

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1995

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Commission file Number 0-3922

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

Indiana 35-1057796  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) identification No.)

1800 South 14th Street, P.O. Box 638, Elkhart, Indiana 46515  
(Address of principal executive offices) (ZIP code)

Registrant's telephone number, including area code: (219) 294-7511

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

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, WITHOUT PAR VALUE  
Title of Class

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark 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

The aggregate market value of the voting stock held by non-affiliates of the registrant on March 11, 1996 (based upon the closing price on NASDAQ and an estimate that 78.5% of the shares are owned by non-affiliates) was \$ 56,316,208.

As of March 11, 1996, 5,978,366 shares of the Registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held on May 15, 1996 are incorporated by reference into Parts III of this Form 10-K.

PART I

ITEM 1. BUSINESS

The Registrant is a leading manufacturer and supplier of building products and materials to the manufactured housing and recreational vehicle industries. In addition, the Registrant is expanding as a supplier to certain other industrial markets, such as furniture manufacturing, marine and the automotive aftermarket. The Registrant manufactures decorative vinyl and paper panels, cabinet doors, countertops, aluminum extrusions, drawer sides and wood adhesives. The Registrant is also an independent wholesale distributor of pre-finished wall and ceiling panels, particleboard, hardboard siding, passage

doors, roofing products, building hardware, insulation and other related products.

The Registrant has a nationwide network of distribution centers for its products, thereby reducing intransit delivery time and cost to the regional manufacturing plants of its customers. The Registrant believes that it is one of the few suppliers to the manufactured housing and recreational vehicle industries that has such a nationwide network. The Registrant maintains seven manufacturing plants and two distribution facilities near its principal offices in Elkhart, Indiana, and operates thirteen other warehouse and distribution centers and seventeen other manufacturing plants in thirteen states.

#### Strategy

Over time, the Registrant has developed very strong working relationships with its key customers. In so doing, the Registrant has oriented its business and expansion to the needs of these customers. These customers include most of the larger manufactured housing and recreational vehicle manufacturers. The Registrant's customers generally demand high quality standards and a high degree of flexibility from their suppliers. The result has been that the Registrant focuses on maintaining and improving the quality of its manufactured products, and has developed a nationwide manufacturing and distribution presence in response to its customers' need for flexibility. As the Registrant explores new markets and industries, it believes that this nationwide network provides it with a strong foundation for expansion.

The Registrant continually seeks to improve its position as a leading supplier to the manufactured housing and recreational vehicle industries and other industries to which its products, manufacturing processes or sales and distribution system are applicable. Currently, approximately 66% of the Registrant's sales are to the manufactured housing industry and the remaining 34% is split between the Recreational Vehicle and other industries. These industries, and the impact that they have on their suppliers, are characterized by cyclical demand and production, small order quantities and short lead times. These characteristics have an impact on the suppliers, many of whom tend to be small, regional and specific product line companies. Management has identified several tools which it expects to utilize to accomplish its operating strategies, including the following:

##### Diversification into Additional Industries

While the Registrant continually seeks to improve its position as a leading supplier to the manufactured housing and recreational vehicle industries, it is also seeking to expand its product lines into other industrial markets. Many of the Registrant's products such as its countertops, cabinet doors and shelving have application in the furniture and cabinetry markets. In addition, the manufacturing processes for the Registrant's aluminum extrusions are easily applied to the production of products for the marine, automotive and truck accessories markets and aftermarkets, and many other markets, and the Registrant's adhesives are marketed for almost all industrial applications.

Because industrial order size tends to be for larger numbers of units, the Registrant enjoys better production efficiencies for these orders. The Registrant believes that diversification into additional industries will reduce its vulnerability to the cyclicity of the Manufactured Housing and Recreational Vehicle industries. In addition, the Registrant believes that its nationwide manufacturing and distribution capabilities enable it to effectively serve the manufactured housing and recreational vehicle industries and position it for product expansion.

##### Expansion of Manufacturing Capacity

In the last 3 years, the Registrant has invested approximately \$21.7 million to upgrade existing facilities and equipment and to build new manufacturing facilities for its laminated paneling products, cabinet doors and industrial adhesives. In addition, the Registrant has invested \$4.5 million to purchase existing businesses. The new capacity created by these investments has enabled the Registrant to capture additional margins on its products by bringing more efficiencies to its operations and will accommodate future growth in the Registrant's product lines and markets.

##### Strategic Acquisitions and Expansion

The Registrant supplies a broad variety of building material products and, with its nationwide manufacturing and distribution capabilities, is well-positioned for the introduction of new products. The Registrant, from time to time, considers the acquisition of additional product lines, facilities or other assets to complement or expand its existing business. The Registrant completed the acquisition of a cabinet door manufacturer in 1995. Sales from this acquisition were approximately 1% of the Registrant's sales for 1995. In 1995 the Registrant expanded existing product lines with the opening of laminating facilities in Phoenix, Arizona and Valdosta, Georgia; and wood moulding operations in Elkhart, Indiana and Phoenix, Arizona; and a distribution center in Valdosta, Georgia.

## Principal Products

The Registrant distributes primarily prefinished wall and ceiling panels, particleboard, hardboard siding, passage doors, building hardware, insulation and other products. Through its manufacturing divisions, the Registrant fabricates decorative vinyl and paper panels, cabinet doors, countertops, wood mouldings, aluminum extrusions, drawer sides and wood adhesives.

The product which during the last three years contributed more than 10% to total sales was pre-finished wall panels. The percentage contributions of such class of product to total sales was 39.0%, 41.9%, and 40.5% for the years ended December 31, 1995, 1994, and 1993 respectively.

The Registrant has no material patents, licenses, franchises, or concessions and does not conduct significant research and development activities.

## Manufacturing Processes and Operations

The Registrant's laminating facilities utilize various materials including gypsum, particleboard, plywood and fiberboard which are bonded by adhesives or a heat process to a number of products including vinyl, paper, foil and high pressure laminant. These laminated products are utilized to produce furniture, shelving, wall, counter and cabinet products with a wide variety of finishes and textures.

The Registrant's metals division utilizes sophisticated technology to produce aluminum extrusions for framing and window applications. In addition, the Registrant's metals division extrudes running boards, accessories for pick-up trucks, marine industry products and construction-related materials.

The Registrant manufactures two distinct cabinet door product lines. One product line is manufactured from raw lumber utilizing solid oak and other hardwood materials. The Registrant's other line of doors is made of laminated particleboard or plywood. The Registrant's doors are sold to the manufactured housing and recreational vehicle industries, and continue to gain acceptance with cabinet manufacturers and "ready-to-assemble" furniture manufacturers.

The Registrant's wood adhesive division, which supplies adhesives used in all the Registrant's manufacturing processes and to outside industrial customers, is a process of mixing non-toxic non-hazardous chemicals with water to produce adhesives sold in tubes, pails, barrels, totes and rail tank cars.

## Markets

The Registrant is 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.

### Manufactured Housing

The manufactured housing industry has historically served as a more affordable alternative to the home buyer. Because of the relatively lower cost of construction as compared to site-built homes, manufactured homes traditionally have been one of the principal means for first-time home buyers to overcome the obstacles of large down payments and higher monthly mortgage payments. 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 with site-built homes.

Manufactured homes are built in accordance with national and state building codes. Manufactured homes are factory-built and pulled on a chassis or other method 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.

The Manufactured Housing industry is cyclical, and is affected by the availability of alternative housing such as apartments, town houses and condominiums. In addition, interest rates, availability of financing, regional population and employment trends and general regional economic conditions affect the sale of manufactured homes. The Manufactured Housing Institute reported that during the four-year period ended December 31, 1991, shipments of manufactured homes declined 26.6% to a total of approximately 171,000 units nationally in 1991. The reported number of units increased sharply since 1991, with increases in each of the last four years. The 1995 manufactured home unit shipments were 340,000 or an increase of 99% since 1991.

These cycles have an historic precedent. The Registrant believes that the factors responsible for the national decline included weakness in the manufacturing, the agricultural and, in particular, the oil industry sectors. These industry sectors have historically provided a significant portion of the manufactured housing industry's customer base. Additionally, high vacancy rates

in apartments, high levels of repossession inventories and over-built housing markets in certain regions of the country, resulted in fewer sales of new manufactured homes in the past. Changes in these market characteristics have caused the manufactured housing cycle to change positively.

#### 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. Fluctuations in interest rates and consumer confidence and concerns about the availability and price of gasoline have had an adverse impact on recreational vehicle sales. Recently the industry has been characterized by shifting demand towards lower-priced, higher-value products which appeal to economy-minded, value-conscious buyers.

Recreational vehicle classifications are based upon standards established by the Recreational Vehicle Industry Association. The principal types of recreational vehicles include conventional travel trailers, folding camping trailers, fifth wheels, motor homes and van conversions. These recreational vehicles are distinct from mobile homes, which are manufactured housing designed for permanent and semi-permanent residential dwelling.

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

A motor home is a self-powered vehicle built on a motor vehicle chassis. The interior typically includes a driver's area, kitchen, bathroom, dining and sleeping areas. Motor homes are self-contained with their own lighting, heating, cooking, refrigeration, sewage holding and water storage facilities so that they can be occupied without being attached to utilities. Although they are not designed for permanent or semi-permanent living, motor homes do provide comfortable living facilities for short periods of time.

Van conversions are conventional vans modified for recreational or other use.

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 recreational vehicle 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 an adverse impact upon the industry in the past and may do so in the future. Recession and lack of consumer confidence impacts adversely on the sale of leisure time products such as recreational vehicles.

#### Other Markets

Many of the Registrant's products, such as its countertops, laminated panels, cabinet doors and shelving, may be utilized in the furniture and cabinetry markets. Also, its manufacturing processes of aluminum extrusions are easily applied to the production of running boards and other accessories for pick-up trucks and vans, and the Registrant's adhesives are marketed in industrial adhesive markets.

While demand in these industries also fluctuates with general economic cycles, the Registrant believes that these cycles are less severe than those in the manufactured housing and recreational vehicle industries. As a result, the Registrant believes that diversification into these new markets will reduce its reliance on the markets it has traditionally served and will mitigate the impact of their historical cyclical patterns on its operating results.

#### Marketing and Distribution

The Registrant's sales are to manufactured housing and recreational vehicle manufacturers and other building products manufacturers. The Registrant has approximately 3,000 customers. The Registrant had two customers, Fleetwood Enterprises, Inc. and Skyline Corporation, who together accounted for 23.5% of the Registrant's total sales in 1995 and 29.3% in 1994. Ten other customers collectively accounted for approximately 29.4% of 1995 sales. The Registrant believes it has good relationships with its customers.

Products for distribution are purchased in carload or truckload quantities, warehoused and then resold for delivery, generally by

Registrant-owned trucks. Some of the Registrant's products are shipped directly from the suppliers to the customers. The Registrant typically experiences a two to four week delay between issuing its purchase orders and delivering of products to the Registrant's warehouses or customers. The Registrant's customers do not maintain long-term supply contracts, and the Registrant must bear the risk of accurate advance estimation of customer orders. The Registrant maintains a substantial inventory to satisfy these orders. The Registrant has no significant backlog of orders.

The Registrant operates fifteen warehouse and distribution centers and twenty-four manufacturing plants located in Alabama, Arizona, California, Florida, Georgia, Idaho, Indiana, Kansas, Nevada, North Carolina, Oregon, Pennsylvania, and Texas. Through the use of these facilities, the Registrant is able to minimize its intrastate delivery time and cost to the regional manufacturing plants of its customers.

#### Suppliers

During the year ended December 31, 1995, the Registrant purchased approximately 66% of its raw materials and distributed products from twenty suppliers. The five largest suppliers accounted for approximately 33% of the Registrant's purchases. Materials are primarily commodity products, such as lauan, gypsum, aluminum, particleboard and other lumber products are available from many suppliers. Alternate sources of supply are available for all of Registrant's important materials.

#### Competition

The manufactured housing and recreational vehicle industries are highly competitive with low barriers to entry. This level of competition carries through to the suppliers to these industries. Competition is based primarily on price, product features, quality and service. The Registrant has several competitors in each of its classes of products, some of whom have substantially greater financial resources than the Registrant. Some manufacturers and suppliers of materials purchased by the Registrant also compete with it and sell directly to the same industries. Most of the Registrant's competitors compete with the Registrant on a regional basis. In order for a competitor to compete with the Registrant on a national basis, the Registrant believes that a substantial capital commitment and experienced personnel would be required. The industrial markets in which the Registrant continues to expand are also highly competitive.

#### Employees

As of December 31, 1995, the Registrant had 1,300 employees of which 1095 employees are engaged directly in production, warehousing, and delivery operations, 49 in sales, and 156 in office and administrative activities. There are five manufacturing plants and one distribution center covered by collective bargaining agreements. The Registrant considers its relations with employees to be good.

The Registrant provides group life, hospitalization, and major medical plans under which the employee pays a portion of the cost.

## ITEM 2. PROPERTIES AND EQUIPMENT

As of December 31, 1995, the Registrant maintains the following warehouse, manufacturing and distribution facilities:

<TABLE>  
<CAPTION>

Location	Use	Area Sq. Ft.	Ownership or Lease Arrangement
<S>	<C>	<C>	<C>
Elkhart, IN	Admin. Offices	10,000	Owned
Elkhart, IN	Mfg&Dist(1)(3)(5)	133,600	Leased to 2005
Elkhart, IN	Manufacturing(3)	20,000	Owned
Elkhart, IN	Manufacturing(4)	190,500	Owned
Mishawaka, IN	Manufacturing(4)	191,000	Owned, Subject to Mortgage
Elkhart, IN	Manufacturing(5)	42,000	Leased to 1998
Elkhart, IN	Manufacturing(5)	40,400	Leased to 1997
Elkhart, IN	Manufacturing(2)	31,000	Leased to 1999
Elkhart, IN	Manufacturing(2)	30,000	Leased to 1997
Bristol, IN	Mfg. & Dist.(1)(5)	62,000	Owned
Middlebury, IN	Manufacturing(5)	18,000	Owned
Mt. Joy, PA	Distribution(1)	58,500	Owned
Charlotte, NC	Manufacturing(2)	46,800	Owned
Charlotte, NC	Distribution(1)	36,000	Leased to 1995
Decatur, AL	Manufacturing(2)(4)	41,000	Owned
Decatur, AL	Distribution(2)	35,000	Owned
Decatur, AL	Manufacturing(1)	52,000	Leased to 1997

Ocala, FL	Mfg. & Dist.(1)(2)	35,200	Owned
Ocala, FL	Manufacturing(3)	20,600	Leased to 1999
Ocala, FL	Manufacturing(2)	15,000	Leased to 1997
Halstead, KS	Distribution(1)	36,000	Owned
Waco, TX	Distribution(1)	57,000	Leased to 1999
Waco, TX	Manufacturing(2)	57,000	Leased to 1999
Fontana, CA	Mfg. & Dist.(1)(2)	110,000	Owned,
Fontana, CA	Manufacturing(2)	54,000	Leased to 1995
Woodburn, OR	Manufacturing(3)	21,500	Owned
Woodburn, OR	Mfg. & Dist.(1,2,3)	153,000	Owned, Subject to
Mortgage			
Eatonton, GA	Mfg. & Dist.(2)	48,300	Leased to 1995
Valdosta, GA	Mfg. & Dist.(1)(2)	30,800	Owned
Boulder City, NV	Manufacturing(5)	24,700	Leased to 1999

- (1) Distribution center  
(2) Vinyl/paper/foil laminating  
(3) Cabinet doors  
(4) Aluminum and adhesives  
(5) Other

</TABLE>

Additionally, the Registrant operates distribution centers out of public warehouses in Phoenix, Arizona; Woodland, California; Boise, Idaho; and Salem, Oregon. The Registrant also owns one other facility which is not being utilized in its operations and is presently leased out for monthly rental of \$6,200. As of December 31, 1995, the Registrant owned or leased 30 trucks, 51 tractors, 68 trailers, 99 forklifts, 64 automobiles and a corporate aircraft. All owned and leased facilities and equipment are in good condition and well maintained.

#### ITEM 3. LEGAL PROCEEDINGS

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

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

### PART II

#### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The Registrant's common stock is traded on the NASDAQ/NMS under the symbol PATK. The high and low trade prices of the Registrant's common stock as reported on NASDAQ/NMS for each quarterly period during the last two years was as follows:

<TABLE>  
<CAPTION>

<S>	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<C>	<C>	<C>	<C>	<C>
1995	13 - 8 1/4	12 1/8 - 9 1/4	14 1/4 - 10 3/4	14 1/2 - 11 3/4
1994	15 5/8 - 10 1/2	13 1/2 - 7 3/4	10 - 7 3/4	10 1/2 - 8

</TABLE>

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

There were approximately 815 holders of Registrant's common stock as of December 31, 1995 as taken from the transfer agent's shareholder listing.

The Registrant declared a first time regular quarterly dividend of \$.04 per common share starting June 30, 1995. Although this is a regular quarterly dividend any future determination to pay cash dividends will be made by the Board of Directors in light of the Registrant's earnings, financial position, capital requirements and such other factors as the Board of Directors deems relevant.

The Registrant declared a two-for-one stock split effective March 8, 1994. The stock prices above reflect that stock split.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for each of the five years set forth below has been derived from financial statements examined by McGladrey & Pullen, LLP, independent certified public accountants, certain of which have been included elsewhere herein. The following data should be read in conjunction with the Financial Statements and related Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein:

<TABLE>  
<CAPTION>

	As of or for the Year Ended December 31,				
	1995	1994	1993	1992	1991
	(dollars in thousands, except per share amounts)				
<S>	<C>	<C>	<C>	<C>	<C>
Net Sales	\$362,519	\$330,981	\$258,557	\$184,250	\$143,008
Gross Profit	49,690	42,328	33,593	22,130	17,390
Warehouse & delivery expenses	13,244	12,070	10,188	8,449	6,891
Selling, general, & administrative expenses	18,809	14,792	13,099	10,380	9,168
Interest expense, and other, net	(1,200)	(940)	(918)	(1,133)	(1,587)
Federal and state income taxes (credits)	6,344	5,642	3,633	825	(93)
Net income (loss)	\$ 10,093	\$ 8,884	\$ 5,755	\$ 1,343	\$ (163)
Earnings (loss) per common share (1)	\$ 1.70	\$ 1.46	\$ 1.11	\$ .31	\$ (.04)
Weighted average number of shares outstanding(1)	5,947	6,094	5,162	4,304	4,316
Cash Dividends, per common share	\$ .12	---	---	---	---
Working Capital	\$ 43,280	\$ 35,011	\$ 27,356	\$ 15,035	\$ 16,443
Total assets	95,916	87,269	67,990	49,935	44,856
Long-term debt	26,200	21,150	11,624	15,387	18,579
Stockholders' equity	52,989	43,439	36,460	19,195	17,780

(1) Adjusted to reflect the three-for-two stock split effected in the nature of a stock dividend effective June 10, 1993 and the two-for-one stock split effective March 8, 1994.

</TABLE>

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

GENERAL

The Registrant's business has shown revenue increases since 1991 as the economy and the industries served by the Registrant improved. Net sales have increased for 1994, 1993 and 1992 by 28%, 40% and 28% respectively.

In 1995, the Registrant continued to have revenue growth and recorded its highest annual sales of \$362.5 million. The increase in sales resulted from the continued strengthening of the economy and increased production in the Manufactured Housing industry. The increase in sales coupled with improvements in operating margins has resulted in 1995 net income of \$10.1 million, a 13.6% increase over 1994.

The following table sets forth the percentage relationship to net sales of certain items in the Registrant's statements of operations:

<TABLE>  
<CAPTION>

	Year Ended December 31,		
	1995	1994	1993
<S>	<C>	<C>	<C>
Net sales	100.0%	100.0%	100.0%
Cost of sales	86.3	87.2	87.0
Gross profit	13.7	12.8	13.0
Warehouse and delivery	3.7	3.6	3.9
Selling, general and administrative	5.2	4.5	5.1
Operating income	4.8	4.7	4.0
Net income	2.8	2.7	2.2

</TABLE>

## RESULTS OF OPERATIONS

Year Ended December 31, 1995 Compared to year Ended December 31, 1994

**Net Sales.** Net sales increased by \$31.5 million, or 9.5%, from \$331.0 million for the year ended December 31, 1994, to \$362.5 million in the year ended December 31, 1995. Sales increases were primarily attributable to increases in units shipped by the Manufactured Housing industry. The Manufactured Housing industry, which represents approximately 65% of Registrant's sales, recorded an 11.7% increase in units shipped. The Registrant's sales to the Recreational Vehicle industry were down as a percent of total company sales as a result of unit decreases of 8% in 1995.

