PATRICK INDUSTRIES INC
Form 10-K
March 29, 2012

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, 2011
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 x 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 ¨ Smaller reporting company x (Do not check if a smaller reporting company)

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, 2011 (based upon the closing price on the Nasdaq Stock Market LLC and an estimate that 35.8% of the shares are owned by non-affiliates) was $7,092,906. The closing market price was $2.03 on that day and 9,759,895 shares of the Company's common stock were outstanding. As of March 13, 2012, there were 10,371,904 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 24, 2012 are incorporated by reference into Part III of this Form 10-K.

PATRICK INDUSTRIES, INC.
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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, 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, 2011.

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 the impact of any economic downturns especially in the residential housing market, 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, the ability to effectively manage the costs and the implementation of the new enterprise resource management system, future growth rates in the Company's core businesses, the successful integration of recent acquisitions, 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 of component products 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, retail fixtures and commercial furnishings, marine, and other industrial markets. We manufacture a variety of products including decorative vinyl and paper panels, wrapped profile mouldings, cabinet doors and components, countertops, interior passage doors, exterior graphics and slotwall and slotwall components.

We are also an independent wholesale distributor of pre-finished wall and ceiling panels, drywall and drywall finishing products, electronics, wiring, electrical and plumbing products, cement siding, interior passage doors, roofing products, laminate flooring, shower doors, furniture, fireplace and slide-out surrounds and fascia, 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

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six manufacturing plants and four 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.

General economic conditions continue to be impacted by the residual effects and overhang of the economic recession. Our business has been adversely affected by the deterioration in the residential housing market, the subprime lending crisis, a general credit market and financing crisis, increased commodity costs, concerns about inflation, decreased consumer confidence, reduced corporate profits and capital spending, and adverse business conditions and liquidity concerns (the "economic crisis"). While these conditions adversely affected demand in the three major end-markets we serve, the RV, MH and industrial markets, we executed on a number of strategic initiatives to position the Company to take advantage of a recovery in each of our primary markets. These items include deleveraging our balance sheet, operational restructuring at certain manufacturing facilities, disposition of non-core operations, streamlining administrative and support activities, management of inventory levels to changes in sales levels, and refinancing our credit facility. In addition, as the business environment and our financial condition improved, we completed six strategic acquisitions from January 2010 through March 2012. The combination of improving economic conditions, specifically in the RV industry, and the execution of our strategic initiatives during this period, resulted in our sales, operating income, net income and cash flows improving dramatically in the three years ended December 31, 2011. 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 macroeconomic conditions had on our operations and in the RV, MH, and residential housing industries in 2011.

We also continued to expand both the breadth and the depth of our products and services through the integration of new and expanded product lines designed to create additional scale advantages. See "Strategic Acquisitions and Expansion" below and Note 4 to the Consolidated Financial Statements in Item 8 of this report for further details.

Patrick had two reportable operating segments in 2011, Manufacturing and Distribution. Effective January 1, 2011, certain changes were made to the manner in which operating segment results are reported, including: (1) certain costs related to wages, payroll taxes and incentive compensation that were previously reflected as unallocated corporate expenses are now being allocated to the Company's two operating segments; and (2) a majority of corporate incentive agreements (which include vendor rebate agreements) previously included in the corporate segment are now being allocated to the operating segments and reflected as a reduction of cost of goods sold. Prior period results were reclassified to reflect the current year presentation. Financial information about these operating segments is included in Note 21 to the Consolidated Financial Statements.

Competitive Position

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 believe that the quality, service, design and price of our products and the short order turnaround time that we provide allow us to compete favorably in the RV and MH markets. Several competitors compete with us on a regional and local basis. However, 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 2010 and 2011, sales to the RV industry continued to strengthen as evidenced by higher production levels and wholesale unit shipments versus the prior years. We believe that ongoing credit concerns, slow job growth, swings in consumer confidence levels, and continued lower levels of discretionary spending will all continue to contribute to further volatility in the markets we serve in 2012 before a sustained recovery takes hold. Given the environment in the industries in which we operate, the Company has identified several operating strategies to maintain or enhance earnings through strategic acquisitions, productivity initiatives, expansion into new product lines, optimization of capacity utilization, and the implementation of a new company-wide Enterprise Resource Planning ("ERP") software system.

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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 focused on consistent high quality products, exceptional customer service, and quick response time.

In order to best serve our customer base, we have focused our efforts on driving the execution of our Organizational Strategic Agenda ("OSA"), embedding our 'Customer First' performance-oriented culture throughout all levels of the organization, implementing talent development initiatives to ensure we have the resources to meet our customers' evolving needs, developing a nationwide manufacturing and distribution presence in response to our customers' needs for flexibility and short lead times, and bringing value added products to our customers through the introduction of new products, line extensions, and strategic acquisitions. Additionally, because of the short lead times, which range from 48 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 2011, approximately 61% of our sales were to the RV industry, 24% to the MH industry, and 15% to the industrial and other markets. In 2010, approximately 58% of our sales were to the RV industry, 28% to the MH industry, and 14% to the industrial and other markets. The increase in unit shipments in the RV market compared to the softness in the other primary market sectors in which Patrick operates, the introduction of new products to the marketplace, and the impact of the acquisitions completed in 2010 and 2011, have contributed to an increase in our RV market sales concentration in 2011 when compared to prior periods.

Operating Strategies

Key operating strategies identified by management, include the following:

Strategic Acquisitions and Expansion

We supply a broad variety of building materials and component products to the RV, MH and industrial markets. With our nationwide manufacturing and distribution capabilities, we believe that we are well positioned for the introduction of new products to further bring value to our customer base. In order to facilitate this initiative, we are focused on driving growth through the acquisition of companies with a strategic fit as well as additional product lines, facilities, or other assets to complement or expand our existing businesses. From January 2010 through March 2012, we completed six acquisitions, which directly complement our core competencies and product lines, and introduced over 50 new products and line extensions to the marketplace.

In January 2010, we acquired the cabinet door business of Quality Hardwoods Sales ("Quality Hardwoods"), our first acquisition following the acquisition of Adorn Holdings, Inc. ("Adorn") in May 2007. In August 2010, we added new products and expanded our RV and MH distribution presence through the acquisition of the wiring, electrical and plumbing products distribution business of Blazon International Group ("Blazon").

In 2011, we completed three acquisitions that expanded our product offerings to our existing customer base in the RV and industrial market sectors. In June 2011, we acquired The Praxis Group ("Praxis"), a manufacturer and distributor of high and low gloss painted countertops, foam products, shower doors, electronics and furniture products. In September 2011, we acquired A.I.A. Countertops, LLC ("AIA"), a fabricator of solid surface, granite, and laminated countertops, backsplashes, tables, signs, and other products, and in December 2011, we acquired Performance Graphics, a designer, producer and installer of exterior graphics for the RV, marine, automotive, racing and enclosed trailer industries.

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In March 2012, we completed the acquisition of Décor Manufacturing, LLC ("Décor"), which produces laminated and wrapped products for the Northwestern U.S.-based RV industry. See Note 22 to the Consolidated Financial Statements for further details.

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 continue to evaluate alternatives for the divestiture of unprofitable, non-core operations. In 2009, we sold certain assets of our American Hardwoods operation and the related operating facility. In addition, we sold certain assets of our aluminum extrusion operation in July 2009. The decision to divest these two operations in 2009 was largely based on projected and potential operating losses under the then current operating models and working capital requirements of these operations that led us to assess the overall fit of these operations within the parameters of our strategic plan at that time. The financial results of these operations are classified as discontinued operations in the consolidated financial statements. See Note 5 to the Consolidated Financial Statements for further details.

Diversification into Other Markets

While we continually seek to improve our position as a leading supplier to the RV and MH industries, 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 and mouldings, drawer sides and fronts, 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 complementary products using current manufacturing processes and applications. In addition, we believe that our nationwide manufacturing and distribution capabilities have enabled us to be well-positioned for new product expansion.

Utilization of Manufacturing Capacity

Efficiency Optimization

The decline in volume levels in 2008 and 2009 due to soft industry conditions in all of the major end markets we serve resulted in unused capacity at almost all of our locations. We have the ability to 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. However, we have remained committed to certain geographic areas, specifically where there is a larger concentration of MH business and where revenue and cash flow contributions are nominal, due to our commitment to our customer base and to position us in the event of a recovery in the manufactured housing industry. 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

Certain manufacturing and distribution operating facilities were either sold or consolidated during 2011 and 2010 in an effort to improve operating efficiencies in the plants through increased capacity utilization, keep the overhead structure at a level consistent with operating needs, and continue the Company's efforts to reduce its leverage during the depressed economic cycle in 2008, 2009, and part of 2010, and to facilitate the refinancing of our previous credit facility.

A manufacturing and distribution facility in Woodburn, Oregon was sold in February 2010 for $4.2 million and the Company recorded 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 lease agreement with the purchaser for the use of a portion of the square footage previously occupied.

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The Company's manufacturing and distribution facility in Fontana, California was sold in March 2010 for $4.9 million and the Company recorded 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 a portion of the square footage previously occupied.

In April 2010, we closed our manufacturing division in Madisonville, Tennessee and consolidated manufacturing operations into the existing owned Mt. Joy, Pennsylvania manufacturing facility in order to offset a sizable reduction in sales volumes that stemmed from the adoption of a new vertical integration strategy by one of our key manufactured housing customers in Tennessee who began to produce and supply its own interior home components.

In October 2010 after numerous attempts to increase market penetration in the Northwest, we sold the RV and MH business related to our Oregon manufacturing division to Décor in order to realign company assets. We continued to operate a high-pressure laminate manufacturing cell for the industrial market and a distribution center for the RV and MH markets in our existing Woodburn, Oregon location from 2010 through February 2012. In March 2012, we acquired Décor, immediately expanding our presence in the Northwest U.S.-based RV industry. Décor will continue to operate on a stand-alone basis in its existing manufacturing facility in Tualatin, Oregon and we expect to consolidate our Oregon manufacturing operations by the end of the third quarter of 2012.

In 2011, we consolidated the newly acquired countertop manufacturing business of Praxis into one of our existing manufacturing facilities in Elkhart, Indiana that engages in similar activities. In addition, we consolidated the solid surface operations of one of our existing manufacturing facilities located in Elkhart into the larger manufacturing facility acquired with our acquisition of AIA.

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 introduction and to new product development initiatives. New product development is a key component of our strategy to grow our revenue base, keep up with changing market conditions, and proactively address customer demand. We have a design team that works exclusively with RV and MH manufacturers to meet their creative design and product needs, which includes creating new styles and utilizing new colors, patterns, and wood types for panels and mouldings, cabinet doors and other products. 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.

In addition to the new product offerings stemming from acquisitions, we further enhanced our product offerings to our RV, MH and industrial markets customers through the introduction of several new products and the expansion of our existing product lines in 2011. On the manufacturing side, we began to manufacture several new cabinet door styles, upgraded cabinetry, new slide-out trim, and fabricated backsplashes. Our distribution line was expanded to include new faucets modeled after the residential market, RV gas grills, high quality RV mattresses, recliners, a new convertible sofa-bed, additional television lines, new LED lighting products, a close-up poly wrap product for housing, a new vinyl siding product, and a line of wall-mounted stereos.

In 2011, we discontinued certain distribution product lines including our line of adhesives, vapor barriers, paints and house wrap.

Principal Products

Through our manufacturing divisions, we manufacture and fabricate a variety of products, such as decorative vinyl and paper panels, solid surface, granite, laminated and painted countertops, wrapped profile mouldings, stiles and battens, hardwood, foil and membrane pressed cabinet doors, drawer sides and bottoms, interior passage doors, and slotwall and slotwall components. In conjunction with our manufacturing capabilities, we also provide value added processes, including custom fabrication, edge-banding, drilling, boring, and cut-to-size capabilities.

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

Manufactured laminated panels and hardwood doors contributed 55% and 10%, respectively, of total 2011 manufacturing segment sales. The wiring, electrical and plumbing products division and the electronics division within our Distribution segment contributed 26% and 20%, respectively, of total sales in this segment in 2011.

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 such as lauan, MDF, gypsum and particleboard, which are bonded by adhesives or a heating process to a number of products, including vinyl, paper, foil and high-pressure laminate. Additionally, we offer high-pressure laminate bonded to substrates, such as particleboard and lauan which has many uses, including countertops and cabinetry. We manufacture and fabricate solid surface, granite, and high-pressure laminate countertops for all of our primary markets, as well as slotwall and slotwall components for the retail store fixture markets. Roll-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, and comes in a variety of finishes and glazes. 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 include 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 use by Patrick and sale to external customers.

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. While the ongoing uncertainty surrounding the future course of the economy and fluctuating market conditions have had an impact on business conditions in our three primary markets, we have seen a recovery in the RV and certain other markets.

In 2010 and 2011, sales to the RV industry improved as evidenced by higher production levels and wholesale unit shipments versus the prior year periods. We believe that ongoing credit concerns, slow job growth, swings in consumer confidence levels, and continued lower levels of discretionary spending will all continue to contribute to further volatility in the markets we serve in 2012 before a sustained recovery takes hold. Recreational vehicle purchases are generally consumer discretionary income purchases, and therefore, any situation which causes concerns related to discretionary income can have a negative impact on these markets.

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. Approximately 57% of our industrial revenue base in 2011 was 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.

In order to offset some of the impacts of the residential housing market declines, we have focused on diversification and have targeted certain sales efforts towards market segments that are less directly tied to new home construction demand, including the retail fixture, furniture, and countertop markets. As a result, we have seen a shift in our product mix which has had a positive impact on revenues from the industrial markets.

We remain cautious about short-term growth in the industrial sector due to restricted credit conditions and current uncertainty related to general economic conditions and the large number of repossessed homes in the marketplace. In the long-term, we believe residential housing growth will be based on job growth, the availability of credit, affordable interest rates, and continuing government incentives to stimulate housing demand and reduce surplus inventory due to foreclosures.

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, the level of disposable income, and equity securities market trends have an impact on RV sales. Over the past three years, however, we have noticed a level of resilience in the RV marketplace where RV buyers appear to have prioritized the purchase of a unit over other items in an effort to pursue their desired “lifestyle”. While concerns about the availability and price of gasoline can have an impact on RV demand, market trends also indicate that the average RV owner travels less distance but with similar frequency than during periods of lower gas prices and greater availability.

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 RVs and “toy haulers” with a rear section to store and transport motorcycles, snowmobiles, ATVs and other leisure products are 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, such as 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 continued economic recovery.

Recreational vehicle classifications are based upon standards established by the Recreational Vehicle Industry Association (“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, sport utility vehicles, crossover vehicles, 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 heavy-duty 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, shower, 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.

The period beginning in 2000 and continuing through 2007 resulted in seven out of eight years with industry-wide wholesale shipment levels of RVs over 300,000 units primarily due to the favorable demographic trend of the aging

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"baby-boomer" population, improved consumer confidence, lower interest rates, and a fear of flying after the September 11, 2001 terrorist attacks. In 2008, shipment levels declined approximately 33% to 237,000 units, reflecting tight credit conditions, declining consumer confidence, reduced disposable income levels, and the generally depressed economic environment. In 2009, shipment levels declined an additional 30% to 165,700 units 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 RVs by retail dealers. In 2010, the RV industry continued to strengthen as shipment levels increased 46% from 2009 reaching 242,300 units. Shipment levels increased 4% in 2011 to 252,300 units compared to 2010. Despite these increases, wholesale unit shipments of RVs in 2011 were still 25% lower than the average shipment levels during the period 2000-2007 and 33% lower than the three year period from 2005-2007.

