PATRICK INDUSTRIES INC
Form 10-K
March 30, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2009
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ……………… to ………………

Commission file number 000-03922

PATRICK INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

INDIANA	35-1057796
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer (Identification No.)

107 W. FRANKLIN STREET, P.O. Box 638, ELKHART, IN	46515
(Address of principal executive offices)	(Zip Code)

(574) 294-7511
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Common stock, without par value
Nasdaq Stock
Market LLC
(Title of each
class)
(Name of each exchange on
which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [X]

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 [X] 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 [ ] (Do not check if a smaller reporting company) Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 26, 2009 (based upon the closing price on the Nasdaq Stock Market LLC and an estimate that 37.7% of the shares are owned by non-affiliates) was $5,348,424. The closing market price was $1.55 on that day and 9,146,939 shares of the Company's common stock were outstanding. As of March 12, 2010, there were 9,182,189 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its Annual Meeting of Shareholders scheduled to be held on May 20, 2010 are incorporated by reference into Part III of this Form 10-K.

PATRICK INDUSTRIES, INC.

FORM 10-K

FISCAL YEAR ENDED DECEMBER 31, 2009

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INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This Form 10-K contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive position, growth opportunities for existing products, plans and objectives of management, markets for the common stock of Patrick Industries, Inc. and other matters. Statements in this Form 10-K as well as other statements contained in the annual report and statements contained in future filings with the Securities and Exchange Commission and publicly disseminated press releases, and statements which may be made from time to time in the future by management of the Company in presentations to shareholders, prospective investors, and others interested in the business and financial affairs of the Company, which are not historical facts, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements. Patrick Industries, Inc. does not undertake to publicly update or revise any forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made, except as required by law. You should consider forward-looking statements, therefore, in light of various important factors, including those set forth in the reports and documents that Patrick Industries, Inc. files with the Securities and Exchange Commission, including this Annual Report on Form 10-K for the year ended December 31, 2009.

There are a number of factors, many of which are beyond the control of Patrick Industries, Inc., which could cause actual results and events to differ materially from those described in the forward-looking statements. These factors include pricing pressures due to competition, costs and availability of raw materials, availability of commercial credit, availability of retail and wholesale financing for residential and manufactured homes, availability and costs of labor, inventory levels of retailers and manufacturers, levels of repossessed residential and manufactured homes, the financial condition of our customers, the ability to generate cash flow or obtain financing to fund growth, future growth rates in the Company's core businesses, interest rates, oil and gasoline prices, the outcome of litigation, adverse weather conditions impacting retail sales, and our ability to remain in compliance with our credit agreement covenants. In addition, national and regional economic conditions and consumer confidence may affect the retail sale of recreational vehicles and residential and manufactured homes.

Any projections of financial performance or statements concerning expectations as to future developments should not be construed in any manner as a guarantee that such results or developments will, in fact, occur. There can be no assurance that any forward-looking statement will be realized or that actual results will not be significantly different from that set forth in such forward-looking statement. See Part I, Item 1A "Risk Factors" below for further discussion.

PART I

ITEM 1. BUSINESS

Company Overview

Patrick Industries, Inc. (collectively, the "Company," "we," "our" or "Patrick"), which was founded in 1959 and incorporated in Indiana in 1961, is a major manufacturer and distributor of building products and materials to the recreational vehicle ("RV") and manufactured housing ("MH") industries. In addition, we are a supplier to certain other industrial markets, such as kitchen cabinet, household furniture, fixtures and commercial furnishings, marine, and other industrial markets. We manufacture a variety of products including decorative vinyl and paper panels, wrapped moldings, interior passage doors, cabinet doors and components, slotwall and slotwall components, and countertops.

We are also an independent wholesale distributor of pre-finished wall and ceiling panels, drywall and drywall finishing products, electronics, adhesives, cement siding, interior passage doors, roofing products, laminate flooring, and other miscellaneous products. We have a nationwide network of manufacturing and distribution centers for our products, thereby reducing in-transit delivery time and cost to the regional manufacturing plants of our customers. We believe that we are one of the few suppliers to the RV and MH industries that has such a nationwide network. We maintain three manufacturing plants and two distribution facilities near our principal offices in Elkhart, Indiana, and operate nine other warehouse and distribution centers and eight other manufacturing plants in eleven other states.

Beginning in 2007 in conjunction with the acquisition of Adorn Holdings, Inc. (“Adorn”) and continuing throughout 2008 and 2009, we explored, initiated and completed a number of cost reduction and efficiency improvements designed to address the downturn in general worldwide economic conditions that adversely affected demand for our products and services and to leverage our position to drive future growth. These improvements included the restructuring and integration of operations, consolidation of facilities, disposition of non-core operations, streamlining of administrative and support activities, and the reduction of inventory levels. The Company also continued to enhance its products and services through the integration of new and expanded product lines designed to create additional scale advantages and offer both increased breadth and depth of products and services. In the Executive Summary section of Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” we provide an overview of the impact that the deterioration in macroeconomic conditions had on our operations and in the RV, MH, and residential housing industries in 2009.

We completed the divestitures of certain non-core businesses in 2009, including American Hardwoods, Inc. (“American Hardwoods”) and our aluminum extrusion operation. See “Strategic Divestitures” below and Note 4 to the Consolidated Financial Statements in Item 8 of this report for further details.

Patrick had three reportable business segments in 2009 (based on continuing operations): Primary Manufactured Products, Distribution, and Other Component Manufactured Products. Financial information about Patrick’s three segments is included in Note 19 to the Consolidated Financial Statements.

Competition

The RV and MH industries are highly competitive with low barriers to entry. This level of competition carries through to the suppliers to these industries. Across the Company’s range of products and services, competition exists primarily on price, product features, quality, and service. We have several competitors that compete with us on a regional and local basis. In order for a competitor to compete with us on a national basis, we believe that a substantial capital commitment and investment in personnel would be required. The other industrial markets in which we continue to expand are also highly competitive. In 2009, declining sales volumes and the depressed economic conditions in the MH and industrial markets we serve caused extreme pricing pressure on certain products as supply outweighed demand. We believe that there may be further volatility in the markets we serve in 2010 before a sustained recovery takes hold. Given this environment, the Company has identified several operating strategies to maintain or enhance earnings through productivity and fixed cost reduction initiatives, expansion into new product lines, and optimization of capacity utilization.

Strategy

Overview

We believe that we have developed quality-working relationships with our customers and suppliers, and have oriented our business to the needs of these customers. These customers include all of the larger RV and MH manufacturers and a number of large to medium-sized industrial customers. Our industrial customers generally are directly linked to the residential housing markets. Our RV and MH customers generally demand the lowest competitive prices, high quality standards, short lead times, and a high degree of flexibility from their suppliers. Our industrial customers generally are less price sensitive than our RV and MH customers, and more focused on quality customer service and quick response time. Consequently, we have focused our efforts on maintaining and improving the quality of our manufactured products, developing a nationwide manufacturing and distribution presence in response to our customers’ needs for flexibility and short lead times, and prioritizing the implementation of lean manufacturing principles and continuous improvement in all of our facilities including our corporate office. Additionally, because of the short lead times, which range from 24 hours to same day order receipt and delivery, we have intensified our focus on reducing our inventory levels with the help of some of our key suppliers with vendor managed inventory programs. These initiatives have been instrumental in improving our operating cash flow and liquidity. As we explore new markets and industries, we believe that these and other strategic initiatives provide us with a strong foundation for future growth. In 2009, approximately 44% of our sales were to the RV industry, 37% to the MH industry, and 19% to the industrial and other markets. In 2008, approximately 37% of our sales were to the RV industry, 45% to the MH industry, and 18% to the industrial and other markets.

