

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, 2004 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 Company 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)

Company's telephone number, including area code: (574) 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
PREFERRED SHARE PURCHASE RIGHTS
(Title of each class)

Indicate by check mark whether the Company (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 Company was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes X No
--- ---

Indicate by check mark 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 Company's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K []

Indicate by check mark whether the registrant is an accelerated filer.
YES NO X
--- ---

1

The aggregate market value of the voting stock held by non-affiliates of the
Company on June 30, 2004 (based upon the closing price on NASDAQ and an estimate
that 78.7% of the shares are owned by non-affiliates) was \$36,326,238. The
closing market price was \$9.80 on that day and 4,709,986 shares of the Company's
common stock were outstanding.

As of March 16, 2005 there were 4,748,198 shares of the Company's common stock
outstanding.

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the Company's Proxy Statement for its Annual
Meeting of Shareholders to be held on May 12, 2005 are
incorporated by reference into Parts III of this Form 10-K.

2

PART I

ITEM 1. BUSINESS

The Company is a leading manufacturer and supplier of building products and
materials to the Manufactured Housing and Recreational Vehicle industries. In

addition, the Company is a supplier to certain other Industrial markets, such as kitchen cabinet, furniture manufacturing, marine, architectural, and the automotive aftermarket. The Company manufactures decorative vinyl and paper panels, wrapped mouldings, cabinet doors, electronic desks, countertops, aluminum extrusions, drawer sides, adhesives, and laminating machines. The Company is also an independent wholesale distributor of pre-finished wall and ceiling panels, drywall and drywall finishing products, particleboard, vinyl and cement siding, interior passage doors, roofing products, high pressure laminates, decorative mirrors and glass, insulation, and other related products.

The Company 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 Company believes that it is one of the few suppliers to the Manufactured Housing and Recreational Vehicle industries that have such a nationwide network. The Company maintains three manufacturing plants and a distribution facility near its principal offices in Elkhart, Indiana, and operates eleven other warehouse and distribution centers and twelve other manufacturing plants in twelve other states.

Strategy
- - - - -

The Company has developed strong working relationships with its customers and has oriented its business and expansion to the needs of these customers. These customers include all of the larger Manufactured Housing and Recreational Vehicle manufacturers. The Company's customers generally demand high quality standards and a high degree of flexibility from their suppliers. The result has been that the Company 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 Company explores new markets and industries, it believes that this nationwide network provides it with a strong foundation for future growth.

In both 2004 and 2003, approximately 41% of the Company's sales are to the Manufactured Housing industry, 31% to the Recreational Vehicle industry, and 28% to other industries. The Manufactured Housing and Recreational Vehicle industries are characterized by price sensitivity, cyclical demand and production, small order quantities, and short lead times. The Industrial and other markets, while similar in some aspects, are characterized by longer production runs and quality customer service.

Management has identified several operating strategies, including the following:

Diversification into Other Industrial Markets

While the Company 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 Company's products, such as countertops, cabinet doors, laminated panels, and shelving, have applications in the furniture and cabinetry markets. In addition, the manufacturing processes for the Company'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. The Company's adhesives are produced for almost all industrial applications.

Because order size from these additional industries tends to be for larger numbers of units, the Company enjoys better production efficiencies for these orders. The Company believes that diversification into other industrial markets will reduce its vulnerability to the cyclical nature of the Manufactured Housing and Recreational Vehicle industries. In addition, the Company believes that its

nationwide manufacturing and distribution capabilities enable it to position itself for product expansion and effective customer service.

Utilization of Manufacturing Capacity

In the last 5 years, the Company has invested approximately \$25.7 million to upgrade existing facilities and equipment and to purchase manufacturing and distribution facilities for its laminated paneling products, industrial adhesives, cabinet doors, and furniture components. The capacity created by these investments has enabled the Company to accommodate future growth in the Company's product lines and markets.

Strategic Acquisitions and Expansion

The Company 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 Company, from time to time, considers the acquisition of additional product lines, facilities, or other assets to complement or expand its existing business.

In March, 2004, the Company purchased a new building complex in Elkhart, Indiana for the consolidation of its manufacturing operations in that area. This acquisition should provide opportunities for improved efficiencies and capacity for future growth both in manufacturing and distribution operations.

Restructuring and Impairment

- -----

In the 2003 and 2002 the Company incurred restructuring charges of \$0.5 million related to the closing, consolidation, and relocation of two manufacturing divisions in two states. The charges included severance payments, write-down of obsolete inventories, equipment relocation, and future rental commitments related to closed facilities. These strategic initiatives were done to eliminate duplication of efforts, close negative performing operations, and increase volume levels at other locations. The majority of cost savings related to these plans was realized in 2003 and 2004, and will continue to be realized in future years.

Business Segments

- -----

The Company's operations through December 31, 2004 comprise three reportable segments. Information related to those segments is contained in "Note 14-Segment Information" appearing in the financial statements included herein as noted in the index appearing under Item 15(a)(1) and (2).

Principal Products

- -----

The Company distributes pre-finished wall and ceiling panels, drywall and drywall finishing products, particleboard, vinyl and cement siding, vinyl and hardwood flooring, interior passage doors, roofing products, high pressure laminates, decorative mirrors and glass, insulation, and other related products. Through its manufacturing divisions, the Company manufactures decorative vinyl and paper panels, wrapped mouldings, cabinet doors, kitchen cabinets, countertops, aluminum extrusions, drawer sides, adhesives, and laminating machines. In conjunction with its manufacturing capabilities, the Company also provides value added processes including custom fabrication, edge-banding, drilling, and cut to size capabilities.