**Gross Profit.** Gross profit increased by \$7.4 million, or 17.5%, from \$42.3 million in the fiscal year of 1994, to \$49.7 million in the fiscal year 1995. As a percentage of net sales, gross profit increased from 12.8% in fiscal year 1994 to 13.7% in 1995. This increase in gross profit resulted from more stable prices of certain commodity raw products, increased efficiency of labor, and improvement in worker's compensation insurance costs.

**Warehouse and Delivery Expenses.** Warehouse and delivery expenses increased \$1.1 million or 9.7%, from \$12.1 million in fiscal 1994, to \$13.2 million in fiscal 1995. As a percentage of net sales, warehouse and delivery expenses increased from 3.6% in fiscal 1994 to 3.7% in fiscal 1995. This percentage increase is primarily due to additional delivery vehicles necessary to support the increased sales volume.

**Selling General and Administrative Expenses.** Selling, general and administrative expenses increased by \$4.0 million, or 27.0%, from \$14.8 million in fiscal 1994, to \$18.8 million in fiscal 1995. As a percentage of net sales, selling, general and administrative expenses increased from 4.5% in fiscal 1994 to 5.2% in fiscal 1995. This percentage increase is primarily due to an unusually large bad debt and increased administrative wages at the manufacturing and distribution facilities.

**Operating Income.** Operating income increased by \$2.1 million, or 13.5%, from \$15.5 million in fiscal 1994, to \$17.6 million in fiscal 1995. This increase is primarily attributable to the \$7.4 million increase in gross profit somewhat offset by the increases in selling, general and administrative expenses. As a percentage of sales, operating income increased from 4.7% in fiscal 1994 to 4.8% in fiscal 1995.

**Interest Expense.** Interest expense increased by \$260,000 from \$940,000 in fiscal 1994, to \$1.2 million in fiscal 1995. This was due to higher interest rates in 1995 and higher borrowing levels.

**Net Income.** Net income increased by \$1.2 million from \$8.9 million in fiscal 1994, to \$10.1 million in fiscal 1995. This increase in net income is primarily attributable to the factors discussed above.

Year Ended December 31, 1994 Compared to year Ended December 31, 1993.

**Net Sales.** Net sales increased by \$72.4 million, or 28.0%, from \$258.6 million for the year ended December 31, 1993, to \$331.0 million in the year ended December 31, 1994. This sales increase was primarily attributable to increases in units produced by the Manufactured Housing, Recreational Vehicle and other building products industries served by the Registrant and is further evidence of the continuing improvement in these industries. The Manufactured Housing and Recreational Vehicle industries account for 83% of Registrant's 1994 sales.

**Gross Profit.** Gross profit increased by \$8.7 million, or 26.0%, from \$33.6 million in the fiscal year 1993, to \$42.3 million in the fiscal year 1994. As a percentage of net sales, gross profit decreased from 13.0% in fiscal year 1993 to 12.8% in 1994. This decrease in gross profit resulted from increased prices of certain commodity raw products that the Registrant was not able to pass on to customers because of competitive situations.

**Warehouse and Delivery Expenses.** Warehouse and delivery expenses increased \$1.9 million or 18.5%, from \$10.2 million in fiscal 1993, to \$12.1 million in fiscal 1994. As a percentage of net sales, warehouse and delivery expenses decreased from 3.9% in fiscal 1993 to 3.6% in fiscal 1994. This percentage decrease is primarily due to increased sales volume.

**Selling General and Administrative Expenses.** Selling, general and administrative expenses increased by \$1.7 million, or 12.9%, from \$13.1 million in fiscal 1993, to \$14.8 million in fiscal 1994. As a percentage of net sales, selling, general and administrative expenses decreased from 5.1% in fiscal 1993 to 4.5% in fiscal 1994. This percentage decrease is primarily due to increased sales volume.

**Operating Income.** Operating income increased by \$5.2 million, or



50.1%, from \$10.3 million in fiscal 1993, to \$15.5 million in fiscal 1994. This increase is primarily attributable to the \$8.7 million increase in gross profit. As a percentage of sales, operating income increased from 4.0% in fiscal 1993 to 4.7% in fiscal 1994.

Interest Expense. Interest expense increased by only \$22,000 from \$918,000 in fiscal 1993, to \$940,000 in fiscal 1994. This was due to higher interest rates in 1994 and lower borrowing levels because the net proceeds from a 1993 public offering of common stock did not take place until August.

Net Income. Net income increased by \$3.1 million from \$5.8 million in fiscal 1993, to \$8.9 million in fiscal 1994. This increase in net income is primarily attributable to the factors described above.

#### LIQUIDITY AND CAPITAL RESOURCES

The Registrant's primary capital requirements are to meet working capital needs, support its capital expenditure plans and meet debt service requirements.

The Registrant, in September, 1995, issued to an insurance company in a private placement \$18,000,000 of senior unsecured notes. The ten year notes bear interest at 6.82%, with semi-annual interest payments beginning March 15, 1996 and seven annual principal repayments beginning September 15, 1999. These funds were used to reduce existing bank debt and for working capital needs.

The Registrant has a bank financing agreement (the Credit Agreement) with NBD Bank, N.A. The Credit Agreement provided for a \$10 million term loan with a maturity in February, 1999 and a credit revolver loan of up to \$13 million with maturity in February, 1997. In September, 1995 with funds from the insurance company private placement, the Registrant prepaid the term loan in full and paid the revolver outstanding balance. On October 31, 1995 the bank financing agreement was amended reducing the credit revolver loan availability to \$5,000,000. Pursuant to the Credit Agreement, the Registrant is required to maintain certain financial ratios, all of which are currently complied with.

The Registrant also financed in late 1994 the acquisition of land, building, and equipment in Oregon with a \$6,000,000 industrial revenue bond. That project was completed and all bond proceeds were expended by December, 1995.

The Registrant believes that cash generated from operations and borrowings under its credit agreements will be sufficient to fund its working capital requirements and capital expenditures as currently contemplated.

#### SEASONALITY

Manufacturing operations in the manufactured housing and recreational vehicle industries historically have been seasonal and are generally at the highest levels when the climate is temperate. Accordingly, the Registrant's sales and profits were generally highest in the second and third quarters. However, due to increases in production of manufactured housing and recreational vehicles, the first and fourth quarters of 1994 and 1995 were unusual in their high sales and gross profit levels during those winter months when compared to historical trends.

#### NEW ACCOUNTING STANDARDS

The Registrant is not aware of any accounting standards which have been issued but not yet adopted by the Registrant which would have a material impact on its financial position or results of operations.

#### INFLATION

The Registrant does not believe that inflation had a material effect on results of operations for the periods presented.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is set forth in Item 14 (a) 1. on page 18 of this report.

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is set forth in Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 1996, under the caption "Election of Directors," which information is hereby incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth in Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 1996, under the caption "Compensation of Executive Officers and Directors," which information is hereby incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is set forth in Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 1996, under the caption "Election of Directors," which information is hereby incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is set forth in Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 1996, under the caption "Certain Transactions," which information is hereby incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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(a) 1. FINANCIAL STATEMENTS	
Independent auditor's report	F-1
Balance sheets - December 31, 1995 and 1994	F-2
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Statements of stockholders' equity- years ended December 31, 1995, 1994, 1993	F-4
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All other schedules have been omitted as not required, not applicable, not deemed material or because the information is included in the Notes to Financial Statements.

(a) 3. EXHIBITS

The exhibits listed in the accompanying Exhibit Index on pages 37, 38, and 39 are filed or incorporated by reference as part of this report.

(b) REPORTS ON FORM 8-K

There were no reports on Form 8-K filed for the three months ended December 31, 1995.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PATRICK INDUSTRIES, INC

By /s/ Mervin D. Lung  
Mervin D. Lung, Chairman of the Board  
and Chief Executive Officer

Pursuant to the Requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Mervin D. Lung Mervin D. Lung	Chairman of the Board, Chief Executive Officer and Director	March 28, 1996
/s/ David D. Lung David D. Lung	President, Chief Operating Officer and Director	March 28, 1996
/s/ Keith V. Kankel Keith V. Kanke	Vice President-Finance, Principal Accounting Officer and Director	March 26, 1996
/s/ Thomas G. Baer Thomas G. Baer	Vice President-Operations and Director	March 28, 1996
/s/ Harold E. Wyland Harold E. Wyland	Vice President-Sales and Director	March 28, 1996
/s/ Clyde H. Keith Clyde H. Keith	Director	March 28, 1996
/s/ Merlin D. Knispel Merlin D. Knispel	Director	March 28, 1996
/s/ Dorothy M. Lung Dorothy M. Lung	Director	March 28, 1996
/s/ John H. McDermott John H. McDermott	Director	March 28, 1996
/s/ Robert C. Timmins Robert C. Timmins	Director	March 28, 1996

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
PATRICK INDUSTRIES, INC.  
Elkhart, Indiana

We have audited the accompanying consolidated balance sheets of PATRICK INDUSTRIES, INC. and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1995. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by

management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PATRICK INDUSTRIES, INC. and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles.

McGLADREY & PULLEN, LLP

Elkhart, Indiana  
January 29, 1996

PATRICK INDUSTRIES, INC.  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
December 31, 1995 and 1994

<TABLE>  
<CAPTION>

	1995	1994
<S> ASSETS	<C>	<C>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,349,709	\$ 666,986
Trade receivables	20,427,355	18,445,638
Inventories	35,462,152	36,087,900
Prepaid expenses	387,782	291,194
TOTAL CURRENT ASSETS	57,626,998	55,491,718
PROPERTY and EQUIPMENT, at cost	56,189,860	45,047,383
Less accumulated depreciation	23,140,702	21,225,209
	33,049,158	23,822,174
Intangible and OTHER ASSETS	5,239,766	7,954,751
	\$ 95,915,922	\$ 87,268,643
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 700,000	\$ 1,724,000
Accounts payable, trade	9,589,103	14,916,309
Accrued liabilities	4,057,446	3,534,022
Income taxes payable	-	306,332
TOTAL CURRENT LIABILITIES	14,346,549	20,480,663
LONG-TERM DEBT, less current maturities	26,200,000	21,150,000
DEFERRED COMPENSATION obligations	919,821	838,971

DEFERRED TAX LIABILITIES	1,461,000	1,360,000
--------------------------	-----------	-----------

COMMITMENTS

STOCKHOLDERS' EQUITY

Preferred stock, no par value; authorized

1,000,000 shares

-

-

Common stock, no par value; authorized  
12,000,000 shares; issued 1995

5,966,866 shares; 1994 5,940,492 shares  
Retained earnings

21,626,489

21,457,167

31,362,063

21,981,842

52,988,552

43,439,009

\$ 95,915,922 \$ 87,268,643

See Notes to Financial Statements.

</TABLE>

PATRICK INDUSTRIES, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 1995, 1994, AND 1993

<TABLE>

<CAPTION>

	1995	1994	1993
	<C>	<C>	<C>
<S>			
Net sales	\$ 362,519,418	\$ 330,980,991	\$ 258,557,115
Cost of goods sold	312,829,489	288,652,765	224,964,025
GROSS PROFIT	49,689,929	42,328,226	33,593,090
Operating expenses:			
Warehouse and delivery	13,244,189	12,069,671	10,188,115
Selling, general, and administrative	18,809,458	14,792,359	13,099,496
	32,053,647	26,862,030	23,287,611
OPERATING INCOME	17,636,282	15,466,196	10,305,479
Interest expense	1,199,742	940,167	917,866
INCOME BEFORE INCOME TAXES (CREDITS)	16,436,540	14,526,029	9,387,613
Federal and state income taxes	6,344,000	5,642,000	3,633,000
NET INCOME	\$ 10,092,540	\$ 8,884,029	\$ 5,754,613
Earnings per common share	\$ 1.70	\$ 1.46	\$ 1.11

See Notes to Financial Statements.

</TABLE>

PATRICK INDUSTRIES, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 1995, 1994, AND 1993

<TABLE>  
<CAPTION>

Retained Earnings	Total	Preferred Stock	Common Stock
<S>	<C>	<C>	<C>
Balance, December 31, 1992	\$ -	\$ 10,623,482	\$ 8,572,000
\$ 19,195,482			
Net income	-	-	5,754,613
5,754,613			
Issuance of 1,640,000 shares of common stock	-	10,786,162	-
10,786,162			
Proceeds from the exercise of 219,076 stock options including related tax benefit	-	723,308	-
723,308			
Balance, December 31, 1993	-	22,132,952	14,326,613
36,459,565			
Net income	-	-	8,884,029
8,884,029			
Proceeds from the exercise of 2,600 stock options including related tax benefit	-	5,421	-
5,421			
Issuance of 30,000 shares of common stock for stock award plan	-	270,000	-
270,000			
Repurchase and retirement of 265,700 shares of common stock	-	(951,206)	(1,228,800)
(2,180,006)			
Balance, December 31, 1994	-	21,457,167	21,981,842
43,439,009			
Net income	-	-	10,092,540
10,092,540			
Proceeds from the exercise of 26,374 stock options including related tax benefit	-	169,322	-
169,322			
Cash dividends paid (\$.12 per share)	-	-	(712,319)
(712,319)			
Balance, December 31, 1995	\$ -	\$ 21,626,489	\$ 31,362,063
\$ 52,988,552			

See Notes to Financial Statements.

</TABLE>

PATRICK INDUSTRIES, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 1995, 1994, AND 1993

<TABLE>  
<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 10,092,540	\$ 8,884,029	\$ 5,754,613
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,556,512	2,883,110	2,619,987

Other	183,054	(149,606)	12,116
Change in assets and liabilities: Decrease (increase) in:			
Trade receivables	(1,717,489)	(2,849,614)	(3,959,312)
Inventories	1,031,077	(6,628,546)	(12,468,655)
Prepaid expenses	(83,293)	(110,006)	(19,056)
Increase (decrease) in:			
Accounts payable and accrued liabilities	(4,803,782)	2,023,342	5,080,183
Income taxes payable and deferred income taxes	(205,332)	(30,168)	(181,567)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	8,053,287	4,022,541	(3,161,691)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(11,866,492)	(5,773,694)	(4,086,218)
Acquisition of businesses, net of cash	(3,346,596)	(1,148,727)	-
Cash held in escrow	4,584,738	(4,584,738)	-
Other	(225,217)	190,974	195,676
NET CASH (USED IN) INVESTING ACTIVITIES	(10,853,567)	(11,316,185)	(3,890,542)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings under long-term debt agreements	24,000,000	21,666,666	-
Principal payments on long-term debt	(19,974,000)	(11,996,911)	(4,175,000)
Proceeds from issuance of common stock and options	169,322	5,421	11,509,470
Repurchase of common stock	-	(2,180,006)	-
Cash dividends paid	(712,319)	-	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,483,003	7,495,170	7,334,470
INCREASE IN CASH AND CASH EQUIVALENTS	682,723	201,526	282,237
Cash and cash equivalents, beginning	666,986	465,460	183,223
Cash and cash equivalents, ending	\$ 1,349,709	\$ 666,986	\$ 465,460

See Notes to Financial Statements.

</TABLE>

#### I. NATURE OF BUSINESS, USE OF ESTIMATES, AND SIGNIFICANT ACCOUNTING POLICIES

##### NATURE OF BUSINESS:

The Company's operations consist primarily of the manufacture and distribution of building products and materials for use primarily by the manufactured housing and recreational vehicle industries for customers throughout the United States. Credit is generally granted on an unsecured basis for terms of 30 days.

##### USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### SIGNIFICANT ACCOUNTING POLICIES:

##### PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Harlan Machinery Company, Inc. and Patrick Doors, Inc., and its majority-owned subsidiary, Patrick Mouldings, L.L.C. All significant intercompany accounts and transactions have been eliminated in consolidation.

CASH EQUIVALENTS:

For purposes of the statement of cash flows, the Company considers all highly liquid money market accounts to be cash equivalents.

INVENTORIES:

Inventories are stated at the lower of cost (first-in, first-out (FIFO) method) or market.

PROPERTY AND EQUIPMENT:

Depreciation has been computed primarily by the straight-line method applied to individual items based on estimated useful lives which generally range from 10 to 40 years for buildings and improvements and from 3 to 15 years for machinery and equipment, transportation equipment, and leasehold improvements.

GOODWILL:

Goodwill, the excess of cost over the fair value of net assets acquired, is amortized by the straight-line method over 15-year periods. At each balance sheet date, management assesses whether there has been a permanent impairment in the value of goodwill. In the event that an impairment is evident, the Company records an expense for the impairment. Factors considered by management include current operating results, anticipated future cash flows, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors.

REVENUE RECOGNITION:

The Company ships product based on specific orders from customers. Shipments are made by the Company only after receiving authorization from the customer and revenue is recognized upon delivery.

EARNINGS PER COMMON SHARE:

Earnings per common share for the years ended December 31, 1995, 1994, and 1993 have been computed based on the weighted average number of shares outstanding of 5,946,948, 6,094,444, and 5,161,548 respectively.

II. BALANCE SHEET DATA

TRADE RECEIVABLES:

Trade receivables in the accompanying balance sheets at December 31, 1995 and 1994 are stated net of an allowance for doubtful accounts of \$100,000 and \$165,000 respectively.

INVENTORIES:

<TABLE>  
<CAPTION>

	1995	1994
<S>	<C>	<C>
Raw materials	\$ 23,105,916	\$ 23,630,848
Work in process	877,805	738,439
Finished goods	3,197,561	3,618,587
Materials purchased for resale	8,280,870	8,100,026
	\$ 35,462,152	\$ 36,087,900

</TABLE>

<TABLE>  
<CAPTION>

PROPERTY AND EQUIPMENT:

	1995	1994
<S>	<C>	<C>



Land and improvements	\$	2,292,048	\$	2,270,680
Buildings and improvements		16,152,051		12,274,588
Machinery and equipment		32,254,155		26,484,031
Transportation equipment		3,331,637		3,142,927
Leasehold improvements		2,159,969		875,157
		56,189,860		45,047,383
Less accumulated depreciation		23,140,702		21,225,209
	\$	33,049,158	\$	23,822,174

INTANGIBLE AND OTHER ASSETS:

Goodwill, at amortized cost	\$	3,294,276	\$	1,625,568
Cash held in escrow	-			4,584,738
Other, primarily cash value of life insurance		1,945,490		1,744,445
	\$	5,239,766	\$	7,954,751

ACCRUED LIABILITIES:

Payroll and related expenses	\$	2,664,374	\$	2,049,484
Property taxes		811,155		636,135
Other		581,917		848,403
	\$	4,057,446	\$	3,534,022

</TABLE>

III. PLEDGED ASSETS AND LONG-TERM DEBT

Long-term debt and related collateral at December 31, 1995 and 1994 consist of the following:

<TABLE>  
<CAPTION>

		1995	1994
	<C>		<C>
<S>			
Senior Notes, insurance company	\$	18,000,000	\$ -
Indiana Development Finance Authority Bonds		3,300,000	3,600,000
State of Oregon Economic Development Revenue Bonds		5,600,000	6,000,000
Revolving credit agreement	-		4,000,000
Term loan agreement	-		9,250,000
Note payable, other	-		24,000
		26,900,000	22,874,000
Less current maturities		700,000	1,724,000
	\$	26,200,000	\$ 21,150,000

</TABLE>

The senior notes require interest only at a fixed interest rate of 6.82% and are unsecured. The annual principal installments of \$2,571,428 commence on September 15, 1999 and the final installment is due September 15, 2005. This agreement requires that the Company maintain a minimum level of tangible net worth, which has been complied with at December 31, 1995.

The Indiana Development Finance Authority Bonds are payable in annual installments of \$300,000 plus interest at a variable tax exempt bond rate, set periodically to enable the bonds to be sold at par (3.11% at December 31, 1995). The final installment is due November 1, 2006. The bonds are collateralized by real estate and equipment purchased with the bond funds and are backed by a bank standby letter of credit.

The State of Oregon Economic Development Revenue Bonds are payable in annual installments of \$400,000 plus interest at a variable tax exempt bond rate (3.9%

at December 31, 1995). The final installment is due December 2010. The bonds are collateralized by real estate and equipment and are backed by a bank standby letter of credit.

The Company has an unsecured revolving credit agreement which allows borrowings up to \$5,000,000 or a borrowing base defined in the agreement. Interest on this note is at either prime or the Eurodollar rate plus 1% to 1.25%. In addition, this agreement requires the Company to, among other things, maintain minimum levels of tangible net worth, working capital, and debt to net worth. All covenants have been complied with as of December 31, 1995. In addition, the Company is contingently liable for standby letters of credit of \$1,000,000 to meet credit policies of certain suppliers.

Aggregate maturities of long-term debt for the years ending December 31, 1997 through 2000 are as follows: 1997 \$700,000; 1998 \$700,000; 1999 \$3,271,428; and 2000 \$3,271,428.

Based on the borrowing rates currently available to the Company for loans with similar terms and average maturities, the fair value of long-term debt approximates the carrying value.