Operating Strategies

Key operating strategies identified by management, include the following:

Strategic Acquisitions, Expansion and Restructuring

We supply a broad variety of building material products and, with our nationwide manufacturing and distribution capabilities, we believe that we are well positioned for the introduction of new products. We, from time to time, consider the acquisition of additional product lines, facilities, companies with a strategic fit, or other assets to complement or expand our existing businesses.

In May 2007, we purchased all of the outstanding stock of Adorn, an Elkhart, Indiana-based major manufacturer and supplier to the RV, MH and industrial markets, for $78.8 million. This acquisition represented the largest acquisition in our history, virtually doubled our manufacturing revenues, and immediately strengthened our market position and presence in the major industries that we serve. The consolidation of Adorn into Patrick afforded us many opportunities to realize synergies through facility rationalization, headcount reduction, vendor consolidation, and the implementation of best practices. In January 2010, we completed our first acquisition since we acquired Adorn with the acquisition of a cabinet door business.

In the third quarter of 2008, the completion of our restructuring plan (the “Restructuring Plan”) to integrate Adorn with our existing businesses, resulted in cumulative pretax charges totaling approximately $3.3 million. Expenses associated with the Restructuring Plan included the closure of duplicate facilities, severance related to the elimination of redundant jobs, and various asset write-downs related to the consolidation of product lines. We have realized, and expect to continue to realize, synergy savings from this acquisition on a go-forward basis.

While operating under depressed market and economic conditions throughout 2009, we focused our attention on fixed cost and debt reduction initiatives in order to reduce our leverage ratio, maintain operating cash flow, meet the covenants under our credit agreement and maximize efficiencies from the consolidation of Adorn into Patrick.

Strategic Divestitures

In an effort to strategically align our current operations with businesses within our core competencies, reduce overall fixed costs, and reduce our leverage position, we have explored and will continue to explore various alternatives for the divestiture of certain unprofitable, non-core operations. In 2008, we identified our American Hardwoods and aluminum extrusion operations as non-core operations and reclassified the carrying values of the assets of American Hardwoods and the aluminum extrusion operation to assets held for sale. The decision to divest these two operations was largely based on projected and potential operating losses under the current operating model and working capital requirements of these operations that forced us to assess the overall fit of these operations within the parameters of our strategic plan. The financial results of these operations were classified as discontinued operations in the consolidated financial statements and all prior period operating results have been reclassified to conform to the current year presentation. See Note 4 to the Consolidated Financial Statements for further details.

Sale of American Hardwoods, Inc. Operation/Building

In January 2009, the Company sold certain assets and the business of the American Hardwoods operation for cash consideration of $2 million and entered into a separate real estate purchase agreement with the buyer to sell the building that housed this operation for a purchase price of $2.5 million. Accordingly, the Company reclassified approximately $2.5 million of carrying value for this property to assets held for sale in the Company’s consolidated financial statements at December 31, 2008. The building and property were sold in June 2009 for a purchase price of

$2.5 million. The pretax loss from operations was $19,000 and $0.5 million in 2009 and 2008, respectively. The net pretax gain on the sale of the American Hardwoods operation was $0.2 million in 2009. Estimated pretax charges of approximately $1.0 million, which primarily reflected the write down to fair market value of real estate and inventories, were included in discontinued operations in 2008. Previously, the financial results of American Hardwoods had been included in the Distribution segment.

Sale of Aluminum Extrusion Operation

In July 2009, the Company sold certain assets of its aluminum extrusion operation. The purchase price resulted in net cash proceeds of $7.4 million and the assumption by the buyer of approximately $2.2 million of certain accounts payable and accrued liabilities. The net pretax gain on the sale of the aluminum extrusion operation was $0.5 million in 2009. Estimated pretax charges of approximately $5.0 million associated with the divesture were reflected in discontinued operations in 2008 and primarily reflected the write down to fair market value of inventories, real estate and fixed assets. Pretax income from operations was $0.8 million in 2009 and the pretax loss from operations was $1.2 million in 2008. Previously, the financial results of this operation comprised the entire Engineered Solutions business segment.

Diversification into Other Markets

While we continually seek to improve our position as a leading supplier to the RV and MH industries and have substantially increased our presence in these markets through the acquisition of Adorn in 2007, we are also seeking to expand our product lines into other industrial, commercial and institutional markets. Many of our products, such as countertops, cabinet doors, laminated panels, slotwall, and shelving, have applications in the kitchen cabinet, household furniture, and architectural markets. We have a dedicated sales force focused on increasing our industrial market penetration and on our diversification into additional commercial and institutional markets.

We believe that diversification into other industrial markets provides opportunities for improved operating margins with products that are complementary in nature to our current manufacturing processes. In addition, we believe that our nationwide manufacturing and distribution capabilities enable us to position ourselves for new product expansion.

Utilization of Manufacturing Capacity

Efficiency Optimization

The acquisition and consolidation of Adorn into Patrick allowed us to increase capacity utilization at all of our consolidated manufacturing facilities. While we increased capacity utilization as a result of our facility consolidations, the decline in volume levels due to soft industry conditions in all of the major end markets we serve has resulted in unused capacity at almost all of our locations. We have the ability to substantially increase volumes in almost all of our existing facilities without adding comparable incremental fixed costs. With the expected continued weak economic conditions in certain parts of the country, we are continually exploring opportunities for further facility consolidation. Additionally, we are focused on cross-training all of our manufacturing work force in our manufacturing cells within each facility to maximize our efficiencies and increase the flexibility of our labor force.

Plant Consolidations / Closures and Division Changes

In 2009, we consolidated and closed certain manufacturing and distribution facilities in an effort to align operating costs with our revenue base and keep our overhead structure at a level consistent with operating needs, particularly given the overall soft economic conditions experienced during the year.

In December 2008, the Company decided to close its leased distribution facility in Woodland, California and consolidate operations into the existing owned Fontana, California manufacturing facility in order to offset a sizable reduction in sales volumes that stemmed from the planned closure of one of our major customers' plants in the same area. The consolidation was completed in January 2009.

During the fourth quarter of 2008, the Company entered into a listing agreement to sell its custom vinyls manufacturing facility in Ocala, Florida. We originally anticipated that the sale of this facility would not be completed until 2010 due to unfavorable real estate market conditions, and therefore the property’s carrying value was not included in assets held for sale as of December 31, 2008. However, this facility was sold in late December 2009 for $1.6 million resulting in a pretax gain on sale of $1.2 million. The Ocala operations were consolidated into the Company’s Alabama and Georgia facilities.

In the fourth quarter of 2009, the Company entered into a listing agreement to sell its manufacturing and distribution facility in Woodburn, Oregon. Approximately $3.2 million of carrying value for this facility was reclassified to assets held for sale as of December 31, 2009. The Oregon facility was subsequently sold in February 2010 for $4.2 million and the Company anticipates recording a pretax gain on sale of approximately $0.8 million in its first quarter 2010 operating results. The Company is currently operating in the same facility under a license agreement with the purchaser while it explores options for a more suitable long-term solution.

During the fourth quarter of 2008, the Company entered into a listing agreement to sell its remaining manufacturing and distribution facility in Fontana, California. The Company reclassified approximately $1.6 million of carrying value for this facility to assets held for sale in the consolidated financial statements as of December 31, 2009 and 2008. In March 2010, this facility was sold and the Company anticipates recording a pretax gain on sale of approximately $2.0 million in its first quarter 2010 operating results. The Company is currently operating in the same facility under a lease agreement with the purchaser for the use of approximately one-half of the square footage previously occupied.