Pre-finished wall panels contributed 36.0%, 39.6%, and 36.5% of total sales for the years ended December 31, 2004, 2003, and 2002, respectively.

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

4

Manufacturing Processes and Operations

- -----

The Company's laminating facilities utilize various materials including gypsum, particleboard, plywood, and fiberboard which are bonded by adhesives or a heating process to a number of products, including vinyl, paper, foil, and high pressure laminate. Laminated products are used in the production of furniture, shelving, wall, counter, and cabinet products with a wide variety of finishes and textures.

The Company's Metals division produces aluminum extrusions for framing and window applications. In addition, this division makes extrusions for stadium seating, awnings, rapid rollup doors, framing for display cases, accessories and parts for recreational vehicles, trucks, vans, and automobiles, marine industry products, and other construction-related materials.

The Company manufactures two distinct cabinet door product lines. One product line is manufactured from raw lumber using solid oak and other hardwood materials. The Company's other line of doors is made of laminated fiberboard. The Company's doors are sold mainly to the Manufactured Housing and Recreational Vehicle industries. The Company also markets to the cabinet manufacturers and "ready-to-assemble" furniture manufacturers.

The Company's adhesive division, which supplies adhesives used in most of the Company's manufacturing processes and to outside Industrial customers, uses 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 Company 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 of site-built homes. The increase in square footage of living space in manufactured homes created by multi-sectional models has made them more attractive to a larger segment of home buyers.

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

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

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

5

population, employment trends, and general regional economic conditions affect the sale of manufactured homes. From a trend perspective, the five year period from 2000 through the end of 2004 has been very difficult for the industry with shipment levels at more than forty year lows. The most recent cyclical downturn began in 1999 and has continued through 2004 where the Industry has seen an approximate 65% decline in unit shipments since 1998. The last industry downturn was reported by the Manufactured Housing Institute during the four-year period ended December 31, 1991 where shipments of manufactured homes declined 26.6% to a total of approximately 171,000 units nationally.

These cycles have a historic precedent. The Company believes that the factors responsible for the national decline prior to 1992 included weakness in the manufacturing, agricultural, and, in particular, 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 had caused the manufactured housing cycle to change positively until 1999. Beginning in mid-1999 and continuing through 2004, the Manufactured Housing industry has had to contend with increased repossessed inventory levels, credit requirements that became more stringent, and a reduction in availability of lenders for both retail and dealers. As a result, the industry has experienced five consecutive years of decline in the number of industry shipments with 2003 and 2004 finishing at levels which were almost 62% lower than those experienced in 1999. There is speculation that the coming year will provide an increase of approximately 5% to 10% in unit shipments from the 2004 levels which is supported by the industry showing positive monthly increases in shipments beginning in September, 2004 and continuing through January, 2005. Some of these shipment increases can be attributed to the FEMA units that were shipped as a result of the Hurricanes in the Southeast in the third and fourth quarters of 2004. Repossessed inventory levels have been reduced to a manageable level. However, the availability of financing and access to the asset-backed securities market is still restricted. Additionally, employment growth and an increase in interest rates are needed to enable more balanced demand, thus resulting in the potential for increased production and shipment levels.

Manufactured Housing Shipments:

| | |
|--------|---------|
| 1990 - | 188,200 |
| 1991 - | 170,700 |
| 1992 - | 210,800 |
| 1993 - | 254,300 |
| 1994 - | 303,900 |
| 1995 - | 339,600 |

1996 - 363,400
1997 - 353,400
1998 - 372,800
1999 - 348,700
2000 - 250,600
2001 - 193,200
2002 - 168,500
2003 - 130,900
2004 - 130,800

6

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, consumer confidence, and concerns about the availability and price of gasoline, in the past, have had an adverse impact on recreational vehicle sales. Recently the industry has been characterized by increased demand as a result of continued growth in disposable incomes, low inflation, low interest rates, and renewed growth in employment. Long term trends point to market growth because of favorable demographics.

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 wheel trailers, motor homes, and van conversions. These recreational vehicles are distinct from mobile homes, which are manufactured houses designed for permanent and semi-permanent residential dwelling.

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

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

Sales of recreational vehicle products have been cyclical. Shortages of motor vehicle fuels and significant increases in fuel prices have had a material adverse effect on the market for recreational vehicles in the past, and could adversely affect demand in the future. The 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 a negative impact upon the industry in the past and may do so in the future. Recession and lack of consumer confidence generally results in a decrease in the sale of leisure time products such as recreational vehicles.

The period beginning in 1999 and continuing through 2004 resulted in five out of the six years with shipment levels over 300,000 units. In 1999, the Industry shipped 321,200 units. Increased gasoline prices and uncertainty with regards to the economy resulted in shipment declines over the next two years of more than 20%. The industry rebounded in 2002, and that rebound continued through 2004, due to improved consumer confidence, depleted dealer inventories, lower interest rates, and a fear of flying after the September 11, 2001 terrorist attacks. Shipment levels in 2003 improved yet again almost to the 1999 levels and 2004 shipments levels are at near all time highs.