In 2011, the Original Equipment Manufacturers ("OEMs") moved more toward less costly raw material products, driven in part by the significant price increases on commodity products during 2011. The RVIA expects the recovery to strengthen as credit availability, job security and consumer confidence improve. The RVIA is currently forecasting a 5% increase in 2012 wholesale unit shipments compared to the 2011 level.

The Company estimates that approximately 90% of its revenues related to the RV industry are derived from the towables sector of the market, which is consistent with the overall RV production mix. The towable units are lighter and less expensive than standard gas or diesel powered motorized units, representing a more attractive solution for the cost-conscious buyer. From 2010 to 2011, motorized unit shipments declined approximately 2% and towable unit shipments rose approximately 5%. 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 1991 through 2011 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 relatively 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 have made them a viable alternative to a larger segment of homebuyers.

Manufactured homes are constructed to the building standards of the U.S. Department of Housing and Urban Development ("HUD") and 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 built in accordance with state and local building codes, 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, including repossessed residential housing inventory levels. From 2000 to 2009, industry-wide wholesale unit shipments of manufactured homes declined 80%. The 2009 level of 49,800 wholesale units was at the lowest level in the last 50 years. MH unit shipments rose 0.4% in 2010 and 3% in 2011.

Manufactured housing has been negatively impacted by the continued weakness in the overall housing market and limited credit availability, as well as the high credit standards applied to purchases of manufactured homes, high down payment requirements and high interest rate spreads between conventional mortgages for site-built homes and loans for manufactured homes. We believe the MH industry may begin to experience a modest recovery when the economy improves and home buyers begin to look for affordable housing. However, due to the current real estate and economic environment, fluctuating consumer confidence, differences in interest rate spreads for site-built homes and manufactured homes, and the current retail and wholesale credit market, the Company currently projects that industry-wide wholesale shipments of manufactured homes will remain low by historical standards until these conditions improve. Factors that may favorably impact production levels in this industry in the future 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, and higher interest rates on traditional residential housing loans.

We believe 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. 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 retailers and dealers. Many of the causes of the recent residential housing crisis are similar to the factors that resulted in the decline in the MH industry beginning in late 1999. While there is demand for permanent rebuilding in areas damaged by catastrophic events in recent years, credit conditions remain adverse especially as a result of the recent credit crisis, and current overall economic conditions are unfavorable 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 1991 through 2011 per the Manufactured Housing Institute:

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Other Markets

Many of our core manufacturing products, including paper/vinyl laminated panels, shelving, drawer-sides, high-pressure laminated panels, and solid surface and granite countertops are 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 housing market has been adversely impacted by the severe housing downturn, long-term growth in the residential housing market will be based on job growth, the availability of credit, continued affordable interest rates, and government incentives to stimulate housing demand and reduce surplus inventory due to foreclosures, which we believe will ultimately increase the demand for our products. 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 mitigate 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 500 active customers. We have five customers, who together accounted for approximately 60% and 59% of our consolidated net sales in 2011 and 2010, respectively.

The Company had one RV customer that accounted for approximately 32%, 27% and 21% of consolidated net sales for the years ended December 31, 2011, 2010 and 2009. In addition, sales to a different RV customer accounted for approximately 17%, 18% and 14% of consolidated net sales in 2011, 2010 and 2009, respectively. In addition, in 2009, sales to a manufactured housing customer accounted for approximately 12% of consolidated net sales of the Company.

A majority of products for distribution are generally purchased in carload or truckload quantities, warehoused, and then sold and delivered by us. In addition, approximately 29% and 34% of our distribution segment’s products were shipped directly from the suppliers to our customers in 2011 and 2010, 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

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contracts, and therefore we must bear the risk of accurate advanced estimation of customer orders. In periods of declining market conditions, customer order rates can decline, resulting in less efficient logistics planning and fulfillment and thus increasing delivery costs due to increased numbers of shipments with less product in each shipment. We have no significant backlog of orders.

With the recent acquisition of Décor in 2012, we now operate 13 warehouse and distribution centers and 14 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, their design and purchasing staff, and other key product managers and designers. We believe 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 in-house custom design services to further differentiate our product lines. In addition, we recently redesigned our Company website, www. patrickind.com, to expand our Internet presence and further showcase our primary product brands to both existing and potential customers.

Suppliers

During the year ended December 31, 2011, we purchased approximately 65% of our raw materials and distributed products from twenty different suppliers. The five largest suppliers accounted for approximately 45% of our purchases. Our current major material suppliers with contracts through December 31, 2011, 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 several 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 are required to comply with the current CARB regulations.

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 were generally highest in the second and third quarters. However, current seasonal industry trends may be different than in prior years, primarily

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due to fluctuations in RV dealer inventories and volatile economic conditions. Over the past three years, the seasonality cycle in the RV industry has changed as a result of RV dealer shows being held in the September/October timeframe by the two largest OEM's in the industry.

Employees

As of December 31, 2011, we had 900 employees, 768 of which were engaged directly in production, warehousing, and delivery operations; 42 in sales; and 90 in office and administrative activities which includes purchasing, inventory and production control, customer service, human resources, accounting, and information technology, among others. 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 December 31, 2011:

Name	Position
Todd M. Cleveland	President and Chief Executive Officer
Andy L. Nemeth	Executive Vice President of Finance, Chief Financial Officer, and Secretary-Treasurer
Jeffrey M. Rodino	Executive Vice President of Sales and Operations
James S. Ritchey	Vice President of Sales - South and West
Courtney A. Blosser	Vice President of Human Resources

Todd M. Cleveland (age 43) 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 21 years of manufactured housing, recreational vehicle, and industrial experience in various operating capacities.

Andy L. Nemeth (age 42) 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 20 years of manufactured housing, recreational vehicle, and industrial experience in various financial capacities.

Jeffrey M. Rodino (age 41) was appointed Executive Vice President of Sales and Operations for the Adorn, Custom Vinyls and Patrick Distribution business units as of December 2011. Prior to that, Mr. Rodino served as Vice President Sales for the Midwest from August 2009 to December 2011 and was elected an Officer in May 2010. Mr. Rodino also served in a variety of top level sales and marketing roles after joining Patrick in 2007 and also held similar key sales positions during his tenure with Adorn from 2001 until May 2007, when Adorn was acquired by Patrick. Mr. Rodino has over 18 years of experience in serving the recreational vehicle, manufacturing housing and industrial markets having held key sales management roles at ASA Electronics, Design Components (a former acquisition of Adorn), Odyssey Group/Blazon, and at Adorn and Patrick.

James S. Ritchey (age 61) was appointed Vice President Sales for the South & West as of August 2009 and elected an Officer in May 2009. Prior to that, Mr. Ritchey served in a variety of top level sales and marketing roles after joining Patrick in 2007 and also held similar key sales positions during his tenure with Adorn from 2001 until May 2007, when Adorn was acquired by Patrick. Mr. Ritchey has over 14 years of experience in serving the manufactured housing, recreational vehicle and industrial markets having held key sales management roles at Décor, Gravure, Design Components (both former acquisitions of Adorn), and at Adorn and Patrick. Mr. Ritchey's background and experience also includes several key management roles in the office furniture industry over a 22 year span starting in 1974.

Courtney A. Blosser (age 45) was appointed Vice President of Human Resources as of October 2009 and elected an Officer in May 2010. Prior to that, Mr. Blosser served in executive level human resource leadership roles that included Corporate Director-Human Resources, Whirlpool Corporation from 2008 to 2009, and Vice President-Human Resources, Pfizer Inc. from 1999 to 2008. Mr. Blosser held human resource leadership roles of increasing responsibility with JM Smucker Company from 1989 to 1999. Mr. Blosser has over 23 years of operations and human resource experience in various industries.

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 the effects of the worldwide macroeconomic downturn in 2009 and part of 2010, and recent concerns over the sustainability of the economic recovery.

In 2009 and part of 2010, 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 adversely affected demand in the three major end-markets we serve (the RV, MH and industrial markets) in 2009 resulting in decreased sales of our component products into these markets. Although economic conditions improved somewhat in 2010 and in 2011 and, as a result our sales, operating income, and cash flows improved when compared to 2009, a further deterioration in these conditions could negatively affect our operations and result in lower sales, income, and cash flows in the future.

In addition, it is still difficult at times for our customers and us to accurately forecast and plan future business activities. If our business conditions warrant, 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 an economic downturn, the timing or strength of a subsequent economic recovery or the extent to which an economic downturn will continue to negatively impact our business, financial condition and results of operations.

The continuing depressed conditions in the residential housing market have had an adverse impact on our operations in recent years and could have an adverse impact on our operations in 2012 and other future periods.

The residential housing market has experienced overall declines and is expected to remain at depressed levels by historical standards at least through 2012, despite recent and forecasted improvements. Approximately 57% of our industrial revenue in 2011 was directly tied to the residential housing market. In addition, a significant portion of our other industrial revenue and substantially all of our MH revenue is directly or indirectly influenced by conditions in the residential housing market. The decline in demand for residential housing, ongoing credit concerns and the tightening of consumer credit have lowered demand for our industrial and MH 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 RV industry.

We may incur significant charges or be adversely impacted by the consolidation and/or 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. Our manufacturing and distribution facilities in Woodburn, Oregon and Fontana, California were sold in 2010 and we are currently operating in the same facilities under a lease agreement

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with the purchasers for the use of a portion of the square footage previously occupied. We also incurred charges in 2010 related to downsizing our operations in the California facility and to accommodate the use of this facility by two different parties. In addition, in April 2010, we closed our manufacturing division in Madisonville, Tennessee and consolidated operations into the existing owned Mt. Joy, Pennsylvania manufacturing facility in order to offset a sizable reduction in sales volumes that stemmed from the adoption of a new vertical integration strategy by one of our key manufactured housing customers in Tennessee who began to produce and supply its own interior home components.

In 2011, we consolidated of the newly acquired countertop manufacturing business of Praxis into one of our existing manufacturing facilities in Elkhart, Indiana that engages in similar activities. In addition, we consolidated the solid surface operations of one of our existing manufacturing facilities located in Elkhart into the larger manufacturing facility acquired with our acquisition of AIA.

Based on our assessments and if required by business conditions, we may make capital investments to move, discontinue manufacturing and/or distribution capabilities, sell or close all or part of additional manufacturing and/or distribution facilities in the future. 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 continued effects of the recent 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 customers have undergone 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.

Although we have a large number of customers, a limited number of customers account for a significant percentage of the Company's sales and the loss of one or several significant customers could have a material adverse impact on our operating results.

We have a number of customers that account for a significant percentage of our net sales. Specifically, two customers in the RV market accounted for a combined 49% of consolidated net sales in 2011. The loss of any of our 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.

A significant percentage of the Company's sales are concentrated in the RV industry, and declines in the level of RV unit shipments, or reductions in industry growth, could adversely impact our sales levels to this industry and our operating results.

In 2011, 61% of our net sales were to the RV industry versus 58% in 2010 and 44% in 2009. The increase in the Company's sales concentration in the RV industry primarily resulted from the recovery in RV wholesale unit shipment levels beginning in late 2009, increased RV market penetration by the Company and the Company's successful completion of several RV-related acquisitions in 2010 and 2011. Future declines in RV unit shipment levels or

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reductions in industry growth could significantly reduce the Company's revenue from the RV industry and have a material adverse impact on our operating results in 2012 and other future periods.

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 or to produce in-house products that we currently produce. We compete not only with other suppliers to the RV and MH 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.

The greater financial resources or the lower amount of debt of certain of our competitors may enable them to commit larger amounts of capital in response to changing market conditions. Certain competitors may also have the ability to develop innovative new products that could put the Company at a competitive disadvantage. If we are unable to compete successfully against other manufacturers and suppliers to the RV and MH industries, we could lose customers and sales could decline, or we will not be able to improve or maintain profit margins on sales to customers or be able to continue to compete successfully in our core markets.

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 and availability 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. Consequently, the results for any prior period may not be indicative of results for any future period.

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 cyclical and is influenced by many national and regional economic and demographic factors, including:

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

The RV and MH industries and the industrial markets can be affected by the fluctuations in the residential housing market. As a result of the foregoing factors, our sales and operating results can 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 high 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 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

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in fuel prices, as we experienced in recent years and are currently experiencing, 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 61% and 58% of our sales were to the RV industry for 2011 and 2010, respectively.

We are dependent 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 delivery. Fluctuations in the prices of these requirements may be driven by the supply/demand relationship for that commodity, governmental regulation, economic conditions in other countries, religious holidays, natural disasters, and other events. 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.

The 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 climate changes, seasonal and religious holidays, political unrest, economic conditions overseas, natural disasters, 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 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 recent credit crisis and its continuing 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 or events beyond our control could result in damages, expenses or liabilities that individually or in the aggregate would have a material adverse effect 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 MH 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 impact 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. In addition, our future success will depend on, among other factors, our ability to attract and retain executive management, key employees and other qualified personnel.

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

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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.

On March 31, 2011, we entered into a credit agreement (the "Credit Agreement") with Wells Fargo Capital Finance, LLC as the lender and agent, to establish a four-year $50.0 million revolving secured senior credit facility (the "Credit Facility"). As of December 31, 2011, we had approximately $24.3 million of total debt outstanding under our Credit Facility, $7.7 million aggregate principal amount of our secured senior subordinated notes outstanding and $1.8 million of our subordinated secured promissory note issued to the seller of our recent acquisition of AIA. Indebtedness could have adverse 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 our Credit Agreement and other indebtedness that we have, 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.

Our Credit Agreement and our secured senior subordinated notes contain various financial performance and other covenants. If we do not remain in compliance with these covenants, our Credit Agreement could be terminated and the amounts outstanding thereunder and the secured senior subordinated notes could become immediately due and payable.

We have debt outstanding that contains financial and non-financial covenants with which we must comply that place restrictions on us. There can be no assurance that we will maintain compliance with the financial covenants under our Credit Agreement or our secured senior subordinated notes. These covenants require that we attain minimum levels of a fixed charge coverage ratio and excess availability under the Credit Facility, and adhere to annual capital expenditure limitations as defined by our Credit Agreement. If we fail to comply with the covenants contained in our Credit Agreement or our secured senior subordinated notes, the lenders could cause our debt to become due and payable prior to maturity or it could result in our having to refinance the indebtedness under unfavorable terms. If our debt were accelerated, our assets might not be sufficient to repay our debt in full and there can be no assurance that we would be able to refinance any or all of this indebtedness.

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, and our Credit Facility to finance our operating requirements, capital expenditures and other needs. If the general economic conditions that prevailed in 2009 and part of 2010 should return in the future, production of RVs and manufactured homes could decline, resulting in reduced demand for our products. A decline in our operating results could negatively impact our liquidity. If our cash balances, cash flows from operations, and availability under our Credit Facility 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. The inability to retain our current letters of credit, to obtain alternative letter of credit sources, or to retain our 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

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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 could incur charges for impairment of assets, including goodwill and other long-lived 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, 2011 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 changes in our estimated future cash flows, changes in rates of growth in our industry or in any of our reporting units, and decreases in our stock price and market capitalization.