Product Development and New Product Introductions/Discontinuations

With our versatile manufacturing and distribution capabilities, we are continually striving to increase our market presence in all of the markets that we serve and gain entrance into other potential markets. We remain committed to new product development and introduction initiatives. New product development is critical to growing our revenue base, keeping up with changing market conditions, and proactively addressing customer demand. We plan to continue to devote our time and attention to manufacturing and distribution products that fit within the strategic parameters of our current business model including appropriate margin and inventory turn levels.

To further enhance our product offerings to marine and RV customers, we established new relationships with several vendors to distribute a complete line of audio/video source units, televisions and microwaves to the marine, RV and recreational product markets. This newly formed electronics division within our Distribution segment was launched in the first quarter of 2009. In addition to line extensions of certain products in 2009, we expanded our distribution line to include adhesives and a new laminate flooring product line. We also began to manufacture interior passage doors to complement our existing door product line.

In early 2009, we discontinued certain distribution product lines including our line of resilient flooring products, a ceramic tile line, and the hardwood products associated with the American Hardwoods operation.

Principal Products

Through our manufacturing divisions, we manufacture a variety of products including decorative vinyl and paper panels, wrapped moldings, stiles and battens, hardwood, foil and membrane pressed cabinet doors, drawer sides and bottoms, interior passage doors, slotwall and slotwall components, components for electronic desks, and countertops. In conjunction with our manufacturing capabilities, we also provide value added processes, including custom fabrication, edge-banding, drilling, boring, and cut-to-size capabilities.

We distribute pre-finished wall and ceiling panels, drywall and drywall finishing products, electronics, adhesives, cement siding, interior passage doors, roofing products, laminate flooring, and other miscellaneous products.

Manufactured laminated panels contributed 49%, 45% and 39% of total sales for the years ended December 31, 2009, 2008 and 2007, respectively. Pre-finished wall panels and finishing products contributed 8%, 8%, and 10% of total sales for the comparable periods in 2009, 2008 and 2007, respectively. The electronics division within our Distribution segment (launched in the first quarter of 2009), contributed 4% of total sales for the year ended December

31, 2009.

We have no material patents, licenses, franchises, or concessions and do not conduct significant research and development activities.

Manufacturing Processes and Operations

Our primary manufacturing facilities utilize various materials including gypsum, particleboard, plywood and fiberboard, which are bonded by adhesives or a heating process to a number of products, including vinyl, paper, foil and high-pressure laminate. Additionally, we offer high-pressure laminate laminated to substrates such as particleboard and lauan which has many uses, including counter tops and ambulance cabinetry. We manufacture laminate countertops and solid surface countertops, as well as slotwall and slotwall components for the store and office fixture markets. Laminated products are used in the production of wall, cabinet, shelving, counter and fixture products with a wide variety of finishes and textures.

We manufacture three distinct cabinet door product lines in both raised and flat panel designs, as well as square, shaker style, cathedral and arched panels. One product line is manufactured from raw lumber using solid oak, maple, cherry and other hardwood materials. Another line of doors is made of laminated fiberboard, and a third line uses membrane press technology to produce doors and components with vinyls ranging from 2 mil to 14 mil in thickness. Several outside profiles are available on square, shaker style, cathedral, and arched raised panel doors and the components include rosettes, hardwood moulding, arched window trim, blocks and windowsills, among others. Our doors are sold mainly to the RV and MH industries. We also market to the cabinet manufacturers and "ready-to-assemble" furniture manufacturers.

Our vinyl printing facility produces a wide variety of decorative vinyls which are 4 mil in thickness and are shipped in rolls ranging from 300-750 yards in length. This facility produces material for both internal and external use.

Markets

We are engaged in the manufacturing and distribution of building products and material for use primarily by the RV and MH industries, and in other industrial markets.

The current downturn in the economy in general and the residential housing market has had an adverse impact on our operations in 2009 in the three primary industries in which we operate. On the RV side, the economic downturn in the fourth quarter of 2008 and the first half of 2009 severely impacted shipment levels, however, production levels were stronger than expected based on a higher demand for RV's by retail dealers in the latter half of 2009. The MH industry continues to be negatively impacted by financing concerns and a lack of available financing sources, and the current credit situation in the residential housing market puts additional pressure on consumers, who are generally using financial institutions and conventional financing as a source for these purchases. We expect the overall declines experienced in the MH and industrial markets in 2009 to continue into the first half of 2010. Recreational vehicle purchases are generally consumer discretionary income purchases, and therefore any situation which causes concerns related to discretionary income has a negative impact on these markets. Approximately 70% of our industrial revenue base is associated with the U.S. residential housing market, and therefore there is a direct correlation between the demand for our products in this market and new residential housing production.

Recreational Vehicles

The recreational vehicle industry has been characterized by cycles of growth and contraction in consumer demand reflecting prevailing general economic conditions which affect disposable income for leisure time activities. We believe that fluctuations in interest rates, consumer confidence, and concerns about the availability and price of gasoline have an impact on RV sales.

Demographic and ownership trends continue to point to favorable market growth in the long-term as the number of "baby-boomers" reaching retirement is steadily increasing, products such as sports-utility RV's are becoming attractive to younger buyers, and RV manufacturers are also providing an array of product choices including producing lightweight towables and smaller, fuel efficient motorhomes. Green technologies including lightweight composite materials, solar panels, and energy-efficient components are appearing on an increasing number of RVs. In addition, federal economic credit and stimulus packages that contain provisions to stimulate RV lending and provide favorable tax treatment for new RV purchases, may help promote sales and aid in the RV industry's economic recovery.

Recreational vehicle classifications are based upon standards established by the RVIA. The principal types of recreational vehicles include conventional travel trailers, folding camping trailers, fifth wheel trailers, motor homes, and conversion vehicles. These recreational vehicles are distinct from mobile homes, which are manufactured houses designed for permanent and semi-permanent residential dwelling.

Conventional travel trailers and folding camping trailers are non-motorized vehicles designed to be towed by passenger automobiles, pick-up trucks, or vans. They provide comfortable, self-contained living facilities for short periods of time. Conventional travel trailers and folding camping trailers are towed by means of a frame hitch attached to the towing vehicle. Fifth wheel trailers, designed to be towed by pick-up trucks, are constructed with a raised forward section that is attached to the bed area of the pick-up truck. This allows for a bi-level floor plan and more living space than a conventional travel trailer.

A motor home is a self-powered vehicle built on a motor vehicle chassis. The interior typically includes a driver's area, kitchen, bathroom, dining, and sleeping areas. Motor homes are self-contained with their own lighting, heating, cooking, refrigeration, sewage holding, and water storage facilities. Although they are not designed for permanent or semi-permanent living, motor homes do provide comfortable living facilities for short periods of time.

Sales of recreational vehicle products have been cyclical. Shortages of motor vehicle fuels and significant increases in fuel prices have had a material adverse effect on the market for recreational vehicles in the past, and could adversely affect demand in the future. The RV industry is also affected by the availability and terms of financing to dealers and retail purchasers. Substantial increases in interest rates and decreases in the general availability of credit have had a negative impact upon the industry in the past and may do so in the future. Recession and lack of consumer confidence generally result in a decrease in the sale of leisure time products such as recreational vehicles.

Since 1998, industry-wide wholesale unit shipments of RV's have declined 43%. The period beginning in 1999 and continuing through 2007 resulted in eight out of the nine years with shipment levels over 300,000 units primarily due to the favorable demographic trend of the aging "baby-boomer" population, improved consumer confidence, depleted dealer inventories, lower interest rates, and a fear of flying after the September 11, 2001 terrorist attacks. Shipment levels started to soften in the third and fourth quarters of 2006 and into 2007. In 2008, shipment levels declined approximately 33% to 237,000 units reflecting the tightest credit conditions in several decades, declining consumer confidence, reduced disposable income levels, and the generally depressed economic environment. In 2009, shipment levels declined approximately 30% versus 2008, reflecting low consumer confidence and the continuance of unfavorable market conditions experienced by the industry in 2008. However, production levels in the RV industry were stronger than expected in the latter half of 2009 based on a higher demand for RV's by retail dealers.