#### IV. EQUITY TRANSACTIONS

On July 28, 1993, the Company completed a stock offering and issued 1,640,000 shares of common stock in exchange for \$10,786,162 (net of offering costs, underwriting discounts, and commissions of \$1,103,838).

Common stock sold to key employees through the exercise of stock options resulted in a tax deduction for the Company equivalent to the taxable income recognized by the employee. For financial reporting purposes, the tax benefit resulting from this deduction, along with the proceeds from the exercise of the options, is accounted for as an increase to common stock.

Effective June 1995, the Company implemented a quarterly cash dividend of \$.04 per common share.

#### V. COMMITMENTS AND RELATED PARTY LEASES

The Company leases certain equipment and office, manufacturing, and warehouse facilities under various noncancelable agreements which expire at various dates through 2005. These agreements contain various renewal options and provide for minimum annual rentals plus the payment of real estate taxes, insurance, and normal maintenance on the properties. Certain of the leases are with the chairman/major stockholder and expire at various dates through September 30, 2005.

The total minimum rental commitment at December 31, 1995 under the leases mentioned above is approximately \$8,000,000 which is due approximately \$2,500,000 in 1996, \$2,000,000 in 1997, \$1,500,000 in 1998, and \$1,000,000 in both 1999 and 2000.

The total rental expense included in the statements of income for the years ended December 31, 1995, 1994, and 1993 is approximately \$3,000,000, \$2,600,000, and \$1,900,000 respectively, of which approximately \$1,300,000, \$1,100,000, and \$1,100,000 respectively was paid to the chairman/major stockholder.

#### VI. MAJOR CUSTOMERS

Net sales for the years ended December 31, 1995, 1994, and 1993 include sales to two major customers, Fleetwood Enterprises, Inc. and Skyline Corporation, each of which accounted for 10% or more of the total net sales of the Company for those years. The percentage of total Company sales to one major customer was 11.3%, 13.8%, and 13.7%, and to the other was 12.2%, 15.5%, and 15.8% for the years ended December 31, 1995, 1994, and 1993 respectively.

The trade receivable balances due from these two customers at December 31, 1995 and 1994 were not significant to the total trade receivables balance.

#### VII. INCOME TAX MATTERS

Federal and state income taxes for the years ended December 31, 1995, 1994, and 1993, all of which are domestic, consist of the following:

<TABLE>  
<CAPTION>

1995	1994	1993
------	------	------

<S>	<C>	<C>	<C>
-----	-----	-----	-----

Current:				
Federal	\$	5,185,000	\$	4,405,000
			\$	2,978,000
State		1,058,000		964,000
				577,000
Deferred		101,000		273,000
	\$	6,344,000	\$	5,642,000
			\$	3,633,000

</TABLE>

The provisions for income taxes for the years ended December 31, 1995, 1994, and 1993 are different from the amounts that would otherwise be computed by applying a graduated federal statutory rate of 34% to 35% to income before income taxes. A reconciliation of the differences is as follows:

<TABLE>  
<CAPTION>

	1995	1994	1993
	<C>	<C>	<C>
<S>			
Rate applied to pretax income	\$ 5,637,000	\$ 4,984,000	\$ 3,192,000
State taxes, net of federal			
tax benefit	723,000	637,000	435,000
Permanent differences	(16,000)	21,000	6,000
	\$ 6,344,000	\$ 5,642,000	\$ 3,633,000

</TABLE>

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the current period plus or minus the change during the period in deferred tax assets and liabilities.

The composition of the deferred tax assets and liabilities at December 31, 1995 and 1994 is as follows:

<TABLE>  
<CAPTION>

	1995	1994
<S>	<C>	<C>
Gross deferred tax liability, accelerated depreciation	\$ (2,382,000)	\$ (2,064,000)
Gross deferred tax assets:		
Trade receivables allowance	38,000	63,000
Uniform inventory capitalization	276,000	224,000
Nondeductible accruals	226,000	93,000
Deferred compensation	353,000	319,000
Other	28,000	5,000
	921,000	704,000
Net deferred tax (liabilities)	\$ (1,461,000)	\$ (1,360,000)

</TABLE>

#### VIII. COMPENSATION PLANS

##### DEFERRED COMPENSATION OBLIGATIONS:

The Company has deferred compensation agreements with certain key employees. The agreements provide for monthly benefits for ten years subsequent to retirement, disability, or death. The Company has accrued an estimated liability based upon the present value of an annuity needed to provide the benefit payments.

BONUS PLAN:

The Company pays bonuses to certain management personnel. Historically, bonuses are determined annually and are based upon corporate and divisional income levels. The charge to operations amounted to approximately \$2,124,000, \$1,959,000, and \$1,357,000 for the years ended December 31, 1995, 1994, and 1993 respectively.

PROFIT-SHARING PLAN:

The Company has a qualified profit-sharing plan, more commonly known as a 401(k) plan, for substantially all of its employees with over one year of service and who are at least 21 years of age. The plan provides for a percentage matching contribution by the Company as defined in the agreement and in addition, provides for a discretionary contribution annually as determined by the Board of Directors. The amount of contributions for the years ended December 31, 1995, 1994, and 1993 was immaterial.

STOCK OPTION PLAN:

The Company has adopted a stock option plan with shares of common stock reserved for options to key employees. These options were not included in computing earnings per common share because the effect of their inclusion was immaterial.

Following is a summary of transactions of shares under option for the years ended December 31, 1995 and 1994:

<TABLE>  
<CAPTION>

	1995	1994
Outstanding, beginning of year	215,674	116,024
Granted during the year, exercisable		
at \$10.50 per share	-	109,000
Canceled during the year	(1,500)	(6,750)
Exercised during the year	(26,374)	(2,600)
Outstanding, end of year	187,800	215,674
Eligible, end of year for exercise		
currently at:		
\$2.085 per share	83,800	109,674
\$10.50 per share	26,000	-

</TABLE>

STOCK AWARD PLAN:

The Company has adopted a stock award plan for the five existing non-employee directors. Grants awarded during May 1994 of 30,000 shares are subject to forfeiture in the event the recipient terminates as a director within two years from the date of grant.

IX. BUSINESS COMBINATION

On November 8, 1994, the Company acquired all of the stock of Harlan Machinery Company, Inc., a manufacturer of laminating and other industrial equipment. The purchase price of the acquired stock was \$2,095,000. The excess of the total acquisition cost over the fair value of the stock of \$1,339,000 is being amortized over fifteen years by the straight-line method. The acquisition has been accounted for as a purchase and the results of operations since the date of acquisition are included in the consolidated results of operations.

In January 1995, the Company purchased substantially all the assets of U.S. Door, Inc., a manufacturer of wooden cabinet doors. The purchase price of the acquired assets was \$3,346,000. The excess of the total acquisition cost over the fair value of the assets of \$1,876,000 is being amortized over fifteen years by the straight-line method. The acquisition has been accounted for as a purchase and the results of operations since the date of acquisition are included in the consolidated results of operations.

Summarized proforma financial information for the year ended December 31, 1994 as if the two acquisitions had occurred at the beginning of that year is as

follows:

<TABLE>	
<CAPTION>	
<S>	<C>
Net sales	\$ 340,398,000
Net income	9,065,000
Earnings per share	1.49

X. CASH FLOWS INFORMATION

Supplemental information relative to the statements of cash flows for the years ended December 31, 1995, 1994, and 1993 is as follows:

<TABLE>			
<CAPTION>			
<S>	1995	1994	1993
	<C>	<C>	<C>
Supplemental disclosures of cash flows information:			
Cash payments for:			
Interest	\$ 1,416,133	\$ 844,608	\$ 974,908
Income taxes	\$ 6,751,132	\$ 5,872,168	\$ 3,814,567

The changes in assets and liabilities in arriving at net cash provided by operating activities in 1995 and 1994 are net of the purchases of U.S. Door, Inc. and Harlan Machinery Company, Inc. respectively.

XI. UNAUDITED INTERIM FINANCIAL INFORMATION

Presented below is certain selected unaudited quarterly financial information for the years ended December 31, 1995 and 1994 (dollars in thousands, except share data):

<TABLE>				
<CAPTION>				
	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	1995			
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 87,031	\$ 92,559	\$ 94,125	\$ 88,804
Gross profit	11,970	12,495	13,212	12,013
Net income	2,316	2,663	2,842	2,272
Earnings per common share	0.39	0.45	0.48	0.38*
Weighted average number of shares outstanding	5,940,809	5,943,492	5,947,431	5,955,722
	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	1994			
Net sales	\$ 76,898	\$ 85,240	\$ 86,011	\$ 82,832
Gross profit	9,537	10,669	11,171	10,951
Net income	1,773	2,294	2,498	2,319
Earnings per	0.29	0.37	0.41	0.39*

common share  
 Weighted average  
 number  
 of shares                    6,174,533      6,174,030      6,058,770      5,973,046  
 outstanding

</TABLE>

\* Includes a retro policy adjustment for favorable experience with workers' compensation claims which resulted in an increase in net income of \$.06 per share in the fourth quarter of each year.

INDEPENDENT AUDITOR'S REPORT ON THE  
 SUPPLEMENTAL SCHEDULE AND CONSENT

To The Board of Directors  
 PATRICK INDUSTRIES, INC.  
 Elkhart, Indiana

Our audits of the consolidated financial statements of Patrick Industries, Inc. and subsidiaries included Schedule II, contained herein, for each of the years in the three-year period ended December 31, 1995. Such schedule is presented for purposes of complying with the Securities and Exchange Commission's rule and is not a required part of the basic consolidated financial statements. In our opinion, such schedule presents fairly the information set forth therein, in conformity with generally accepted accounting principles.

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 33-29000) and in the related Prospectus of our report, dated January 29, 1996, with respect to the consolidated financial statements and schedule of Patrick Industries, Inc. and subsidiaries included in this Annual Report on Form 10-K for the year then ended.

/s/ McGladrey & Pullen, LLP

McGLADREY & PULLEN, LLP

Elkhart, Indiana  
 January 29, 1996

PATRICK INDUSTRIES, INC.  
 AND SUBSIDIARIES

SCHEDULE II  
 VALUATION AND QUALIFYING ACCOUNTS AND RESERVES  
 DECEMBER 31, 1993, 1994, AND 1995  
 (IN THOUSANDS)

<TABLE>  
 <CAPTION>

Balance At Close Of Period	Balance At		Deductions	
	Beginning Of Period	Charged To Operations	From Reserves	
	<C>	<C>	<C>	<C>
Allowance for doubtful accounts - deducted from trade receiv- ables, in the balance sheets:				
1993 200,000	\$ 150,000	\$ 143,676	\$ 93,676	\$
1994 165,000	\$ 200,000	\$ 44,203	\$ 79,203	\$
1995 100,000	\$ 165,000	\$ 940,978	\$ 1,005,978	\$

</TABLE>

INDEX TO EXHIBITS

## Exhibit Number

## Exhibits

- 3(a) - Amended Articles of Incorporation of the Registrant as further amended (filed as Exhibit 3(a) to the Registrant's Form 10-K/A-1 amending its report on Form 10-K for the fiscal year ended December 31, 1992 and incorporated herein by reference).....
- 3(b) -By-Laws of the Registrant (filed as Exhibit 3(b) to the Registrant's Form 10-K/A-1 amending its report on Form 10-K for the fiscal year ended December 31, 1992 and incorporated herein by reference) .....
- 10(a)\*\* -Second Amendment to February 2, 1994 Credit Agreement, dated as of June 26, 1995 among the Registrant, NBD Bank, as agent, and NBD Bank, N.A. ....
- 10(b)\*\* -Note Agreement, dated September 1, 1995, between the Registrant and Nationwide Life Insurance Company .....
- 10(c)\*\* -Commercial Lease and Option to Purchase dated as of October 1, 1995 between Mervin Lung Building Company, Inc., as lessor, and the Registrant, as lessee .....
- 10(d) -First Amendment to Credit Agreement, dated as of October 27, 1994 among the Registrant, NBD Bank, as agent, and NBD Bank, N.A. (filed as Exhibit 10(a) to the Registrant's Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference).....
- 10(e) -Loan Agreement dated as of December 1, 1994 between the State of Oregon Economic Development Commission, along with the Pledge and Security Agreement relating thereto (filed as Exhibit 10(b) to the Registrant's Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference).....
- 10(f) -Credit Agreement dated as of February 2, 1994 among the Registrant, NBD Bank, as agent, and NBD Bank, N.A. (filed as Exhibit 10(a) to the Registrant's Form 10-K for the fiscal year ended December 31, 1993 and incorporated herein by reference) .....
- 10(g) -Loan Agreement dated as of November 1, 1991 between the Registrant and the Indiana Development Finance Authority, along with the Pledge and Security Agreement relating thereto (filed as Exhibit 10(c) to the Registrant's Form 10-K/A-1 amending its report on Form 10-K for the fiscal year ended December 31, 1992 and incorporated herein by reference) .....
- \*10(h) -Patrick Industries, Inc. 1987 Stock Option Program, as amended (filed as Exhibit 10(e) to the Registrant's Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference) .....
- \*10(i) -Patrick Industries, Inc. 401(k) Employee Savings Plan (filed as Exhibit 10(a) to the Registrant's Form 10-K for the fiscal year ended December 31, 1993 and incorporated herein by reference) .....
- \*10(j) -Form of Employment Agreements with Executive Officers (filed as Exhibit 10(e) to the Registrant's Form 10-K/A-1 amending its report on Form 10-K for the fiscal year ended December 31, 1992 and incorporated herein by reference) .....
- \*10(k) -Form of Deferred Compensation Agreements with Executive Officers (filed as Exhibit 10(f) to the Registrant's Form 10-K/A-1 amending its report on Form 10-K for the fiscal year ended December 31, 1992 and incorporated herein by reference) .....
- 10(l) -Commercial Lease and dated as of October 1, 1994 between Mervin D. Lung, as lessor, and the

Registrant, as lessee (filed as Exhibit 10(k) to the Registrant's Form 10-K for the fiscal year ended December 31, 1994) .....

- 10(m)            -Commercial Lease dated September 1, 1994 between Mervin D. Lung Building Company, Inc., as lessor, and the Registrant, as lessee (filed as Exhibit 10(l) to the Registrant's Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference) .....
- 10(n)            -Commercial Lease dated November 1, 1994 between Mervin D. Lung Building Company, Inc., as lessor, and the Registrant, as lessee (filed as Exhibit 10(m) to the Registrant's Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference).....
- 12\*\*            -Computation of Operating Ratios .....
- 21               -No significant subsidiaries .....
- 23               -Consent of accountants (included in Independent auditor's report on supplemental schedule & consent on page F-15) .....
- 27\*\*            Financial Data Schedule .....

\*Management contract or compensatory plan or arrangement

\*\*Filed herewith



SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT, dated as of June 28, 1995 (this "Amendment"), is by and among PATRICK INDUSTRIES, INC., an Indiana corporation (the "Company"), the Banks set forth on the signature pages hereof (collectively, the "Banks" and individually, a "Bank"), and NBD BANK, an Indiana banking corporation, as agent for the Banks (in such capacity, the "Agent").

RECITALS

A. The Company, the Banks and the Agent are parties to a Credit Agreement dated as of February 2, 1994, as amended by a First Amendment to Credit Agreement dated as of October 27, 1994 (as amended, the "Credit Agreement"), pursuant to which the Banks agreed, subject to the terms and conditions thereof, to extend credit to the Company.

B. The Company has requested that the Agent and the Banks amend certain terms and conditions of the Credit Agreement to increase the Revolving Credit Commitment from \$10,000,000 to \$13,000,000, and to make certain other amendments to the Credit Agreement, all as more particularly described herein, and the Agent and the Banks are willing to amend such terms and conditions of the Credit Agreement on the terms and conditions hereof.

TERMS

In consideration of the premises and of the mutual agreements herein contained, the parties agree as follows:

ARTICLE I. AMENDMENTS.

Upon fulfillment of the conditions set forth in Article III hereof, the Credit Agreement shall be amended as follows:

1.1 The third WHEREAS clause of the Credit Agreement is hereby amended and restated in its entirety to provide as follows:

WHEREAS, the Company desires to obtain a term loan in the amount of \$10,000,000 and a revolving credit facility in the amount of \$13,000,000, in order to provide funds for the purposes of refinancing the term loan made pursuant to the Original Credit Agreement (the "Original Term Loan"), for working capital, capital expenditures and acquisitions, and for its other corporate purposes, and the Banks are willing to make such a term loan and to establish such a revolving credit facility in favor of the Company upon the terms and conditions herein set forth.

1.2 The definition of "Revolving Credit Commitment" in Section 1.1 of the Credit Agreement is hereby amended and restated in its entirety to provide as follows:

"Revolving Credit Commitment" shall mean, with respect to the Banks, the commitment of the Banks to make Revolving Credit Loans pursuant to Section 2.1(a) in amounts not exceeding an aggregate principal amount outstanding at any time of \$13,000,000.

1.3 Exhibit A to the Credit Agreement, the Revolving Credit Note, shall be amended and restated in its entirety in the form of Exhibit A attached hereto.

ARTICLE II. REPRESENTATIONS.

The Company represents and warrants that:

2.1 The execution, delivery and performance of this Amendment are within its powers, have been duly authorized and are not in contravention of any law, of the terms of its charter or by-laws, or any undertaking to which it is a party or by which it is bound.

2.2 This Amendment has been duly executed and delivered and is valid, binding and enforceable against the Company in accordance with its terms.

2.3 After giving effect to this Amendment, the representations and warranties contained in Article IV of the Credit Agreement are true on and as of the date hereof with the same force and effect as if made on and as of the date hereof, and there shall exist no Default or Event of Default.

ARTICLE III. CONDITIONS OF EFFECTIVENESS.

This Amendment shall not become effective until the following shall have been delivered to the Agent:

3.1 A duly executed Revolving Credit Note in the form of Exhibit a attached hereto.

3.2 A copy of resolutions adopted by the Board of Directors of the Company, certified by an officer of the Company, as being true and correct and in full force and effect without amendment as of the date hereof, authorizing the Company to enter into this Amendment.

ARTICLE IV. MISCELLANEOUS.

4.1 References in the Credit Agreement or in any note, certificate, instrument or other document to the Credit Agreement shall be deemed to be references to the Credit Agreement as amended hereby and as further amended from time to time.

4.2 The Company agrees to pay, and to save the Agent and the Banks harmless for the payment of, all costs and expenses arising in connection with this Amendment, including the reasonable fees of counsel to the Agent and the Banks in connection with preparing this Amendment and the related documents.

4.3 Except as expressly amended hereby, the Credit Agreement and all certificates and other documents executed pursuant thereto, shall remain in full force and effect. Terms used but not defined herein shall have the respective meanings ascribed thereto in the Credit Agreement.

4.4 The Company agrees that the Credit Agreement and all other documents and agreements executed by the Company in connection with the Credit Agreement are ratified and confirmed and shall remain in full force and effect and that it has not set off, counterclaim or defense with respect to any of the foregoing.

4.5 This document may be signed upon any number of counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument.

4.6 This Amendment shall be deemed to be a contract made under and for all purposes shall be governed by and construed in accordance with the laws of the State of Indiana applicable to contracts made and to be performed entirely within such State, without regard to the choice of law principles of such State.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed and delivered as of June 28, 1995.

PATRICK INDUSTRIES, INC.

By: \_\_\_\_\_  
Its: \_\_\_\_\_

And: \_\_\_\_\_  
Its: \_\_\_\_\_

Address for Notices:

611 Woodward Avenue  
Detroit, Michigan 48226  
Attention: Michael F. Edwards  
Midwest Banking  
Division  
Facsimile: (313) 225-1671  
(313) 225-3335

NBD BANK

By: \_\_\_\_\_  
Its: \_\_\_\_\_

Addresses for Notices:

121 West Franklin Street  
Elkhart, Indiana 46515  
Attention: Donald E. Hobik  
Facsimile: (219) 294-7030  
Telephone: (219) 294-6621

NBD BANK,  
as Agent and as a Bank

By: \_\_\_\_\_  
Its: \_\_\_\_\_

EXHIBIT A

REVOLVING CREDIT NOTE

\$13,000,000

June 28, 1995  
Elkhart, Indiana

FOR VALUE RECEIVED, PATRICK INDUSTRIES, INC., an Indiana corporation (the "Company"), hereby promises to pay to the order of NBD Bank, a Michigan banking corporation, and NBD BANK, an Indiana banking corporation (the "Agent", and, together with NBD Bank, the "Banks"), jointly, at the principal banking office of the Agent in lawful money of the United States of America and in immediately available funds, the principal sum of Thirteen Million Dollars (\$13,000,000), or such lesser amount as is recorded on the schedule attached hereto, or in the books and records of the Agent, on the Revolving Credit Termination Date; and to pay interest on the unpaid principal balance hereof from time to time outstanding, in like money and funds, for the period from the date hereof until the Revolving Credit Loans evidenced hereby shall be paid in full, at the rates

per annum and on the dates provided in the Credit Agreement referred to below. Payment to any one of the Banks hereunder shall constitute payment to both of the Banks.