7

Recreational Vehicle Shipments:

1990 - 173,100
1991 - 163,300
1992 - 203,400
1993 - 227,800
1994 - 259,200
1995 - 247,000
1996 - 247,500

1997 - 254,500
1998 - 292,700
1999 - 321,200
2000 - 300,100
2001 - 256,800
2002 - 311,000
2003 - 320,800
2004 - 370,100

Other Markets

Many of the Company's products, such as its countertops, laminated panels, cabinet doors, and shelving, may be utilized in the furniture and cabinetry markets. The Company's aluminum extrusion process is easily applied to the production of accessories and parts for recreational vehicles, trucks, vans, and automobiles, as well as architectural and certain other building products. The Company's adhesives are marketed in many Industrial adhesive markets.

While demand in these industries also fluctuates with general economic cycles, the Company believes that these cycles are less severe than those in the Manufactured Housing and Recreational Vehicle industries. As a result, the Company believes that diversification into other industrial 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 Company's sales are to Manufactured Housing and Recreational Vehicle manufacturers and other building products manufacturers. The Company has approximately 2,000 customers. The Company has three customers, who together accounted for approximately 26% of the Company's total sales in 2004 and 2003. Ten other customers collectively accounted for approximately 21% of 2004 sales. The Company believes it has good relationships with its customers.

Products for distribution are purchased in carload or truckload quantities, warehoused, and then sold and delivered by the Company. Approximately 43% of the Company's distribution segment products are shipped directly from the suppliers to the customers. The Company typically experiences a two to four week delay between issuing its purchase orders and delivering of products to the Company's warehouses or customers. The Company's customers do not maintain long-term supply contracts, and therefore the Company must bear the risk of accurate advance estimation of customer orders. The Company maintains a substantial inventory to satisfy these orders. The Company has no significant backlog of orders.

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

Suppliers

- - - - -

During the year ended December 31, 2004, the Company purchased approximately 68% of its raw materials and distributed products from twenty different suppliers. The five largest suppliers accounted for approximately 42% of the Company's purchases. Materials are primarily commodity products, such as lauan, gypsum, aluminum, particleboard, and other lumber products which are available from many suppliers. Alternate sources of supply are available for all of the Company's major 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 Company has several competitors in each of its classes of products. Some manufacturers and suppliers of materials purchased by the Company also compete with it and sell directly to the same industries. Most of the Company's competitors compete with the Company on a regional basis. In order for a competitor to compete with the Company on a national basis, the Company believes that a substantial capital commitment and experienced personnel would be required. The other Industrial markets in which the Company continues to expand are also highly competitive.

Employees

- -----
As of December 31, 2004, the Company had 1,114 employees of which 914 employees were engaged directly in production, warehousing, and delivery operations; 49 in sales; and 151 in office and administrative activities. There are three manufacturing plants and one distribution center covered by collective bargaining agreements. The Company considers its relationships with its employees to be good.

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

Executive Officers of the Company
- -----

The following table sets forth the executive officers of the Company, as of December 31, 2004:

| Name ---- | Position ----- |
|----------------------|--|
| Paul E. Hassler | President and Chief Executive Officer |
| Andy L. Nemeth | Executive Vice President of Finance, Secretary-Treasurer and Chief Financial Officer |
| Gregory J. Scharnott | Executive Vice President of Operations and Distribution |

9

Paul E. Hassler (age 57) assumed the position of President and Chief Executive Officer April 5, 2004. Prior to that, Mr. Hassler held the position of Vice President Operations and Distribution - West from December, 2003 through the first quarter of 2004, General Manager of California Operations from 1986 to 1994 and Executive Director of West Coast Operations from 1994 to 2003. Mr. Hassler has over 33 years of Manufactured Housing, Recreational Vehicle, and Industrial experience in various capacities.

Andy L. Nemeth (age 36) was elected Executive Vice President of Finance, Chief Financial Officer, and Secretary-Treasurer as of May, 2004. Prior to that, Mr. Nemeth was Vice President-Finance, Chief Financial Officer, and Secretary-Treasurer from May, 2003 to April, 2004 and Secretary-Treasurer from July, 2002 to May, 2003. Mr. Nemeth was a Division Controller from May, 1996 to July, 2002 and prior to that, he spent five years in public accounting with Coopers & Lybrand (now Pricewaterhouse Coopers).

Gregory J. Scharnott (age 55) was elected Executive Vice President of Operations and Distribution as of May, 2004. Mr. Scharnott was Vice President Operations and Distribution - East as of December, 2003, and prior to that, Mr. Scharnott was Executive Director of Midwest Operations from February, 2001 to June, 2002 and Vice President of Operations from June, 2002 to December, 2003. Mr. Scharnott has over 26 years of manufacturing management experience, including 20 years with the General Electric Company.

Website Access to Company Reports
- -----

We make available free of charge through our website, www.patrickind.com, (1) our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission and (2) the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee charters, our Corporate Governance Guidelines, and our Corporate Compliance and Code of Ethics Policy. Our internet website and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K.