In anticipation of continued strengthening short-term demand, the Recreational Vehicle Industry Association (the "RVIA") is currently forecasting a 30% increase in full year 2010 wholesale unit shipments to 215,900 units compared to the full year 2009 level citing an improvement in dealer demand (as evidenced in the second half of 2009) and an increase in capacity by certain new and existing manufacturers that have also added to their workforce. According to the RVIA, the recovery is expected to strengthen as credit availability, job security and consumer confidence improve.

The Company estimates that approximately 85% of its revenues related to the RV industry are derived from the towables sector of the market. In 2009, the towables sector of the RV market represented approximately 92% of total units shipped into the market as a whole. The towable units are lighter and less expensive than standard gas or diesel powered units representing a more attractive solution for the cost-conscious buyer. From 2008 to 2009, motorized unit shipments declined approximately 53% and towable unit shipments declined approximately 27%. We believe that we are well positioned with respect to our product mix within the RV industry to take advantage of any improved market conditions.

The following chart reflects the historical wholesale unit shipment levels in the RV industry from 1998 through 2009 per RVIA statistics:

Manufactured Housing

Manufactured homes traditionally have been one of the principal means for first time homebuyers to overcome the obstacles of large down payments and higher monthly mortgage payments due to the relative lower cost of construction as compared to site built homes. Manufactured housing also presents an affordable alternative to site built homes for retirees and others desiring a lifestyle in which home ownership is less burdensome than in the case of site built homes. The increase in square footage of living space and updated modern designs in manufactured homes created by multi-sectional models has made them more attractive to a larger segment of homebuyers.

Manufactured homes are built in accordance with national, state and local building codes. Manufactured homes are factory built and transported to a site where they are installed, often permanently. Some manufactured homes have design limitations imposed by the constraints of efficient production and over-the-road transit. Delivery expense limits the effective competitive shipping range of the manufactured homes to approximately 400 to 600 miles.

Modular homes, which are a component of the manufactured housing industry, are factory built homes that are built in sections and transported to the site for installation. These homes are generally set on a foundation and are subject to land/home-financing terms and conditions. In recent years, these units have been gaining in popularity due to their aesthetic similarity to site-built homes and their relatively less expensive cost.

The manufactured housing industry is cyclical and is affected by the availability of alternative housing, such as apartments, town houses, condominiums and site-built housing. In addition, interest rates, availability of financing, regional population, employment trends, and general regional economic conditions affect the sale of manufactured homes. Since 1998, industry-wide wholesale unit shipments of manufactured homes have declined 87%. The 2009 level of 49,800 wholesale units was at the lowest level in the last 50 years. MH unit shipments declined approximately 39% when compared to 2008. Factors that may favorably impact production levels in this industry include quality credit standards in the residential housing market, job growth, favorable changes in financing laws, new tax credits for new home buyers and other government incentives, a lack of residential housing inventory, and rising interest rates that make traditional site built homes more expensive to finance. The Company currently estimates MH unit shipments for full year 2010 to decline approximately 2% compared to full year 2009 levels.

We believe that the factors responsible for the past decade-plus decline include lack of available financing and access to the asset-backed securities markets, high vacancy rates in apartments, high levels of repossessed housing inventories, over-built housing markets in certain regions of the country that resulted in fewer sales of new manufactured homes, as well as the generally depressed economic environment. Additionally, low conventional mortgage rates and less restrictive lending terms for residential site built housing over much of this period contributed to the decline as manufactured home loans generally carry a higher interest rate and less competitive terms. Beginning in mid-1999 and continuing through 2009, the MH industry has also had to contend with credit requirements that became more stringent and a reduction in availability of lenders for manufactured homes for both retail and dealers. While there is demand for permanent rebuilding in the hurricane damaged areas, credit conditions remain adverse especially in conjunction with the current credit crisis, and current overall economic conditions are not favorable in relation to the factors which will promote positive growth. The availability of financing and access to the asset-backed securities market is still restricted, and we believe that employment growth and standard quality-oriented lending practices in the conventional site-built housing markets are needed to enable more balanced demand, thus resulting in the potential for increased production and shipment levels in the MH industry.

The following chart reflects the historical wholesale unit shipment levels in the MH industry from 1998 through 2009 per the Manufactured Housing Institute:

Other Markets

Many of our core manufacturing products, including paper/vinyl laminated panels, shelving, drawer-sides, and high-pressure laminated panels are routinely utilized in the kitchen cabinet, store fixture and commercial furnishings, and residential furniture markets. These markets are generally categorized by a more performance than price driven customer base, and provide an opportunity for us to diversify our clientele while providing increased contribution to our core laminating and fabricating competencies. While the residential furniture markets have been severely impacted by import pressures, other segments have been less vulnerable, and therefore provide opportunities for increased sales penetration and market share gains. While demand for our products in the residential market has been adversely impacted by the severe housing downturn, long-term growth in the residential market will be based on improved job growth, low interest rates, and continuing government incentives to stimulate housing demand and reduce surplus inventory due to foreclosures, which we believe will ultimately increase the demand for our products.

Demand in the industrial markets in which the Company competes also fluctuates with economic cycles. Industrial demand tends to lag the housing cycle by six to twelve months, and will vary based on differences in regional economic prospects. As a result, we believe continued focus on the industrial markets will help moderate the impact of the cyclical patterns in the RV/MH markets on our operating results. We have the available capacity to increase industrial revenue and benefit from the diversity of multiple market segments, unique regional economies and varied customer strategies.

Marketing and Distribution

Our sales are to recreational vehicle and manufactured housing manufacturers and other industrial products manufacturers. We have approximately 1,000 customers. We have five customers, who together accounted for approximately 53% and 44% of our total sales in 2009 and 2008, respectively. We believe we have good relationships with our customers.

Sales to three different customers accounted for approximately 21%, 14% and 12%, respectively, of consolidated net sales of the Company for the year ended December 31, 2009. Sales to two different customers accounted for approximately 13.1% and 11.5%, respectively, of consolidated net sales for the year ended December 31, 2008. No one customer accounted for 10% or more of consolidated net sales for the year ended December 31, 2007.

Most products for distribution are generally purchased in carload or truckload quantities, warehoused, and then sold and delivered by us. In addition, approximately 45% and 33% of our distribution segment's products were shipped directly from the suppliers to our customers in 2009 and 2008, respectively. We typically experience a one to two week delay between issuing our purchase orders and the delivery of products to our warehouses or customers. As lead times have declined over the years, in some instances, certain customers have required same-day or next-day service. We generally keep backup supplies of various commodity products in our warehouses to ensure that we have product on hand at all times for our distribution customers. Our customers do not maintain long-term supply contracts, and therefore we must bear the risk of accurate advanced estimation of customer orders. We have no significant backlog of orders.

We operate 11 warehouse and distribution centers and 11 manufacturing operations located in Alabama, Arizona, California, Georgia, Illinois, Indiana, Kansas, Minnesota, Oregon, Pennsylvania, Tennessee and Texas. By using these facilities, we are able to minimize our in-transit delivery time and cost to the regional manufacturing plants of our customers.

Patrick does not engage in significant marketing efforts nor does it incur significant marketing or advertising expenditures other than attendance at certain trade shows and the activities of its sales personnel and the maintenance of customer relationships through price, quality of its products, service and customer satisfaction. In our design showroom located in Elkhart, Indiana, many of our manufactured and distribution products are on display for current and potential customers. We believe that the design showroom has provided Patrick with the opportunity to grow its market share by educating our customers regarding the style and content options that we have available and by offering custom design services to further differentiate our product lines.