In the future, if actual sales demand or market conditions change from those projected by management, 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:

Ÿ variations in our and our competitors' operating results;

Ÿ historically low trading volume;

Ÿ high concentration of shares held by institutional investors and in particular our majority shareholder, Tontine Capital Partners, L.P. and affiliates (collectively, "Tontine Capital");

Ÿ announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;

Ÿ the gain or loss of significant customers;

Ÿ additions or departure of key personnel;

Ÿ events affecting other companies that the market deems comparable to us;

Ÿ general conditions in industries in which we operate;

Ÿ general conditions in the United States and abroad;

Ÿ the presence or absence of short selling of our common stock;

Ÿ future sales of our common stock or debt securities;

Ÿ announcements by us or our competitors of technological improvements or new products; and

- the sale by Tontine Capital or its announcement of an intention to sell, all or a portion 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 or convertible securities to purchase common stock.

As part of the consideration for amending our previous credit agreement in December 2008, we issued a series of warrants (the “2008 Warrants”), that are subject to anti-dilution provisions, to our then existing lenders to purchase an aggregate of 474,049 shares of the Company’s common stock at an exercise price of $1.00 per share. Subsequent to the original issuance date and pursuant to the anti-dilution provisions, the number of shares of common stock issuable upon exercise of the 2008 Warrants was increased by a total of 27,998 shares and the exercise price was adjusted to $0.94 per share as the result of the issuance of restricted stock at a price less than, and stock options and warrants to purchase common stock with an exercise price less than, the warrant exercise price then in effect. As of March 13, 2012, following the exercise of 2008 Warrants by certain holders, there were in aggregate 148,638 shares of common stock issuable upon exercise of the remaining 2008 Warrants. In addition, pursuant to the anti-dilution provisions, the number of shares of common stock issuable upon exercise of the 2008 Warrants may increase if the Company issues additional shares of common stock at a price less than, or additional securities with an exercise or conversion price less than, the exercise price of the 2008 Warrants then in effect. The exercise of the remaining 2008 Warrants and any increase, due to the anti-dilution provisions, in the number of shares into which the remaining 2008 Warrants are exercisable, would result in dilution to the holders of our common stock.

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 13, 2012, Tontine Capital beneficially owned 5,299,963 shares of our common stock or approximately 51.1% 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. As of March 13, 2012, 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 other large stockholders will sell or otherwise dispose of substantial amounts of our common stock. Sales or other dispositions of our common stock by these stockholders could adversely affect prevailing market prices for our common stock.

In filings with the SEC, Tontine Capital has indicated that it may dispose of its equity interests in the Company at any time and from time to time. This public disclosure and any future dispositions of stock by Tontine Capital could adversely affect the market price of our common stock.

In filings with the SEC, Tontine Capital has indicated that it may dispose of its equity interests in the Company at any time and from time to time in the open market, through dispositions in kind to parties holding an ownership interest in Tontine Capital or otherwise. 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.

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.

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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.

Conditions within the insurance markets could impact our ability to negotiate favorable terms and conditions for various liability coverages and could potentially result in uninsured losses.

We generally 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, 2011, the Company owned approximately 868,000 square feet of manufacturing and distribution facilities and leased an additional 891,800 square feet as listed below.

Location	Use (1)	Area Sq. Ft.	Ownership or Lease Arrangement
Elkhart, IN	Distribution	107,000	Owned
Elkhart, IN	Manufacturing	182,000	Owned
Elkhart, IN	Administrative Offices	35,000	Owned
Elkhart, IN	Manufacturing	211,300	Leased to 2015
Elkhart, IN	Manufacturing	198,000	Leased to 2018
Elkhart, IN	Distribution	125,000	Leased to 2012
Syracuse, IN	Manufacturing	72,000	Leased to 2015
Elkhart, IN	Manufacturing	27,000	Leased to 2014
Elkhart, IN	Design Center	4,000	Leased to 2013
Decatur, AL	Manufacturing & Distribution	94,000	Owned
Valdosta, GA	Distribution	31,000	Owned
Halstead, KS	Distribution	36,000	Owned
Waco, TX	Manufacturing & Distribution	131,000	Owned
Mt. Joy, PA	Manufacturing	33,000	Owned
Mt. Joy, PA	Distribution	56,000	Owned
Fontana, CA	Manufacturing & Distribution	72,500	Leased to 2012

Phoenix, AZ	Manufacturing	44,600	Leased to 2013
Bensenville, IL	Manufacturing	54,400	Leased to 2013
Madisonville, TN	Distribution	53,000	Leased (2)
Woodburn, OR	Manufacturing & Distribution	30,000	Leased to 2012
New London, NC		163,000	Owned (3)

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(1) Certain facilities may contain multiple manufacturing or distribution centers.
(2) Leased on a month-to-month basis beginning in January 2011.
(3) Represents an owned building, formerly used for manufacturing and distribution that is currently leased to a third party through July 2012.

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

In addition, we utilize one contract warehouse located in Minnesota that houses certain of our distribution products inventory. Remuneration to the third party owner of this facility consists of a percentage of sales to our customers from this facility in exchange for storage space and delivery services.

Lease Expirations

We believe the facilities we occupy as of December 31, 2011 are adequate for the purposes for which they are currently being used and are well maintained. We may, as part of our strategic operating plan, further consolidate and/or close certain owned facilities and, may not renew leases on property with near-term lease expirations. Use of our manufacturing facilities may vary with seasonal, economic and other business conditions.

ITEM 3. LEGAL PROCEEDINGS

We are subject to claims and suits in the ordinary course of business. In management's opinion, currently pending legal proceedings and claims against the Company will not, individually or in the aggregate, have a material adverse effect on our financial condition, results of operations, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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 and 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 "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.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on The NASDAQ Global Stock MarketSM under the symbol PATK. The high and low trade prices per share of the Company's common stock as reported on NASDAQ for each quarterly period during 2011 and 2010 were as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2011	$ 2.55 - $ 1.86	$ 2.89 - $ 1.80	$ 2.35 - $ 1.83	$ 4.74 - $ 1.54
2010	$ 3.24 - $ 2.43	$ 3.69 - $ 2.20	$ 3.00 - $ 1.80	$ 2.32 - $ 1.67

The quotations represent prices between dealers, do not include retail mark-ups, mark-downs, or commissions, and may not necessarily represent actual transactions.

Holders of Common Stock

As of March 13, 2012, we had approximately 350 shareholders of record in addition to beneficial owners of shares held in broker and nominee names.

Dividends

The Board of Directors suspended the quarterly dividend in the second quarter of 2003 due to industry conditions and has not paid a dividend since that time. Any future determination to pay cash dividends will be made by the Board of Directors in light of the Company's earnings, financial position, capital requirements, and restrictions under the Company's Credit Agreement, and such other factors, as the Board of Directors deems relevant.

Purchases of Equity Securities by the Issuer or Affiliated Purchasers

During the fourth quarter of 2011, neither the Company, nor any affiliated purchaser, repurchased any of the Company's common stock.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included in Item 8 of this Report. In addition, this MD&A contains certain statements relating to future results which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. See "Information Concerning Forward-Looking Statements" on page 3 of this Report.

This MD&A is divided into seven major sections. The outline for our MD&A is as follows:

EXECUTIVE SUMMARY
Company Overview and Business Segments
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EXECUTIVE SUMMARY

Company Overview and Business Segments

Patrick is a major manufacturer of component products and distributor of building products serving the recreational vehicle ("RV"), manufactured housing ("MH"), kitchen cabinet, household furniture, retail fixtures and commercial furnishings, marine, and other industrial markets and operates coast-to-coast through locations in 12 states. Patrick's major manufactured products include decorative vinyl and paper panels, wrapped profile mouldings, cabinet doors and components, countertops, interior passage doors, exterior graphics and slotwall and slotwall components. The Company also distributes pre-finished wall and ceiling panels, drywall and drywall finishing products, electronics, wiring, electrical and plumbing products, cement siding, interior passage doors, roofing products, laminate flooring, shower doors, furniture, fireplace and slide-out surrounds and fascia, and other miscellaneous products. The Company has two reportable business segments: Manufacturing and Distribution, which contributed approximately 76% and 24%, respectively, to 2011 net sales.

Overview of Markets and Related Industry Performance

While the ongoing uncertainty surrounding the future course of the global economy and fluctuating market conditions have had an impact on business conditions in our three primary markets, RV, MH and industrial markets, in prior periods, we have seen a recovery in certain markets and have executed a number of strategic initiatives which have helped mitigate the negative impact of these macro-economic factors.

The RV industry, which is our primary market and which represented 61% of the Company's 2011 sales, continued to strengthen in 2011 as evidenced by higher production levels and wholesale unit shipments versus the prior year. According to the Recreational Vehicle Industry Association ("RVIA"), shipment levels of 252,300 units in 2011 represented an increase of 4% versus the prior year, resulting in eight out of nine quarter over quarter increases in shipments following declines in the previous 13 fiscal quarters. Although the 2011 year marked the fourth year in the last ten years that shipment levels were below the 300,000-unit level, it represented the second consecutive year in

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which shipment levels increased after declines in the previous three years. Industry-wide retail sales and the related production levels of RV's will depend to a significant extent on the course of the economy and consumer confidence. Continued high or increased fuel prices could negatively impact RV retail unit sales in the short-term; however, we believe there is a positive correlation between consumer confidence and RV shipment levels and, therefore, we believe the RV industry has a positive longer-term outlook as overall economic conditions and consumer confidence continue to improve. Although consumers still remain cautious when deciding whether or not to purchase discretionary items such as RVs, long-term demographic trends favor RV industry growth fueled by the anticipated positive impact that aging baby boomers are estimated to have on the industry as the industry continues its recovery from the recent economic recession. Based on current market conditions, the RVIA is predicting a 5% increase in full year 2012 unit shipments compared to 2011.

The MH industry, which represented approximately 24% the Company's sales in 2011, continues to be negatively impacted by a lack of financing and credit availability, job losses, and excess foreclosed residential housing inventories. According to industry sources, wholesale unit shipments, which continue to be well below historical levels, increased approximately 3% from 2010. Although we believe the MH industry has bottomed and should resume moderate growth given the recalibration of quality credit standards and it being a cost effective alternative for those individuals and families seeking relatively less expensive homes or whose credit ratings have been impacted by the economic and jobs environment over the past three years, or who have not yet established credit, the significant number of vacant and repossessed homes in the marketplace and less than favorable lending conditions are expected to dampen growth in the MH industry for at least the next 18-24 months. 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, and higher interest rates on traditional residential housing loans. Federal Emergency Management Agency ("FEMA") units helped to bolster shipments in the MH industry in 2011. Based on the industry's current annualized run rates, the Company projects MH industry unit shipments for the full year 2012 to increase by 0.2% compared to 2011.

The industrial market, which comprises primarily the kitchen cabinet industry, retail and commercial fixture market, household furniture market and regional distributors, is primarily impacted by macroeconomic conditions, and more specifically, conditions in the residential housing market. The industrial market sector, which accounted for approximately 15% of the Company's sales in 2011, saw new housing starts for 2011 increase by approximately 3% from 2010 (as reported by the U.S. Department of Commerce). We estimate approximately 57% of our industrial revenue base is directly tied to the residential housing market, and we believe there is a direct correlation between the demand for our products in this market and new residential housing construction. Our sales to this market generally lag new residential housing starts by six to twelve months. In order to offset some of the impacts of the weakness in the residential housing market, we have focused on diversification efforts, strategic acquisitions, bringing new and innovative products to the market, and have targeted certain sales efforts towards market segments that are less directly tied to residential new home construction, including the retail fixture, furniture, and countertop markets. As a result, we have seen a shift in our product mix which has had a positive impact on revenues from the industrial markets.

We remain cautious about further growth in the industrial sector due to restricted credit conditions and current uncertainty related to general economic conditions and the large numbers of repossessed homes in the marketplace. In the long-term, we believe residential housing growth will be based on job growth, the availability of credit, affordable interest rates, and continuing government incentives to stimulate housing demand and reduce surplus inventory due to foreclosures.

In addition, higher energy costs, the impact of the Tsunami in Japan, and increased demand in certain market sectors have driven up the costs of certain raw materials. The Company continues to explore alternative sources of raw materials and components, both domestically and from overseas.

Acquisitions and Consolidations of Facilities

In June 2011, the Company acquired certain assets of The Praxis Group ("Praxis"), an Elkhart, Indiana-based manufacturer and distributor of countertops, foam products, shower doors,electronics, and furniture products to the RV industry, for $0.5 million. This acquisition expanded the Company's product offerings to its existing customer base

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in the RV industry. Approximately $0.4 million of intangible assets were recorded in the Distribution segment as a result of the acquisition.

In September 2011, the Company acquired certain assets of Syracuse, Indiana-based A.I.A. Countertops, LLC ("AIA"), a fabricator of solid surface, granite, and laminated countertops, backsplashes, tables, signs, and other products for the RV and commercial markets, for $5.5 million. This acquisition expanded the Company's product offerings to its existing customer base in the RV industry and industrial market sectors. Approximately $4.9 million of intangible assets were recorded in the Manufacturing segment as a result of the acquisition.

In December 2011, the Company acquired certain assets of Elkhart, Indiana-based Performance Graphics, a designer, producer and installer of exterior graphics for the RV, marine, automotive, racing and enclosed trailer industries, for $1.3 million. This acquisition expanded the Company's product offerings in the RV and industrial market sectors. Approximately $0.5 million of intangible assets were recorded in the Manufacturing segment as a result of the acquisition. See Notes 4 and 9 to the Consolidated Financial Statements for further details regarding these acquisitions.

These 2011 acquisitions, combined with the acquisition of Blazon International Group ("Blazon") in the third quarter of 2010, contributed to an increase in our RV market sales concentration in 2011 compared to earlier periods.

Certain manufacturing cells were consolidated during 2011 to improve operating efficiencies in the plants through increased capacity utilization and to continue the Company's efforts to reduce its leverage position. In 2011, we incurred charges stemming from the consolidation of the newly acquired countertop manufacturing business of Praxis into one of our existing manufacturing facilities in Elkhart, Indiana that engages in similar activities. In addition, we consolidated the solid surface operations of one of our existing manufacturing facilities located in Elkhart into the larger manufacturing facility acquired with our acquisition of AIA.

Summary of 2011 Financial Results

Below is a summary of our 2011 financial results. Additional detailed discussions are provided elsewhere in this MD&A and in the Notes to the Consolidated Financial Statements.

Continuing operations:

ŸNet sales increased $29.6 million or 10.6% in 2011 to $307.8 million, compared to $278.2 million in 2010 primarily reflecting the impact of (i) the three acquisitions completed during 2011 which accounted for approximately $7.7 million of incremental 2011 revenues, (ii) the acquisition of Blazon in the third quarter of 2010, (iii) improved retail fixture business, (iv) improved market penetration in the RV market, and (v) increased commodity prices throughout fiscal 2011. Wholesale unit shipments in the RV industry increased 4% in 2011 compared to the prior year.

ŸGross profit increased $14.7 million to $44.3 million or 14.4% of net sales in 2011, compared with gross profit of $29.6 million or 10.7% of net sales in 2010. Gross profit was positively impacted by higher sales levels which included the impact of acquisitions in the latter half of 2010 and in 2011, by margin improvements that were in line with the Company's expectations, and by ongoing organizational and process changes that enhanced labor efficiencies, reduced scrap and returns, and increased material yields at two of the Company's Midwest manufacturing divisions, one of which had underperformed in 2010 compared to historical levels.

ŸOperating income increased $7.1 million to $13.5 million in 2011, compared to $6.4 million in 2010. Operating income in 2011 was positively impacted by the factors described above and a $0.2 million gain on the sale of fixed assets. Operating income in 2010 was positively impacted by a $2.9 million gain on the sale of fixed assets.

ŸIncome from continuing operations was $8.5 million or $0.83 per diluted share in 2011, compared to $1.2 million or $0.12 per diluted share for 2010. The major factors that influenced the net income for both periods are described above.