10

ITEM 2. PROPERTIES AND EQUIPMENT

As of December 31, 2004, the Company maintained the following warehouse, manufacturing and distribution facilities:

<TABLE>
<CAPTION>

Ownership or

| Location ----- | Use --- | Area Sq. Ft. ----- | Lease Arrangement ----- |
|-------------------|-----------------------|-----------------------|----------------------------|
| <S> | <C> | <C> | <C> |
| Elkhart, IN | Manufacturing (3) | 40,400 | Leased to 2005 |
| Elkhart, IN | Distribution (1) | 133,600 | Owned |
| Elkhart, IN | Manufacturing (2) | 181,700 | Owned |
| Elkhart, IN | Admin. Offices | 10,000 | Leased to 2006 |
| Elkhart, IN | Admin. Offices | 35,000 | Owned |
| Mishawaka, IN | Manufacturing (4) | 191,000 | Owned, Subject to Mortgage |
| Decatur, AL | Distribution (1) | 30,000 | Leased to 2005 |
| Decatur, AL | Distribution (1) | 30,000 | Leased to 2005 |
| Decatur, AL | Manufacturing (2) | 35,000 | Owned |
| Decatur, AL | Manufacturing (2) (4) | 59,000 | Owned |
| Valdosta, GA | Distribution (1) | 30,800 | Owned |
| New London, NC | Mfg. & Dist. (1) (2) | 163,200 | Owned, Subject to Mortgage |
| Halstead, KS | Distribution (1) | 36,000 | Owned |
| Waco, TX | Mfg. & Dist. (1) (2) | 105,600 | Leased to 2005 |
| Waco, TX | Manufacturing (2) | 21,000 | Leased to 2005 |
| Mt. Joy, PA | Distribution (1) (2) | 32,800 | Owned |
| Mt. Joy, PA | Manufacturing (2) | 55,700 | Owned |
| Ocala, FL | Manufacturing (2) | 55,500 | Owned |
| Fontana, CA | Mfg. & Dist. (1) (2) | 110,000 | Owned |
| Fontana, CA | Manufacturing (2) | 71,800 | Owned |
| Fontana, CA | Manufacturing (2) | 32,000 | Leased to 2006 |
| Fontana, CA | Distribution (1) | 11,300 | Leased to 2005 |
| Woodland, CA | Distribution (1) | 17,200 | Leased to 2005 |
| Phoenix, AZ | Manufacturing (2) | 44,545 | Leased to 2007 |
| Woodburn, OR | Mfg. & Dist. (1,2,3) | 153,000 | Owned, Subject to Mortgage |
| Boulder City, NV | Manufacturing (4) | 24,700 | Leased to 2006 |

- (1) Distribution center
- (2) Vinyl/paper/foil laminating
- (3) Cabinet doors and other wood related
- (4) Aluminum, adhesives, and other

</TABLE>

Additionally, the Company owns a 30,900 square foot building in Elkhart, IN which is currently for sale. During 2004, the Company sold its corporate office complex which included approximately 15,000 square feet of office space and approximately 109,000 square feet of manufacturing/distribution space. This property was sold and leased back to the Company for a period that will end when the Company moves its headquarters to the new office building in Elkhart, Indiana. This move is expected to take place in the second quarter of 2005. In March, 2004 the Company purchased a 155,000 square foot building complex in Elkhart, Indiana for the consolidation of several of the above Elkhart manufacturing operations. As of December 31, 2004, the Company owned or leased 31 trucks, 39 tractors, 75 trailers, 138 forklifts, and 1 automobile. All owned and leased facilities and equipment are in good condition and well maintained.

11

ITEM 3. LEGAL PROCEEDINGS

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

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 COMPANY'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is listed on The NASDAQ Stock MarketSM under the symbol PATK. The high and low trade prices of the Company's common stock as reported on NASDAQ/NMS for each quarterly period during the last three years were as follows:

<TABLE>
<CAPTION>

| <S> | 1st Quarter <C> | 2nd Quarter <C> | 3rd Quarter <C> | 4th Quarter <C> |
|-----|--------------------|--------------------|--------------------|--------------------|
|-----|--------------------|--------------------|--------------------|--------------------|

| | | | | |
|------|----------------------|----------------------|----------------------|----------------------|
| 2004 | \$ 10.000 - \$ 8.130 | \$ 12.700 - \$ 9.500 | \$ 12.200 - \$ 9.550 | \$ 11.720 - \$ 8.590 |
| 2003 | \$ 7.640 - \$ 6.490 | \$ 6.690 - \$ 6.330 | \$ 6.860 - \$ 6.330 | \$ 8.850 - \$ 6.840 |
| 2002 | \$ 9.944 - \$ 7.059 | \$ 10.000 - \$ 8.050 | \$ 9.000 - \$ 6.760 | \$ 7.999 - \$ 5.440 |

</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 500 holders of the Company's common stock as of March 16, 2005 as taken from the transfer agent's shareholder listing. It is estimated that there are approximately 2,000 holders of the Company's common stock held in street name.

The Company declared a first time regular quarterly dividend of \$.04 per common share starting June 30, 1995 and continued it through the first quarter of 2003. The Board of Directors decided to suspend the quarterly dividend in the second quarter of 2003 due to industry conditions. Any future determination to pay cash dividends will be made by the Board of Directors in light of the Company's earnings, financial position, capital requirements, and such other factors as the Board of Directors deems relevant.

During the fourth quarter of 2004, the Company did not repurchase any of its common stock.

12

The following table presents the number of shares and weighted average exercise price of equity compensation plans that have been approved by the security holders.