Suppliers

During the year ended December 31, 2009, we purchased approximately 74% of our raw materials and distributed products from twenty different suppliers. The five largest suppliers accounted for approximately 48% of our purchases. Our current major material suppliers with contracts through December 31, 2010 include United States Gypsum, MJB Wood Group and Tumac Lumber Company. We have terms and conditions with these and other suppliers that specify exclusivity in certain areas, pricing structures, rebate agreements and other parameters.

Materials are primarily commodity products, such as lauan, gypsum, particleboard, and other lumber products, which are available from many suppliers. We maintain a long-term supply agreement with one of our major suppliers of materials to the MH industry. Our sales in the short-term could be negatively impacted in the event any unforeseen negative circumstances were to affect our major supplier. We believe that we have a good relationship with this supplier and all of our other suppliers. Alternate sources of supply are available for all of our major material purchases.

Regulation and Environmental Quality

The Company's operations are subject to certain Federal, state and local regulatory requirements relating to the use, storage, discharge and disposal of hazardous chemicals used during their manufacturing processes. Over the past two and one-half years, Patrick has taken a proactive role in certifying that the composite wood substrate materials that it uses to produce products for its customers in the RV marketplace have complied with applicable emission standards developed by the California Air Resources Board ("CARB"). All suppliers and manufacturers of composite wood materials will be required to be either CARB I or CARB II certified at some point in the near future.

We believe that we are currently operating in compliance with applicable laws and regulations and have made reports and submitted information as required. The Company believes that the expense of compliance with these laws and regulations with respect to environmental quality, as currently in effect, will not have a material adverse effect on its financial condition or competitive position, and will not require any material capital expenditures for plant or equipment modifications which would adversely affect earnings.

Seasonality

Manufacturing operations in the RV and MH industries historically have been seasonal and are generally at the highest levels when the climate is moderate. Accordingly, the Company's sales and profits are generally highest in the second and third quarters. However, depressed economic conditions in both industries distorted the historical trends in 2009. RV unit shipments did not experience their normal seasonal sales decline in the fourth quarter of 2009 as they generally have in prior years.

Employees

As of December 31, 2009, we had 580 employees, 486 of which were engaged directly in production, warehousing, and delivery operations; 36 in sales; and 58 in office and administrative activities. There were no manufacturing plants or distribution centers covered by collective bargaining agreements. Patrick continuously reviews benefits and other matters of interest to its employees and considers its relations with its employees to be good.

Executive Officers of the Company

The following table sets forth our executive officers as of February 1, 2010:

Name	Position
Todd M. Cleveland	President and Chief Executive Officer
Andy L. Nemeth	Executive Vice President of Finance, Chief Financial Officer, and Secretary-Treasurer
Darin R. Schaeffer	Vice President, Corporate Controller, and Principal Accounting Officer

Todd M. Cleveland (age 41) was appointed Chief Executive Officer as of February 1, 2009. Mr. Cleveland assumed the position of President and Chief Operating Officer of the Company in May 2008. Prior to that, Mr. Cleveland served as Executive Vice President of Operations and Sales and Chief Operating Officer from August 2007 to May 2008 following the acquisition of Adorn by Patrick in May 2007. Mr. Cleveland spent 17 years with Adorn serving as President and Chief Executive Officer since 2004; President and Chief Operating Officer from 1998 to 2004; Vice President of Operations and Chief Operating Officer from 1994 to 1998; Sales Manager from 1992 to 1994; and Purchasing Manager from 1990 to 1992. Mr. Cleveland has over 19 years of manufactured housing, recreational vehicle, and industrial experience in various operating capacities.

Andy L. Nemeth (age 40) was elected Executive Vice President of Finance, Chief Financial Officer, and Secretary-Treasurer as of May 2004. Prior to that, Mr. Nemeth was Vice President-Finance, Chief Financial Officer, and Secretary-Treasurer from 2003 to 2004, and Secretary-Treasurer from 2002 to 2003. Mr. Nemeth was a Division Controller from 1996 to 2002 and prior to that, he spent five years in public accounting with Coopers & Lybrand (now PricewaterhouseCoopers). Mr. Nemeth has over 17 years of manufactured housing, recreational vehicle, and industrial experience in various financial capacities.

Darin R. Schaeffer (age 42) was elected Vice President, Corporate Controller, and Principal Accounting Officer as of March 26, 2008. From September 2007 to March 26, 2008, Mr. Schaeffer served as the Company's Corporate Controller. From 2005 to 2007, Mr. Schaeffer was a Corporate Controller for Utilimaster Corporation. Mr. Schaeffer also served in a variety of roles, including plant controller, for Robert Bosch Corporation from 1996 to 2005. Prior to that, Mr. Schaeffer spent seven years in public accounting, including three years with Coopers & Lybrand (now PricewaterhouseCoopers).

Website Access to Company Reports

We make available free of charge through our website, www.patrickind.com, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). The charters of our Audit, Compensation, and Corporate Governance/Nominations Committees, our Corporate Governance Guidelines, our Code of Ethics and Business Conduct, and our Code of Ethics Applicable to Senior Executives are also available on the "About Us –Corporate Governance" portion of our website. Our internet website and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K.

Additionally, the public may read or copy any materials we file with the SEC at the SEC's public reference room located at 100 F Street N.E., Washington D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

ITEM 1A. RISK FACTORS

The Company's consolidated results of operations, financial position and cash flows can be adversely affected by various risks related to its business. These risks include, but are not limited to, the principal factors listed below and the other matters set forth in this Annual Report on Form 10-K. All of these risks should be carefully considered.

Our results of operations have been, and may continue to be, adversely impacted by a worldwide macroeconomic downturn.

In 2009, general worldwide economic conditions continued to experience a downturn due to the effects of the deterioration in the residential housing market, subprime lending crisis, general credit market crisis, collateral effects on the finance and banking industries, increased commodity costs, volatile energy costs, concerns about inflation, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns (the "economic crisis"). These conditions have adversely affected demand in the three major end-markets we serve (the recreational vehicle, manufactured housing and industrial markets), resulting in decreased sales of our component products into these markets and could negatively affect our operations and result in lower sales, income, and cash flows.

In addition, it has become more difficult for our customers and us to accurately forecast and plan future business activities, and ultimately our profitability has been adversely affected. If our business conditions continue to deteriorate, we may be forced to close and/or consolidate certain of our operating facilities, sell assets, and/or reduce our workforce, which may result in our incurring restructuring charges. We cannot predict the duration of the economic downturn, the timing or strength of a subsequent economic recovery or the extent to which the economic downturn will continue to negatively impact our business, financial condition and results of operations.

The current economic downturn in the residential housing market has had an adverse impact on our operations, and is expected to continue into 2010.

The residential housing market has experienced overall declines and credit concerns that are expected to continue into 2010. Approximately 70% of our industrial revenue is directly or indirectly influenced by conditions in the residential housing market. The decline in demand for residential housing and the tightening of consumer credit have lowered demand for our industrial products and have had an adverse impact on our operations as a whole. In addition, the impact of the sub-prime mortgage crisis and housing downturn on consumer confidence, discretionary spending, and general economic conditions has decreased and may continue to decrease demand for our products sold to the manufactured housing and recreational vehicle industries.

We may incur significant charges or be adversely impacted by the closure of all or part of a manufacturing or distribution facility.

