment of the Board's compliance with the principles set forth in these guidelines, as well as identification of areas in which the Board could improve its performance.

### **Compensation**

**15. Board Compensation Review.** Company management should report to the Board on an annual basis as to how the Company's director compensation practices compare with those of other similar public corporations. The Board should make changes in its director compensation practices only upon the recommendation of the Governance and Nominating Committee, and following discussion and concurrence by the Board.

**16. Director Stock Ownership.** The Board believes that, in order to align the interests of directors and shareholders, directors should have a significant financial stake in the Company. The Board will evaluate whether exceptions should be made for any director on whom this requirement would impose a financial hardship.

### **Committees**

**17. Number and Type of Committees.** The Board has 3 committees - an Audit Committee, a Compensation Committee, and a Governance and Nominating Committee. The Board may add new committees or remove existing committees as it deems advisable in the fulfillment of its primary responsibilities. Each committee will perform its duties as assigned by the Board of Directors in compliance with Company bylaws and the Committee's charter. Committee duties may be described briefly as follows:

- Audit Committee.** The Audit Committee reviews the work of the Company's internal accounting and audit processes. The committee is directly responsible for the appointment, compensation, retention and oversight of the Company's independent auditors.
- Compensation Committee.** The Compensation Committee stays informed as to market levels of compensation and, based on evaluations, recommends compensation levels and systems to the Board. Compensation of the Chief Executive Officer will be determined by the Compensation Committee or by a majority of the independent directors.
- Governance and Nominating Committee.** The Governance and Nominating Committee is responsible for recommending to the Board individuals to be nominated as directors. The committee evaluates new candidates and current directors, and performs other duties as described elsewhere in these guidelines.

**18. Composition of Committees; Committee Chairpersons.** The Audit, Compensation, and Governance and Nominating Committees consist solely of independent directors. The Board is responsible for the appointment of committee members and committee chairpersons according to criteria that it determines to be in the best interest of the Company and its shareholders.

**19. Committee Meetings and Agenda.** The chairperson of each committee is responsible for developing, together with relevant Company managers, the committee's general agenda and objectives and for setting the specific agenda for committee meetings. The chairperson and committee members will determine the frequency and length of committee meetings consistent with the committee's charter.

### **Miscellaneous**

**20. Review of Governance Guidelines.** The practices memorialized in these guidelines have developed over a period of years. The Board expects to review these guidelines at least every two years as appropriate.

- A. The following Corporate Governance and Nominations Committee Charter has been reviewed by the Nominations Committee and approved by the full Board of Directors:
- B. Although the NASDAQ is silent with regards to the Nominations Committee charter, the Company has adopted the following charter in accordance with the provisions of the NYSE. In accordance with best practices, this charter will be posted on the Company's website.