<TABLE>

EQUITY COMPENSATION PLAN INFORMATION

<CAPTION>

| Plan Category remaining available under equity (excluding securities | Number of securities to be issued upon exercise of outstanding options, warrants, and rights | Weighted-average exercise price of outstanding options, warrants, and rights | Number of securities for future issuance compensation plans reflected in column (a) |
|---|---|--|--|
| <S> Equity compensation plans approved by security holders | <C> 248,650 | <C> \$8.12 | <C> 325,968 |
| Equity compensation plans not approved by security holders | 0 | N/A | 0 |
| Total 325,968 | 248,650 | \$8.12 | |

</TABLE>

13

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 audited 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,
2004 2003 2002 2001 2000
(dollars in thousands, except per share amounts)

| <S> | <C> | <C> | <C> | <C> | <C> |
|---|------------|------------|------------|------------|------------|
| Net sales | \$ 301,555 | \$ 274,682 | \$ 308,755 | \$ 293,070 | \$ 361,620 |
| Gross profit | 35,880 | 32,183 | 39,193 | 34,012 | 41,905 |
| Warehouse and delivery expenses | 13,719 | 12,916 | 14,329 | 14,407 | 15,140 |
| Selling, general, and administrative expenses | 20,489 | 18,442 | 23,546 | 24,926 | 25,241 |
| Impairment charges | - - - | - - - | - - - | 2,834 | 6,937 |
| Restructuring charges | - - - | 235 | 269 | 423 | 718 |
| Interest expense, net | 671 | 680 | 891 | 962 | 1,224 |
| Income taxes (credits) | 400 | (35) | 63 | (3,769) | (2,821) |
| Net income (loss) | 601 | (55) | 95 | (5,771) | (4,534) |
| Basic earnings (loss) per common share | .13 | (.01) | .02 | (1.28) | (0.89) |
| Diluted earnings (loss) per common share | .13 | (.01) | .02 | (1.28) | (0.89) |
| Weighted average common shares outstanding | 4,704 | 4,601 | 4,547 | 4,524 | 5,118 |
| Cash dividends, per common share | - - - | .04 | .16 | .16 | .16 |
| Working capital | 28,770 | 35,635 | 38,566 | 39,082 | 41,416 |
| Total assets | 92,375 | 81,142 | 86,466 | 91,970 | 102,520 |
| Long-term debt | 4,100 | 7,771 | 11,443 | 15,114 | 18,786 |
| Shareholders' equity | 60,740 | 59,248 | 59,279 | 59,504 | 66,250 |

</TABLE>

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

GENERAL

After coming off a close to "break-even" year in 2003, fiscal 2004 was a year with many accomplishments, changes, and challenges at Patrick Industries. Market conditions remained very competitive with a near record year in Recreational Vehicle shipments and a Manufactured Housing industry that continued to stagnate. Additionally, there continued to be an overall economic uncertainty caused by the November, 2004 Presidential elections, the unstable political situation in the Middle East, continued low interest rates, and record high gas prices. Raw material price increases in the products that the Company utilizes and supplies were prevalent in the marketplace and were caused by significant economic production overseas and a strong residential housing market in the United States. The Company elected a new President in April, 2004, restructured the organization to provide increased focus and penetration into its three key market sectors, and returned to profitability. Net sales declined in the first quarter by approximately 2.3% and then showed growth in each of the

following three quarters with increases of 10.8%, 14.2% and 16.3% for the second, third, and fourth quarters of 2004, respectively. Year over year sales growth was approximately 9.8% and earnings per share increased \$0.14 per share, from a loss in 2003 of \$0.01 per share to income of \$0.13 per share in 2004. The 2004 operating results include offsetting adjustments related to the write-off of receivables and the gain on life insurance compared to the 2003 operating results which include positive adjustments of approximately \$0.16 per share related to gain on disposal of property and equipment and increases to cash surrender value of life insurance policies.

The Manufactured Housing industry, which represents approximately 41% of the Company's 2004 sales, continued to experience trials and tribulations with shipments slightly less than in 2003, and at the lowest levels in forty-three years. Shipment levels began to increase at the end of the third quarter and have continued to show monthly increases through January, 2005. Some of these increases were supported by the increased production of FEMA units related to the Hurricanes which occurred in the Southeast in the 2004 third and fourth quarters. Final 2004 shipments were approximately 130,800 compared to 130,900 in 2003. Shipment levels continued to be affected by slow jobs growth, lack of significant dealer and retail financing, and restricted access to the Asset Backed Securities Market. Repossessed inventories have declined from the previous year, while Modular inventory per sales center has increased from the previous year. Many of the manufacturers are concentrating their efforts on the modular sector of the market where land/home financing is more readily available and comparable with traditional residential housing terms. The Modular home production, as a percentage of factory built homes, has increased over the past

two years up from approximately 17% in 2002 to approximately 22% in 2003 and 24% in 2004. Year over year Modular shipments increased almost 13% from the 2003 levels. This shift towards Modular units has and will continue to result in less demand as specified for the Company's laminated wallboard and an increase in specified demand for the raw gypsum wallboard supplied by the Company's distribution centers. Preliminary Manufactured Home shipment estimates for 2005 have been set at approximately 150,000 units, which represent an increase of approximately 15% over the 2004 shipment levels.

The Recreational Vehicle industry, which represents approximately 31% of the Company's 2004 sales, continued to improve and produced the second highest shipment levels in over 25 years. 2004 shipments were 370,100 units, or 15.4%, better than the 320,800 units shipped in 2003. The current 2005 shipment forecast is expected to be approximately 353,000 units and would make 2004 and 2005 the two highest consecutive volume years ever. Recreational Vehicle unit shipments have been over 300,000 in four out of the last five years. Growth in disposable incomes, low inflation, historically low interest rates, increased employment and consumer confidence, and shifting demographic trends are factors that point towards a positive economic outlook for this industry as we head into 2005. The record high gasoline prices have not had a significant adverse impact on this industry to date; however, future price increases and the availability of supply could negatively impact this industry in the future.