We periodically assess the cost structure of our operating facilities to distribute and/or manufacture and sell our products in the most efficient manner. Based on our assessments, we may make capital investments to move, discontinue manufacturing and/or distribution capabilities, sell or close all or part of a manufacturing and/or distribution facility. In January 2009, we closed our leased distribution facility in Woodland, California and consolidated operations into the existing owned Fontana, California manufacturing facility in order to offset a sizable reduction in sales volumes that stemmed from the planned closure of one of our major customer's plants in the same area. The Fontana facility was subsequently sold in March 2010 and we are currently operating in the same facility under a lease agreement with the purchaser for the use of approximately one-half of the square footage previously occupied. We have incurred charges in the first quarter of 2010 related to downsizing our operations in this facility and to accommodate the use of this facility by two different parties. In addition, we closed and sold our manufacturing facility in Ocala, Florida in late 2009 and consolidated its operations into our Alabama and Georgia facilities. Our manufacturing and distribution facility in Oregon was sold in February 2010 and we are currently operating in the same facility under a license agreement with the purchaser while we explore options for a more suitable long-term solution. These changes could result in significant future charges or disruptions in our operations, and we may not achieve the expected benefits from these changes which could result in an adverse impact on our operating results, cash flows and financial condition.

The financial condition of our customers and suppliers may deteriorate as a result of the current economic environment and competitive conditions in their markets.

The economic crisis may lead to increased levels of restructurings, bankruptcies, liquidations and other unfavorable events for our customers, suppliers and other service providers and financial institutions with whom we do business. Such events could, in turn, negatively affect our business either through loss of sales or inability to meet our commitments (or inability to meet them without excess expense) because of loss of suppliers or other providers. In addition, several of our major customers are undergoing unprecedented financial distress which may result in such customers undergoing major restructuring, reorganization or other significant changes. The occurrence of any such event could have further adverse consequences to our business including a decrease in demand for our products. If such customers become insolvent or file for bankruptcy, our ability to recover accounts receivables from those customers would be adversely affected and any payments we received in the preference period prior to a bankruptcy filing may be potentially recoverable by the bankruptcy trustee.

Many of our customers participate in highly competitive markets, and their financial condition may deteriorate as a result. A decline in the financial condition of our customers could hinder our ability to collect amounts owed by customers. In addition, such a decline could result in lower demand for our products and services.

We have a number of large customers, the loss of any of which could have a material adverse impact on our operating results.

We have a number of customers which account for a significant percentage of our net sales. Specifically, two customers in the RV market accounted for a combined 35%, and another customer in the MH market accounted for 12% of consolidated net sales in 2009. The loss of any of these large customers could have a material adverse impact on our operating results. We do not have long-term agreements with customers and cannot predict that we will maintain our current relationships with these customers or that we will continue to supply them at current levels.

The manufactured housing and recreational vehicle industries are highly competitive, and some of our competitors may have greater resources than we do.

We operate in a highly competitive business environment and our sales could be negatively impacted by our inability to maintain or increase prices, changes in geographic or product mix, or the decision of our customers to purchase our competitors' products instead of our products. We compete not only with other suppliers to the manufactured housing and recreational vehicle producers, but also with suppliers to traditional site-built homebuilders and suppliers of cabinetry and flooring. Sales could also be affected by pricing, purchasing, financing, advertising, operational, promotional, or other decisions made by purchasers of our products. Additionally, we cannot control the decisions made by suppliers of our distributed and manufactured products and therefore our ability to maintain our exclusive and non-exclusive distributor contracts and agreements may be adversely impacted.

As a result of highly competitive market conditions in the industries in which we participate, some of our competitors have been forced to seek bankruptcy protection. These competitors may emerge from bankruptcy protection with stronger balance sheets and a desire to gain market share by offering below market pricing, which would have an adverse impact on our financial condition and results of operations and cash flows.

Seasonality and cyclical economic conditions affect the RV and MH markets the Company serves.

The RV and MH markets are cyclical and dependent upon various factors, including the general level of economic activity, consumer confidence, interest rates, access to financing, inventory and production levels, and the cost of fuel. Economic and demographic factors can cause substantial fluctuations in production, which in turn impact sales and operating results. Demand for recreational vehicles and manufactured housing generally declines during the winter season. Our sales levels and operating results could be negatively impacted by changes in any of these items.

The cyclical nature of the domestic housing market has caused our sales and operating results to fluctuate. These fluctuations may continue in the future, which could result in operating losses during downturns.

The U.S. housing industry is highly cyclical and is influenced by many national and regional economic and demographic factors, including:

- terms and availability of financing for homebuyers and retailers;
- consumer confidence;
- interest rates;
- population and employment trends;
- income levels;
- housing demand; and
- general economic conditions, including inflation, deflation and recessions.

The manufactured housing and recreational vehicle industries and the industrial markets are affected by the fluctuations in the residential housing market. As a result of the foregoing factors, our sales and operating results fluctuate, and we expect that they will continue to fluctuate in the future. Moreover, cyclical and seasonal downturns in the residential housing market may cause us to experience operating losses.

Fuel shortages, or higher prices for fuel, have had, and could continue to have, an adverse impact on our operations.

The products produced by the RV industry typically require gasoline or diesel fuel for their operation, or the use of a vehicle requiring gasoline or diesel fuel for their operation. There can be no assurance that the supply of gasoline and diesel fuel will continue uninterrupted or that the price of or tax on fuel will not significantly increase in the future. Shortages of gasoline and diesel fuel have had a significant adverse effect on the demand for recreational vehicles in the past and would be expected to have a material adverse effect on demand in the future. Rapid significant increases in fuel prices, as we experienced in recent years, appear to affect the demand for recreational vehicles when gasoline prices reach unusually high levels. Such a reduction in overall demand for recreational vehicles could have a materially adverse impact on our revenues and profitability. Approximately 44% and 37% of our sales were to the RV industry for 2009 and for 2008, respectively. In 2010, we expect an even higher percentage of our total sales to be concentrated in the RV industry than in 2009 due to forecasted growth in the RV industry and continued softness in the MH and industrial markets.

Dependence on Third-Party Suppliers and Manufacturers.

Generally, our raw materials, supplies and energy requirements are obtained from various sources and in the quantities desired. While alternative sources are available, our business is subject to the risk of price increases and periodic delays in the delivery. Fluctuations in the prices of these requirements may be driven by the supply/demand relationship for that commodity or governmental regulation. In addition, if any of our suppliers seek bankruptcy relief or otherwise cannot continue their business as anticipated, the availability or price of these requirements could be adversely affected.

Increased cost and limited availability of raw materials may have a material adverse effect on our business and results of operations.

Prices of certain materials, including gypsum, lauan, particleboard, MDF, and other commodity products, can be volatile and change dramatically with changes in supply and demand. Certain products are purchased from overseas and are dependent upon vessel shipping schedules and port availability. Further, certain of our commodity product suppliers sometimes operate at or near capacity, resulting in some products having the potential of being put on allocation. We generally have been able to maintain adequate supplies of materials and to pass higher material costs on to our customers in the form of surcharges and base price increases where needed. However, it is not certain that future price increases can be passed on to our customers without affecting demand or that limited availability of materials will not impact our production capabilities. The current credit crisis and its impact on the financial and housing markets may also impact our suppliers and affect the availability or pricing of materials. Our sales levels and operating results could be negatively impacted by changes in any of these items.

We are subject to governmental and environmental regulations, and failure in our compliance efforts could result in damages, expenses or liabilities that individually or in the aggregate would have a material adverse affect on our financial condition and results of operations.

Our manufacturing businesses are subject to various governmental and environmental regulations. Implementation of new regulations or amendments to existing regulations could significantly increase the cost of the Company's products. Certain components of manufactured and modular homes are subject to regulation by the U.S. Consumer Product Safety Commission. We currently use materials that we believe comply with government regulations. We cannot presently determine what, if any, legislation may be adopted by Congress or state or local governing bodies, or the effect any such legislation may have on us or the manufactured housing industry. In addition, failure to comply with present or future regulations could result in fines or potential civil or criminal liability. Both scenarios could negatively our results of operations or financial condition.