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2011 Initiatives and Challenges

In fiscal year 2011, our primary focus was on refinancing our credit facility, gaining market share through the introduction of new products to the marketplace and the execution of strategic acquisitions, maximizing operating efficiencies, managing and developing our talent pool, and embedding our "Customer First" performance oriented culture. Additionally, as we have strengthened our balance sheet over the past three years and completed the refinancing of our previous credit facility, our internal focus and drivers have expanded to include priorities related to increasing net income and earnings per share, maximizing earnings before interest, taxes, depreciation, and amortization ("EBITDA"), cash management, maximizing our borrowing base availability, exceeding our customers' expectations related to delivery schedules and dates, quality service and products, building relationships, and improving our content per unit.

Specific execution items included the following:

- Entered into a new four year credit agreement (the "2011 Credit Agreement") on March 31, 2011 with Wells Fargo Capital Finance, LLC ("WFCF") as the lender and agent and Fifth Third Bank as participant, establishing a $50.0 million revolving secured senior credit facility (the "2011 Credit Facility"). The 2011 Credit Agreement replaced the Company's credit agreement, dated May 18, 2007, as amended, among the Company, the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as Administrative Agent (the "2007 Credit Agreement") which was scheduled to mature on May 31, 2011.
- Issued $5.0 million aggregate principal amount of Secured Senior Subordinated Notes (the "March 2011 Notes") to Tontine Capital Overseas Master Fund II, L.P., a Cayman Islands limited partnership ("TCOMF2"), and Northcreek Mezzanine Fund I, L.P., a Delaware limited partnership ("Northcreek"). In connection with the issuance of the March 2011 Notes, the Company issued the March 2011 Warrants (as defined herein).
- Executed on operational and margin improvement initiatives at two of our Midwest manufacturing facilities to drive improved operating results more aligned with the Company's expectations.
- Acquired Praxis in June 2011.
- Acquired AIA in September 2011.
- Issued $2.7 million aggregate principal amount of Secured Senior Subordinated Notes (the "September 2011 Notes"), in conjunction with the acquisition of AIA, to Northcreek and an affiliate of Northcreek. In connection with the issuance of the September 2011 Notes, the Company issued the September 2011 Warrants (as defined herein).
- Acquired Performance Graphics in December 2011.
- Introduced approximately 50 new products to the market including line extensions.
- Increased our RV content per unit from $674 to $754.
- Increased our market penetration in the industrial market by adjusting our focus to drive increased retail fixture content as evidenced by a 16% year over year sales increase.
- Maintained average borrowing base availability under the 2011 Credit Facility during the year of approximately $9.2 million.
- Maintained inventory and accounts receivable turns consistent with the targets in our organizational strategic agenda.

The above items and other execution drivers helped the Company achieve its best financial performance and highest net income levels since 1998.

Fiscal Year 2012 Outlook

All three of the primary markets we serve continue to be impacted by general economic conditions, extremely tight credit and lending conditions, and low jobs growth, particularly in the manufacturing sector. Although RV market conditions continued to improve in 2011, we anticipate that the market will continue to be impacted by the residual effects of the recession and consumer confidence levels during 2012, as consumers remain cautious when deciding whether or not to purchase discretionary items such as RVs. In addition, the recent sharp increase in gasoline prices, political uncertainty in the Middle East, and the debt crisis in Europe could negatively affect RV demand. The full restoration of RV sales to prior levels is projected to be slow and uneven. As a result of these factors and the improved economic environment, we anticipate a 5% increase in RV unit shipment levels in 2012. In addition, although we anticipate an increase in production levels in the MH industry in 2012, it will continue to be well below 2004-2007 sales levels. New housing starts in 2012 are estimated to improve by approximately 17% year-over-year

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(as forecasted by the National Association of Home Builders as of February 29, 2012) consistent with slowly improving overall economic conditions.

We believe we are well positioned to increase revenues in all of the markets that we serve as the overall economic environment improves. As we navigate through 2012 in anticipation of sustainable improvement in market conditions in the RV industry, we will continue to review our operations on a regular basis, balance appropriate risks and opportunities, and maximize efficiencies to support the Company's long-term strategic growth goals. The management team remains focused on executing on strategic acquisitions, keeping costs aligned with revenue, maximizing efficiencies, and the execution of our organizational strategic agenda, and will continue to size the operating platform according to the revenue base. Key focus areas for 2012 include EBITDA, cash management, liquidity maximization, and improved net income. Additional key focus areas include:

- additional market share penetration;
- sales into commercial/institutional markets to diversify revenue base;
- further improvement of operating efficiencies in all manufacturing operations and corporate functions;
- acquisition of businesses/product lines that meet established criteria;
- aggressive management of inventory quantities and pricing, and the addition of select key commodity suppliers; and
- ongoing development of existing product lines and the addition of new product lines.

In conjunction with our organizational strategic agenda, we will continue to make targeted capital investments to support new business and leverage our operating platform, and we will work to more fully integrate sales efforts to broaden customer relationships and meet customer demands. In 2011, capital expenditures were approximately $2.4 million based on our capital needs and cash management priorities versus $1.4 million in 2010. The capital plan for full year 2011 included spending related to the replacement of our current management information systems and enhancements to production line equipment at several of our manufacturing operations. Under the 2011 Credit Agreement, capital expenditures are limited to $4.0 million for fiscal year 2012, which is consistent with the Company's operating model.

KEY RECENT EVENT

Acquisition of Décor Mfg., LLC

On March 2, 2012, the Company completed the acquisition of the business and certain assets of Décor Mfg., LLC ("Décor"), a premier laminating operation located in Tualatin, Oregon, for a purchase price of approximately $4.4 million. Décor primarily produces laminated and wrapped products for the Northwestern U.S.-based RV industry.

The acquisition was funded through borrowings under the Company's 2011 Credit Facility and the issuance of 100,000 shares of the Company's common stock. The business will continue to operate on a stand-alone basis under the Décor Mfg. name in its existing manufacturing facility in Tualatin.

CONSOLIDATED OPERATING RESULTS

General

The following consolidated and business segment discussions of operating results pertain to continuing operations.

Year Ended December 31, 2011 Compared to 2010

The following table sets forth the percentage relationship to net sales of certain items on the Company's consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009.

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	Year Ended December 31,		
	2011	2010	2009
Net sales	100.0 %	100.0 %	100.0 %
Cost of goods sold	85.6	89.3	89.2
Gross profit	14.4	10.7	10.8
Warehouse and delivery expenses	4.4	4.2	4.8
Selling, general, and administrative expenses	5.4	5.0	5.7
Amortization of intangible assets	0.3	0.2	0.2
Gain on sale of fixed assets	-	(1.0)	(0.5)
Operating income	4.3	2.3	0.6
Stock warrants revaluation	0.2	(0.1)	0.4
Interest expense, net	1.4	2.0	3.0
Income tax benefit	(0.1)	-	(0.2)
Income (loss) from continuing operations	2.8	0.4	(2.6)

Net Sales. Net sales increased $29.6 million or 10.6%, to $307.8 million from $278.2 million in 2010. The increase in net sales is primarily attributable to the contributions of four business acquisitions completed since August 2010: Blazon in August 2010; Praxis in June 2011; AIA in September 2011; and Performance Graphics in December 2011. In addition, sales benefited from price increases on a number of commodity products throughout the year, improved retail fixture sales in the industrial market as a result of our diversification efforts, and improved market penetration in the RV market.

Blazon generated sales of $19.8 million in 2011, a $15.0 million increase compared to the prior year. In addition, the Praxis and AIA acquisitions accounted for $7.7 million of sales in 2011 with no comparable amount in 2010. Performance Graphics did not contribute materially to Patrick's 2011 operating results. According to industry associations, wholesale unit shipments in the RV industry, which represented approximately 61% of the Company's 2011 sales, increased approximately 4% compared to the prior year.

In addition, a 16% growth in sales to the industrial market in 2011 contributed to the year-over-year increase in the Company's consolidated sales compared to the prior year. The industrial market sector, which accounted for 15% of the Company's twelve months sales, saw new housing starts increase by approximately 3% for 2011 when compared to the prior year (as reported by the U.S. Department of Commerce). We estimate that approximately 57% of our industrial revenue base is directly linked to the residential housing market. Our sales to this market generally lag new residential housing starts by six to twelve months. In order to offset some of the impacts of the residential housing market declines, we have focused on diversification and have targeted certain sales efforts towards market segments that are either indirectly or not tied to residential demand including the institutional fixture, furniture, and countertop markets. As a result, we have seen a shift in our product mix which has had a positive financial impact on revenues in the industrial markets.

Revenue from the MH market was down 6% for the full year due in part to the impact of the vertical integration efforts of one of the Company's larger MH customers that is now producing in-house one of the product lines for certain of its facilities that the Company had previously been supplying. Additionally, while unit shipments in the MH industry, where the Company's dollar content per unit shipped is higher than in the RV industry, and which represented 24% of the Company's 2011 sales, were up approximately 3% from 2010, MH floor shipments declined approximately 3% year-over-year.

Cost of Goods Sold. Cost of goods sold increased $14.9 million or 6.0%, to $263.5 million in 2011 from $248.6 million in 2010. As a percentage of net sales, cost of goods sold decreased during the year to 85.6% from 89.3%. Cost of goods sold as a percentage of net sales was positively impacted during the year primarily by margin improvements that were in line with the Company’s expectations and ongoing organizational and process changes that enhanced labor efficiencies, reduced scrap and returns, and increased material yields at two of the Company’s Midwest manufacturing divisions, one of which had underperformed in 2010 compared to historical levels.

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The Company's cost of goods sold, which is generally lower in its Distribution segment than in the Manufacturing segment, will continue to benefit from increased Distribution sales resulting from the Blazon and Praxis acquisitions. Cost of goods sold also benefited in 2011 from our ongoing efforts to keep operating costs aligned with our sales base and operating needs.

Gross Profit. Gross profit increased $14.7 million or 49.5%, to $44.3 million in 2011 from $29.6 million in 2010. As a percentage of net sales, gross profit increased to 14.4% in 2011 from 10.7% in the same period in 2010. The acquisitions noted above provided positive contribution to gross profit during 2011, and we believe these acquisitions will provide positive contribution to our operating profitability going forward. The change in gross profit from period to period is primarily attributable to the factors described above.

Warehouse and Delivery Expenses. Warehouse and delivery expenses increased $1.9 million or 16.6%, to $13.6 million in 2011 from $11.7 million in 2010. As a percentage of net sales, warehouse and delivery expenses were 4.4% for 2011 and 4.2% for 2010. The increase as a percentage of net sales for 2011 reflected incremental common carrier expenses, fuel costs and surcharges, and freight charges, partially offset by efficiency improvements.

Selling, General and Administrative (SG&A) Expenses. SG&A expenses increased $2.8 million or 20.0%, to $16.6 million in 2011 from $13.8 million in 2010. The increase in SG&A expenses in 2011 primarily reflected a net increase in selling and administrative wages and incentives and unemployment taxes from the recent acquisitions compared to the prior year. As a percentage of net sales, SG&A expenses were 5.4% in 2011 compared to 5.0% in the prior year.

Amortization of Intangible Assets. In conjunction with the acquisition of the manufacturing and distribution business of Praxis in late June 2011, the Company recognized $0.4 million in certain finite-lived intangible assets which are being amortized over periods ranging from 2 to 5 years. As a result, amortization increased $48,000 in 2011 compared to the prior year period.

In conjunction with the acquisition of AIA in September 2011, the Company recognized $3.1 million in certain finite-lived intangible assets. These intangible assets are being amortized over periods ranging from 3 to 10 years. As a result, amortization increased $95,000 compared to 2010.

In conjunction with the acquisition of Performance Graphics in December 2011, the Company recognized $0.3 million in certain finite-lived intangible assets. These intangible assets will be amortized over periods ranging from 3 to 10 years beginning in the first quarter of 2012 as a result of the final determination of the fair value of the intangible assets in the first quarter of 2012.

Amortization also increased approximately $122,000 in 2011 related to the Blazon acquisition in August 2010. Total amortization expense increased $0.3 million in 2011 as a result of the Praxis, AIA and Blazon acquisitions when compared to the prior year.

Gain on Sale of Fixed Assets and Acquisition of Business. In conjunction with the acquisition of Praxis in June 2011, the fair value of the identifiable assets acquired and liabilities assumed of $0.7 million exceeded the fair value of the purchase price of the business of $0.5 million. As a result, the Company recognized a gain of $0.2 million associated with the acquisition in the second quarter of 2011. The gain is included in this line item for the year ended December 31, 2011 in the consolidated statements of operations, as well as a gain on the sale of fixed assets for 2011 of $61,000. During the first quarter of 2010, the Company sold the facilities housing its manufacturing and distribution operations in Oregon and California and recorded pretax gains on sale of approximately $0.8 million and $2.0 million, respectively. Because the Company is currently operating in the same facility in California under a lease agreement with the purchaser, an additional $0.7 million of a pretax gain on the sale was deferred during the first quarter of 2010 and is being offset against future lease payments that are included in cost of goods sold. See Note 6 to the Consolidated Financial Statements for further details.

Operating Income. Operating income increased $7.1 million to $13.5 million in 2011 from $6.4 million in 2010. The change in operating income from period to period is primarily attributable to the items discussed above.

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Stock Warrants Revaluation. The stock warrants revaluation expense of $0.7 million in 2011 and the credit of $0.3 million in 2010 represent non-cash charges/credits related to mark-to-market accounting for common stock warrants (i) issued to certain of the Company's former senior lenders in conjunction with the December 2008 amendment to the 2007 Credit Agreement (the "2008 Warrants"); (ii) issued to TCOMF2 and Northcreek in connection with the refinancing of the Company's previous credit facility in March 2011 (the "March 2011 Warrants); and (iii) issued to Northcreek and an affiliate of Northcreek in connection with the financing of the AIA acquisition in September 2011 (the "September 2011 Warrants").

In 2011, three members of the Company's former bank lending group exercised their 2008 Warrants to purchase 173,878 shares of the Company's common stock. In connection with the cashless exercises, 91,056 net shares of common stock were issued. Additional exercises of the 2008 Warrants are expected to impact the revaluation of these warrants in future periods. Northcreek and TCOMF2 exercised their March 2011 Warrants to purchase in the aggregate 250,000 shares of the Company's common stock in April 2011 and June 2011, respectively. Northcreek and an affiliate of Northcreek exercised their September 2011 Warrants to purchase in the aggregate 135,000 shares of the Company's common stock in November 2011. See Note 11 to the Consolidated Financial Statements ("Warrants Subject to Revaluation") for further details.

Interest Expense, Net. Interest expense decreased $1.0 million from $5.5 million in 2010 to $4.5 million in 2011 primarily due to improved borrowing rates under the 2011 Credit Facility. In addition, a net reduction in total debt outstanding due to scheduled principal payments on the Company's term loan under the previous credit facility and industrial revenue bonds, and the application of the net proceeds from the sales of certain manufacturing and distribution facilities in the first quarter of 2010, contributed to the decline in interest expense in 2011 compared to the prior year. Going forward, the Company anticipates that interest expense will decline (exclusive of any acquisitions) based on the improved borrowing rates mentioned above. Interest expense in 2011 includes the write-off of $0.6 million of financing costs related to our previous credit facility and a $0.6 million charge related to the write-off of the remaining unamortized loss on interest rate swaps that were terminated and paid off in the first quarter of 2011.