The Industrial and Other markets, which represent 28% of the Company's 2004 sales, continue to be an area of strategic focus for the Company and an opportunity for future growth. The Company's sales to these markets increased more than 10% from 2003. These markets are characterized by longer production runs and increased operating efficiencies which result in improved profit margins. While the Industrial and Other markets are broad in scope, the products that the Company manufactures and distributes to this particular market sector complement the Company's core competencies and manufacturing capabilities.

Over the past two years, and continuing on and through 2005, the Company has focused its investment in personnel, machinery and equipment, and facilities to achieve and support future growth. The Company's operations have available capacity to take on additional business and increase market share in all of the regions which they serve, as well as to expand into other geographic areas. The Company has continued its focus to keep operating costs aligned with revenues and maintain the strength of its balance sheet. In March, 2005, the Company added an additional \$15.0 million in term debt to its credit facility to support these strategic initiatives and free up working capital in anticipation of future growth. Going forward, the Company looks to capitalize on its resources

15

as well as explore and execute future acquisition opportunities in order to drive future growth and improve profitability.

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

| | Year Ended | | |
|-------------------------------------|--------------|--------|--------|
| | December 31, | | |
| | 2004 | 2003 | 2002 |
| Net sales | 100.0% | 100.0% | 100.0% |
| Cost of sales | 88.1 | 88.3 | 87.3 |
| Gross profit | 11.9 | 11.7 | 12.7 |
| Warehouse and delivery | 4.5 | 4.7 | 4.7 |
| Selling, general and administrative | 6.8 | 6.7 | 7.6 |
| Impairment charges | -- | -- | -- |
| Restructuring charges | -- | 0.1 | 0.1 |
| Operating income | 0.6 | 0.2 | 0.3 |
| Net income | 0.2 | 0.0 | 0.0 |

16

RESULTS OF CONSOLIDATED OPERATIONS

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Net Sales. Net sales increased \$26.9 million, or 9.8%, from \$274.7 million in 2003 to \$301.6 million in 2004. The increase is attributable to increased raw material prices which were passed on to customers, increased market share in the Manufactured Housing industry in spite of its stagnant shipment levels, increased shipment levels in the Recreational Vehicle industry of more than 15%, and increased penetration into the Industrial and Other markets. The Company's sales were 41% Manufactured Housing, 31% Recreational Vehicle, and 28% to the Industrial and Other markets in both 2004 and 2003.

Gross Profit. Gross profit increased \$3.7 million, or 11.5%, from \$32.2 million in 2003 to \$35.9 million in 2004. As a percentage of net sales, gross profit increased 0.2%, from 11.7% in 2003 to 11.9% in 2004. The increase in dollars is attributable to increased sales. The increase as a percentage of net sales is primarily attributable to improved labor efficiencies.

Warehouse and Delivery Expenses. Warehouse and delivery expenses increased \$0.8 million, or 6.2%, from \$12.9 million in 2003 to \$13.7 million in 2004. As a percentage of net sales, warehouse and delivery expenses decreased 0.2%, from 4.7% in 2003 to 4.5% in 2004. The increase in dollars is attributable to increased sales and fuel prices, and the decrease in percentage of net sales is attributable to the Company maintaining a similar fleet size that it owns or leases from year to year, as well as its focused efforts to keep costs aligned with revenues.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased \$2.1 million, or 11.1%, from \$18.4 million in 2003 to \$20.5 million in 2004. As a percentage of net sales, selling, general, and administrative expenses increased 0.1%, from 6.7% in 2003 to 6.8% in 2004. Approximately \$0.8 million of the increase is attributable to increased sales, the addition of several key personnel, and increased group insurance costs. The 2004 figures include a pre-tax charge of \$0.5 million related to a write-off of bad debts for a customer in the Southeast and gains of approximately \$0.5 million related to life insurance proceeds. The 2003 figures include several positive adjustments including gains on the sale of two vacant buildings of approximately \$0.3 million, a gain on sale of equipment held for sale as a result of closing of one of the operations in the wood segment of \$0.4 million, and a gain on cash value of life insurance policies of \$0.6 million. Exclusive of these items, selling, general, and administrative expenses were 6.8% of net sales in 2004 compared to 7.2% of net sales in 2003.

Restructuring Charges. As discussed in Note 10 of the financial statements, the Company recognized restructuring charges of approximately \$235,000 in 2003.

Operating Income. Operating income increased \$1.1 million, from \$0.6 million in 2003 to \$1.7 million in 2004. The increase in operating income is attributable to the factors described above.

Interest Expense, net. Interest expense, net remained fairly constant at \$0.7 million for both 2003 and 2004. While normal debt service requirements continued to decline, the Company began borrowing on its line of credit in May, 2004 to support its working capital needs.

Net Income (Loss). Net income increased \$0.7 million, from a loss of \$0.1 million in 2003 to income of \$0.6 million in 2004 due the factors described above.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Net Sales. Net sales decreased by \$34.1 million, or 11.0%, from \$308.8 million in 2002 to \$274.7 million in 2003. The decrease is primarily attributable to the 22.3% decrease in shipments in the Manufactured Housing industry, which was partially offset by the strong market conditions in the Recreational Vehicle industry, and the 3.2% increase in shipments compared to 2002. Additionally, the Company's approximate 4.0% increase in sales to the Industrial market segment helped to partially offset the Manufactured Housing shipment decline.