The Agent is hereby authorized by the Company to record on the schedule attached to this Revolving Credit Note, or on its books and records, the date and amount of each Revolving Credit Note, or on its books and records, the date and amount of each Revolving Credit Loan, the duration of the related Eurodollar Interest Period (if applicable), the amount of each payment or prepayment of principal thereon and the other information provided for on such schedule, which schedule or such books and records, as the case may be, shall constitute prima facie evidence of the information so recorded, provided, however, that any failure by the Agent to record any such information shall not relieve the Company of its obligation to repay the outstanding principal amount of such Revolving Credit Loans, all accrued interest thereon and any amount payable with respect thereto in accordance with the terms of this Revolving Credit Note and the Credit Agreement, as defined below.

The Company and each endorser or guarantor hereof waives demand, presentment, protest, diligence, notice of dishonor and any other formality in connection with this Revolving Credit Note. Should the indebtedness evidenced by this Revolving Credit Note or any part thereof be collected in any proceeding or be placed in the hands of attorneys for collection, the Company agrees to pay, in addition to the principal, interest and other sums due and payable hereon, all costs of collecting this Revolving Credit Note, including attorneys fees and expenses.

This Revolving Credit Note evidences one or more Revolving Credit Loans made under that certain Credit Agreement dated as of February 2, 1994, as amended by a First Amendment to Credit Agreement dated as of October 27, 1994 and as further amended by a Second Amendment to Credit Agreement dated as of June 28, 1995 (as amended and as further amended from time to time, the "Credit Agreement"), by and among the Company, the Agent and the Banks, to which reference is hereby made for a statement of the circumstances under which this Revolving Credit Note is subject to prepayment and under which its due date may be accelerated and for a description of the collateral and security securing this Revolving Credit Note. Capitalized terms used but not defined in this Revolving Credit Note shall have the respective meanings assigned to them in the Credit Agreement.

This Revolving Credit Note is issued in replacement of, but not in repayment of, that certain Revolving Credit Note dated October 27, 1994 in the stated principal amount of \$10,000,000 payable by the Company to the Banks.

This Revolving Credit Note is made under, and shall be governed by and construed in accordance with, the laws of the State of Indiana applicable to contracts made and to be performed entirely within such State and without giving effect to the choice of law principles of such State.

PATRICK INDUSTRIES, INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

And: \_\_\_\_\_

Its: \_\_\_\_\_

EXHIBIT A

REVOLVING CREDIT NOTE

Schedule to Revolving Credit Note dated June 28, 1995  
made by Patrick Industries, Inc.  
In favor of NBD Bank, a Michigan banking corporation  
and NBD Bank, an Indiana banking corporation

EXHIBIT A  
REVOLVING CREDIT NOTE

Patrick Industries, Inc.,  
an Indiana Corporation  
1800 South 14th Street  
Elkhart, Indiana 46516

Re: \$18,000,000 6.82% Senior Notes  
Due September 15, 2005

PPN 703343 A\* 4

Conformed Copy of the Note Agreement

Conformed Copy

Patrick Industries, Inc.  
Note Agreement

Dated as of September 1, 1995

Re: \$18,000,000 6.82% Senior Notes  
Due September 15, 2005

Execution Copy

Patrick Industries, Inc.  
Note Agreement

Dated as of September 1, 1995

Re: \$18,000,000 6.82% Senior Notes  
Due September 15, 2005

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(Not a part of the Agreement)

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Attachments to Note Agreement:

Schedule I	Name and Address of Purchaser and Amount of Commitment
Schedule II	Funded Debt, Capitalized Leases, Unfunded Pension Liability and Subsidiaries of the Company as of the Closing Date
Exhibit A	Form of 6.82% Senior Note Due September 15, 2005
Exhibit B	Representations and Warranties of the Company
Exhibit C	Description of Special Counsel's Closing Opinion
Exhibit D	Description of Closing Opinion of Counsel to the Company

Patrick Industries, Inc.  
1800 South 14th Street  
Elkhart, Indiana 46516

Re: \$18,000,000 6.82% Senior Notes

Due September 15, 2005

Dated as of  
September 1, 1995

To the Purchaser named in Schedule I  
to this Agreement  
Ladies and Gentlemen:

The undersigned, Patrick Industries, Inc., an Indiana corporation (the "Company"), agrees with the purchaser named in Schedule I to this Agreement (the "Purchaser") as follows:

#### Section 1. Description of Notes and Commitment.

Section 1.1. Description of Notes. The Company will authorize the issue and sale of \$18,000,000 aggregate principal amount of its 6.82% Senior Notes (the "Notes") to be dated the date of issue, to bear interest from such date at the rate of 6.82% per annum, payable semiannually on the fifteenth day of March and September in each year (commencing March 15, 1996) and at maturity and to bear interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and (to the extent legally enforceable) on any overdue installment of interest at the Overdue Rate after the date due, whether by acceleration or otherwise, until paid, to be expressed to mature on September 15, 2005, and to be substantially in the form attached hereto as Exhibit A. Interest on the Notes shall be computed on the basis of a 360-day year of twelve 30-day months. The Notes are not subject to prepayment or redemption at the option of the Company prior to their expressed maturity date except on the terms and conditions and in the amounts and with the premium, if any, set forth in Section 2 of this Agreement. The Notes are general unsecured and non-subordinated obligations of the Company and rank on parity in right of payment with all other unsecured and non-subordinated Indebtedness of the Company. The term "Notes" as used herein shall include each Note delivered pursuant to this Agreement. The terms which are capitalized herein shall have the meanings set forth in Section 8.1 unless the context shall otherwise require.

Section 1.2. Commitment, Closing Date. Subject to the terms and conditions hereof and on the basis of the representations and warranties hereinafter set forth, the Company agrees to issue and sell to the Purchaser, and the Purchaser agrees to purchase from the Company, the entire issue of the Notes at a price equal to the principal amount thereof on the Closing Date hereafter mentioned.

Delivery of the Notes will be made at the offices of Chapman and Cutler, 111 W. Monroe, Chicago, Illinois 60603, against payment therefor in Federal Reserve or other funds current and immediately available at the principal office of NBD Bank ABA #071201155 to the Company's account no. 0105104 in the amount of the purchase price at 10:00 A.M., Chicago, Illinois time, on September 14, 1995 or such later date (not later than September 21, 1995) as shall mutually be agreed upon by the Company and the Purchaser (the "Closing Date"). The Notes delivered to the Purchaser on the Closing Date will be delivered to the Purchaser in the form of a single registered Note in the form attached hereto as Exhibit A for the full amount of the Purchaser's purchase (unless different denominations are specified by the Purchaser), registered in the Purchaser's name or in the name of the Purchaser's nominee, as may be specified in Schedule I attached hereto.

#### Section 2. Prepayment of Notes.

Section 2.1. Required Prepayments. In addition to paying the entire outstanding principal amount and the interest due on the Notes on the maturity date thereof, the Company agrees that on September 15 in each year, commencing September 15, 1999 and ending September 15, 2004, both inclusive, it will prepay and apply and there shall become due and payable on the principal indebtedness evidenced by the Notes an amount equal to the lesser of (a) \$2,571,428 or (b) the principal amount of the Notes then outstanding. The entire remaining principal amount of the Notes shall become due and payable on September 15, 2005. No premium shall be payable in connection with any required prepayment made pursuant to this Section 2.1.

In the event that the Company shall prepay less than all of the Notes pursuant to Section 2.2, the amounts of the prepayments required by this Section 2.1 shall be reduced by an amount which is the same percentage of such required prepayment as the percentage that the principal amount of Notes prepaid pursuant to Section 2.2 is of the aggregate principal amount of outstanding Notes immediately prior to such prepayment.

Section 2.2. Optional Prepayment with Premium. In addition to the payments required by Section 2.1, upon compliance with Section 2.4, the Company shall have the privilege, at any time and from time to time of prepaying the outstanding Notes, either in whole or in part (but if in part then in a minimum principal amount of \$1,000,000), by payment of the principal amount of the Notes, or portion thereof to be prepaid, and accrued interest thereon to the

date of such prepayment, together with a premium equal to the Make-Whole Amount, determined as of two Business Days prior to the date of such prepayment pursuant to this Section 2.2.

### Section 2.3. Prepayment of Notes upon Change of Control.

(a) In the event that any Change of Control (as hereinafter defined) shall occur or the Company shall have knowledge of any proposed Change of Control, the Company will give written notice (the "Company Notice") of such fact in the manner provided in Section 9.6 hereof to the Holders. The Company Notice shall be delivered promptly upon receipt of such knowledge by the Company and in any event no later than one Business Day following the occurrence of any Change of Control. The Company Notice shall (1) describe the facts and circumstances of such Change of Control in reasonable detail, (2) make reference to this Section 2.3 and the right of the Holders of the Notes to require prepayment of the Notes on the terms and conditions provided for in this Section 2.3, (3) offer in writing to prepay the outstanding Notes, together with accrued interest to the date of prepayment, and (4) specify a date for such prepayment (the "Change of Control Prepayment Date"), which Change of Control Prepayment Date shall be not more than 90 days nor less than 30 days following the date of such Company Notice. Each holder of the then outstanding Notes shall have the right to accept such offer and require prepayment of the Notes held by such Holder in full by written notice to the Company (a "Noteholder Notice") given not later than 20 days after receipt of the Company Notice. The Company shall on the Change of Control Prepayment Date prepay in full all of the Notes held by Holders which have so accepted such offer of prepayment. The prepayment price of the Notes payable upon the occurrence of any Change of Control shall be an amount equal to 100% of the outstanding principal amount of the Notes so to be prepaid and accrued interest thereon to the date of such prepayment.

(b)(1) Without limiting the foregoing, notwithstanding any failure on the part of the Company to give the Company Notice herein required as a result of the occurrence of a Change of Control, upon a Change of Control, each Holder shall have the right by delivery of written notice to the Company to require the Company to prepay, and the Company will prepay, such Holder's Notes in full, together with accrued interest thereon to the date of prepayment. Notice of any required prepayment pursuant to this Section 2.3(B)(1) shall be delivered by any Holder of the Notes which was entitled to, but did not receive, such Company Notice to the Company after such Holder has actual knowledge of such Change of Control. On the date (the "Change of Control Delayed Prepayment Date") designated in such Holder's notice (which shall be not more than 90 days nor less than 30 days following the date of such Holder's notice), the Company shall prepay in full all of the Notes held by such Holder, together with accrued interest thereon to the date of prepayment. If the Holder of any Note gives any notice pursuant to this Section 2.3(B)(1), the Company shall give a Company Notice within three Business Days of receipt of such notice and identify the Change of Control Delayed Prepayment Date to all other Holders of the Notes and each of such other Holders shall then and thereupon have the right to accept the Company's offer to prepay the Notes held by such Holder in full and require prepayment of such Notes by delivery of a Noteholder Notice within 20 days following receipt of such Company Notice; provided however that any date for prepayment of such Holder's Notes shall be the Change of Control Delayed Prepayment Date. On the Change of Control Delayed Prepayment Date, the Company shall prepay in full the Notes of each Holder thereof which has accepted such offer of prepayment at a prepayment price equal to 100% of the outstanding principal amount of the Notes so to be prepaid and accrued interest thereon to the date of such prepayment.

(2) Compliance with the provisions of this Section 2.3(B) shall not be deemed to constitute a waiver of, or consent to, any Default or Event of Default caused by any violation of the provisions of Section 2.3(A).

Section 2.4. Notice of Optional Prepayments. The Company will give notice of any prepayment of the Notes pursuant to Section 2.2 to each Holder not less than 30 days nor more than 60 days before the date fixed for such optional prepayment specifying (a) such date, (b) the principal amount of such Holder's Notes to be prepaid on such date, (c) that a premium may be payable, (d) the date when such premium will be calculated, (e) the estimated premium, together with a reasonably detailed computation of such estimated premium, and (f) the accrued interest applicable to the prepayment. Such notice of prepayment shall also certify all facts, if any, which are conditions precedent to any such prepayment. Notice of prepayment having been so given, the aggregate principal amount of the Notes specified in such notice, together with accrued interest thereon and the premium, if any, payable with respect thereto shall become due and payable on the prepayment date specified in said notice. Two Business Days prior to the prepayment date specified in such notice, the Company shall provide each Holder written notice of the premium, if any, payable in connection with such prepayment and, whether or not any premium is payable, a reasonably detailed computation of the Make-Whole Amount.

Section 2.5. Application of Prepayments. All partial prepayments made pursuant to Section 2.1 or Section 2.2 shall be applied on all outstanding Notes ratably in accordance with the unpaid principal amounts thereof. All partial prepayments made pursuant to Section 2.3 shall be applied only to the Notes of the Holders who have elected to participate in such prepayment.



Section 2.6. Direct Payment. Notwithstanding anything to the contrary contained in this Agreement or the Notes, in the case of any Note owned by any Holder that is a Purchaser or any other Institutional Holder which has given written notice to the Company requesting that the provisions of this Section 2.6 shall apply, the Company will punctually pay when due the principal thereof, interest thereon and premium, if any, due with respect to said principal, without any presentment thereof, directly to such Holder at its address set forth in Schedule I hereto or such other address as such Holder may from time to time designate in writing to the Company or, if a bank account with a United States bank is so designated for such Holder, the Company will make such payments in immediately available funds to such bank account, no later than 11:00 a.m., Chicago, Illinois time, on the date due, marked for attention as indicated, or in such other manner or to such other account in any United States bank as such Holder may from time to time direct in writing. If for any reason whatsoever the Company does not make any such payment by such 11:00 a.m. transmittal time, such payment shall be deemed to have been made on the next following Business Day and such payment shall bear interest at the Overdue Rate.

### Section 3. Representations.

Section 3.1. Representations of the Company. The Company represents and warrants that all representations and warranties set forth in Exhibit B are true and correct as of the date hereof and are incorporated herein by reference with the same force and effect as though herein set forth in full.

#### Section 3.2. Representations of the Purchaser.

(a) The Purchaser represents, and in entering into this Agreement the Company understands, that the Purchaser is acquiring the Notes for the purpose of investment and not with a view to the distribution thereof, and that the Purchaser has no present intention of selling, negotiating or otherwise disposing of the Notes; it being understood, however, that the disposition of the Purchaser's property shall at all times be and remain within its control.

(b) The Purchaser further represents that either: (1) the Purchaser is acquiring the Notes with assets from the Purchaser's general account and not with the assets of any separate account in which any employee benefit plan has any interest; (2) no part of the funds to be used by the Purchaser to purchase the Notes constitutes assets allocated to any separate account maintained by the Purchaser such that the application of such funds constitutes a prohibited transaction under Section 406 of ERISA; (3) the source of funds to be used by the Purchaser to pay the purchase price of the Notes is an "insurance company general account" within the meaning of Department of Labor Prohibited Transaction Class Exemption 95-60 ("PTE 95-60") (issued July 12, 1995) and the purchase of the Notes by the Purchaser is eligible for and satisfies the requirements of PTE 95-60; or (4) all or a part of such funds constitute assets of one or more separate accounts, trusts or a commingled pension trust maintained by the Purchaser, and the Purchaser has disclosed to the Company the names of such employee benefit plans whose assets in such separate account or accounts or pension trusts exceed 10% of the total assets or are expected to exceed 10% of the total assets of such account or accounts or trusts as of the date of such purchase and the Company has advised the Purchaser in writing (and in making the representations set forth in this clause(4) the Purchaser is relying on such advice) that the Company is not a party-in-interest nor are the Notes employer securities with respect to the particular employee benefit plan disclosed to the Company by the Purchaser as aforesaid (for the purpose of this clause(4), all employee benefit plans maintained by the same employer or employee organization are deemed to be a single plan). As used in this Section 3.2(B), the terms "separate account," "party-in-interest," "employer securities" and "employee benefit plan" shall have the respective meanings assigned to them in ERISA.

### Section 4. Closing Conditions.

Section 4.1. Conditions. The obligation of the Purchaser to purchase the Notes on the Closing Date shall be subject to the performance by the Company of its agreements hereunder which by the terms hereof are to be performed at or prior to the time of delivery of the Notes and to the following further conditions precedent:

(a) Closing Certificate. The Purchaser shall have received a certificate dated the Closing Date, signed by the President or a Vice President of the Company, the truth and accuracy of which shall be a condition to the Purchaser's obligation to purchase the Notes proposed to be sold to the Purchaser and to the effect that (1) the representations and warranties of the Company set forth in Exhibit B hereto are true and correct on and with respect to the Closing Date, (2) the Company has performed all of its obligations hereunder which are to be performed on or prior to the Closing Date, and (3) no Default or Event of Default has occurred and is continuing.

(b) Legal Opinions. The Purchaser shall have received from Chapman and Cutler, who are acting as special counsel to the Purchaser in this transaction, and from McDermott, Will & Emery, counsel for the Company, their respective opinions dated the Closing Date, in form and substance satisfactory to the

Purchaser, and covering the matters set forth in Exhibits C and D, respectively, hereto.

(c) Company's Existence and Authority. On or prior to the Closing Date, the Purchaser shall have received, in form and substance reasonably satisfactory to the Purchaser and special counsel to the Purchaser, such documents and evidence with respect to the Company as special counsel to the Purchaser may reasonably request in order to establish the existence and good standing of the Company and the authorization of the transactions contemplated by this Agreement.

(d) Private Placement Number. On or prior to the Closing Date, special counsel to the Purchaser shall have duly made the appropriate filings with Standard & Poor's CUSIP Service Bureau, as agent for the National Association of Insurance Commissioners, in order to obtain a private placement number for the Notes.

(e) Funding Instructions. At least three Business Days prior to the Closing Date, the Purchaser shall have received written instructions executed by a Responsible Officer of the Company directing the manner of the payment of funds and setting forth (1) the name and address of the transferee bank, (2) such transferee bank's ABA number, (3) the account name and number into which the purchase price for the Notes is to be deposited, and (4) the name and telephone number of the account representative responsible for verifying receipt of such funds.

(f) Special Counsel Fees. Concurrently with the delivery of the Notes to the Purchaser on the Closing Date, the reasonable charges and disbursements of Chapman and Cutler, special counsel to the Purchaser, shall have been paid by the Company.

(g) Legality of Investment. The Notes to be purchased by the Purchaser shall be a legal investment for the Purchaser under the laws of each jurisdiction to which the Purchaser may be subject (without resort to any so-called "basket provisions" to such laws).

(h) Satisfactory Proceedings. All proceedings taken in connection with the transactions contemplated by this Agreement, and all documents necessary to the consummation thereof, shall be satisfactory in form and substance to the Purchaser and special counsel to the Purchaser, and the Purchaser shall have received a copy (executed or certified as may be appropriate) of all legal documents or proceedings taken in connection with the consummation of said transactions.

Section 4.2. Waiver of Conditions. If on the Closing Date the Company fails to tender to any Purchaser the Notes to be issued to the Purchaser on such date or if the conditions specified in Section 4.1 have not been fulfilled, the Purchaser may thereupon elect to be relieved of all further obligations under this Agreement. Without limiting the foregoing, if the conditions specified in Section 4.1 have not been fulfilled, the Purchaser may waive compliance by the Company with any such condition to such extent as the Purchaser may in its sole discretion determine. Nothing in this Section 4.2 shall operate to relieve the Company of any of its obligations hereunder or to waive any Purchaser's rights against the Company.

Section 5. Company Covenants. From and after the Closing Date and continuing so long as any amount remains unpaid on any Note:

Section 5.1. Corporate Existence, Etc. The Company will preserve and keep in full force and effect, and will cause each Material Subsidiary to preserve and keep in full force and effect, its corporate existence and all licenses and permits necessary to the proper conduct of its business, provided that the foregoing shall not prevent any transaction permitted by Section 5.9.

Section 5.2. Insurance. The Company will maintain, and will cause each Material Subsidiary to maintain, insurance coverage by financially sound and reputable insurers and in such forms and amounts and against such risks as are customary for corporations of established reputation engaged in the same or a similar business and owning and operating similar properties.

Section 5.3. Taxes, Claims for Labor and Materials; Compliance with Laws'.

(a) The Company will promptly pay and discharge, and will cause each Material Subsidiary promptly to pay and discharge, all lawful taxes, assessments and governmental charges or levies imposed upon the Company or such Material Subsidiary, respectively, or upon or in respect of all or any part of the property or business of the Company or such Material Subsidiary, all trade accounts payable in accordance with usual and customary business terms, and all claims for work, labor or materials, which if unpaid might become a Lien upon any property of the Company or such Material Subsidiary; provided the Company or such Material Subsidiary shall not be required to pay any such tax, assessment, charge, levy, account payable or claim if (1) the validity, applicability or amount thereof is being contested in good faith by appropriate actions or proceedings which will prevent the forfeiture or sale of any property of the Company or such Material Subsidiary or any material interference with the use thereof by the Company or such Material Subsidiary, and (2) the Company or such

Material Subsidiary shall set aside on its books, reserves deemed by it to be adequate with respect thereto.