The inability to attract and retain qualified executive officers and key personnel may adversely affect our operations.

The loss of any of our executive officers or other key personnel could reduce our ability to manage our business and strategic plan in the short term and could cause our sales and operating results to decline.

Our ability to integrate acquired businesses may adversely affect operations.

As part of our business and strategic plan, we look for strategic acquisitions to provide shareholder value. Any acquisition will require the effective integration of an existing business and its administrative, financial, sales and marketing, manufacturing and other functions to maximize synergies. Acquired businesses involve a number of risks that may affect our financial performance, including increased leverage, diversion of management resources, assumption of liabilities of the acquired businesses, and possible corporate culture conflicts. If we are unable to successfully integrate these acquisitions, we may not realize the benefits identified in our due diligence process, and our financial results may be negatively impacted. Additionally, significant unexpected liabilities could arise from these acquisitions.

Increased levels of indebtedness may harm our financial condition and results of operations.

As of December 31, 2009, we had approximately $42.3 million of total debt of which $41.8 million was under our senior secured credit facility (the "Credit Facility") and $0.5 million was related to our economic development revenue bonds. Our indebtedness, which was primarily the result of the Adorn acquisition in 2007, as well as a greater need for working capital, may harm our financial condition and negatively impact our results of operations. The level of indebtedness could have consequences on our future operations, including (i) making it more difficult for us to meet our payments on outstanding debt; (ii) an event of default, if we fail to comply with the financial and other restrictive covenants contained in the credit agreement governing the Credit Facility (the "Credit Agreement"), which could result in all of our debt becoming immediately due and payable; (iii) reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes; (iv) limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business and the industry in which we operate; (v) placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged; and (vi) creating concerns about our credit quality which could result in the loss of supplier contracts and/or customers. While we will be working with our current lenders or otherwise during 2010 to execute a new long-term Credit Facility prior to its scheduled expiration on January 3, 2011, there can be no assurance that we will be able to refinance any or all of this indebtedness.

Our Credit Facility contains various financial performance and other covenants with which we must remain in compliance. If we do not remain in compliance with these covenants, our senior secured credit facility could be terminated and the amounts outstanding thereunder could become immediately due and payable.

We have a significant amount of debt outstanding that contains financial and non-financial covenants with which we must comply that place restrictions on our subsidiaries and us. Without improvements from the conditions in the current economic downturn in 2010, there can be no assurance that we will maintain compliance during 2010 with the financial covenants as modified by the fourth amendment to the Credit Agreement in December 2009 (the "Fourth Amendment"). These covenants are measured on a quarterly basis and require that we attain minimum levels of Consolidated EBITDA as defined by our Credit Agreement. If we fail to comply with our covenants under the Fourth Amendment, the lenders could cause our debt to become due and payable prior to maturity or it could result in our having to refinance the related indebtedness under unfavorable terms. If our debt were accelerated, our assets might not be sufficient to repay our debt in full. If current unfavorable credit market conditions were to persist throughout 2010, there can be no assurance that we will be able to refinance any or all of this indebtedness.

For additional details and discussion concerning these financial covenants see "Liquidity and Capital Resources" in Item 7 of this Report and Note 12 to the Consolidated Financial Statements.

Industry conditions and our operating results have limited our sources of capital in the past. If we are unable to locate suitable sources of capital when needed, we may be unable to maintain or expand our business.

We depend on our cash balances, our cash flows from operations, our Credit Agreement, and potentially borrowing against our corporate-owned life insurance policies to finance our operating requirements, capital expenditures and other needs. If the general economic conditions that prevailed during 2009 and the first quarter of 2010 continue or worsen, production of RVs and manufactured homes will likely decline, resulting in reduced demand for our products. A further decline in our operating results could negatively impact our liquidity. In addition, the downturn in the MH and RV industries, combined with our operating results and other changes, has limited our sources of financing in the past. If our cash balances, cash flows from operations, and availability under our Credit Agreement are insufficient to finance our operations and alternative capital is not available, we may not be able to expand our business and make acquisitions, or we may need to curtail or limit our existing operations.

We have letters of credit representing collateral for our casualty insurance programs and for general operating purposes. The letters of credit are issued under our Credit Agreement. For additional detail and information concerning the amounts of our letters of credit, see Note 12 to the Consolidated Financial Statements. The inability to retain our current letters of credit, to obtain alternative letter of credit sources, or to retain our current Credit Agreement to support these programs could require us to post cash collateral, reduce the amount of cash available for our operations or cause us to curtail or limit existing operations.

Increased levels of inventory may adversely affect our profitability.

Our customers generally do not maintain long-term supply contracts and, therefore, we must bear the risk of advanced estimation of customer orders. We maintain an inventory to support these customers' needs. Changes in demand, market conditions and/or product specifications could result in material obsolescence and a lack of alternative markets for certain of our customer specific products and could negatively impact operating results.

We may be subject to additional charges for impairment of assets, including goodwill, other long-lived assets and deferred tax assets, due to potential declines in the fair value of those assets or a decline in expected profitability of the Company or individual reporting units of the Company.

A portion of our total assets as of December 31, 2009 was comprised of goodwill, amortizable intangible assets, and property, plant and equipment. Under generally accepted accounting principles, each of these assets is subject to periodic review and testing to determine whether the asset is recoverable or realizable. The events or changes that could require us to test our goodwill and intangible assets for impairment include a reduction in our stock price and market capitalization and changes in our estimated future cash flows, as well as changes in rates of growth in our industry or in any of our reporting units.

In the future, if actual sales demand or market conditions change from those projected by management, additional asset write-downs may be required. Significant impairment charges, although not always affecting current cash flow, could have a material effect on our operating results and financial position.

A variety of factors could influence fluctuations in the market price for our common stock.

The market price of our common stock could fluctuate in the future in response to a number of factors, including those discussed below. The market price of our common stock has in the past fluctuated and is likely to continue to fluctuate. Some of the factors that may cause the price of our common stock to fluctuate include:

- variations in our and our competitors' operating results;
- historically low trading volume;
- high concentration of shares held by institutional investors and in particular our majority shareholder, Tontine Capital Partners, L.P. and affiliates (collectively, "Tontine Capital");
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- the gain or loss of significant customers;
- additions or departure of key personnel;
- events affecting other companies that the market deems comparable to us;
- general conditions in industries in which we operate;
- general conditions in the United States and abroad;
- the presence or absence of short selling of our common stock;
- future sales of our common stock or debt securities;
- announcements by us or our competitors of technological improvements or new products; and
- the disclosure by Tontine Capital in November 2008 that it will begin to explore alternatives for the disposition of its equity interests in the Company.

Fluctuations in the stock market may have an adverse effect upon the price of our common stock.

The stock markets in general have experienced substantial price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the trading price of our common stock.

Holders of our common stock are subject to the risk of dilution of their investment as the result of the issuance to our lenders of warrants to purchase common stock.

As part of the consideration for amending our Credit Agreement on December 11, 2008, we entered into a Warrant Agreement under which we issued to our lenders warrants to purchase an aggregate of 474,049 shares of common stock at an exercise price per share of $1 (the “Warrants”). The Warrants are immediately exercisable, subject to anti-dilution provisions and expire on December 11, 2018. Pursuant to the anti-dilution provisions, the number of shares of common stock issuable upon exercise of the Warrants was increased to an aggregate of 483,742 shares and the exercise price was adjusted to $0.98 per share during 2009. The exercise of the Warrants would result in dilution to the holders of our common stock. The renegotiation and extension of our current Credit Facility that expires on January 3, 2011, or any replacement credit facility, could involve the issuance of additional warrants or other equity-based arrangements.