Gross Profit. Gross profit decreased by \$7.0 million, or 17.9%, from \$39.2 million in 2002 to \$32.2 million in 2003. As a percentage of net sales, gross profit decreased approximately 1.0%, from 12.7% in 2002 to 11.7% in 2003. The decrease in dollars and percentage of net sales is attributable to the 11.0% decrease in consolidated net sales and competitive pricing situations in both the Manufactured Housing and Recreational Vehicle markets as the Company and its major competitors generally supply both of these industries with products. The Company has continued its focus on increasing operating efficiencies and reducing fixed costs where possible while operating at current sales levels which are close to break-even.

Warehouse and Delivery Expenses. Warehouse and delivery expenses decreased by \$1.4 million, or 9.9%, from \$14.3 million in 2002 to \$12.9 million in 2003. As a percentage of net sales, warehouse and delivery expenses remained fairly constant at 4.7% of net sales for 2002 and 2003. The decrease in dollars is due to reduced sales levels and the Company reducing the size of the fleet that it rents or owns. The efforts to keep costs aligned with revenues are ongoing and contributed to the warehouse and delivery expenses as a percentage of net sales remaining fairly constant.

Selling, General, and Administrative Expenses. Selling, general, and

administrative expenses decreased by \$5.1 million, or 21.7%, from \$23.5 million for the twelve months ending December 31, 2002 to \$18.4 million in the same period in 2003. As a percentage of net sales, selling, general, and administrative expenses decreased by 0.9%, from 7.6% in 2002 to 6.7% in 2003. Approximately \$2.0 million of the decrease is attributable to the Company making significant fixed cost cutting efforts in 2003 in order to keep costs aligned with revenues. Additionally, the 2003 figures include several positive adjustments including gains on the sale of two vacant buildings of approximately \$0.3 million, a gain on the sale of equipment held for sale as a result of closing of one of the operations in the wood segment of \$0.4 million, and a gain on cash value of life insurance policies of \$0.6 million. Comparatively, the 2002 figures include a negative adjustment of \$1.6 million related to the Oakwood Homes bankruptcy filing. Exclusive of the adjustments mentioned above, selling, general, and administrative expenses were 7.2% of net sales for 2003 and 7.1% of net sales for 2002.

Restructuring Charges. As discussed in Note 10 of the financial statements, the Company recognized restructuring charges of approximately \$235,000 in 2003 and \$269,000 in 2002.

Operating Income. Operating income decreased by \$0.4 million, from \$1.0 million in 2002 to \$0.6 million in 2003. The decrease in operating income is due to the factors described above.

Interest Expense, net. Interest expense, net decreased by \$0.2 million, or 23.7%, from \$0.9 million in 2002 to \$0.7 million in 2003. The decrease is due to a decline in interest rates on the variable rate bonds and normal debt service requirements resulting in reduced long term debt outstanding.

Net Income (Loss). Net income decreased by \$150,000, from income of \$95,000 in 2002 to a loss of \$55,000 in 2003. The decrease in net income is due to the factors described above.

18

BUSINESS SEGMENTS

Effective January 1, 2004, the Company changed its segment reporting to no longer allocate corporate expense to the individual business units. Accordingly, the segment results have been restated to reflect this change.

The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting, which segregates its business by product category and production/distribution process. Effective January 1, 2004, in accordance with the Company's internal reporting, the Company changed its segment reporting from four reportable segments to three. As a result of this change, two of the operations in the wood segment were combined into the Primary Manufactured Products segment and two of the operations were combined into the Other Component Manufactured Products segment. The Company's reportable segments are as follows:

Primary Manufactured Products - Utilizes various materials including gypsum, particleboard, plywood, and fiberboard which are bonded by adhesives or a heating process to a number of products including vinyl, paper, foil, and high pressure laminate. These products are utilized to produce furniture, shelving, wall, counter, and cabinet products with a wide variety of finishes and textures.

Distribution - Distributes primarily pre-finished wall and ceiling panels, particleboard, hardboard and vinyl siding, roofing products, high pressure laminates, passage doors, building hardware, insulation, and other products.

Other Component Manufactured Products - Includes aluminum extrusion and fabricating, an adhesive division, two cabinet door divisions, and a machine manufacturing division.

The table below presents information about the revenue and operating income of those segments. Reconciliation to consolidated totals is presented in footnote 14 of the Company's 2004 financial statements.

| | Year Ended December 31 | | |
|---------------------------------------|---------------------------|------------|------------|
| | 2004 | 2003 | 2002 |
| | (dollars in thousands) | | |
| Sales | | | |
| Primary Manufactured Products | \$ 164,826 | \$ 151,694 | \$ 160,472 |
| Distribution | 103,519 | 90,631 | 108,134 |
| Other Component Manufactured Products | 51,074 | 48,137 | 57,979 |
| Operating income (loss) | | | |
| Primary Manufactured Products | \$ 4,606 | \$ 4,631 | \$ 7,046 |

| | | | |
|---------------------------------------|-------|-------|-------|
| Distribution | 4,135 | 3,148 | 4,442 |
| Other Component Manufactured Products | 777 | (204) | (650) |

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Primary Manufactured Products Segment Discussion

Net sales in the Primary Manufactured Products segment increased \$13.1 million, or 8.7%, from \$151.7 million in 2003 to \$164.8 million in 2004. The increase is primarily attributable to a 15.4% increase in shipments in the

19

Recreational Vehicle industry, product price increases which were passed on to customers, and increased penetration into the Industrial and Other markets.