Income Tax Benefit – Continuing Operations. The Company had a tax valuation allowance for deferred tax assets net of deferred tax liabilities not expected to be utilized as of December 31, 2011 and December 31, 2010. Deferred tax assets will continue to require a tax valuation allowance until the Company can demonstrate their realizability through sustained profitability and/or from other factors. The tax valuation allowance does not impact the Company's ability to utilize its net operating loss carryforwards to offset taxable earnings in the future. The effective tax rate varies from the expected statutory rate primarily due to the recognition in 2011 and 2010 of the deferred tax asset resulting from the utilization of federal and state net operating loss carryforwards. A tax benefit from continuing operations of $0.2 million and $0.1 million was recognized in 2011 and 2010, respectively. The effective tax rate on continuing operations (exclusive of the valuation allowance) was 36.6% for 2011 and 20.1% for 2010.

The effective tax rate for 2011 and 2010 is zero due to the utilization of federal and state tax loss carryforwards and the aforementioned valuation allowance on the net deferred tax assets. At December 31, 2011, the Company had a federal net operating loss carryforward of approximately $21.0 million that will begin to expire in 2028 and state net operating loss carryforwards of approximately $27.1 million that will expire in varying amounts between 2012 and 2029. At December 31, 2011, the Company's federal and state net operating loss carryforwards exceeded taxable income for 2011.

Net Income. Net income was $8.5 million or $0.83 per diluted share in 2011 compared to $1.2 million or $0.12 per diluted share for 2010. The changes in the net income reflect the impact of the items previously discussed.

Average Diluted Shares Outstanding. Average diluted shares outstanding increased 3.0% in 2011 compared to 2010 principally reflecting the impact of the issuance of stock warrants during the year. See Note 11 to the

Consolidated Financial Statements for additional details.

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Year Ended December 31, 2010 Compared to 2009

Net Sales. Net sales increased $65.7 million or 30.9%, to $278.2 million in 2010 from $212.5 million in 2009. The increase in net sales primarily reflected improving conditions in the RV industry and the impact of the acquisitions of Quality Hardwoods Sales (“Quality Hardwoods”) and Blazon that were completed during the year. From a market perspective, the RV industry, which represented approximately 58% of the Company’s sales in 2010, experienced an increase in wholesale unit shipments of approximately 46% versus 2009.

In the MH industry, which represented approximately 28% of the Company’s sales in 2010, unit shipments rose 0.4% compared to 2009. This industry began to show signs of improvement in the second quarter of 2010 as unit shipments increased approximately 16% from the prior year period, marking the first quarter-over-quarter increase in unit shipments since 2006.

The industrial market sector accounted for approximately 14% of the Company’s 2010 sales. We estimated that approximately 60% of our industrial revenue base in 2010 was linked to the residential housing market, which saw an increase in new housing starts of approximately 6% for 2010 compared to 2009 (as reported by the U.S. Department of Commerce).

Cost of Goods Sold. Cost of goods sold increased $59.0 million or 31.1%, to $248.6 million in 2010 from $189.6 million in 2009. As a percentage of net sales, cost of goods sold increased during the year to 89.3% from 89.2%. While sales levels improved in 2010 over the prior year, cost of goods sold was negatively impacted by increases in certain raw material prices and by some production inefficiencies and labor variances at our cabinet door facility as a result of significant volatility in total volumes from month-to-month at this facility. As a result, gross margins on the cabinet door business were lower than expected during 2010. Beginning in the fourth quarter of 2010, we made organizational changes and process and pricing improvements to improve profitability at this facility, barring any unforeseen circumstances.

Notwithstanding the issues related to this particular operation, the impact of the acquisition of several new product lines during 2010, including the cabinet door business acquired in the first quarter of 2010, and the wiring, electrical and plumbing products distribution business acquired in the third quarter of 2010, provided positive contribution to operating profitability. Cost of goods sold benefitted in 2010 from the absorption of fixed manufacturing costs over a larger sales base and our ongoing efforts to keep operating costs aligned with our sales base and operating needs.

Gross Profit. Gross profit increased $6.7 million or 29.5%, to $29.6 million in 2010 from $22.9 million in 2009. As a percentage of net sales, gross profit decreased to 10.7% in 2010 from 10.8% in the same period in 2009. The change in gross profit from period to period was primarily attributable to the factors described above.

Warehouse and Delivery Expenses. Warehouse and delivery expenses increased $1.5 million or 14.2%, to $11.7 million in 2010 from $10.2 million in 2009. As a percentage of net sales, warehouse and delivery expenses were 4.2% and 4.8% in 2010 and 2009, respectively. The decrease as a percentage of net sales for 2010 reflected a decline in certain fixed costs such as building charges, fleet rental, and group insurance costs despite the increase in sales volumes.

SG&A Expenses. SG&A expenses increased $1.7 million or 14.0%, to $13.8 million in 2010 from $12.1 million in 2009. The increase in SG&A expenses for 2010 included higher compensation levels for salaried and hourly employees, which reflected the partial reinstatement on January 1, 2010 of the base compensation reductions that were taken by all hourly and salaried employees in the first quarter of 2009, and to a lesser extent, increased headcount that was related to higher sales volumes. The increase in SG&A expenses was partially offset by a reduction in bad debt expense of approximately $0.8 million in 2010 compared to the prior year reflecting the Company’s continued efforts to maintain appropriate credit policies with customers and suppliers especially given tight retail credit standards and the level of consolidations/closures of RV and MH customers. As a percentage of net sales, SG&A expenses were 5.0% for 2010 and 5.7% for 2009, reflecting both an increased revenue base which was not offset by incremental increases in compensation related expenses despite the partial wage reinstatements, and certain non-compensation related fixed costs that remained relatively constant despite the increase in net sales in 2010.

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Amortization of Intangible Assets. In conjunction with the acquisition of the cabinet door business of Quality Hardwoods in January 2010, the Company recognized $0.6 million in certain finite-lived intangible assets which are being amortized over periods ranging from 3 to 5 years. Amortization expense related to this acquisition was $150,000 in 2010.

In conjunction with the acquisition of the wiring, electrical and plumbing products distribution business of Blazon in late August 2010, the Company recognized $0.8 million in certain finite-lived intangible assets which are being amortized over periods ranging from 3 to 6 years beginning in the fourth quarter of 2010 as a result of the finalization of the fair value of the intangible assets in late October 2010. As a result, amortization expense related to this acquisition was $61,000 in 2010. Total amortization expense increased $0.2 million in 2010 as a result of these two acquisitions.

Gain on Sale of Fixed Assets. During the first quarter of 2010, the Company sold the facilities housing its manufacturing and distribution operations in Oregon and California and recorded a pretax gain on sale of approximately $0.8 million and $2.0 million, respectively. Because the Company is currently operating in the same facility in California under a lease agreement with the purchaser, an additional $0.7 million of a pretax gain on the sale was deferred during the first quarter of 2010 and is being offset against future lease payments that are included in cost of goods sold. See Note 6 to the Consolidated Financial Statements for further details.

Operating Income. Operating income increased $5.1 million to $6.4 million in 2010 compared to $1.3 million in 2009. The change in operating income from period to period was primarily attributable to the items discussed above.

Stock Warrants Revaluation. The stock warrants revaluation credit of $0.3 million in 2010 and expense of $0.8 million in 2009 represented non-cash charges/credits related to mark-to-market accounting for common stock warrants issued to certain of the Company's senior lenders in conjunction with the December 2008 amendment to the Company's 2007 Credit Agreement. See Note 11 to the Consolidated Financial Statements ("Warrants Subject to Revaluation") for further details.

Interest Expense, Net. Interest expense decreased $0.9 million in 2010 to $5.5 million from $6.4 million in 2009. The decrease primarily reflected a net reduction in total debt outstanding due to scheduled principal payments on the Company's senior notes and industrial and economic development revenue bonds, the application of the net proceeds from the sale of American Hardwoods and the aluminum extrusion operations in 2009, and the sales of certain manufacturing and distribution facilities in 2009 and in the first quarter of 2010.

Income Tax Benefit–Continuing Operations. The Company had a tax valuation allowance for deferred tax assets net of deferred tax liabilities not expected to be utilized as of December 31, 2010 and December 31, 2009. The effective tax rate varies from the expected statutory rate primarily due to the recognition in 2010 of the deferred tax asset resulting from the utilization of federal and state net operating loss carryforwards, and in 2009, the tax valuation allowance that has been placed on the deferred tax assets that offset the tax benefit of the net loss for 2009. A tax benefit from continuing operations of $81,000 was recognized in 2010. A tax benefit from continuing operations of $0.6 million related to the utilization of a net operating loss carryforward to offset the gain recognized from discontinued operations was recognized in 2009. In addition, state tax expense of approximately $95,000 was recognized in 2009. The effective tax rate on continuing operations (exclusive of the valuation allowance and an intra-period tax adjustment in 2009) was 20.1% for 2010 and 31.6% for 2009. At December 31, 2010, the Company's federal and state net operating loss carryforwards exceeded taxable income for 2010.

Income From Discontinued Operations, Net of Tax. Discontinued operations in 2009 included the operating results for American Hardwoods (through its sale in January 2009) and for the aluminum extrusion operation (through its sale in July 2009). After-tax income from discontinued operations in 2009 was $0.9 million or $0.10 per diluted share which was comprised of $0.8 million of income from operations related to the aluminum extrusion operation and a $0.7 million net gain related to the completion of the two divestitures, offset by income taxes of $0.6 million. See Note 5 to the Consolidated Financial Statements for further details.

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Net Income (Loss). Net income was $1.2 million or $0.12 per diluted share in 2010 compared to a net loss of $4.5 million or $0.49 per diluted share for 2009. The changes in the net income (loss) reflected the impact of the items previously discussed.

Average Diluted Shares Outstanding. Average diluted shares outstanding increased 7.2% in 2010 compared to 2009 principally reflecting the impact of the addition of 512,000 shares of potentially dilutive securities in 2010 with no comparable amount in 2009. See Note 17 to the Consolidated Financial Statements for additional details.

BUSINESS SEGMENTS

General

In accordance with changes made to the Company’s internal reporting structure, which segregates businesses by product category and production/distribution process, the Company began allocating certain costs related to wages, payroll taxes and incentive compensation, that were previously reflected as unallocated corporate expenses, to its two operating segments, Manufacturing and Distribution, effective January 1, 2011. In addition, a majority of corporate incentive agreements (which include vendor rebate agreements) previously included in the corporate segment are now being allocated to the operating segments and reflected as a reduction of cost of goods sold. Prior period results were reclassified to reflect the current year presentation. The Company regularly evaluates the performance of each segment and allocates resources to them based on a variety of indicators including sales, cost of goods sold, and operating income.

The Company’s reportable business segments based on continuing operations are as follows:

- Manufacturing – Utilizes various materials, such as lauan, MDF, gypsum, and particleboard, which are bonded by adhesives or a heating process to a number of products, including vinyl, paper, foil, and high-pressure laminate. These products are utilized to produce furniture, shelving, wall, counter, and cabinet products with a wide variety of finishes and textures. This segment also includes a cabinet door division, a vinyl printing division, the recently acquired solid surface fabrication operation (AIA) and the recently acquired exterior graphics division (Performance Graphics). Patrick’s major manufactured products also include wrapped profile mouldings, interior passage doors, and slotwall and slotwall components.

- Distribution - Distributes pre-finished wall and ceiling panels, drywall and drywall finishing products, electronics, wiring, electrical and plumbing products, cement siding, interior passage doors, roofing products, laminate flooring, shower doors, furniture, fireplace and slide-out surrounds and fascia, and other miscellaneous products. Previously, this segment included the American Hardwoods operation that was sold in January 2009 and was classified as a discontinued operation for all periods presented.

Results relating to the aluminum extrusion operation that was sold in July 2009 and which comprised the entire Engineered Solutions segment, were reclassified to discontinued operations for all periods presented.

Year Ended December 31, 2011 Compared to 2010

General

Sales pertaining to the manufacturing and distribution segments as stated in the table below and in the following discussions include intersegment sales. Gross profit includes the impact of intersegment operating activity. In addition, gross profit and operating income results for 2010 and 2009 for both the Manufacturing and Distribution segments were reclassified to reflect the current year presentation.

The table below presents information about the sales, gross profit and operating income from continuing operations of the Company's operating segments. A reconciliation to consolidated totals is presented in Note 21 to the Consolidated Financial Statements.

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	Years Ended December 31		
(thousands)	2011	2010	2009
Sales			
Manufacturing	$244,260	$234,541	$177,436
Distribution	75,722	55,557	43,821
Gross Profit			
Manufacturing	33,463	21,587	16,542
Distribution	12,086	8,322	5,987
Operating Income			
Manufacturing	18,805	7,873	5,043
Distribution	2,689	1,364	167

Manufacturing

Sales. Sales increased $9.8 million or 4.1%, to $244.3 million in 2011 from $234.5 million in 2010. This segment accounted for approximately 76% of the Company's consolidated net sales in 2011. The acquisitions of AIA and the manufacturing component of Praxis, in the third and second quarters of 2011, respectively, accounted for approximately $5.7 million and $0.8 million, respectively, of the sales increase in 2011. In addition, the Company continues to gain product content per unit in the RV industry. Revenue from the MH market was down 6% for the full year due in part to the impact of the vertical integration efforts of one of the Company's larger MH customers that is now producing in-house one of the product lines for certain of its facilities that the Company had previously been supplying. The Company anticipates that the impact of continuing tight credit markets, slow jobs growth and significant increases in raw materials costs will continue to impact sales to the RV and MH markets during 2012.

Gross Profit. Gross profit increased $11.9 million to $33.5 million in 2011 from $21.6 million in 2010. As a percentage of sales, gross profit increased to 13.7% in 2011 from 9.2% in the prior year period. Gross profit for 2011 reflected improved profitability at two of our Midwest manufacturing divisions, one of which had underperformed in 2010 compared to historical levels. The Midwest manufacturing divisions benefited from margin improvements and ongoing organizational and process changes that enhanced labor efficiencies, reduced scrap and returns, and increased material yields. Cost of goods sold also benefited in 2011 from our ongoing efforts to keep operating costs aligned with our sales base and operating needs.

Operating Income. Operating income increased $10.9 million to $18.8 million in 2011 compared to $7.9 million in the prior year. The improvement in operating income primarily reflects the increase in gross profit mentioned above and, to a lesser extent, lower warehouse and delivery expenses.

Distribution

Sales. Sales increased $20.2 million or 36.3%, to $75.7 million in 2011 from $55.5 million in the prior year period. This segment accounted for approximately 24% of the Company's consolidated net sales for 2011. The wiring, electrical and plumbing products division, which was acquired in August 2010, accounted for approximately $14.9 million of the sales increase in 2011. The acquisition of the distribution component of Praxis late in the second quarter of 2011, accounted for approximately $1.2 million of the sales increase in 2011. Sales were also impacted during the quarter by a 3% increase in unit shipments to the MH industry, which is the primary market this segment serves.

Gross Profit. Gross profit increased $3.8 million or 45.3%, to $12.1 million in 2011 from $8.3 million in 2010. As a percentage of sales, gross profit was 16.0% in 2011 compared to 15.0% in 2010. The increase in gross profit as a percentage of sales for 2011 is primarily attributable to a higher than average gross margin on the wiring, electrical and plumbing products line that was acquired as a result of the acquisition of Blazon.

Operating Income. Operating income in 2011 increased $1.3 million to $2.7 million from $1.4 million in the prior year period. The impact of the acquisition of several new product lines during 2010, in particular the wiring, electrical and

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plumbing products distribution business acquired in the third quarter of 2010, and the Praxis distribution business acquired in the second quarter of 2011, made a positive contribution to operating income during 2011.