(b) The Company will promptly comply and will cause each Material Subsidiary to promptly comply with all laws, ordinances or governmental rules and regulations to which it is subject, including, without limitation, the Occupational Safety and Health Act of 1970, as amended, ERISA and all Environmental Laws, the violation of which could have a Material Adverse Effect or would result in any Lien not permitted under Section 5.8.

Section 5.4. Maintenance, Etc. The Company will maintain, preserve and keep, and will cause each Material Subsidiary to maintain, preserve and keep, its properties which are used or useful in the conduct of its business (whether owned in fee or a leasehold interest) in good repair and working order and from time to time will make all necessary repairs, replacements, renewals and additions so that at all times the efficiency thereof shall be maintained.

Section 5.5. Nature of Business. Neither the Company nor any Material Subsidiary will engage in any business if, as a result, the general nature of the business, taken on a consolidated basis, which would then be engaged in by the Company and its Material Subsidiaries would be substantially changed from the general nature of the business engaged in by the Company and its Material Subsidiaries on the date of this Agreement.

Section 5.6. Consolidated Adjusted Net Worth. The Company will at all times keep and maintain Consolidated Adjusted Net Worth at an amount not less than the sum of (a) \$35,000,000 plus (b) the aggregate of 40% of positive Consolidated Net Earnings on a cumulative basis for each fiscal year ending after December 31, 1994; provided that for purposes of the foregoing calculation, Consolidated Net Earnings shall be deemed to be zero for any period for which Consolidated Net Earnings is less than or equal to zero.

Section 5.7. Limitations on Funded Debt. (a) The Company will not, and will not permit any Subsidiary to, create, assume, guarantee or otherwise incur any Funded Debt, except:

(1) Funded Debt evidenced by the Notes;

(2) Funded Debt of the Company and its Subsidiaries outstanding as of the date of this Agreement and described on Schedule II hereto or any extension, renewal or refunding of any such Funded Debt without increase in the principal amount thereof at the time of such extension, renewal or refunding plus the aggregate premiums, other payments, costs and expenses required to be paid or incurred in connection with such extension, renewal or refunding;

(3) additional Funded Debt of the Company and its Subsidiaries incurred after the Closing Date, provided, however, that Consolidated Funded Debt shall not exceed the respective percentages of Consolidated Total Capitalization for the period set forth opposite such percentages below:

Period	Maximum Percentage of Consolidated Funded Debt to Consolidated Total Capitalization
Closing Date through December 31, 1997	60%
January 1, 1998 and thereafter	55%

(4) additional Priority Debt, provided, however, that the Company will not at any time permit the aggregate amount of outstanding Priority Debt to exceed an amount equal to 15% of Consolidated Adjusted Net Worth.

(b) Any Person which becomes a Subsidiary after the date hereof shall for all purposes of this Section 5.7 be deemed to have created, assumed or incurred at the time it becomes a Subsidiary and which shall be subject to the terms and limitations set forth in Section 5.7(A) (3), all Funded Debt of such Person existing immediately after it becomes a Subsidiary.

Section 5.8. Limitation on Liens.

(a) The Company will not, and will not permit any Subsidiary to, create or incur, or suffer to be incurred or to exist, any Lien on its or their property or assets, whether now owned or hereafter acquired, or upon any income or profits therefrom, or transfer any property for the purpose of subjecting the same to the payment of obligations in priority to the payment of its or their general creditors, or acquire or agree to acquire, or permit any Subsidiary to acquire, any property or assets upon conditional sales agreements or other title retention devices, except:

(1) Liens for property taxes and assessments or governmental charges or levies and Liens securing claims or demands of mechanics and materialmen, provided that payment thereof is not at the time required by Section 5.3;

(2) Liens of or resulting from any judgment or award, the time for the

appeal or petition for rehearing of which shall not have expired, or in respect of which the Company or a Subsidiary shall at any time in good faith be prosecuting an appeal or proceeding for a review and in respect of which a stay of execution pending such appeal or proceeding for review shall have been secured within 60 days after the expiration of any such stay;

(3) Liens incidental to the conduct of business or the ownership of properties and assets (including, without limitation, Liens in connection with worker's compensation, unemployment insurance and other like laws, warehousemen's and attorneys' liens and statutory landlords' liens) and Liens to secure the performance of bids, tenders or trade contracts, or to secure statutory obligations, surety or appeal bonds or other Liens of like general nature, in any such case incurred in the ordinary course of business and not in connection with the borrowing of money and which do not in any event materially impair the use of such property in the operation of the business of the Company and its Subsidiaries taken as a whole, or the value of such property for the purposes of such business, provided in each case, the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate actions or proceedings;

(4) minor survey exceptions or minor encumbrances, easements or reservations, or rights of others for rights-of-way, utilities and other similar purposes, or zoning or other restrictions as to the use of real properties, which are necessary for the conduct of the activities of the Company and its Subsidiaries or which customarily exist on properties of corporations engaged in similar activities and similarly situated and which do not in any event materially impair their use in the operation of the business of the Company and its Subsidiaries taken as a whole, or the value of the property for the purposes of such business;

(5) Liens securing Debt of a Subsidiary to the Company or to a Wholly-owned Subsidiary;

(6) Liens existing as of the Closing Date and described on Schedule II hereto and any extension, renewal or replacement of such Liens, provided that, with respect to any such extension, renewal or replacement, (i) the principal amount of Debt so secured at the time of such extension, renewal or replacement shall not be increased in aggregate principal amount plus the aggregate premiums, other payments, costs and expenses required to be paid or incurred in connection with such extension, renewal or replacement and such Debt would be otherwise permitted pursuant to the terms of this Agreement including, without limitation, Section 5.7 and (ii) such extension, renewal or replacement shall be limited to all or any part of the same property that secured the Lien extended, renewed, or replaced;

(7) Liens incurred after the Closing Date given to secure the payment of the purchase price incurred in connection with the acquisition, construction or improvement of fixed assets of the Company or any Subsidiary, which Liens are incurred contemporaneously with or within 180 days after the payment of such purchase price or completion of such construction, and Liens existing on such fixed assets at the time of acquisition thereof or at the time of acquisition by the Company or any Subsidiary of any business entity then owning such fixed assets, whether or not such existing Liens were given to secure the payment of the purchase price of the fixed assets to which they attach, provided that (i) the Lien shall attach solely to the fixed assets acquired, constructed or improved, (ii) at the time of acquisition, construction or improvement of such fixed assets, the aggregate amount remaining unpaid on all Indebtedness secured by Liens on such fixed assets whether or not assumed by the Company or any Subsidiary shall not exceed an amount equal to 100% of the fair market value at the time of acquisition, construction or improvement of such fixed assets (as determined in good faith by the Board of Directors of the Company), and (iii) all Debt secured by such Liens shall have been incurred within the applicable limitations of this Agreement including, without limitation, Section 5.7; and

(8) in addition to the liens permitted under Section 5.8(A)(1) through (7), Liens securing Debt of the Company or any Subsidiary incurred within the limitations of Section 5.7(A)(4).

(b) In the event that any property, asset or income or profits therefrom is subjected to a Lien not expressly enumerated in this Section 5.8, the Company will make or cause to be made provisions whereby the Notes will be secured equally and ratably with all other obligations secured thereby and the Company shall furnish to the holders of the Notes an opinion of independent counsel (which independent counsel shall be reasonably satisfactory to the holders of at least 66-2/3% of the principal amount of the Notes at the time outstanding), reasonably satisfactory in form and substance to the holders of at least 66-2/3% of the principal amount of the Notes at the time outstanding, to such effect, and in any case the Notes shall have the benefit, to the full extent that, and with such priority as, the Holders may be entitled thereto under applicable law, of an equitable Lien on such property, asset, income or profits securing the Notes.

#### Section 5.9. Mergers, Consolidations and Sales of Assets.

(a) The Company will not, and will not permit any Subsidiary to,

consolidate with or be a party to a merger with any other Person, or sell, lease or otherwise dispose of all or substantially all of its assets; provided that:

(1) any Subsidiary may merge or consolidate with or into the Company or any other Subsidiary so long as in any merger or consolidation involving the Company, the Company shall be the surviving or continuing corporation;

(2) the Company may consolidate or merge with or into any other corporation if (i) the corporation which results from such consolidation or merger (the "surviving corporation") is organized under the laws of any state of the United States or the District of Columbia, (ii) the due and punctual payment of the principal of and premium, if any, and interest on all of the Notes, according to their tenor, and the due and punctual performance and observance of all of the covenants in the Notes and this Agreement to be performed or observed by the Company are expressly assumed in writing by the surviving corporation (if other than the Company) and the surviving corporation shall furnish to the Holders an opinion of counsel satisfactory to such Holders to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of the surviving corporation enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles, and (iii) at the time of such consolidation or merger and immediately after giving effect thereto, (A) no Default or Event of Default would exist and (B) the surviving corporation would be permitted by the provisions of Section 5.7(B) to incur at least \$1.00 of additional Funded Debt;

(3) the Company may sell or otherwise dispose of all or substantially all of its assets (other than stock and Indebtedness of a Subsidiary, which may only be sold or otherwise disposed of pursuant to Section 5.9(C)) to any Person for consideration which represents the fair market value of such assets (as determined in good faith by the Board of Directors of the Company, a copy of which determination, certified by the Secretary or an Assistant Secretary of the Company, shall have been furnished to the Holders) at the time of such sale or other disposition if (i) the acquiring Person is a corporation organized under the laws of any state of the United States or the District of Columbia, (ii) the due and punctual payment of the principal of and premium, if any, and interest on all the Notes, according to their tenor, and the due and punctual performance and observance of all of the covenants in the Notes and in this Agreement to be performed or observed by the Company are expressly assumed in writing by the acquiring corporation and the acquiring corporation shall furnish to the Holders an opinion of counsel satisfactory to such Holders to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of such acquiring corporation enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles, and (iii) at the time of such sale or disposition and immediately after giving effect thereto, (A) no Default or Event of Default would exist and (B) the acquiring corporation would be permitted by the provisions of Section 5.7(B) to incur at least \$1.00 of additional Funded Debt.

(b) The Company will not, and will not permit any Subsidiary to, sell, lease, transfer, abandon or otherwise dispose of all or a Substantial Part of its assets including shares of stock of a Subsidiary (including as "stock for the purposes of this Section 5.9 any options or warrants to purchase stock or other Securities exchangeable for or convertible into stock, said stock, options, warrants and other Securities herein called "Subsidiary Stock") (except assets sold in the ordinary course of business for fair market value and except as provided in Section 5.9(A)(3)); provided that the foregoing restrictions do not apply to:

(1) the sale, lease, transfer or other disposition of assets of a Subsidiary to the Company or a Wholly-owned Subsidiary; or

(2) the sale of assets or Subsidiary Stock for cash or other property to a Person or Persons other than an Affiliate if all of the following conditions are met:

(i) in the opinion of the Company's Board of Directors, the sale is for fair value and is in the best interests of the Company; and

(ii) immediately after the consummation of the transaction and after giving effect thereto, no Event of Default would exist.

For purposes of this Section 5.9(B), a "Substantial Part" shall mean (i) assets or Subsidiary Stock (valued at net book value) which, together with all other assets and Subsidiary Stock of the Company and its Subsidiaries previously disposed of during the same fiscal year (other than in the ordinary course of business), exceed 10% of Consolidated Total Assets, or (ii) assets or Subsidiary Stock (valued at net book value) which, together with all other assets and Subsidiary Stock of the Company and its Subsidiaries previously disposed of during the period from the date of this Agreement to and including the date of

the sale of such assets or such Subsidiary Stock (other than in the ordinary course of business), exceed 25% of Consolidated Total Assets, in each such case determined as of the end of the fiscal quarter immediately preceding such sale; provided, however, that for purposes of determining a "Substantial Part," there shall not be included any assets or Subsidiary Stock the proceeds of which were or are applied within 12 months of the date of sale of such assets to either (x) the acquisition of fixed assets useful and intended to be used in the operation of the business of the Company and its Subsidiaries as described in Section 5.5 and having a fair market value (as determined in good faith by the Board of Directors of the Company) at least equal to that of the assets so disposed of or (y) the prepayment at any applicable prepayment premium, on a pro rata basis, of Funded Debt of the Company. It is understood and agreed by the Company that any such proceeds paid and applied to the prepayment of the Notes as hereinabove provided shall be prepaid as and to the extent provided in Section 2.2.

Section 5.10. Restricted Payments.

(a) The Company will not except as hereinafter provided:

(1) Declare or pay any dividends, either in cash or property, on any shares of its capital stock of any class (except dividends or other distributions payable solely in shares of common stock of the Company);

(2) Directly or indirectly, or through any Subsidiary or through any Affiliate of the Company, purchase, redeem or retire any shares of its capital stock of any class or any warrants, rights or options to purchase or acquire any shares of its capital stock (other than in exchange for or out of the net cash proceeds to the Company from the substantially concurrent issue or sale of shares of common stock of the Company or warrants, rights or options to purchase or acquire any shares of its common stock); or

(3) Make any other payment or distribution, either directly or indirectly or through any Subsidiary, in respect of its capital stock;

(such declarations or payments of dividends, purchases, redemptions or retirements of capital stock and warrants, rights or options and all such other payments or distributions being herein collectively called "Restricted Payments"), if, after giving effect to the proposed Restricted Payment, an Event of Default would exist.

Section 5.11. Notes to Rank Pari Passu. The Company will keep and maintain the obligations of the Company with respect to the Notes and all other monetary obligations outstanding at any time to the Holders under this Agreement as direct obligations of the Company ranking pari passu as against the assets of the Company with all other present and future Funded Debt of the Company, except to the extent such Funded Debt is secured by a Lien permitted under this Agreement.

Section 5.12. Guaranties. The Company will not, and will not permit any Subsidiary to, become or be liable in respect of any Guaranty except Guaranties by the Company which are limited in amount to a stated maximum dollar exposure or which constitute Guaranties of obligations incurred by any Subsidiary in compliance with the provisions of this Agreement.

Section 5.13. Repurchase of Notes. Neither the Company nor any Subsidiary or Affiliate, directly or indirectly, may repurchase or make any offer to repurchase any Notes unless an offer has been made to repurchase Notes, pro rata, from all Holders at the same time and upon the same terms. In case the Company or any Subsidiary or Affiliate repurchases or otherwise acquires any Notes, such Notes shall immediately thereafter be cancelled and no Notes shall be issued in substitution therefor. Without limiting the foregoing, upon the purchase or other acquisition of any Notes by the Company, any Subsidiary or any Affiliate, such Notes shall no longer be outstanding for purposes of any section of this Agreement relating to the taking by the Holders of any actions with respect hereto, including, without limitation, Section 6.3, Section 6.4 and Section 7.1.

Section 5.14. Transactions with Affiliates. The Company will not, and will not permit any Subsidiary to, enter into or be a party to any transaction or arrangement with any Affiliate (including, without limitation, the purchase from, sale to or exchange of property with, or the rendering of any service by or for, any Affiliate), except in the ordinary course of and pursuant to the reasonable requirements of the Company's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would obtain in a comparable arm's-length transaction with a Person other than an Affiliate.

Section 5.15. Termination of Pension Plans. The Company will not and will not permit any Subsidiary to withdraw from any Multiemployer Plan or permit any employee benefit plan maintained by it to be terminated if such withdrawal or termination could result in withdrawal liability (as described in Part 1 of Subtitle E of Title IV of ERISA) or the imposition of a Lien on any property of the Company or any Subsidiary pursuant to Section 4068 of ERISA.

Section 5.16. Reports and Rights of Inspection. The Company will keep, and will cause each Subsidiary to keep, proper books of record and account in which full and correct entries will be made of all dealings or transactions of, or in relation to, the business and affairs of the Company or such Subsidiary, in accordance with GAAP consistently applied (except for changes disclosed in the financial statements furnished to the Holders pursuant to this Section 5.16 and concurred in by the independent public accountants referred to in Section 5.16(B)), and will furnish to each Institutional Holder (in duplicate if so specified below or otherwise requested):

(a) Quarterly Statements. Within 45 days after the end of each quarterly fiscal period (except the last) of each fiscal year, copies of:

(1) unaudited consolidated balance sheets of the Company and its Subsidiaries as of the close of such quarterly fiscal period, setting forth in comparative form the consolidated figures for the fiscal year then most recently ended,

(2) unaudited consolidated statements of income of the Company and its Subsidiaries for such quarterly fiscal period and for the portion of the fiscal year ending with such quarterly fiscal period, in each case setting forth in comparative form the consolidated figures for the corresponding periods of the preceding fiscal year, and

(3) unaudited consolidated statements of cash flows of the Company and its Subsidiaries for such quarterly fiscal period and for the portion of the fiscal year ending with such quarterly fiscal period, in each case setting forth in comparative form the consolidated figures for the corresponding periods of the preceding fiscal year, all in reasonable detail and certified as complete and correct by an authorized financial officer of the Company;

(b) Annual Statements. Within 90 days after the close of each fiscal year of the Company, copies of:

(1) consolidated balance sheets of the Company and its Subsidiaries as of the close of such fiscal year, and

(2) consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for such fiscal year, in each case setting forth in comparative form the consolidated figures for the preceding fiscal year, all in reasonable detail and accompanied by a report thereon of a firm of independent public accountants of recognized national standing selected by the Company to the effect that the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its Subsidiaries as of the end of the fiscal year being reported on and the consolidated results of the operations and cash flows for said year in conformity with GAAP and that the examination of such accountants in connection with such financial statements has been conducted in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as said accountants deemed necessary in the circumstances;

(c) Audit Reports. Promptly upon the request of any Holder, one copy of each interim or special audit made by independent accountants of the books of the Company or any Subsidiary and any management letter received from such accountants;

(d) SEC and Other Reports. Promptly upon their becoming available, one copy of each financial statement, report, notice or proxy statement sent by the Company to its creditors and stockholders generally and of each regular or periodic report, and any registration statement or prospectus filed by the Company or any Subsidiary with any securities exchange or the Securities and Exchange Commission or any successor agency, and copies of any orders in any proceedings to which the Company or any of its Subsidiaries is a party, issued by any governmental agency, Federal or state, having jurisdiction over the Company or any of its Subsidiaries;

(e) ERISA Reports. Promptly upon the occurrence thereof, written notice of (1) a Reportable Event with respect to any Plan; (2) the institution of any steps by the Company, any ERISA Affiliate, the PBGC or any other Person to terminate any Plan; (3) the institution of any steps by the Company or any ERISA Affiliate to withdraw from any Plan; (4) a non-exempt "prohibited transaction" within the meaning of Section 406 of ERISA in connection with any Plan; (5) any material increase in the contingent liability of the Company or any Subsidiary with respect to any post-retirement welfare liability; or (6) the taking of any action by, or the threatening of the taking of any action by, the Internal Revenue Service, the Department of Labor or the PBGC with respect to any of the foregoing;

(f) Officer's Certificates. Within the periods provided in paragraphs (a) and (b) above, a certificate of the chief financial officer of the Company stating that such officer has reviewed the provisions of this Agreement and setting forth: (1) the information and computations (in sufficient detail) required in order to establish whether the Company was in compliance with the requirements of Sections 5.6 through 5.9 at the end of the period covered by the

financial statements then being furnished, and (2) whether there existed as of the date of such financial statements and whether, to the best of such officer's knowledge, there exists on the date of the certificate or existed at any time during the period covered by such financial statements any Default or Event of Default and, if any such condition or event exists on the date of the certificate, specifying the nature and period of existence thereof and the action the Company is taking and proposes to take with respect thereto;

(g) Accountant's Certificates. Within the period provided in paragraph (b) above, a certificate of the accountants who render an opinion with respect to such financial statements, stating that they have reviewed this Agreement and stating further whether, in making their audit, such accountants have become aware of any Default or Event of Default under any of the terms or provisions of this Agreement insofar as any such terms or provisions pertain to or involve accounting matters or determinations, and if any such condition or event then exists, specifying the nature and period of existence thereof; and

(h) Requested Information. With reasonable promptness, such other data and information as any Institutional Holder may reasonably request.

Without limiting the foregoing, the Company will permit each Institutional Holder (or such Persons as such Institutional Holder may designate), to visit and inspect, under the Company's guidance, any of the properties of the Company or any Subsidiary, to examine all of their books of account, records, reports and other papers, to make copies and extracts therefrom and to discuss their respective affairs, finances and accounts with their respective officers, employees, and independent public accountants (and by this provision the Company authorizes said accountants to discuss with any Institutional Holder the finances and affairs of the Company and its Subsidiaries), all at such reasonable times and as often as may be reasonably requested. Any visitation shall be at the sole expense of such Institutional Holder, unless a Default or Event of Default shall have occurred and be continuing or any Holder or the holder of any other evidence of Indebtedness of the Company or any Subsidiary gives any written notice or takes any other action with respect to a claimed default, in which case, the out-of-pocket expenses incurred by each such Institutional Holder in connection with any such visitation or inspection shall be at the sole expense of the Company.