A majority of our common stock is held by Tontine Capital, which has the ability to control all matters requiring shareholder approval and whose interests may not be aligned with the interests of our other shareholders. In addition, the ownership of a significant portion of our common stock is concentrated in the hands of a few holders.

As of March 1, 2010, Tontine Capital owned 5,174,963 shares of our common stock or approximately 56.4% of our total common stock outstanding. As a result of its majority interest, Tontine Capital has the ability to control all matters requiring shareholder approval, including the election of our directors, the adoption of amendments to our Articles of Incorporation, the approval of mergers and sales of all or substantially all of our assets, decisions affecting our capital structure and other significant corporate transactions. In addition to its majority interest, pursuant to a Securities Purchase Agreement with Tontine Capital, dated April 10, 2007, if Tontine Capital (i) holds between 7.5% and 14.9% of our common stock then outstanding, Tontine Capital has the right to appoint one nominee to our board; or (ii) holds at least 15% of our common stock then outstanding, Tontine Capital has the right to appoint two nominees to our board. Tontine Capital's rights related to the appointment of directors were affirmed in a subsequent Securities Purchase Agreement with Tontine Capital, dated March 10, 2008. On July 21, 2008, a nominee of Tontine Capital was appointed to the board. As of March 1, 2010, Tontine Capital has one director on the Company's board of directors and has not exercised its right to nominate a second director to the board.

The interests of Tontine Capital may not in all cases be aligned with the interests of our other shareholders. The influence of Tontine Capital may also have the effect of deterring hostile takeovers, delaying or preventing changes in control or changes in management, or limiting the ability of our shareholders to approve transactions that they may deem to be in their best interests. In addition, Tontine Capital and its affiliates are in the business of investing in companies and may, from time to time, invest in companies that compete directly or indirectly with us. Tontine Capital and its affiliates may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us.

We are not able to predict whether or when Tontine Capital or the other institutions will sell or otherwise dispose of substantial amounts of our common stock. Sales or other dispositions of our common stock by these institutions could adversely affect prevailing market prices for our common stock.

In addition, we were aware of four other institutions that collectively own approximately 18.3% of our outstanding common stock as of December 31, 2009.

Tontine Capital indicated in a filing with the SEC that it would begin to explore alternatives for the disposition of its equity interests in the Company. This filing, and any future dispositions of stock by Tontine Capital, could adversely affect the market price of our common stock.

On November 10, 2008, Tontine Capital filed with the SEC an amendment to its previously filed Schedule 13D with respect to its ownership of common stock of the Company. Tontine Capital stated that it would begin to explore alternatives for the disposition of its equity interests in the Company, which alternatives may include: (a) dispositions of our common stock through open market sales, underwritten offerings and/or privately negotiated sales; (b) a sale of the Company; or (c) distributions by Tontine Capital of its shares to its investors. The public disclosure of such possible disposition may adversely affect the market price for our common stock due to the large number of shares involved. In addition, we are not able to predict whether or when Tontine Capital will dispose of its stock. Any such future disposition of stock by Tontine Capital may also adversely affect the market price of our common stock.

In March 2010, Tontine Capital disclosed that it had reallocated the ownership of certain shares of common stock of the Company owned by it to a new investment fund, Tontine Capital Overseas Master Fund II, L.P. ("TCOMF2"). The aggregate common stock ownership of Tontine Capital following the reallocation did not change. In addition, Tontine Capital disclosed that TCOMF2 may hold and/or dispose of such securities or may purchase additional securities of the Company, at any time and from time to time in the open market or otherwise.

Certain provisions in our Articles of Incorporation and Amended and Restated By-laws may delay, defer or prevent a change in control that our shareholders each might consider to be in their best interest.

Our Articles of Incorporation and Amended and Restated By-laws contain provisions that are intended to deter coercive takeover practices and inadequate takeover bids by making them unacceptably expensive to the raider, and to encourage prospective acquirers to negotiate with our board of directors rather than to attempt a hostile takeover.

We have in place a Rights Agreement which permits under certain circumstances each holder of common stock, other than potential acquirers, to purchase one one-hundredth of a share of a newly created series of our preferred stock at a purchase price of $30 or to acquire additional shares of our common stock at 50% of the current market price. The rights are not exercisable or transferable until a person or group acquires 20% or more of our outstanding common stock, except with respect to Tontine Capital and its affiliates and associates, which are exempt from the provisions of the Rights Agreement pursuant to an amendment signed on March 12, 2008. The effects of the Rights Agreement would be to discourage a stockholder from attempting to take over our company without negotiating with our Board of Directors.

Insurance Coverages and Terms and Conditions.

We negotiate our insurance contracts annually for property, casualty, workers compensation, general liability, health insurance, and directors' and officers' liability coverage. Due to conditions within these insurance markets and other factors beyond our control, future coverage limits, terms and conditions and the amount of the related premiums could have a negative impact on our operating results. While we continually measure the risk/reward of policy limits and coverage, the lack of coverage in certain circumstances could result in potential uninsured losses.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2009, the Company owned approximately 1.1 million square feet of manufacturing and distribution facilities and leased an additional 565,200 square feet as listed below.

Location	Use	Area Sq. Ft.	Ownership or Lease Arrangement
Elkhart, IN	Distribution (D)	107,400	Owned
Elkhart, IN	Manufacturing (P)	181,800	Owned
Elkhart, IN	Administrative Offices	35,000	Owned
Elkhart, IN	Manufacturing (O)	211,300	Leased to 2015
Elkhart, IN	Manufacturing (P)	198,000	Leased to 2018
Elkhart, IN	Design Center	4,000	Leased to 2010
Decatur, AL	Mfg. & Dist. (P) (D)	94,000	Owned
Valdosta, GA	Distribution (D)	30,900	Owned
New London, NC	Mfg. & Dist. (P) (D) (1)	163,000	Owned
Halstead, KS	Distribution (D)	36,000	Owned
Waco, TX	Mfg. & Dist. (P) (D)	105,600	Owned
Mt. Joy, PA	Mfg. & Dist. (P) (D)	86,500	Owned
Fontana, CA	Mfg. & Dist. (P) (D) (1)	110,000	Owned
Phoenix, AZ	Manufacturing (P)	44,500	Leased to 2010
Bensenville, IL	Manufacturing (O)	54,400	Leased to 2013
Madisonville, TN	Mfg. & Dist. (P)	53,000	Leased to 2011
Woodburn, OR	Mfg. & Dist. (P) (D) (1)	153,000	Owned

(P) Primary Manufactured Products
(D) Distribution
(O) Other Component Manufactured Products
(1) Represents owned buildings that were for sale by the Company as of December 31, 2009.

Pursuant to the terms of the Company's credit agreement, all of its owned facilities are subject to a mortgage and security interest.

Buildings for Sale

In the fourth quarter of 2008, the Company reclassified approximately $1.6 million of carrying value for the Fontana, California property to assets held for sale. In the fourth quarter of 2009, the Company reclassified approximately $3.2 million of carrying value for the Woodburn, Oregon property to assets held for sale. Both of these properties were included in assets held for sale as of December 31, 2009. The Oregon and California properties were sold in February 2010 and March 2010, respectively. The Company is currently operating in the same facility in Oregon under a license agreement with the purchaser while it explores options for a more suitable long-term solution, and it is operating in the same facility in California under a lease agreement with the purchaser for the use of approximately one-half of the square footage previously occupied.

In addition, the Company entered into a listing agreement in March 2009 to sell its manufacturing and distribution facility in New London, North Carolina. Since it is anticipated that the sale of this facility will not be completed within the next twelve months due to unfavorable real estate market conditions in this region, the property's carrying value was not included in assets held for sale.

Lease Expirations

We believe that the facilities we occupy as of December 31, 2009, excluding those designate