Unallocated Corporate Expenses

Unallocated corporate expenses in 2011 increased $2.1 million to $7.5 million from $5.4 million in the comparable prior year period primarily reflecting an increase in both the allowance for doubtful accounts and group insurance costs.

Year Ended December 31, 2010 Compared to 2009

Manufacturing

Sales. Sales increased $57.1 million or 32.2%, to $234.5 million in 2010 from $177.4 million in 2009. This segment accounted for approximately 80% of the Company's consolidated net sales in 2010. A 46% increase in wholesale unit shipments in the RV industry in 2010 positively impacted sales. The sales increase in 2010 included approximately $7.4 million from the acquisition of the cabinet door business of Quality Hardwoods in January 2010. In addition, the Company continued to gain product content per unit in the RV industry.

Gross Profit. Gross profit increased $5.0 million to $21.6 million in 2010 from $16.6 million in 2009. As a percentage of sales, gross profit decreased to 9.2% in 2010 from 9.3% in 2009. The increase in gross profit dollars in 2010 primarily reflected the impact of higher sales volumes and manufacturing overhead costs remaining near prior year levels. Increases in wages, payroll taxes, operating supplies and repairs and maintenance were offset by reductions in depreciation, rent and insurance costs.

Gross profit was negatively influenced during 2010 by increases in certain raw materials prices and by the impact of RV production levels that were higher than anticipated, resulting in production inefficiencies and labor variances at our cabinet door facility as a result of significant volatility in total volumes from month to month at this facility. As a result, gross margins on the cabinet door business were lower than expected during the year. Beginning in the fourth quarter of 2010, organizational changes and process and pricing improvements were made to improve profitability at this facility in the future.

Operating Income. Operating income increased $2.8 million to $7.9 million in 2010 compared to $5.1 million in 2009. Higher sales volumes and improved fixed cost absorption positively impacted operating income in 2010.

Distribution

Sales. Sales increased $11.7 million or 26.8%, to $55.5 million in 2010 from $43.8 million in 2009, primarily reflecting increased sales in a majority of the Company's distribution facilities. This segment accounted for approximately 20% of the Company's consolidated net sales for 2010. The wiring, electrical and plumbing products division, which was acquired in the third quarter of 2010, accounted for approximately $4.9 million or 41% of the 2010 sales increase. The electronics division, which was launched in the first quarter of 2009, accounted for approximately $4.4 million of the sales increase during 2010 compared to 2009. The strength of the RV industry in 2010 (which the electronics division principally distributes to) and improvements in the MH industry (which the other distribution divisions supply) contributed to the sales volume increase in 2010.

Gross Profit. Gross profit increased $2.3 million or 39.0%, to $8.3 million in 2010 from $6.0 million in 2009. As a percentage of sales, gross profit was 15.0% in 2010 compared to 13.7% in 2009. The increase in gross profit as a percentage of sales for 2010 was primarily attributable to a mix shift to less direct shipment sales from the Company's vendors to its customers.

Operating Income. Operating income increased $1.2 million to $1.4 million in 2010 from $0.2 million in 2009. Higher sales volumes primarily contributed to the operating income improvement in 2010. The electronics division, which accounted for approximately 37% of the distribution sales increase in 2010, incurred lower warehouse and delivery charges than our other distribution divisions. In addition, the acquired wiring, electrical and plumbing products division made a positive contribution to operating income in 2010.

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Unallocated Corporate Expenses

Unallocated corporate expenses increased $0.3 million to $5.4 million in 2010 from $5.1 million in 2009. As discussed above, the increase primarily reflected the partial reinstatement on January 1, 2010 of the base compensation reductions taken by salaried and hourly employees in the first quarter of 2009 as a result of extremely soft market conditions.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Operating Activities

Cash flows from operations represent the net income we earned or the net loss sustained in the reported periods adjusted for non-cash charges and changes in operating assets and liabilities. Our primary sources of liquidity are cash flows from operating activities and borrowings under our 2011 Credit Agreement. Our principal uses of cash are to support seasonal working capital demands, meet debt service requirements and support our acquisition and capital expenditure plans.

Net cash provided by operating activities was $11.8 million in 2011 compared to $7.9 million in 2010, primarily reflecting an increase in net income to $8.5 million from $1.2 million in the prior year. Trade receivables increased $3.3 million in 2011 from year-end 2010 primarily reflecting the increased sales levels in 2011, including the impact of acquisitions, as well as shorter plant holiday shutdowns by certain of our customers in mid-to-late December 2011 when compared to the same period in the prior year.

Inventories increased $3.9 million in 2011 compared to $2.0 million in 2010. The Company continues to focus on aggressively managing inventory turns by closely following customer sales levels and increasing or reducing purchases accordingly, while working together with key suppliers to minimize lead-time and minimum order requirements. The $2.5 million net increase in accounts payable and accrued liabilities in 2011 compared to the $1.3 million net increase in the prior year period reflected the increased level of business activity and ongoing operating cash management, and the impact of acquisitions.

Cash provided by operating activities in 2011 also included a $0.7 million non-cash charge related to mark-to-market accounting for common stock warrants issued to certain of the Company’s lenders in December 2008 versus a non-cash credit of $0.3 million in 2010, and an incremental $0.6 million related to the write-off of the remaining unamortized loss on interest rate swaps that were terminated on March 25, 2011 with no comparable amount in the prior year.

Net cash provided by operating activities was $7.9 million in 2010 compared to $3.9 million in 2009. Trade receivables decreased $3.5 million in 2010 from year-end 2009 reflecting plant shutdowns by many of our larger customers in mid-to-late December 2010 for the holiday season. A stronger demand cycle due to an increase in wholesale unit shipments of approximately 46% in the RV industry in 2010 compared to the prior year partially offset the impact of the plant shutdowns. Additionally, inventories increased approximately $2.0 million in 2010 from December 2009, compared to a decrease of $4.7 million in the 2009 period, primarily resulting from the increase in sales to the RV industry. Cash provided by operating activities in 2010 also included a $0.3 million non-cash credit related to mark-to-market accounting for common stock warrants versus a non-cash charge of $0.8 million in 2009. The net increase in accounts payable and accrued liabilities in both 2010 and 2009 reflected seasonal demand cycles and ongoing operating cash management.

Investing Activities

Investing activities used cash of $9.7 million in 2011 primarily to fund capital expenditures of $2.4 million and for the acquisitions of AIA for $5.5 million, Performance Graphics for $1.3 million, and Praxis for $0.5 million. Investing activities provided cash of $1.2 million in 2010 as a result of net proceeds from the sale of the Oregon and California facilities of $4.0 million and $4.3 million in February 2010 and March 2010, respectively. Cash outflows in 2010 included the acquisition of the cabinet door business of Quality Hardwoods for $2.0 million, the acquisition of the wiring, electrical and plumbing products distribution business of Blazon for $3.8 million, and capital expenditures of $1.4 million.

During the fourth quarter of 2011, the Company commenced a project to replace and upgrade its existing Enterprise Resource Planning ("ERP") software system. The ERP system replacement and related process improvements are expected to result in modifications to our internal controls and supporting financial, manufacturing, and distribution transaction processing and reporting. The implementation of these changes to software and systems is expected to be executed in phases over the next 18 to 24 months beginning in the third quarter of 2012. Total capital expenditures on the ERP project are expected to be $1.7 million in 2012.

Investing activities provided cash of $1.2 million in 2010 compared to $13.2 million in 2009. As described above, 2010 included the net proceeds from the sale of the Oregon and California facilities and cash outflows for the acquisition of Quality Hardwoods and Blazon. In 2009, proceeds from the sale of businesses and related facilities included approximately $2.0 million from the sale of the American Hardwoods operation in January 2009 and an additional $2.5 million from the June 2009 sale of the building that housed this operation. In addition, $7.4 million was received from the sale of the aluminum extrusion operation in July 2009 and $1.5 million from the sale of the Ocala, Florida facility in December 2009. Capital expenditures in 2010 of $1.4 million included targeted capital investments to support new business and upgrade our existing management information systems. Capital expenditures in 2009 were $0.3 million.

Financing Activities

Net cash used in financing activities was $3.5 million in 2011 compared to $7.2 million in 2010. Net long-term debt payments of $3.6 million consisted of net payments on the Company's revolving line of credit of $12.0 million which were partially offset by the issuance of (i) secured senior subordinated notes issued in connection with the March 2011 refinancing of the Company's previous credit facility and the financing of the AIA acquisition of $5.0 million and $2.7 million, respectively, and (ii) the long-term portion of the promissory note issued in September 2011 to the seller of AIA. The increase in short-term borrowings of $1.0 million in 2011 reflected the total principal payments due in 2012 on the promissory note. In addition, the Company borrowed $2.8 million in 2011 against the cash value of life insurance policies on certain of its officers and directors in connection with the refinancing of the Company's previous credit facility. Net cash used in financing activities in 2011 also included a cash payment of $1.1 million, which represented the fair value of the interest rate swaps that were terminated on March 25, 2011. In addition, during 2011 the Company made cash payments of (i) $2.2 million for financing costs associated with the establishment of the 2011 Credit Facility and other financing activities and (ii) $0.4 million relating to the Company's previous credit facility.

Net cash used in financing activities was approximately $7.2 million in 2010 compared to $19.7 million in 2009. In accordance with its scheduled debt service requirements, the Company paid down $3.5 million in principal on its term loan in 2010. The Company also utilized the proceeds received from the sale of its Oregon and California facilities in February 2010 and March 2010, respectively, and from other asset sales to pay down approximately $8.5 million in principal on long-term debt. In August 2010, the remaining principal of $0.5 million was paid on the State of North Carolina Economic Development Revenue bonds as planned. In 2010, the Company increased borrowings on its revolving line of credit by $5.8 million to finance its operations and meet working capital needs.

In 2009, the Company paid down approximately $14.5 million in principal on its long-term debt. The additional repayments on long-term debt, including the payoff of the remaining $3.3 million of principal on industrial revenue bonds associated with the aluminum extrusion operation, were funded by the $2.5 million of net proceeds from the sale of the American Hardwoods building, the $4.4 million of net proceeds from the aluminum extrusion building and equipment sale, and the $1.5 million of net proceeds from the sale of the Ocala, Florida facility. In addition, the remaining net proceeds of $3.0 million from the aluminum extrusion operation sale were used to reduce borrowings under the Company's revolving line of credit.

Capital Resources

Previous Credit Facility, Interest Rate Swaps and Term Loan

Prior to March 31, 2011, the Company's debt financing was supported by its 2007 Credit Agreement which consisted of a senior secured credit facility comprised of revolving credit availability and a term loan.

Under the 2007 Credit Agreement, the Company had the option to defer payment of any interest on term loans in excess of 4.50% ("PIK interest") until the term maturity date. Since January 2009, the Company elected the PIK interest option. As a result, the principal amount outstanding under the term loan increased by $1.8 million from January 2009 through March 30, 2011 and was paid in full to the lenders on March 31, 2011 in conjunction with the refinancing of the previous credit facility. Approximately $0.1 million, $0.6 million and $1.0 million of the term loan increase related to PIK interest is reflected in interest expense on the consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009, respectively. PIK interest is reflected as a non-cash charge adjustment in operating cash flows under the caption "Interest paid-in-kind".

In anticipation of entering into the 2011 Credit Facility, the interest rate swap agreements were terminated on March 25, 2011, resulting in the payment of a $1.1 million cash settlement. For years ended December 31, 2011, 2010 and 2009, amortized losses of $0.7 million, $0.3 million and $0.3 million, respectively, were recognized in interest expense on the consolidated statements of operations. The amortized loss on the swaps of $0.7 million for 2011 included $79,000 related to the amortization of the losses on the swaps included in other comprehensive income as of the de-designation date and $0.6 million related to the write-off of the remaining unamortized loss on the swaps as of March 25, 2011, the date upon which it became probable the forecasted swap transactions, as specified in the original swap agreements, would not occur.

In addition, the change in the fair value of the de-designated swaps for the years ended December 31, 2011, 2010 and 2009 resulted in a credit to interest expense and a decrease in the corresponding liability of $0.1 million, $0.3 million and $0.7 million, respectively. See Note 11 to the Consolidated Financial Statements for further details.

2008 Warrants

In conjunction with the December 2008 amendment to the 2007 Credit Agreement, the Company issued the 2008 Warrants to its then existing lenders to purchase an aggregate of 474,049 shares of common stock, subject to adjustment related to anti-dilution provisions, at an exercise price of $1.00 per share. The 2008 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 2008 Warrants was increased to an aggregate of 483,742 shares and the exercise price was adjusted to $0.98 per share as a result of the issuance on May 21, 2009 and on June 22, 2009, pursuant to the Company's 1987 Stock Option Program, as amended, of restricted shares at a price less than, and options to purchase common stock with an exercise price less than, the warrant exercise price then in effect.

Pursuant to the anti-dilution provisions, the number of shares of common stock issuable upon exercise of the 2008 Warrants was further increased to an aggregate of 496,397 shares and the exercise price was adjusted to $0.96 per share as a result of the issuance of the March 2011 Warrants to purchase common stock with an exercise price less than the warrant exercise price then in effect. In May 2011 and August 2011, two of the members of the Company's former bank lending group exercised their 2008 Warrants to purchase 22,586 shares and 59,815 shares of the Company's common stock, respectively. In connection with the cashless exercises, 12,956 and 32,219 net shares of common stock were issued, respectively. The fair value of the shares in the aggregate was reclassified to shareholders' equity on the consolidated statements of financial position as of the respective exercise dates. Following these exercises, there were in aggregate 413,996 shares of common stock issuable upon exercise of the then remaining 2008 Warrants.

Pursuant to the anti-dilution provisions, the number of shares of common stock issuable upon exercise of the then remaining 2008 Warrants was increased to an aggregate of 419,646 shares and the exercise price was adjusted to $0.94 per share as a result of the issuance of the September 2011 Warrants to purchase common stock with an exercise price less than the warrant exercise price then in effect.

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In September 2011, one of the members of the Company's former bank lending group exercised its 2008 Warrants to purchase 91,477 shares of the Company's common stock. In connection with the cashless exercise, 45,881 net shares of common stock were issued. The fair value of the shares was reclassified to shareholders' equity on the consolidated statements of financial position as of the respective exercise date in the fourth quarter of 2011. As of December 31, 2011, there were in aggregate 328,169 shares of common stock issuable upon exercise of the remaining 2008 Warrants. See Notes 11, 16 and 22 to the Consolidated Financial Statements for further details.

In the Company's first fiscal quarter of 2012, three members of the Company's former bank lending group exercised their 2008 Warrants to purchase 179,531 shares of the Company's common stock. In connection with the cashless exercises, 154,109 net shares of common stock were issued. The fair value of the shares will be reclassified to shareholders' equity on the condensed consolidated statements of financial position as of the respective exercise dates. As of March 13, 2012, there were in aggregate 148,638 shares of common stock issuable upon exercise of the remaining 2008 Warrants.

Secured Senior Credit Facility

On March 31, 2011, the Company entered into the 2011 Credit Agreement with WFCF as the lender and agent and Fifth Third Bank as participant to establish the 2011 Credit facility. The 2011 Credit Agreement replaces the Company's 2007 Credit Agreement which was scheduled to mature on May 31, 2011.