Section 5.17. ERISA Disclosure. The Company will create and attach hereto as Schedule III a complete list of all "employee benefit plans" (as defined in this Section 5.17) with respect to which the Company is a "party in interest" (as defined in this Section 5.17) or in respect of which the Notes could constitute an "employer security" (as defined in this Section 5.17). The Company will update such list to add any "employee benefit plans" with respect to which the Company becomes a "party in interest" after closing and before the later of (i) full prepayment, or (ii) sale of the Notes by the Purchaser. As used in this Section 5.17, the terms "employee benefit plan" and "party in interest" have the meaning specified in Section 3 of ERISA, and "employer security" has the meaning specified in Section V of PTE 95-60, published at 60 FR 35925, July 12, 1995.

#### Section 6. Events of Default and Remedies Therefor.

Section 6.1. Events of Default. Any one or more of the following shall constitute an "Event of Default" as such term is used herein:

(a) Default shall occur in the payment of interest on any Note when the same shall have become due and such default shall continue for more than five Business Days; or

(b) Default shall occur in the making of any required prepayment on any of the Notes as provided in Section 2.1; or

(c) Default shall occur in the making of any other payment of the principal of any Note or premium, if any, thereon at the expressed or any accelerated maturity date or at any date fixed for prepayment; or

(d) Default shall occur in the observance or performance of any covenant or agreement contained in Section 5.6 through Section 5.10; or

(e) Default shall occur in the observance or performance of any other provision of this Agreement which is not remedied within 30 days after the earlier of (1) the day on which a Responsible Officer of the Company first obtains knowledge of such default, or (2) the day on which written notice thereof is given to the Company by any Holder; or

(f) Default shall be made in the payment when due (whether by lapse of time, by declaration, by call for redemption or otherwise) of the principal of or interest on any Debt (other than the Notes) of the Company or any Subsidiary aggregating in excess of \$5,000,000 and such default shall continue beyond the period of grace, if any, allowed with respect thereto; or

(g) Default or the happening of any event shall occur under any indenture, agreement or other instrument under which any Debt (other than the Notes) of the Company or any Subsidiary aggregating in excess of \$5,000,000 may be issued and



such default or event results in the acceleration of the maturity of any such Debt of the Company or any Subsidiary outstanding thereunder or the Company or such Subsidiary; or

(h) Any representation or warranty made by the Company herein, or made by the Company in any statement or certificate furnished by the Company in connection with the consummation of the issuance and delivery of the Notes or furnished by the Company pursuant hereto, is untrue in any material respect as of the date of the issuance or making thereof; or

(i) Final judgment or judgments for the payment of money aggregating in excess of \$1,000,000 is or are outstanding against the Company or any Subsidiary or against any property or assets of either and any one of such judgments has remained unpaid, unvacated, unbonded or unstayed by appeal or otherwise for a period of 45 days from the date of its entry; or

(j) A custodian, liquidator, trustee or receiver is appointed for the Company or any Material Subsidiary or for the major part of the property of either and is not discharged within 60 days after such appointment; or

(k) The Company or any Material Subsidiary becomes insolvent or bankrupt, is generally not paying its debts as they become due or makes an assignment for the benefit of creditors, or the Company or any Material Subsidiary applies for or consents to the appointment of a custodian, liquidator, trustee or receiver for the Company or such Material Subsidiary or for the major part of the property of either; or

(l) Bankruptcy, reorganization, arrangement or insolvency proceedings, or other proceedings for relief under any bankruptcy or similar law or laws for the relief of debtors, are instituted by or against the Company or any Material Subsidiary and, if instituted against the Company or any Material Subsidiary, are consented to or are not dismissed within 60 days after such institution.

Section 6.2. Notice to Holders. When any Event of Default described in the foregoing Section 6.1 has occurred, or if any Holder or the holder of any other evidence of Debt of the Company or any Subsidiary gives any notice or takes any other action with respect to a claimed default, the Company agrees to give notice within three Business Days of such event to all Holders.

Section 6.3. Acceleration of Maturities. When any Event of Default described in paragraph(a), (b) or (c) of Section 6.1 has happened and is continuing, any Holder may, by notice in writing sent to the Company in the manner provided in Section 9.6, declare the entire principal and all interest accrued on the Notes held by such Holder to be, and such Notes shall thereupon become forthwith due and payable, without any presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived. When any Event of Default described in paragraphs (a) through (i), inclusive, of said Section 6.1 has happened and is continuing, any Holder or Holders holding at least 25% in aggregate principal amount of the outstanding Notes may, by notice in writing to the Company in the manner provided in Section 9.6, declare the entire principal and all interest accrued on all Notes to be, and all Notes shall thereupon become, forthwith due and payable, without any presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived. When any Event of Default described in paragraph(j), (k) or (l) of Section 6.1 has occurred, then the entire principal of and all interest accrued on all outstanding Notes shall immediately become due and payable without presentment, demand or notice of any kind. Upon the Notes becoming due and payable as a result of any Event of Default as aforesaid, the Company will forthwith pay to the Holders the entire principal and interest accrued on the Notes and, to the extent not prohibited by applicable law, an amount as liquidated damages for the loss of the bargain evidenced hereby (and not as a penalty) equal to the Make-Whole Amount, determined as of the date on which the Notes shall so become due and payable. No course of dealing on the part of a Holder or any delay or failure on the part of any Holder to exercise any right shall operate as a waiver of such right or otherwise prejudice such Holder's rights, powers and remedies. The Company further agrees, to the extent permitted by law, to pay to each Holder all costs and expenses incurred by them in the collection of any Notes upon any default hereunder or thereon, including reasonable compensation to such Holder's or Holders' attorneys for all services rendered in connection therewith.

Section 6.4. Rescission of Acceleration. The provisions of Section 6.3 are subject to the condition that if the principal of and accrued interest on all outstanding Notes have been declared immediately due and payable by reason of the occurrence of any Event of Default described in paragraphs(a) through (i), inclusive, of Section 6.1, the Holders holding at least 66-2/3% in aggregate principal amount of the outstanding Notes may, by written instrument filed with the Company, rescind and annul such declaration and the consequences thereof, provided that at the time such declaration is annulled and rescinded:

(a) no judgment or decree has been entered for the payment of any monies due pursuant to the Notes or this Agreement;

(b) all arrears of interest upon all the Notes and all other sums payable under the Notes and under this Agreement (except any principal, interest or

premium on the Notes which has become due and payable solely by reason of such declaration under Section 6.3) shall have been duly paid; and

(c) each and every other Default and Event of Default shall have been made good, cured or waived pursuant to Section 7.1;

and provided further, that no such rescission and annulment shall extend to or affect any subsequent Default or Event of Default or impair any right consequent thereto.

#### Section 7. Amendments, Waivers and Consents.

Section 7.1. Consent Required. Any term, covenant, agreement or condition of this Agreement may, with the consent of the Company, be amended or compliance therewith may be waived (either generally or in a particular instance and either retroactively or prospectively), if the Company shall have obtained the consent in writing of the Holders holding at least 66-2/3% in aggregate principal amount of the outstanding Notes; provided that without the written consent of all of the Holders, no such amendment or waiver shall be effective (a) which will change the time of payment (including any prepayment required by Section 2.1) of the principal of or the interest on any Note or change the principal amount thereof or change the rate of interest thereon or change the maturity date on any Note, or (b) which will change any of the provisions with respect to optional prepayments, or (c) which will change the percentage of Holders required to consent to any such amendment or waiver of any of the provisions of this Section 7 or Section 6.

Section 7.2. Solicitation of Holders. So long as there are any Notes outstanding, the Company will not solicit, request or negotiate for or with respect to any proposed waiver or amendment of any of the provisions of this Agreement or the Notes unless each Holder (irrespective of the amount of Notes then owned by it) shall be informed thereof by the Company and shall be afforded the opportunity of considering the same and shall be supplied by the Company with sufficient information to enable it to make an informed decision with respect thereto. The Company will not, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, to any Holder as consideration for or as an inducement to entering into by such Holder of any waiver or amendment of any of the terms and provisions of this Agreement or the Notes unless such remuneration is concurrently offered, on the same terms, ratably to all Holders whether or not each Holder consents to such proposed waiver or amendment. Promptly and in any event within 30 days of the date of execution and delivery of any such waiver or amendment, the Company shall provide a true, correct and complete copy thereof to each of the Holders.

Section 7.3. Effect of Amendment or Waiver. Any such amendment or waiver shall apply equally to all of the Holders and shall be binding upon them, upon each future Holder and upon the Company, whether or not such Note shall have been marked to indicate such amendment or waiver. No such amendment or waiver shall extend to or affect any obligation not expressly amended or waived or impair any right consequent thereon.

#### Section 8. Interpretation of Agreement; Definitions'.

Section 8.1. Definitions. Unless the context otherwise requires, the terms hereinafter set forth when used herein shall have the following meanings and the following definitions shall be equally applicable to both the singular and plural forms of any of the terms herein defined:

"Affiliate" shall mean any Person (other than a Subsidiary) (a) which directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, the Company, (b) which beneficially owns or holds 5% or more of any class of the Voting Stock of the Company or (c) 5% or more of the Voting Stock (or in the case of a Person which is not a corporation, 5% or more of the equity interest) of which is beneficially owned or held by the Company or a Subsidiary. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of Voting Stock, by contract or otherwise.

"Agreement" shall mean this Note Agreement dated as of September 1, 1995 among the Company and the Purchaser.

"Business Day" shall mean any day other than a Saturday, Sunday or other day on which banks in Chicago, Illinois or Elkhart, Indiana are required by law to close or are customarily closed.

"Capitalized Lease" shall mean any lease the obligation for Rentals with respect to which is required to be capitalized on a consolidated balance sheet of the lessee and its subsidiaries in accordance with GAAP.

"Capitalized Rentals" of any Person shall mean as of the date of any determination thereof the amount at which the aggregate Rentals due and to become due under all Capitalized Leases under which such Person is a lessee would be reflected as a liability on a consolidated balance sheet of such

Person.

"Change of Control" shall mean and include each and every issue, transfer or other disposition of shares of the stock of the Company (including, without limitation, pursuant to a merger or consolidation otherwise permitted hereunder) which results in a Person or a Group (other than the Current Management Group) beneficially owning or controlling, directly or indirectly, greater than 50% of the Voting Stock of the Company.

"Change of Control Delayed Prepayment Date" shall have the meaning set forth in Section 2.3.

"Change of Control Prepayment Date" shall have the meaning set forth in Section 2.3.

"Closing Date" shall have the meaning set forth in Section 1.2.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the regulations from time to time promulgated thereunder.

"Company" shall mean Patrick Industries, Inc., an Indiana corporation, and any Person who succeeds to all, or substantially all, of the assets and business of Patrick Industries, Inc.

"Company Notice" shall have the meaning set forth in Section 2.3.

"Consolidated Adjusted Net Worth" shall mean, as of the date of any determination thereof, the aggregate amount of stockholders' equity, preferred stock, Minority Interests and deferred tax credits of the Company and its Subsidiaries set forth in the most recent quarterly or annual consolidated financial statements of the Company and its Subsidiaries increased by an amount equal to the SFAS 106 Adjustment and reduced by the positive amount, if any, by which the aggregate amount of all Consolidated Intangible Assets entered on the accounts of the Company and its Subsidiaries after the Closing Date on a consolidated basis exceeds 10% of Consolidated Total Assets set forth in such financial statements.

"Consolidated Funded Debt" shall mean without duplication all Funded Debt of the Company and its Subsidiaries, determined on a consolidated basis after eliminating intercompany items.

"Consolidated Intangible Assets" shall mean as of the date of any determination thereof the total amount of all goodwill, patents, trade names, trade marks, copyrights, franchises, experimental expense, organization expense, unamortized debt discount and expense, deferred assets other than prepaid insurance and prepaid taxes, the excess of cost of shares acquired over book value of related assets and such other assets of the Company and its Subsidiaries determined on a consolidated basis as are properly classified as "intangible assets" in accordance with GAAP.

"Consolidated Net Earnings" for any period shall mean the gross revenues of the Company and its Subsidiaries for such period less all expenses and other proper charges (including taxes on income), determined on a consolidated basis after eliminating earnings or losses attributable to outstanding Minority Interests, but excluding in any event:

(a) any gains or losses on the sale or other disposition of Investments or fixed or capital assets, and any taxes on such excluded gains and any tax deductions or credits on account of any such excluded losses;

(b) the proceeds of any life insurance policy;

(c) net earnings and losses of any Subsidiary accrued prior to the date it became a Subsidiary;

(d) net earnings and losses of any corporation (other than a Subsidiary), substantially all the assets of which have been acquired in any manner by the Company or any Subsidiary, realized by such corporation prior to the date of such acquisition;

(e) net earnings and losses of any corporation (other than a Subsidiary) with which the Company or a Subsidiary shall have consolidated or which shall have merged into or with the Company or a Subsidiary prior to the date of such consolidation or merger;

(f) net earnings of any business entity (other than a Subsidiary) in which the Company or any Subsidiary has an ownership interest unless such net earnings shall have actually been received by the Company or such Subsidiary in the form of cash distributions;

(g) any portion of the net earnings of any Subsidiary which for any reason is unavailable for payment of dividends to the Company or any other Subsidiary;

(h) earnings resulting from any reappraisal, revaluation or write-up of assets;

(i) any deferred or other credit representing any excess of the equity in any Subsidiary at the date of acquisition thereof over the amount invested in such Subsidiary;

(j) any gain arising from the acquisition of any Securities of the Company or any Subsidiary;

(k) any reversal of any contingency reserve, except to the extent that provision for such contingency reserve shall have been made from income arising during such period; and

(l) any other extraordinary gain or loss.

"Consolidated Total Assets" shall mean as of the date of any determination thereof the total amount of all assets of the Company and its Subsidiaries determined on a consolidated basis in accordance with GAAP.

"Consolidated Total Capitalization" shall mean as of the date of any determination thereof, the sum of (a) Consolidated Funded Debt plus (b) Consolidated Adjusted Net Worth.

"Current Management Group" shall mean (i) Mervin Lung, David Lung, Thomas Baer, Keith Kankel and Harold Wyland or (ii) any Group which includes and is under the general direction and control of two or more of the above-named persons.

"Debt of any Person" shall mean and include all obligations of such Person for borrowed money which in accordance with GAAP shall be classified upon a balance sheet of such Person as liabilities of such Person, and in any event shall include (without duplication) all (a) obligations of such Person for borrowed money or obligations of such Person for borrowed money which have been incurred in connection with the acquisition of property or assets, (b) obligations for borrowed money secured by any Lien upon property or assets owned by such Person, even though such Person has not assumed or become liable for the payment of such obligations, (c) obligations for borrowed money created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person, notwithstanding the fact that the rights and remedies of the seller, lender or lessor under such agreement in the event of default are limited to repossession or sale of property, (d) Capitalized Rentals, (e) Guaranties of obligations of others of the character referred to in this definition, and (f) the redemption obligations in respect of such Person's Redeemable Preferred Stock; provided that "Debt" shall not include the Unfunded Pension Liability of the Plans of the Company and its Subsidiaries which amount, as of the Closing Date, is reflected in Schedule II hereto.

"Default" shall mean any event or condition the occurrence of which would, with the lapse of time or the giving of notice, or both, constitute an Event of Default.

"Environmental Law" shall mean any international, federal, state or local statute, law, regulation, order, consent decree, judgment, permit, license, code, covenant, deed restriction, common law, treaty, convention, ordinance or other requirement relating to public health, safety or the environment, including, without limitation, those relating to releases, discharges or emissions to air, water, land or groundwater, to the withdrawal or use of groundwater, to the use and handling of polychlorinated biphenyls or asbestos, to the disposal, treatment, storage or management of hazardous or solid waste, or Hazardous Substances or crude oil, or any fraction thereof, or to exposure to toxic or hazardous materials, to the handling, transportation, discharge or release of gaseous or liquid Hazardous Substances and any regulation, order, notice or demand issued pursuant to such law, statute or ordinance, in each case applicable to the property of the Company and its Subsidiaries or the operation, construction or modification of any thereof, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and the Hazardous and Solid Waste Amendments of 1984, the Hazardous Materials Transportation Act, as amended, the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1976, the Safe Drinking Water Control Act, the Clean Air Act of 1966, as amended, the Toxic Substances Control Act of 1976, the Emergency Planning and Community Right-to-Know Act of 1986, the National Environmental Policy Act of 1975, the Oil Pollution Act of 1990 and any similar or implementing state law, and any state statute and any further amendments to these laws providing for financial responsibility for cleanup or other actions with respect to the release or threatened release of Hazardous Substances or crude oil, or any fraction thereof, and all rules, regulations, guidance documents and publications promulgated thereunder.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, and any successor statute of similar import, together with the regulations thereunder, in each case as in effect from time to time. References to sections of ERISA shall be construed to also refer to any successor sections.

"ERISA Affiliate" shall mean any corporation, trade or business that is,

along with the Company, a member of a controlled group of corporations or a controlled group of trades or businesses, as described in Section 414(b) and 414(c), respectively, of the Code or Section 4001 of ERISA.

"Event of Default" shall have the meaning set forth in Section 6.1.

"Funded Debt" of any Person shall mean and include, as of the date of any determination thereof (and without duplication), (a) all Debt of such Person having a final maturity of more than one year from the date of issuance thereof (or which is renewable or extendible at the option of the obligor for a period or periods more than one year from the date of origin), including all payments in respect thereof (excluding any portion thereof constituting an interest payment) that are required to be made within one year from the date of any determination of Funded Debt, whether or not the obligation to make such payments shall constitute a current liability of the obligor under GAAP; (b) all Capitalized Rentals of such Person, and (c) all Guarantees by such Person of Funded Debt of others. "Funded Debt" shall not include Debt of such Person outstanding under any credit line, revolving credit or similar agreement (and renewals or extensions thereof) which Debt is fully paid (and not refinanced) for a period of not less than 30 consecutive days in the immediately preceding twelve calendar month period; provided, that at the time of or as a result of the making of any such payment, no Event of Default shall have occurred and be continuing at any time during such 30 consecutive day period.

"GAAP" shall mean generally accepted accounting principles at the time in the United States.

"Group" shall mean any group of related persons constituting a "group for the purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, or any successor provision.

"Guaranties" by any Person shall mean all obligations (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing, or in effect guaranteeing, any Indebtedness, dividend or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, all obligations incurred through an agreement, contingent or otherwise, by such Person: (a) to purchase such Indebtedness or obligation or any property or assets constituting security therefor, (b) to advance or supply funds (1) for the purchase or payment of such Indebtedness or obligation, or (2) to maintain working capital or any balance sheet or income statement condition or otherwise to advance or make available funds for the purchase or payment of such Indebtedness or obligation, (c) to lease property or to purchase Securities or other property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of the primary obligor to make payment of the Indebtedness or obligation, or (d) otherwise to assure the owner of the Indebtedness or obligation of the primary obligor against loss in respect thereof. For the purposes of all computations made under this Agreement, a Guaranty in respect of any Indebtedness for borrowed money shall be deemed to be Indebtedness equal to the principal amount of such Indebtedness for borrowed money which has been guaranteed, and a Guaranty in respect of any other obligation or liability or any dividend shall be deemed to be Indebtedness equal to the maximum aggregate amount of such obligation, liability or dividend.

"Hazardous Substance" shall mean any hazardous or toxic material, substance or waste, pollutant or contaminant which is regulated under any statute, law, ordinance, rule or regulation of any local, state, regional or federal authority having jurisdiction over the property of the Company and its Subsidiaries or its use, including but not limited to any material, substance or waste which is: (a) defined as a hazardous substance under the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1976; (b) regulated as a hazardous waste under the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and the Hazardous and Solid Waste Amendments of 1984; (c) defined as a hazardous substance under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986; or (d) defined or regulated as a hazardous substance or hazardous waste under any rules or regulations promulgated under any of the foregoing statutes.

"Holder" shall mean any Person which is, at the time of reference, the registered Holder of any Note.

"Indebtedness" of any Person shall mean and include all obligations of such Person which in accordance with GAAP shall be classified upon a balance sheet of such Person as liabilities of such Person, and in any event shall include all (a) obligations of such Person for borrowed money or which have been incurred in connection with the acquisition of property or assets, (b) obligations secured by any Lien upon property or assets owned by such Person, even though such Person has not assumed or become liable for the payment of such obligations, (c) obligations created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person, notwithstanding the fact that the rights and remedies of the seller, lender or

lessor under such agreement in the event of default are limited to repossession or sale of property, (d) Capitalized Rentals and (e) Guaranties of obligations of others of the character referred to in this definition.