The 2011 Credit Agreement is secured by a pledge of substantially all of the assets of the Company pursuant to a Security Agreement, dated March 31, 2011, between the Company and WFCF, as agent. The 2011 Credit Agreement includes certain definitions, terms and reporting requirements and includes the following provisions:

Ÿ The maturity date for the 2011 Credit Facility is March 31, 2015;
Ÿ Borrowings under the revolving line of credit (the "Revolver") are subject to a borrowing base, up to a maximum borrowing limit of $50.0 million;
Ÿ The interest rates for borrowings under the Revolver are the Base Rate plus the Applicable Margin or the London Interbank Offer Rate ("LIBOR") plus the Applicable Margin, with a fee payable by the Company on unused but committed portions of the Revolver;
Ÿ The financial covenants include a minimum fixed charge coverage ratio, minimum excess availability under the Revolver, and annual capital expenditure limitations (see further details below);
Ÿ The Company's existing standby letters of credit as of March 31, 2011 will remain outstanding; and
Ÿ Customary prepayment provisions which require the prepayment of outstanding amounts under the Revolver based on predefined conditions.

At December 31, 2011, the interest rate for borrowings under the Revolver was the Prime Rate plus 1.75% (or 5.00%), or LIBOR plus 2.75% (or 3.03%), and the fee payable on committed but unused portions of the Revolver was 0.375%. At December 31, 2010, (i) the interest rate for borrowings under the Company's previous revolving line of credit was the Alternate Base Rate (the "ABR") plus 3.5% (or 6.75%), or LIBOR plus 4.5% (or 4.75%), (ii) the interest rate under the Company's previous term loan was the ABR plus 6.5% or LIBOR plus 7.5%, and (iii) the fee payable on committed but unused portions of the Company's previous revolving loan facility was 0.50%.

Pursuant to the 2011 Credit Agreement, the financial covenants include (a) a minimum fixed charge coverage ratio, measured on a month-end basis, of at least 1.25:1.00 for the 12 month period ending on such month-end; (b) a required minimum excess availability plus qualified cash at all times under the Revolver of at least $2.0 million; and (c) for fiscal year 2011, a limitation on annual capital expenditures of $4.0 million.

The fixed charge coverage ratio is the ratio for any period of EBITDA minus capital expenditures made to (ii) fixed charges. Fixed charges for any period is the sum of (a) interest expense accrued (other than interest paid-in-kind, amortization of financing fees, and other non-cash interest expense), (b) principal payments in respect of indebtedness that are required to be paid, (c) all federal, state, and local income taxes accrued, and (d) all restricted junior payments paid (whether in cash or other property, other than common stock).

Excess availability for any period refers to the amount that the Company is entitled to borrow as advances under the 2011 Credit Agreement (after giving effect to all outstanding obligations) minus the aggregate amount, if any, of the Company's trade payables aged in excess of historical levels and all book overdrafts of the Company in excess of historical practices.

As of and for the fiscal period ended December 31, 2011, the Company was in compliance with all three of these financial covenants. The required minimum fixed charge coverage ratio, minimum excess availability plus qualified cash, and the annual capital expenditures limitation amounts compared to the actual amounts as of and for the fiscal period ended December 31, 2011 are as follows:

(thousands except ratio)	Required	Actual
Fixed charge coverage ratio (12-month period)	1.25	6.9
Excess availability plus qualified cash (end of period)	$ 2,000	$ 12,025
Annual capital expenditures limitation	$ 4,000	$ 2,436

Secured Senior Subordinated Notes

March 2011 Notes

In connection with entering into the 2011 Credit Agreement, the Company issued the March 2011 Notes to TCOMF2 and Northcreek. The March 2011 Notes are secured by a pledge of substantially all of the assets of the Company and are subordinated to the indebtedness under the 2011 Credit Agreement. The March 2011 Notes bear interest at a rate equal to 10% per annum until March 31, 2013 and 13% thereafter, and mature on March 31, 2016. The Company may prepay all or any portion of the March 2011 Notes at any time based on pre-defined percentages of the principal amount being prepaid.

September 2011 Notes

In connection with the financing of the acquisition of AIA, the 2011 Credit Agreement was amended to, among other things, allow for the issuance of the September 2011 Notes to Northcreek and an affiliate of Northcreek. The September 2011 Notes are secured by a pledge of substantially all of the assets of the Company and are subordinated to the indebtedness under the 2011 Credit Agreement. The September 2011 Notes bear interest at 13% per annum and mature on March 31, 2016. The Company may prepay all or any portion of the September 2011 Notes at any time based on pre-defined percentages of the principal amount being prepaid.

Subordinated Secured Promissory Note

Also in connection with the financing of the acquisition of AIA, the 2011 Credit Agreement was further amended to allow for the issuance of a 10% Promissory Note to the seller of AIA in the principal amount of $2.0 million. The Promissory Note is secured by the Company's inventory and accounts receivable and is subordinated to indebtedness under the 2011 Credit Agreement, the March 2011 Notes and the September 2011 Notes. The Promissory Note matures on September 16, 2013 and is payable in eight quarterly installments of $250,000 plus quarterly interest payments beginning on December 16, 2011. As of December 31, 2011, the principal amount outstanding under the Promissory Note was $1.75 million.

2011 Warrants

March 2011 Warrants

On March 31, 2011, as partial consideration for the March 2011 Notes, the Company issued the March 2011 Warrants to purchase 125,000 shares of the Company's common stock to each of TCOMF2 and Northcreek at an exercise price of $0.01 per share. The March 2011 Warrants are immediately exercisable, subject to anti-dilution provisions and expire on March 31, 2016. The debt discount of $0.7 million, which is equal to the fair value of the March 2011 Warrants as of March 31, 2011, is being amortized to interest expense over the life of the March 2011 Notes beginning in the second quarter of 2011. As of December 31, 2011, the unamortized portion of the debt discount related to the March 2011 Warrants was approximately $0.6 million. Northcreek and TCOMF2 exercised their warrants to purchase in the aggregate 250,000 shares of the Company's common stock at an exercise price of $0.01 per share on April 27, 2011 and June 3, 2011, respectively. The $0.6 million fair value of the 250,000 shares was reclassified to shareholders' equity on the consolidated statements of financial position.

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September 2011 Warrants

On September 16, 2011, in connection with the September 2011 Notes, the Company issued to Northcreek and an affiliate of Northcreek, the September 2011 Warrants to purchase, in the aggregate, 135,000 shares of the Company's common stock at an exercise price of $0.01 per share. The September 2011 Warrants are immediately exercisable, subject to anti-dilution provisions, and expire on March 31, 2016. The debt discount of $0.3 million, which is equal to the fair value of the September 2011 Warrants as of September 16, 2011, is being amortized to interest expense over the life of the September 2011 Notes beginning in the third quarter of 2011. As of December 31, 2011, the unamortized portion of the debt discount related to the September 2011 Warrants was approximately $0.2 million. Northcreek and an affiliate of Northcreek exercised their warrants to purchase in the aggregate 135,000 shares of the Company's common stock at an exercise price of $0.01 per share in November 2011. The $0.3 million fair value of the 135,000 shares was reclassified to shareholders' equity on the consolidated statements of financial position.

Summary of Liquidity and Capital Resources

Our primary sources of liquidity are cash flow from operations, which primarily includes selling our products and collecting receivables, available cash reserves and borrowing capacity available under the 2011 Credit Facility. Our primary uses of cash are to meet working capital demands, which primarily include paying our creditors and employees, meet debt service requirements, fund acquisitions and support our capital expenditure plans. We also have a substantial asset collateral base, which we believe, if sold in the normal course, is sufficient to cover our outstanding senior debt.

We are subject to market risk primarily in relation to our cash and short-term investments. The interest rate we may earn on the cash we invest in short-term investments is subject to market fluctuations. While we attempt to minimize market risk and maximize return, changes in market conditions may significantly affect the income we earn on our cash and cash equivalents and short-term investments. In addition, all of our debt obligations under our 2011 Credit Facility are currently subject to variable rates of interest.

Cash, cash equivalents, cash generated from operations and borrowings available under our 2011 Credit Facility are expected to be sufficient to finance the known and/or foreseeable liquidity and capital needs of the Company for at least the next 12 months, exclusive of any acquisitions, based on our current cash flow budgets and forecasts of our short-term and long-term liquidity needs.

Borrowings under our Revolver are subject to a borrowing base, up to a maximum borrowing limit of $50.0 million. The borrowing base (as defined in the 2011 Credit Agreement), as of any date of determination, is the sum of current asset availability plus fixed asset availability less the aggregate amount of reserves, if any. The actual borrowing base available as of December 31, 2011 was $35.8 million.

Our ability to access unused borrowing capacity under the 2011 Credit Facility as a source of liquidity is dependent on our maintaining compliance with the financial covenants as specified under the terms of the 2011 Credit Agreement. In 2011, we were in compliance with all of our debt covenants at each reporting date as required under the terms of the 2011 Credit Agreement. Based on our 2012 operating plan, we expect to continue to maintain compliance with the financial covenants under our 2011 Credit Agreement, notwithstanding continued uncertain and volatile market conditions.

If we fail to comply with the covenants under the 2011 Credit Agreement, there can be no assurance that the lenders that are party to our 2011 Credit Agreement will consent to an amendment of the 2011 Credit Agreement. In this event, the lenders and/or the holders of the March 2011 Notes and the September 2011 Notes could cause the related indebtedness to become due and payable prior to maturity or it could result in the Company having to refinance its indebtedness under unfavorable terms. If our debt were accelerated, our assets might not be sufficient to repay our debt in full should they be required to be sold outside of the normal course of business, such as through forced liquidation or bankruptcy proceedings.

Management has also identified other actions within its control that could be implemented, if necessary, to provide liquidity and help the Company reduce its leverage position. These actions include the exploration of asset sales, divestitures and other types of capital raising alternatives. However, there can be no assurance that these actions will

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be successful or generate cash resources adequate to retire or sufficiently reduce the Company's indebtedness under the 2011 Credit Agreement.

In 2012, our management team is focused on increasing our market share, maintaining margins, the implementation of our new ERP system, keeping costs aligned with revenue, further improving operating efficiencies, aggressively managing inventory levels and pricing, and acquiring businesses/product lines that meet established criteria, all of which may impact our sources and uses of cash from period to period and impact our liquidity levels. In addition, future liquidity and capital resources may be impacted as we continue to make targeted capital investments to support new business and leverage our operating platform. In particular, in the fourth quarter of 2011, the Company commenced a project to replace and upgrade its ERP system over the next 18 to 24 months that will require upgrades to and/or the replacement of existing hardware and software in addition to costs incurred from the services provided by third party consultants.

Our working capital requirements vary from period to period depending on manufacturing volumes related to the RV and MH industries, the timing of deliveries, and the payment cycles of our customers. In the event that our operating cash flow is inadequate and one or more of our capital resources were to become unavailable, we would seek to revise our operating strategies accordingly. We will continue to assess our liquidity position and potential sources of supplemental liquidity in view of our operating performance, current economic and capital market conditions, and other relevant circumstances.

Contractual Obligations

The following table summarizes our contractual cash obligations at December 31, 2011, and the future periods during which we expect to settle these obligations. We have provided additional details about some of these obligations in our Notes to the Consolidated Financial Statements.

(thousands)	Payments due by period				
Contractual Obligations	2012	2013-2014	2015-2016	Thereafter	Total
Revolving line of credit (1)	$ -	$ -	$ 24,336	$ -	$ 24,336
Secured senior subordinated notes (2)	-	-	7,700	-	7,700
Subordinated secured promissory note (3)	1,000	750	-	-	1,750
Interest payments on debt (4)	1,811	3,648	1,457	-	6,916
Deferred compensation payments	392	721	686	3,005	4,804
Facility leases	2,557	3,434	1,764	970	8,725
Equipment leases	989	1,273	901	462	3,625
Total contractual cash obligations	$ 6,749	$ 9,826	$ 36,844	$ 4,437	$ 57,856

(1) The estimated long-term debt payment of $24.3 million in 2015 is based on the terms of the 2011 Credit Facility which is scheduled to expire on March 31, 2015.

(2) The secured senior subordinated notes mature in March 2016 and the estimated long-term debt payment of $7.7 million is subordinated to indebtedness under the 2011 Credit Agreement.

(3) The promissory note matures in September 2013 and is payable in eight quarterly installments of $250,000 beginning on December 16, 2011.

(4) Scheduled interest payments on debt are calculated based on interest rates in effect at December 31, 2011 as follows: (a) revolving line of credit: Base Rate-based portion - 5% and LIBOR-based portion – 3.03%; (b) March 2011 Notes at 10% in 2012 through March 2013 and 13% for the remainder of 2013 through the 2016 expiration date, and September 2011 Notes at 13%; and (c) promissory note – 10%.

We also have commercial commitments as described below (in thousands):

Other Commercial Commitments	Total Amount Committed		Outstanding at 12/31/11	Date of Expiration
Revolving Credit Agreement	$ 50,000		$ 24,336	March 31, 2015
Letters of Credit	$ 6,000	(1)	$ 1,020	December 31, 2012
			$ 167	April 23, 2012
			$ 287	April 1, 2012

(1) The $6.0 million commitment for the Letters of Credit is a sub-limit contained within the $50.0 million credit line.

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Off-Balance Sheet Arrangements

Other than the commercial commitments set forth above, we have no off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The SEC has defined a company's most critical accounting policies as those that are most important to the portrayal of its financial condition and results of operations, and which require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Although management believes that its estimates and assumptions are reasonable, they are based upon information available when they are made. Actual results may differ significantly from these estimates under different assumptions or conditions. Other significant accounting policies are described in Note 2 to the Consolidated Financial Statements. The Company has identified the following critical accounting policies and judgments:

Trade Receivables. We are engaged in the manufacturing and distribution of building products and material for use primarily by the manufactured housing and recreational vehicle industries and other industrial markets. Trade receivables consist primarily of amounts due to us from our normal business activities. We control credit risk related to our trade receivables through credit approvals, credit limits and monitoring procedures, and perform ongoing credit evaluations of our customers. In assessing the carrying value of its trade receivables, the Company estimates the recoverability by making assumptions based on factors such as current overall and industry-specific economic conditions, historical and anticipated customer performance, historical write-off and collection experience, the level of past-due amounts, and specific risks identified in the accounts receivable portfolio. A change in the Company's assumptions would result in the Company recovering an amount of its accounts receivable that differs from the carrying value. Additional changes to the allowance could be necessary in the future if a customer's creditworthiness deteriorates, or if actual defaults are higher than the Company's historical experience. Any difference could result in an increase or decrease in the allowance for doubtful accounts. The Company does not accrue interest on any of its trade receivables. Based on the Company's estimates and assumptions, the allowance for doubtful accounts was increased by $0.4 million to $0.8 million at December 31, 2011 compared to $0.4 million for 2010. In 2010, the allowance for doubtful accounts was decreased by $0.3 million to $0.4 million compared to $0.7 million for 2009.

Inventories. Inventories are stated at the lower of cost (First-In, First-Out (FIFO) Method) or market. Based on the inventory aging and other considerations for realizable value, the Company writes down the carrying value to market value where appropriate. The Company reviews inventory on-hand and records provisions for obsolete inventory. Any significant unanticipated changes in demand could have a significant impact on the value of the Company's inventory and operating results. Estimated inventory allowances for slow-moving and obsolete inventories are based on current assessments of future demands, market conditions and related management initiatives. Based on the Company's estimates and assumptions, an allowance for inventory obsolescence of $0.7 million and $0.9 million was established at December 31, 2011 and 2010, respectively. If market conditions or customer requirements change and are less favorable than those projected by management, inventory allowances are adjusted accordingly. The Company decreased its reserve for obsolescence by $0.2 million at December 31, 2011 to $0.7 million from $0.9 million at December 31, 2010 and decreased the reserve by $0.4 million at December 31, 2010 from $1.3 million at December 31, 2009 reflecting a continued focus on managing inventory to levels more consistent with demand in order to maximize liquidity.