"Institutional Holder" shall mean any Holder which is a Purchaser or any of the following: (a) a bank, savings and loan association, savings institution, trust company or national banking association, acting for its own account or in a fiduciary capacity, (b) a charitable foundation, (c) an insurance company, (d) a fraternal benefit society, (e) a pension, retirement or profit-sharing trust or fund within the meaning of Title I of ERISA or for which any bank, trust company, national banking association or investment adviser registered under the Investment Advisers Act of 1940, as amended, is acting as trustee or agent, (f) an investment company or business development company, as defined in the Investment Company Act of 1940, as amended, (g) a small business investment company licensed under the Small Business Investment Act of 1958, as amended, (h) a broker or dealer registered under the Securities Exchange Act of 1934, as amended, or any investment adviser registered under the Investment Advisers Act of 1940, as amended, (i) a government, a public employees' pension or retirement system, or any other government agency supervising the investment of public funds, (j) any other entity all of the equity owners of which are Institutional Holders or (k) any other Person which may be within the definition of "qualified institutional buyer" as such term is used in Rule 144A, as from time to time in effect, promulgated under the Securities Act of 1933, as amended.

"Investments" shall mean all investments, in cash or by delivery of property, made directly or indirectly in any Person or any property, whether by acquisition of shares of capital stock, Indebtedness or other obligations or Securities or by loan, advance, capital contribution or otherwise; provided that

"Investments" shall not mean or include routine investments in property to be used or consumed in the ordinary course of business.

"Lien" shall mean any interest in property securing an obligation owed to, or a claim by, a Person other than the owner of the property, whether such interest is based on the common law, statute or contract, and including but not limited to the security interest lien arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term "Lien" shall include reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances (including, with respect to stock, stockholder agreements, voting trust agreements, buy-back agreements and all similar arrangements) affecting property. For the purposes of this Agreement, the Company or a Subsidiary shall be deemed to be the owner of any property which it has acquired or holds subject to a conditional sale agreement, Capitalized Lease or other arrangement pursuant to which title to the property has been retained by or vested in some other Person for security purposes and such retention or vesting shall constitute a Lien.

"Make-Whole Amount" shall mean in connection with any prepayment or acceleration of the Notes the excess, if any, of (a) the aggregate present value as of the date of such prepayment or payment of each dollar of principal being prepaid or paid (taking into account the application of such prepayment or payment required by Section 2.1) and the amount of interest (exclusive of interest accrued to the date of prepayment or payment) that would have been payable in respect of such dollar if such prepayment or payment had not been made, determined by discounting such amounts at the Reinvestment Rate from the respective dates on which they would have been payable, over (b) 100% of the principal amount of the outstanding Notes being prepaid or paid. If the Reinvestment Rate is equal to or higher than 6.82%, the Make-Whole Amount shall be zero. For purposes of any determination of the Make-Whole Amount:

"Reinvestment Rate" shall mean (1) the sum of .60%, plus the yield reported on page 500 of the Telerate Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intra day trading in the United States government Securities) at 11:00 A.M. (New York time) for the United States government Securities having a maturity (rounded to the nearest month) corresponding to the remaining Weighted Average Life to Maturity of the principal being prepaid or paid (taking into account the application of such prepayment or payment required by Section 2.1) or (2) in the event that no nationally recognized trading screen reporting on-line intraday trading in the United States government Securities is available, Reinvestment Rate shall mean the sum of .60%, plus the arithmetic mean of the yields for the two columns under the heading "Week Ending" published in the Statistical Release under the caption "Treasury Constant Maturities" for the maturity (rounded to the nearest month) corresponding to the Weighted Average Life to Maturity of the principal being prepaid or paid (taking into account the application of such prepayment or payment required by Section 2.1). If no maturity exactly corresponds to such Weighted Average Life to Maturity, yields for the two published maturities most closely corresponding to such Weighted Average Life to Maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For the purposes of calculating the "Reinvestment Rate," the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

"Statistical Release" shall mean the then most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded U.S. Government Securities adjusted to constant maturities or, if such statistical release is not published at the time of any determination hereunder, then such other reasonably comparable index which shall be designated by the Holders holding at least 66-2/3% in aggregate principal amount of the outstanding Notes.

"Weighted Average Life to Maturity" of the principal amount of the Notes being prepaid or paid shall mean, as of the time of any determination thereof, the number of years obtained by dividing the then Remaining Dollar-Years of such principal by the aggregate amount of such principal. The term "Remaining Dollar-Years" of such principal shall mean the amount obtained by (1) multiplying (i) the remainder of (A) the amount of principal that would have become due on each scheduled payment date if such prepayment or payment had not been made, less (B) the amount of principal on the Notes scheduled to become due on such date after giving effect to such prepayment or payment and the application thereof in accordance with the provisions of Section 2.1, by (ii) the number of years (calculated to the nearest one-twelfth) which will elapse between the date of determination and such scheduled payment date, and (2) totalling the products obtained in (1).

"Material Adverse Effect" shall mean a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes, or (c) the validity or enforceability of this Agreement or the Notes.

"Material Subsidiary" shall mean any Subsidiary or group of Subsidiaries the gross revenues or assets of which constitute 3% or more of the gross revenues of the Company and its Subsidiaries determined on a consolidated basis or Consolidated Total Assets, as the case may be.

"Minority Interests" shall mean any shares of stock of any class of a Subsidiary (other than directors' qualifying shares as required by law) that are not owned by the Company and/or one or more of its Subsidiaries. Minority Interests shall be valued by valuing Minority Interests constituting preferred stock at the voluntary or involuntary liquidating value of such preferred stock, whichever is greater, and by valuing Minority Interests constituting common stock at the book value of capital and surplus applicable thereto adjusted, if necessary, to reflect any changes from the book value of such common stock required by the foregoing method of valuing Minority Interests in preferred stock.

"Multiemployer Plan" shall have the same meaning as in ERISA.

"Noteholder Notice" shall have the meaning set forth in Section 2.3.

"Overdue Rate" shall mean the lesser of (a) the maximum interest rate permitted by law and (b) the greater of (1) 8.82% per annum and (2) the rate per annum which Morgan Guaranty Trust Company of New York announces from time to time as its prime lending rate as in effect from time to time plus 2%.

"PBGC" shall mean the "Pension Benefit Guaranty Corporation" and any entity succeeding to any or all of its functions under ERISA.

"Person" shall mean an individual, partnership, limited liability company, corporation, trust or unincorporated organization, and a government or agency or political subdivision thereof.

"Plan" shall mean a "pension plan, as such term is defined in ERISA, established or maintained by the Company or any ERISA Affiliate or as to which the Company or any ERISA Affiliate contributed or is a member or otherwise may have any liability.

"Preferred Stock" shall mean, in respect of any corporation, shares of the capital stock of such corporation that are entitled to preference or priority over any other shares of the capital stock of such corporation in respect of payment of dividends or distribution of assets upon liquidation.

"Priority Debt" shall mean and include, as of the date of any determination, the sum of (a) Funded Debt of Subsidiaries plus (without duplication) (b) Funded Debt of the Company or any Subsidiary secured by a Lien which is incurred after the Closing Date and which is not otherwise permitted under Sections 5.8(A)(1) through (A)(7).

"Property" shall mean any interest in any kind of Property or asset, whether real, personal or mixed, or tangible or intangible.

"Purchasers" shall have the meaning set forth in the introductory paragraph of this Agreement.

"Redeemable" shall mean, with respect to the capital stock of any Person,

each share of such Person's capital stock that is: (a) redeemable, payable or required to be purchased or otherwise retired or extinguished, or convertible into Debt of such Person (i) at a fixed or determinable date, whether by operation of a sinking fund or otherwise, (ii) at the option of any Person other than such Person, or (iii) upon the occurrence of a condition not solely within the control of such Person; or (b) convertible into other Redeemable capital stock.

"Rentals" shall mean and include as of the date of any determination thereof all fixed payments (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the property) payable by the Company or a Subsidiary, as lessee or sublessee under a lease of real or personal property, but shall be exclusive of any amounts required to be paid by the Company or a Subsidiary (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Fixed rents under any so-called "percentage leases" shall be computed solely on the basis of the minimum rents, if any, required to be paid by the lessee regardless of sales volume or gross revenues.

"Reportable Event" shall have the same meaning as in ERISA.

"Responsible Officer" shall mean the President or the Vice President, Finance of the Company.

"Security" shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

"SFAS 106" shall mean Statement of Financial Accounting Standards No. 106, Employer's Accounting for Postretirement Benefits Other Than Pensions, issued by the Financial Accounting Standards Board.

"SFAS 106" Adjustment Amount shall mean that amount reflected on each of the most recent audited consolidated balance sheet of the Company and its Subsidiaries reflecting the application of SFAS 106 reduced by any deferred tax asset related to such SFAS 106 Adjustment Amount determined in accordance with GAAP.

The term "subsidiary" shall mean as to any particular parent corporation any corporation of which more than 50% (by number of votes) of the Voting Stock shall be beneficially owned, directly or indirectly, by such parent corporation. The term "Subsidiary" shall mean a subsidiary of the Company.

"Unfunded Pension Liability" of any Plan means the amount, if any, by which the actuarial present value of the accumulated plan benefits under the Plan as of the close of its most recent plan year, determined in accordance with statement of Financial Accounting Standards No. 35, based upon the actuarial assumptions used by the Plan's actuary in the most recent annual valuation of the Plan, exceeds the fair market value of the assets allocable thereto, determined in accordance with Section 412 of the Code.

"Voting Stock" shall mean Securities of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors (or Persons performing similar functions).

"Wholly-owned" when used in connection with any Subsidiary shall mean a Subsidiary of which all of the issued and outstanding shares of stock (except shares required as directors' qualifying shares) and all Indebtedness for borrowed money shall be owned by the Company and/or one or more of its Wholly-owned Subsidiaries.

Section 8.2. Accounting Principles. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, the same shall be done in accordance with GAAP, to the extent applicable, except where such principles are inconsistent with the requirements of this Agreement.

Section 8.3. Directly or Indirectly. Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether the action in question is taken directly or indirectly by such Person.

Section 9. Miscellaneous.

Section 9.1. Registered Notes. The Company shall cause to be kept at its principal office a register for the registration and transfer of the Notes, and the Company will register or transfer or cause to be registered or transferred, as hereinafter provided, any Note issued pursuant to this Agreement.

At any time and from time to time any Holder which has been duly registered as hereinabove provided may transfer its Note upon surrender thereof at the principal office of the Company duly endorsed or accompanied by a written instrument of transfer duly executed by such Holder or its attorney duly authorized in writing.



The Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof and a Holder for all purposes of this Agreement. Payment of or on account of the principal, premium, if any, and interest on any Note shall be made to or upon the written order of such Holder.

Section 9.2. Exchange of Notes. At any time and from time to time, upon not less than five days' notice to that effect given by a Holder holding any Note initially delivered or any Note substituted therefor pursuant to Section 9.1, this Section 9.2 or Section 9.3, and, upon surrender of such Note at its office, the Company will deliver in exchange therefor, without expense to such Holder, except as set forth below, a Note for the same aggregate principal amount as the then unpaid principal amount of the Note so surrendered, or Notes in the denomination of \$1,000,000 (or such lesser amount as shall constitute 100% of the Notes of such Holder) or any amount in excess thereof as such Holder shall specify, dated the date to which interest has been paid on the Note so surrendered or, if such surrender is prior to the payment of any interest thereon, then dated the date of issue, registered in the name of such Person or Persons as may be designated by such Holder, and otherwise of the same form and tenor as the Notes so surrendered for exchange. The Company may require the payment of a sum sufficient to cover any stamp tax or governmental charge imposed upon such exchange or transfer.

Section 9.3. Loss, Theft, Etc. of Notes. Upon receipt of evidence satisfactory to the Company of the loss, theft, mutilation or destruction of any Note, and in the case of any such loss, theft or destruction upon delivery of a bond of indemnity in such form and amount as shall be reasonably satisfactory to the Company, or in the event of such mutilation upon surrender and cancellation of the Note, the Company will make and deliver without expense to the Holder thereof, a new Note, of like tenor, in lieu of such lost, stolen, destroyed or mutilated Note. If an Institutional Holder is the owner of any such lost, stolen or destroyed Note, then the affidavit of an authorized officer of such owner, setting forth the fact of loss, theft or destruction and of its ownership of such Note at the time of such loss, theft or destruction shall be accepted as satisfactory evidence thereof and no further indemnity shall be required as a condition to the execution and delivery of a new Note other than the written agreement of such owner to indemnify the Company.

Section 9.4. Expenses, Stamp Tax Indemnity. Whether or not the transactions herein contemplated shall be consummated, the Company agrees to pay directly all of the Purchaser's out-of-pocket expenses in connection with the preparation, execution and delivery of this Agreement and the transactions contemplated hereby, including but not limited to the charges and disbursements of Chapman and Cutler, special counsel to the Purchaser, duplicating and printing costs and charges for shipping the Notes, adequately insured to the Purchaser's home office or at such other place as the Purchaser may designate, and all such expenses of the Holders relating to any amendments, waivers or consents pursuant to the provisions hereof (whether or not the same are actually executed and delivered), including, without limitation, any amendments, waivers, or consents resulting from any work-out, renegotiation or restructuring relating to the performance by the Company of its obligations under this Agreement and the Notes. The Company also agrees to pay, within five Business Days of receipt thereof, supplemental statements of Chapman and Cutler for disbursements unposted or not incurred as of the Closing Date. The Company further agrees that it will pay and save the Purchaser harmless against any and all liability with respect to stamp and other taxes, if any, which may be payable or which may be determined to be payable in connection with the execution and delivery of this Agreement or the Notes, whether or not any Notes are then outstanding. The Company agrees to protect and indemnify the Purchaser against any liability for any and all brokerage fees and commissions payable or claimed to be payable to any Person in connection with the transactions contemplated by this Agreement. Without limiting the foregoing, the Company agrees to pay the cost of obtaining the private placement number for the Notes and authorizes the submission of such information as may be required by Standard & Poor's CUSIP Service Bureau for the purpose of obtaining such number.

Section 9.5. Powers and Rights Not Waived; Remedies Cumulative'. No delay or failure on the part of any Holder in the exercise of any power or right shall operate as a waiver thereof; nor shall any single or partial exercise of the same preclude any other or further exercise thereof, or the exercise of any other power or right, and the rights and remedies of each Holder are cumulative to, and are not exclusive of, any rights or remedies any such Holder would otherwise have.

Section 9.6. Notices. All communications provided for hereunder shall be in writing and, if to a Holder, delivered or mailed prepaid by registered or certified mail or overnight air courier, or by facsimile communication, in each case addressed to such Holder at its address appearing on Schedule I to this Agreement or such other address as such Holder may designate to the Company in writing, and if to the Company, delivered or mailed by registered or certified mail or overnight air courier, or by facsimile communication, to the Company at 1800 South 14th Street, Elkhart, Indiana 46515, Attention: Secretary, or to such other address as the Company may in writing designate to the Holders; provided, however, that a notice to a Holder by overnight air courier shall only be effective if delivered to such Holder at a street address designated for such purpose in accordance with this Section, a notice to a Holder by facsimile

communication shall only be effective if confirmed by transmission of a copy thereof by prepaid overnight air courier as set forth above and a notice to a Holder by registered or certified mail shall only be effective upon actual receipt thereof.

Section 9.7. Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns and shall inure to the benefit of the Purchaser and its successors and assigns, including each successive Holder.

Section 9.8. Survival of Covenants and Representations. All covenants, representations and warranties made by the Company herein and in any certificates delivered pursuant hereto, whether or not in connection with the Closing Date, shall survive the closing and the delivery of this Agreement and the Notes.

Section 9.9. Severability. Should any part of this Agreement for any reason be declared invalid or unenforceable, such decision shall not affect the validity or enforceability of any remaining portion, which remaining portion shall remain in force and effect as if this Agreement had been executed with the invalid or unenforceable portion thereof eliminated.

Section 9.10. Governing Law. This Agreement and the Notes issued and sold hereunder shall be governed by and construed in accordance with Illinois law, including all matters of construction, validity and performance.

Section 9.11. Submission to Jurisdiction. Any legal action or proceeding with respect to this Agreement or the Notes or any document related thereto shall be brought in the courts of the State of Illinois or of the United States of America for the Northern District of Illinois and in no other courts, and, by execution and delivery of this Agreement, the Company hereby accepts for itself and in respect of its property generally and unconditionally, the jurisdiction of the aforesaid courts. The Company hereby irrevocably and unconditionally waives any objection, including, without limitation, any objection to the laying of venue or based on the grounds of forum non conveniens which it may now or hereafter have to the bringing of any action or proceeding in such respective jurisdiction.

Section 9.12. Captions. The descriptive headings of the various Sections or parts of this Agreement are for convenience only and shall not affect the meaning or construction of any of the provisions hereof.

Section 9.13. Additional Indebtedness. Subject to the terms and provisions hereof, the Company may, from time to time, issue and sell additional senior promissory notes and may, in connection with the documentation thereof, incorporate by reference various provisions of this Agreement. Such incorporation by reference shall not modify, dilute or otherwise affect the terms and provisions hereof including, without limitation, the priority of the Notes and the percentage of the Notes required to approve an amendment or effectuate a waiver under the provisions of Section 7 or the percentages of the Notes required to accelerate the Notes or rescind such an acceleration under provisions of Section 6.

The execution hereof by the Purchaser shall constitute a contract between the Company and the Purchaser for the uses and purposes hereinabove set forth, and this Agreement may be executed in any number of counterparts, each executed counterpart constituting an original but all together only one agreement.

Signature Page;

Patrick Industries, Inc.

By  
Its

Accepted as of September, 1995.

Nationwide Life Insurance Company

By  
Its

The execution hereof by the Purchaser shall constitute a contract between

the Company and the Purchaser for the uses and purposes hereinabove set forth,  
and this Agreement may be executed in any number of counterparts, each executed  
counterpart constituting an original but all together only one agreement.

Signature Page;

Patrick Industries, Inc.

By /s/ David D. Lung  
Its President

Accepted as of September 14, 1995.

Nationwide Life Insurance Company

By /s/ Jeffrey G. Milburn  
Its Vice President  
Corporate Fixed-Income Securities

COMMERCIAL LEASE

THIS INDENTURE WITNESSETH, that MERVIN LUNG BUILDING COMPANY, INC., an Indiana corporation with principal offices in St. Joseph County, Indiana, hereinafter referred to as "LESSOR", leases to PATRICK INDUSTRIES, INC., an Indiana corporation with principal offices in Elkhart County, Indiana, hereinafter referred to as "LESSEE, for and in consideration of the covenants and agreements hereinafter mentioned, that real estate located in Elkhart County, Indiana, commonly described as 1910-1926 W. Lusher, 1930 W. Lusher Avenue, 2024 1/2 W. Lusher, and 2044 W. Lusher Avenue, and more particularly described on Exhibit "A" attached hereto and made a part hereof, to have and to hold unto the Lessee from October 1, 1995, to and including September 30, 2005, and the Lessee in consideration of said grant does hereby covenant and agree with the Lessor as follows:

1. That Lessee represents it will use said premises for manufacturing, warehousing and office purposes only, all in conformity with applicable ordinances, laws, and regulations.

2. Lessee will pay as basic rent for said premises during the first twenty-four (24) months of the lease, the sum of Six Hundred Sixty-seven Thousand Two Hundred Twenty-four (\$667,224.00) Dollars to Lessor at such place as the Lessor from time to time hereafter may designate in writing in equal monthly installments of Twenty-seven Thousand Eight Hundred One (\$27,801.00) Dollars commencing on the 1st day of October, 1995, and on the first (1st) day of each succeeding month thereafter to and including the 1st day of September, 1997.

Rent for the period commencing October 1, 1997, and ending September 30, 2001, and again commencing October 1, 2001 and ending September 30, 2005, shall be adjusted upward by an amount equal to the total percentage accumulated change in the consumer Price Index (the "CPI") occurring during the period from October 1, 1995, provided that, in no event shall said increase exceed one hundred twenty percent (120%) of the total basic rent for the first twenty-four (24) months of the lease.

For the purpose of computing said basic rent for the adjustment period, the Base Index CPI shall, for all purposes, be the Base Index = All Items, United States Consumer Price Index published by the United States Department of Labor for the month of October, 1995. The Current Index Number shall be the similar number from the same or similar publication published for the latest adjustment date, October 1, 1997 or October 1, 2001, as applicable.

To determine the basic rent increase, the Current Index Number shall be divided by the Base Index Number, and the resultant amount above the numeral one (1), if any, multiplied by Twenty-seven Thousand Eight Hundred One (\$27,801.00) Dollars shall be deemed for all purposes to be the monthly basic rent for the next period of the lease.

Notwithstanding anything to the contrary contained herein, monthly basic rent for the subsequent periods shall not be less than monthly basic rent for the first twenty-four (24) months of the release irrespective of the percentage of change in said CPI.

The computation shall be made as soon after the adjustment date as practical, and adjustments in the rent shall be made effective with the rent installment due on the adjustment date. If said computation cannot be made until sometime thereafter, Lessee shall continue to pay the prior rental amount in the same manner as prior to the adjustment date and make up the deficiency, if any, in basic rent the month following the completion of said computation.

Lessee shall further pay as additional rent (a) all real estate taxes levied and/or assessed against the leased premises by the State of Indiana and or/any political subdivision thereof commencing with the installment of said taxes first payable during the term of the lease and ending with the installment of taxes last payable during the term of the lease and (b) all insurance premiums for fire, extended coverage and hazard insurance on the improvements located in the leased premises when and as the same fall due during the term commencing on the effective date of this Lease, said insurance to be in the amounts and with the limits of liability as hereinafter stated.

3. Lessee has examined and knows the condition of said premises and has received the same in good order and repair. No representations as to the condition of repair thereof have been made by the Lessor or his representative, prior to or at the execution of this Lease that are not herein expressed or endorsed hereon and that Lessee will keep the interior and exterior of said premises in good repair, including the roof, foundation and walls, replacing all broken glass with glass of the same size and quality as that broken, and will keep said premises and appurtenances, as well as all

eaves, down-spouting, catch basins, drains, stools, lavatories, sidewalks, adjoining alleys and all other facilities and equipment in connection with said premises, in a clean and healthy condition, according to the city ordinances, and the direction of the proper public officers, during the term of this Lease, at its own expense; and upon termination of this Lease, in any way, will yield up said premises to Lessor in good condition and repair (loss by fire and ordinary wear excepted) and will deliver the keys to Lessor.

4. Lessor shall not be liable for damages caused by failure to keep said premises in repair and shall not be liable for any damage done or occasioned by or from plumbing, gas, water, steam or other pipes, or sewerage, or the bursting or leaking of plumbing or heating fixtures or waste or soil pipe existing in connection with said building or premises, nor for damage occasioned by water, snow or ice being upon said sidewalks or coming through the roof, skylight, trap door or otherwise, nor for any damages arising from negligence of co-tenants or other occupants of the same building, or the agents, employees or servants of any of them, or of any owners or occupants of adjacent or contiguous property.

5. Lessor shall not be liable for any injury to the Lessee or any other person, occurring on, adjacent to or in front of said premises, irrespective of whether said injury is caused by a defect in said premises or by reason of said premises becoming out of repair or arising from any other cause whatsoever, and the Lessor shall not be liable for damage to Lessee's property or to the property of any other person which may be located in or upon said premises and the Lessee agrees to indemnify and save harmless the Lessor from any and all claims arising out of injuries to persons or property occurring on or about said premises.

During the term of this lease the Lessee shall maintain at its expense, for the benefit of Lessor and Lessee and naming both Lessor and Lessee as insured parties, liability insurance with limits of not less than Five Hundred Thousand (\$500,000.00) Dollars per injury, One Million (\$1,000,000.00) Dollars per occurrence and Five Hundred Thousand (\$500,000.00) Dollars property damage. Lessee shall deliver from time to time during the term of this Lease to Lessor evidence of the existence of such liability insurance.

6. Lessee shall further maintain at its sole expense for the benefit of Lessor during the entire term of this Lease fire, extended coverage and hazard insurance on the improvements now located on the leased premises in an amount equal to the insurance replacement cost of said premises. Lessee shall further deliver to Lessor certificates of insurance issued by the insurer of said improvements and from time to time when and as the premiums on said insurance become due and payable shall further provide Lessor with evidence of the payment of said premiums.

In the event Lessee shall construct or erect any further improvements upon said leased premises and or make any additions or alterations to the existing improvements located upon said premises during the term of this lease, Lessee, at its expense, shall insure said additional improvements or additions to present improvements in an amount not less than the costs of such further improvements or additions. Lessor agrees the insurance proceeds for any building constructed by Lessee after January 1, 1995, shall be paid to Lessee.

7. The parties agree that Lessee may sublet all or any portion of said premises during the term of this Lease only with the prior written consent of Lessor; provided, however, that Lessee shall deliver copies of any such permitted subleases within five (5) days after the execution thereof and provided, further, that Lessee shall not grant any rights to any such subtenant in excess of the rights and duties granted Lessee herein.

8. Lessee shall not assign this Lease or any part thereof without the written consent of the Lessor first had and obtained, and will not permit any transfer by operation of law of any interest in said premises acquired through this Lease and will not permit said premises to be used for any unlawful purpose or purposes which will injure the reputation of the same or of the building of which it is a part, nor disturb the tenants of such building or of the neighborhood.

9. No alterations, changes, or additions in said leased premises shall be made without first submitting written plans and specifications for the same to the Lessor and obtaining his written consent to make the same. Lessor shall not unreasonably withhold his consent. In the event of any such remodeling, alterations or additions, Lessee shall make the same at its own expense and shall promptly pay for all materials and labor involved in making the same. Lessee shall not permit any liens or claims or demands of any nature to exist against the Lessor or the leased premises. In the event any lien, claim or demand of any action for enforcing the same shall be filed or made against the Lessor or said premises, the Lessee shall defend the same at its own expense and Lessee hereby agrees to indemnify and hold harmless the Lessor from any and all liability or expense arising by virtue of such claim, demand or lien or the defense of any action filed to enforce the same. Any such alterations, changes or additions shall, when made, become a part of the

leased premises and remain thereon as the property of the Lessor at the termination of said Lease at the option of the Lessor, and if the Lessor shall require the Lessee to restore the premises or any portion thereof to the original condition in which it was before this Lease is executed then the Lessee shall restore said premises or portion to such condition at its own expense, and all of the provisions of this Lease with reference to such restoration contracts, liens, demands and expenses shall apply to said restoration as well as the original alterations. Upon the expiration of this Lease, Lessee shall be entitled to remove its trade fixtures and equipment provided that Lessee shall, at its sole expense restore said premises to good condition after such removal.

10. Lessee shall allow Lessor free access to the premises for the purpose of examining or exhibiting the same and also to allow the Lessor, within forty-five (45) days of the termination of this Lease, to place upon said premises "For Sale" or "For Rent" signs.

11. Lessee shall promptly pay and discharge all store license taxes and all general personal property taxes or special license fees that they may be assessed or levied by any lawful authority against the property of Lessee or any subtenants on, against or by virtue of the business conducted in or on the demised premises during the term of this Lease.

12. Lessee shall promptly pay (in addition to the rents above specified) all water, sewerage, electric, power, gas and heating bills taxed, levied or charged against the premises for and during the entire term of this Lease.

13. Lessee covenants that should it default in its agreement to pay the rent above provided to be paid, or any part thereof, or in any of the other covenants and agreements herein contained, it will at once deliver peaceable possession of said premises to the Lessor, and failing to do so, it shall be lawful for the Lessor, its successors or assigns, without notice, to declare the said term ended, and to reenter said demised premises, or any part thereof, either with or without process of law, and to expel, remove and put out the lessee, or any person or persons occupying the same, using such force as may be necessary so to do, and to repossess and use said premises as before this demise, without prejudice to any remedies which might otherwise be used for arrears of rent or preceding breach of covenants.

14. That after the service of notice, or the commencement of a suit, or after final judgment for possession of said premises, Lessor may receive and collect any rent due and the payment of said rent shall not waive or affect said notice, said suit or said judgment.

15. If the Lessee shall make any assignment for the benefit of creditors or if a receiver is appointed for the Lessee or its assets or of the Lessee's interest under this lease, and if the appointment of a receiver is not vacated within five (5) days, or if a voluntary or involuntary petition is filed by or against Lessee under the Bankruptcy Act, the Lessor may, upon giving the Lessee ten (10) days notice of such election, either terminate Lessee's right to the possession of the demised premises or terminate this Lease as in the case of violation by the Lessee of any of the terms, covenants or conditions of this Lease.

16. It is agreed by the parties hereto that in the event Lessee is declared bankrupt or voluntarily offers to creditors terms of composition or in case a receiver is appointed to take charge of and conduct the affairs of the Lessee, then Lessor shall have the right to immediate possession of said premises.

17. That in case said premises shall be so injured by fire, windstorm or other catastrophe as to be rendered untenable, within thirty (30) days thereafter, it shall be optional with the Lessor only to terminate the Lease by written notice at the end of such thirty (30) days, in which case rent shall be paid at the agreed rate above provided up to the time of such fire or other injury; but in case such injuries are repaired and the premises rendered tenable within thirty (30) days, the right to terminate this Lease for such cause shall not exist; provided, that nothing herein contained shall relieve the Lessee from liability for rent or damages where such damage or destruction shall be caused by the carelessness, negligence or improper conduct of the Lessee, its agents or servants.

18. It is expressly agreed that no waiver nor apparent waiver, nor the failure of Lessor to require strict performance of any condition, covenant or agreement shall estop the Lessor from enforcing such condition, covenant or agreement, nor any other condition, covenant or agreement shall at any time be implied.

19. At the expiration of this Lease, by lapse of time or otherwise, Lessee will yield up immediate possession to Lessor, and failing so to do, will pay as liquidated damages for each day such possession is withheld, a sum equal to two (2) times the per diem rental; but the provision of this clause shall not be held as a waiver by Lessor of any rights or reentry as herein set forth, nor shall the receipt of said rent or any part

thereof, or any other act in apparent affirmation of tenancy, operate as a waiver of the right to forfeit this Lease and the term hereby granted for the period still unexpired, for any breach of any of the covenants herein.

20. It is also agreed that the Lessee shall pay and discharge all reasonable costs, attorney's fees and expenses which shall be made and incurred by the Lessor in enforcing the covenants and agreements of this Lease, including the agreement to deliver possession for any reason herein provided, and all the parties to this Lease agree that the covenants and agreements herein contained shall be binding upon, apply and inure to their respective heirs, executors, administrators, successors and assigns, and the terms "Lessor" and "Lessee" shall embrace all of the parties hereto irrespective of number or gender.

21. It is agreed that all payments herein provided to be made shall be made without relief for valuation or appraisal laws, and all payments required to be made at the time due shall bear interest at the rate of eighteen (18%) percent per annum, from date of delinquency.

22. Each of said parties do each herewith and hereby release and relieve the other and waive their entire right of recovery against the other for loss or damage arising out of or incident to the perils of fire, explosion or other peril described in the "Extended Coverage" insurance endorsement approved for use in the state where the above property is located, which occurs in, on or about the said premises, whether due to the negligence of any of said parties, their agents or employees or otherwise.

23. In the event the leased premises or any material portion thereof shall be acquired or condemned by eminent domain for any public or quasi-public use or purposes, Lessor may terminate this lease in which event said lease shall terminate and cease on the date upon which the condemning authority shall take possession of the leased premises so condemned. Lessee shall continue to perform the obligations imposed upon it by the terms of this Lease until said date.

Further, in the event of any such acquisition or condemnation by eminent domain, Lessee shall have no claim against the Lessor or the condemning authority for the value of the unexpired term of this Lease and Lessee shall not be entitled to any part of the award paid for the condemnation or acquisition of the leased premises, it being agreed that Lessor shall be entitled to receive the full amount of such award and it being further agreed that Lessee hereby expressly waives any right or claim against any portion of said award. Lessee shall have the right to claim and recover from the condemning authority, but not from the Lessor, such compensation as may be separately awarded or recoverable by the Lessee in Lessee's own right on account of any and all damages to Lessee's business by reason of such acquisition or condemnation and for or on account of any cost to which Lessee might be put in removing Lessee's equipment, fixtures, inventory and other property from the leased premises.

24. To the best of the knowledge of Lessor after due inquiry, (a) the Lessor's premises have never been used by previous owners or occupants or by the Lessor to generate, manufacture, refine, transport, treat, store, handle or dispose of any toxic material, hazardous substances or hazardous waste including, but not limited to, asbestos, or asbestos-containing materials, polychlorinated biphenyls (PCB's), solid, liquid, gaseous or thermal irritant or contaminant including smoke, vapor, soot fumes, acids, alkalies and chemicals (hereinafter collectively referred to as "Hazardous Waste") except in compliance with applicable law; (b) that no underground storage tanks have been installed on the leased premises other than by or for the benefit of Lessee or of which the Lessee has knowledge; (c) the Lessor has not received a summons, citation, directive, letter or other communication, written or oral, from any state agency or the United States Government concerning the premises or any intentional or unintentional action or omission on the Lessor's part as a result of the releasing, spilling, leaking, pumping, pouring, emitting, emptying or dumping of hazardous waste into waters or onto lands of the State of Indiana, or into waters outside the jurisdiction of the State of Indiana; (d) the Lessor has not caused nor permitted to exist, as a result of an intentional or unintentional act or omission on its part, a releasing, spilling, leaking, pumping, emitting, pouring, emptying or dumping of any hazardous waste into waters or onto lands of the State of Indiana, or into waters outside the jurisdiction of the State of Indiana unless said release, spill, leak, etc., is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal or state governmental authorities or otherwise in compliance with applicable law.

25. The Lessee shall not cause, permit nor allow, as a result of any intentional or unintentional act or omission on its part, the leased premises to be used to generate, manufacture, refine, transport, treat, store, handle or dispose of any hazardous waste or cause, permit or allow to exist, as a result of any intentional or unintentional act or omission on its part, a releasing, spilling, leaking, pumping, emitting, pouring, emptying, or dumping of any hazardous waste into waters or onto lands unless said release, spill, leak, etc., is pursuant to and in compliance with the

conditions of a permit issued by the appropriate federal or state governmental authorities or otherwise in compliance with applicable law. Further, in the event Lessee or Lessor shall receive any summons, citation, directive, letter or other communication, written or oral, from any state agency or the United States Government concerning the leased premises and any act or omission relating thereto, Lessee, at its sole expense, shall comply with and correct any deficiency set forth in said summons, citation, directive, letter or other communication.

26. Lessee further agrees to indemnify and hold harmless the Lessor, its directors, officers, employees, agents, contractors, subcontractors, licensees, invitees, successors and assigns from and against any and all claims, losses, damages, liabilities, acts and expenses (including, without limitation, reasonable attorney's fees and claims arising out of loss or life, injury to persons, property or business or damage to natural resources) in connection with the activities of the Lessee, its predecessors in possession, third parties who have trespassed on the premises, or parties in contractual relationship with it, or any of them, whether or not occasioned wholly or in part by any condition, accident or even caused by an intentional or unintentional act or omission of the Lessee, which arises out of: (a) the actual, alleged or threatened releasing, spilling, leaking, pumping, pouring, emitting, emptying or dumping of a hazardous waste into waters or onto lands; (b) the use, specification or inclusion of any hazardous waste on the premises or the failure to detect the same. The Lessee shall bear, pay and discharge, as and when the same become due and payable, any and all such judgments or claims for damages, penalties or otherwise, against the opposite party, shall hold the opposite party harmless for those claims, losses, damages, liabilities, costs and expenses, and shall assume the burden and expense of defending all suits, administrative proceedings and negotiations of any description with any and all persons, political subdivisions or government agencies arising out of any of the occurrences set forth in this paragraph.

27. At the expiration of the initial term of the Lease, Lessee shall have the option to renew the Lease for an additional thirty-six (36) months, commencing October 1, 2005 and ending September 30, 2008. All provisions of the Lease for the renewal term shall be the same as for the initial term of the Lease as the same are applicable for the renewal term, excepting that basic rent for the renewal term shall be renegotiated by and between the parties prior to the commencement of said renewal term. Notice of exercise of said option to renew shall be given by the Lessee to the Lessor on or before June 30, 2005. The parties shall use their best efforts to agree upon rent for the renewal term to be agreed on or before July 31, 2005. In the event the parties are unable to agree upon basic rent for the renewal term of the Lease on or before said date, said rent shall be determined in a manner similar to the determination of rent for the last twenty-four (24) months of the initial term of the Lease, provided that in no event shall rent for the renewal term exceed 140% of the basic rent for the first twenty-four (24) months of the initial term of the Lease.

28. Nothing herein contained shall be construed as prohibiting Lessor from assigning its right, title and interest in and to the leased premises, subject to the terms of this Lease, to any third party.

29. Until further notice in written form is given by either of the parties hereto, all notices and/or rent to be delivered to the opposite party shall be mailed as follows:

LESSOR:

Mervin Lung Building Company, Inc.  
5020 Lincolnway East  
Mishawaka, IN 46544

TO LESSEE:

Patrick Industries, Inc.  
P. O. Box 638  
1800 South 14th Street  
Elkhart, IN 46515

30. Lessor covenants and agrees that so long as Lessee shall perform all of the terms, conditions, covenants and agreements to be kept by Lessee, Lessee shall have the quiet enjoyment of the leased premises.

31. The parties agree that a memorandum of lease in form attached hereto and made a part hereof as Exhibit "B" may be recorded in the records of Elkhart County, Indiana.

32. This lease is executed by the duly authorized officers of the Lessee and Lessor for and on behalf of said parties, and the persons executing this lease for and on behalf of the Lessee or the Lessor acknowledge and state that they have full power and authority to execute this lease pursuant to law, the by-laws of their respective corporations and authority of said corporation's board of directors.



Dated effective this 1st day of October, 1995.

MERVIN LUNG BUILDING COMPANY, INC.,  
an Indiana corporation

ATTEST:

\_\_\_\_\_  
Gregory Lung By: \_\_\_\_\_  
Mervin D. Lung, President

[LESSOR]

PATRICK INDUSTRIES, INC.  
an Indiana corporation

ATTEST:

\_\_\_\_\_  
Keith V. Kankel By: \_\_\_\_\_  
Thomas G. Baer, Vice President  
Secretary/Treasurer Operations

[LESSEE]

STATE OF INDIANA }  
                          } SS:  
COUNTY OF ST. JOSEPH }

Before me, a Notary Public in and for said County and State, personally appeared Mervin D. Lung and Gregory Lung, President and \_\_\_\_\_ of Mervin Lung Building Company, Inc., an Indiana corporation, and acknowledged the execution of the above foregoing Commercial Lease for and on behalf of said corporation in their respective representative capacity, being authorized by it so to do.

WITNESS my hand and Notarial Seal this \_\_\_\_ day of \_\_\_\_\_, 1995.

\_\_\_\_\_  
Notary Public  
Residing in \_\_\_\_\_ County, IN

My Commission Expires:

\_\_\_\_\_  
STATE OF INDIANA }  
                          } SS:  
COUNTY OF ST. JOSEPH }

Before me, a Notary Public in and for said County and State, personally appeared Thomas G. Baer and Keith V. Kankel, Vice President, Operations and the Secretary/Treasurer, respectively, of Patrick Industries, Inc., an Indiana corporation, and acknowledged the execution of the above foregoing Commercial Lease for and on behalf of said corporation in their respective representative capacity, being authorized by it so to do.

WITNESS my hand and Notarial Seal this \_\_\_\_ day of \_\_\_\_\_, 1995.

\_\_\_\_\_  
Sherry L. Kizer, Notary Public  
Residing in St. Joseph County, IN

My Commission Expires:

September 13, 1998

EXHIBIT "A"

Real Estate Description

TRACT ONE:

A part of the Southwest Quarter (SW 1/4) of Section Seven (7), Township Thirty-seven (37) North, Range Five (5) East of the Second Principal Meridian (2nd PM) in the City of Elkhart, Elkhart County, Indiana.

Commonly described as: 2024 1/2 W. Lusher Avenue, Elkhart, IN 46517

TRACT TWO:

A part of the Southwest Quarter (SW 1/4) of Section Seven (7), Township

Thirty-seven (37) North, Range Five (5) East of the Second Principal Meridian (2nd PM) in the City of Elkhart, Elkhart County, Indiana.

Commonly described as: 1910-1926 W. Lusher Avenue, Elkhart, IN 46517

TRACT THREE:

A part of the Southwest Quarter (SW 1/4) of Section Seven (7), Township Thirty-seven (37) North, Range Five (5) East of the Second Principal Meridian (2nd PM) in the City of Elkhart, Elkhart County, Indiana.

Commonly described as: 2044 W. Lusher Avenue, Elkhart, IN 46517

TRACT FOUR:

A part of the Southwest Quarter (SW 1/4) of Section Seven (7), Township Thirty-seven (37) North, Range Five (5) East of the Second Principal Meridian (2nd PM) in the City of Elkhart, Elkhart County, Indiana.

Commonly described as: 1930 W. Lusher Avenue, Elkhart, IN 46517

PATRICK INDUSTRIES, INC.

Statement of Computation of Operating Ratios

Operating ratios which appear in this Form 10-K, including gross profit, warehouse and delivery expenses, selling, general and administrative expenses, operating income and net income were computed by dividing the respective amounts by net sales for the periods indicated.

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