Impairment of Long-Lived Assets. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of those items. Events that may indicate that certain long-lived assets might be impaired might include a significant downturn in the economy or the RV or MH industries, and/or a loss of a major customer or several customers. Our cash flow estimates are based on historical results adjusted to reflect our best estimate of future market and operating conditions and forecasts. The net carrying

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value of assets not recoverable is reduced to fair value. Our estimates of fair value represent our best estimate based on industry trends and reference to market rates and transactions. The recoverability of PP&E is evaluated whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, primarily based on estimated selling price, appraised value or projected future cash flows. No events or changes in circumstances occurred that required the Company to assess the recoverability of its property and equipment for the years ended December 31, 2011, 2010 and 2009, and therefore the Company has not recognized any impairment charges for those years.

All of the Company's goodwill and long-lived asset impairment assessments are based on established fair value techniques, including discounted cash flow analysis. These analyses require management to estimate both future cash flows and an appropriate discount rate to reflect the risk inherent in the current business model. The assumptions supporting valuation models, including discount rates, are determined using the best estimates as of the date of the impairment review. These estimates are subject to significant uncertainty, and differences in actual future results may require further impairment charges, which may be significant.

Impairment of Goodwill and Other Acquired Intangible Assets. The Company has made acquisitions in the past that included goodwill and other intangible assets. Goodwill represents the excess of cost over the fair value of the net assets acquired. Other intangible assets acquired are classified as either trademarks, customer relationships or non-compete agreements. The Company's goodwill and its other intangible assets balances at December 31, 2011 were $4.3 million and $11.5 million, respectively.

Goodwill and indefinite-lived intangible assets such as trademarks are not amortized but are subject to an annual (or under certain circumstances more frequent) impairment test in the fourth quarter based on their estimated fair value. We test more frequently, if there are indicators of impairment, or whenever such circumstances suggest that the carrying value of goodwill or trademarks may not be recoverable. These indicators include a sustained significant decline in our share price and market capitalization, a decline in our expected future cash flows, or a significant adverse change in the business climate. A significant adverse change in the business climate could result in a significant loss of market share or the inability to achieve previously projected revenue growth. No such events occurred during 2011, 2010 or 2009 that indicate the existence of impairment with respect to our reported goodwill, trademarks or other intangible assets.

We perform impairment reviews of goodwill at the reporting unit level, one level below the business segment. A reporting unit constitutes a business for which discrete profit and loss financial information is available. The Company's reportable segments, Manufacturing and Distribution, are those based on the Company's method of internal reporting which segregates its businesses by product category and production/distribution process.

Goodwill and other intangible assets are allocated to the Company's reporting units at the date they are initially recorded. Goodwill impairment testing is performed at the reporting unit level, one level below the business segment. Once goodwill has been allocated to a reporting unit, it generally no longer retains its identification with a particular acquisition, but instead becomes identified with the reporting unit as a whole. The Company's Manufacturing segment includes goodwill originating from the acquisitions of Gravure Ink (acquired in the Adorn acquisition), Quality Hardwoods, AIA and Performance Graphics. While Gravure, AIA and Performance Graphics remain reporting units of the Company for which impairment is assessed, Quality Hardwoods is assessed for impairment as part of the Company's hardwood door reporting unit. The Company's Distribution segment includes goodwill originating from the acquisition of Blazon, which remains a reporting unit for which impairment is assessed.

Finite-lived intangible assets that meet certain criteria continue to be amortized over their useful lives and are also subject to an impairment test based on estimated undiscounted cash flows when impairment indicators exist. Newly acquired indefinite-lived assets are more vulnerable to impairments as the assets are recorded at fair value and are then subsequently measured at the lower of fair value or carrying value at the end of each reporting period. As such, immediately after acquisition, even a small decline in the outlook for these products can negatively impact our ability to recover the carrying value and can result in an impairment loss.

We based our determination of the fair value of each of our reporting units using the income approach or a discounted cash flow ("DCF") model. Preparation of forecasts and selection of the discount rate for use in the DCF

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model involve significant judgments and assumptions, and changes in these estimates could affect the estimated fair value of one or more of our reporting units and could result in a goodwill impairment charge. We start with a forecast of expected net cash flows associated with the reporting unit, and discount the cash flow forecasts using the weighted-average cost of capital method at the date of evaluation. Other estimates and assumptions include but are not limited to, terminal growth rate, the weighted average cost of capital, five-year compound average growth rate, and forecasts of revenue, operating income, EBITDA, and capital expenditures. Analyses for 2010 and 2011 indicated our assumptions and estimates were reasonable. However, a future decline in the overall market value of the Company's equity and debt securities may indicate that the fair value of one or more reporting units has declined below its carrying value. We also consider the relationship of debt to equity of other similar companies, as well as the risks and uncertainty inherent in the markets in which we generally operate and in the Company's internally developed forecasts. While we do consider our market capitalization in assessing goodwill impairment, it is not weighted heavily, as the Company's market value of its common stock is materially impacted by the significant ownership (53%) of a single majority shareholder, Tontine Capital Partners, L.P. and affiliates. However, as part of our annual assessment for goodwill impairment, we do compare the Company's stock price on the NASDAQ global market stock exchange to the Company's book value per share as a sustained significant decline in our share price and market capitalization could indicate a potential impairment of goodwill in one or more of our reporting units.

One measure of the sensitivity of the amount of goodwill impairment changes to key assumptions is the amount by which each reporting unit's fair value exceeded the carrying amount (Step 1 of the goodwill impairment test). Based on the results of Step 1 of our annual impairment analysis of goodwill for 2011, we determined that the estimated fair value substantially exceeded the carrying value for each of our reporting units within the Manufacturing segment and for the reporting unit within the Distribution segment. The goodwill allocated to the Manufacturing and Distribution segment reporting units as of December 31, 2011 was $4.2 million and $0.1 million, respectively.

In addition, there are no long-lived assets or asset groups, including tangible assets, for which we have determined that undiscounted cash flows are not substantially in excess of the carrying value or that could materially impact our operating results or total shareholders' equity.

We have not made any material changes to our methods of evaluating goodwill and intangible asset impairments during the last three years. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine impairment in the foreseeable future.

Deferred Income Taxes. The carrying value of the Company's deferred tax assets assumes that the Company will be able to generate sufficient taxable income in future years to utilize these deferred tax assets. If these assumptions change, the Company may be required to record valuation allowances against its gross deferred tax assets, which would cause the Company to record additional income tax expense in the Company's consolidated statements of operations. Management evaluates the potential the Company will be able to realize its gross deferred tax assets and assesses the need for valuation allowances on a quarterly basis. At December 31, 2009, the Company had a tax valuation allowance of $19.4 million. The valuation allowance was subsequently reduced by $0.3 million in 2010 and by $3.5 million in 2011. See Note 15 to the Consolidated Financial Statements for further details.

OTHER

Sale of Property

Not Applicable.

Purchase of Property

Not Applicable.

Inflation

The prices of key raw materials, consisting primarily of lauan, gypsum, and particleboard, and components made by the Company which are made from these raw materials, are influenced by demand and other factors specific to these commodities, such as the price of oil, rather than being directly affected by inflationary pressures. Prices of certain commodities have historically been volatile, and after rising significantly during the first half of 2011, have recently moderated. During periods of rising commodity prices, we have generally been able to pass the increased costs to our customers in the form of surcharges and price increases. We do not believe that inflation had a material effect on results of operations for the periods presented.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is set forth in Item 15(a)(1) of Part IV on page 50 of this Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this annual report (the “Evaluation Date”). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to the Company, including consolidated subsidiaries, required to be disclosed in our Securities and Exchange Commission (“SEC”) reports (i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company’s management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting. In the fourth quarter of 2011, the Company commenced a project to replace and upgrade its ERP system that will require upgrades to and/or the replacement of existing hardware and software. As a result, certain internal controls have been incrementally strengthened, and will continue to be strengthened, due both to the installation of ERP software and business process changes. Implementation of additional functions of the ERP system and business process changes are planned for the next 18 to 24 months to further strengthen the Company’s internal control. In addition, the Company plans to convert systems used by recently acquired businesses to the new ERP system based on a pre-defined timeline.

Other than the changes above, there have been no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fourth quarter ended December 31, 2011 or subsequent to the date the Company completed its evaluation, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, we concluded that our internal controls over financial reporting were effective as of December 31,

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2011. This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors of the Company

The information required by this item with respect to directors is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 24, 2012, under the captions “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance,” which information is hereby incorporated herein by reference.

Executive Officers of the Registrant

The information required by this item is set forth under the caption “Executive Officers of the Company” in Part I of this Annual Report.

Audit Committee

Information on our Audit Committee is contained under the caption “Audit Committee” in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 24, 2012 and is incorporated herein by reference.

The Company has determined that Terrence D. Brennan, John A. Forbes, Keith V. Kankel, Larry D. Renbarger and Walter E. Wells all qualify as “audit committee financial experts” as defined in Item 407(d)(5)(ii) of Regulation S-K, and that these directors are “independent” as the term is used in 407(a)(1) of Regulation S-K.

Code of Ethics and Business Conduct

We have adopted a Code of Ethics and Business Conduct Policy applicable to all employees. Additionally, we have adopted a Code of Ethics Applicable to Senior Executives including, but not limited to, the Chief Executive Officer and Chief Financial Officer of the Company. Our Code of Ethics and Business Conduct, and our Code of Ethics Applicable to Senior Executives are available on the Company’s web site at www.patrickind.com under “Corporate Governance”. We intend to post on our web site any amendments to, or waivers from, our Corporate Governance Guidelines and our Code of Ethics Policy Applicable to Senior Executives. We will provide shareholders with a copy of these policies without charge upon written request directed to the Company’s Corporate Secretary at the Company’s address.

Corporate Governance

Information on our corporate governance practices is contained under the caption “Corporate Governance” in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 24, 2012 and incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 24, 2012, under the captions "Executive Compensation – Compensation of Executive Officers and Directors," "Compensation Committee Interlocks and Director Participation," and "Compensation Committee Report," and is incorporated herein by reference.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 24, 2012, under the captions "Equity Compensation Plan Information" and "Security Ownership of Certain Beneficial Owners and Management," and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 24, 2012, under the captions "Related Party Transactions" and "Independent Directors," and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 24, 2012, under the heading "Independent Public Accountants," and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) The financial statements listed in the accompanying Index to the Financial Statements on page F-1 of the separate financial section of this Report are incorporated herein by reference.

(3) The exhibits required to be filed as part of this Annual Report on Form 10-K are listed under (c) below.

(b) Exhibits

Exhibit Number	Exhibits
3.1	Articles of Incorporation of Patrick Industries, Inc. (filed as Exhibit 3.1 to the Company's Form 10-K filed on March 30, 2010 and incorporated herein by reference).
3.2	Amended and Restated By-laws (filed as Exhibit 3.1 to the Company's Form 8-K on January 21, 2009 and incorporated herein by reference).
4.1	Rights Agreement, dated March 21, 2006, between Patrick Industries, Inc. and National City Bank, as Rights Agent (filed as Exhibit 10.1 to the Company's Form 8-K filed on March 23, 2006 and incorporated herein by reference).
4.2	Amendment No. 1 to Rights Agreement, dated May 18, 2007, between Patrick Industries, Inc. and National City Bank, as Rights Agent (filed as Exhibit 10.5 to the Company's Form 8-K filed on May 24, 2007 and incorporated herein by reference).
4.3	Amendment No. 2 to Rights Agreement, dated March 12, 2008, between Patrick Industries, Inc. and National City Bank, as Rights Agent (filed as Exhibit 10.3 to the Company's Form 8-K filed on March 13, 2008 and incorporated herein by reference).

4.4	Second Amended and Restated Registration Rights Agreement, dated as of December 11, 2008, by and among Patrick Industries, Inc., Tontine Capital Partners, L.P., Tontine Capital Overseas Master Fund, L.P. and the lenders party thereto (filed as Exhibit 10.3 to the Company's Form 8-K filed on December 15, 2008 and incorporated by reference).

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Exhibit Number	Exhibits
4.5	Amendment No. 1 dated as of March 31, 2011 to the Second Amended and Restated Registration Rights Agreement, by and among Patrick Industries, Inc., Tontine Capital Partners, L.P., Tontine Capital Overseas Master Fund, L.P. and the lenders party thereto (filed as Exhibit 10.9 to the Company's Form 8-K filed on April 5, 2011 and incorporated by reference).
4.6	Amendment No. 2 dated as of September 16, 2011, to the Second Amended and Restated Registration Rights Agreement, between Patrick Industries, Inc. and Tontine Capital Overseas Master Fund II, L.P., Northcreek Mezzanine Fund I, L.P., and Stinger Northcreek PATK LLC (filed as Exhibit 10.7 to the Company's Form 8-K filed on September 22, 2011 and incorporated by reference).
10.1	Patrick Industries, Inc. 2009 Omnibus Incentive Plan (filed as Appendix A to the Company's revised Definitive Proxy Statement on Schedule 14A filed on October 20, 2009 and incorporated herein by reference).
10.2*	Form of Employment Agreements with Executive Officers (filed as Exhibit 10.2 to the Company's Form 10-K filed on March 30, 2010 and incorporated herein by reference).
10.3*	Form of Officers Retirement Agreement (filed as Exhibit 10.3 to the Company's Form 10-K filed on March 30, 2010 and incorporated herein by reference).
10.4*	Form of Non-Qualified Stock Option (filed as Exhibit 10.4 to the Company's Form 10-K filed on March 30, 2010 and incorporated herein by reference).
10.5*	Form of Officer and Employee Restricted Stock Award (filed as Exhibit 10.5 to the Company's Form 10-K filed on March 30, 2010 and incorporated herein by reference).
10.6*	Form of Officer and Employee Time Based Restricted Share Award, Performance Contingent Restricted Share Award, and Performance Contingent Cash Award (filed as Exhibit 10.1 to the Company's Form 10-Q filed on November 8, 2011 and incorporated herein by reference).
10.7*, **	Form of Officer and Employee Time Based Restricted Share Award and Performance Contingent Restricted Share Award.
10.8	Form of Non-Employee Director Restricted Share Award (filed as Exhibit 10.2 to the Company's Form 10-Q filed on November 8, 2011 and incorporated herein by reference).
10.9	Securities Purchase Agreement, dated March 10, 2008, by and among Tontine Capital Partners, L.P., Tontine Capital Overseas Master Fund L.P., and Patrick Industries, Inc. (filed as Exhibit 10.1 to Form 8-K filed on December 15, 2008 and incorporated herein by reference).
10.10	Warrant Agreement, dated December 11, 2008, among Patrick Industries, Inc., and the holders of the Warrants (filed as Exhibit 10.2 to the Company's Form 8-K filed on December 15, 2008 and incorporated herein by reference).
10.11	Credit Agreement, dated as of March 31, 2011, between Patrick Industries, Inc., the lenders party thereto and Wells Fargo Capital Finance, LLC, as the Agent (filed as Exhibit 10.1 to the company's

	Form 8-K filed on April 5, 2011 and incorporated herein by reference).
10.12	Consent and First Amendment, dated September 16, 2011, to the Credit Agreement, dated as of March 31,