Operating income remained fairly consistent at \$4.6 million for both 2003 and 2004. This consistency, in light of the increased sales, is attributable to increased group insurance costs from year to year and extremely competitive market conditions which negatively impacted margins.

Distribution Segment Discussion

Net sales increased \$12.9 million, or 14.2%, from \$90.6 million in 2003 to \$103.5 million in 2004. The increase is attributable to increased penetration into the Manufactured Housing industry, which is the primary market this segment serves, as well as product price increases which were passed on to customers. Operating income increased \$1.0 million, from \$3.1 million in 2003 to \$4.1 million in 2004 primarily due to increased sales.

Other Component Manufactured Products Discussion

Net sales increased \$3.0 million, or 6.2%, from \$48.1 million in 2003 to \$51.1 million in 2004. The increased sales are attributable to increased sales in the Company's aluminum extrusion division and cabinet door division, which were offset by the closing of one of the Company's cabinet door divisions in 2003.

Operating income increased \$1.0 million, from a loss of \$0.2 million in 2003 to income of \$0.8 million in 2004 primarily due to the closing of one of the Company's unprofitable cabinet door divisions in 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Primary Manufactured Products Segment Discussion

Net sales in the Primary Manufactured Products segment decreased by \$8.8 million, or 5.5%, from \$160.5 million in 2002 to \$151.7 million in 2003. The decrease is primarily attributable to a 22.3% decrease in shipments in the Manufactured Housing industry. This decrease was partially offset by a 3.2% increase in shipments in the Recreational Vehicle industry as well as increased sales into the Industrial market.

Operating income decreased by \$2.4 million, or 34.3%, from \$7.0 million in 2002 to \$4.6 million in 2003. This decrease is primarily attributable to reduced gross margins as a result of significant competitive pricing pressures in both the Manufactured Housing and Recreational Vehicle markets, which comprise 60% of the sales in this segment. Additionally, while the Company has focused on fixed cost reduction in its manufacturing operations, workers compensation and utility costs continued to increase which have contributed to the negatively impacted margins.

Distribution Segment Discussion

Net sales in the Distribution segment decreased by \$17.5 million, or 16.2%, from \$108.1 million in 2002 to \$90.6 million in 2003. This decrease is attributable to the 22.3% decrease in shipments in the Manufactured Housing industry, which is the primary market that this segment serves.

Operating income decreased by \$1.3 million, from \$4.4 million in 2002 to \$3.1 million in 2003. The decrease in operating income is due to decreased sales volume.

Other Component Manufactured Products Segment Discussion

Net sales decreased by \$9.9 million, or 17.0%, from \$58.0 million in 2002 to \$48.1 million in 2003. The decrease is attributable to the closing of two of the unprofitable divisions in this segment, one in mid 2002 and the other in 2003, and the sale of one of the divisions in this segment in December, 2002. Together, two of these divisions accounted for approximately \$13.8 million of

the sales volume in this segment in 2002 compared to \$4.8 million in 2003. The

20

decreased sales from these two divisions were partially offset by increased sales of approximately \$2.3 million in another division in this segment in 2003.

Operating losses in this segment decreased by \$0.5, million from a loss of \$0.7 million in 2002 to a loss of \$0.2 million in 2003. Savings of \$0.5 million from the closing of one of the unprofitable divisions in this segment in 2002 and decreased losses from another division in this segment of \$0.8 million were partially offset by losses in another division in this segment of approximately \$0.9 million, which was closed during 2003.

21

LIQUIDITY AND CAPITAL RESOURCES

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

The Company, 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 that began in 1996 and seven annual principal repayments of \$2,571,429 that began in September, 1999. These funds were used to reduce existing bank debt and for working capital needs.

The Company has a secured bank revolving credit agreement that provides loan availability of \$15,000,000 with maturity in the year 2006. In March, 2005, the Company secured fixed term debt financing for \$15,000,000 with interest at 4.78%. This term debt was hedged through a cash flow interest rate swap transaction with a five year maturity in January, 2010, and a ten year amortization schedule with interest only payments due in 2005 and principal payments to begin in the first quarter of 2006. In conjunction with this agreement, the Company reduced its available line of credit from \$15,000,000 to \$10,000,000.

Pursuant to the private placement and the Credit Agreement, the Company is required to maintain certain financial ratios, all of which are currently complied with. In addition, the term debt which was obtained in March, 2005 includes certain financial covenants which are incorporated into the overall credit facility.

In conjunction with its strategic and capital plan, the Company increased its capital expenditures for property and equipment in 2004 to approximately \$10.6 million. Capital expenditures over the past three years have been approximately \$5.3 million, \$4.2 million, and \$1.8 million for 2003, 2002, and 2001, respectively. The Company believes that cash generated from operations and borrowings under its credit agreements will be sufficient to fund its working capital requirements, remaining capital expenditures, and common stock purchase program as currently contemplated. The changes in inventory and accounts receivable balances, which affect the Company's cash flows, are part of normal business cycles that cause them to change periodically.

A summary of our contractual cash obligations at December 31, 2004 is as follows:

<TABLE>

| <CAPTION> | PAYMENTS DUE BY PERIOD | | | | |
|--|------------------------|-------------|-------------|-----------|-----------|
| | TOTAL | 2005 | 2006 | 2007 | 2008 |
| CONTRACTUAL OBLIGATIONS 2009 | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| <C> | | | | | |
| Long-term debt, including interest \$928,958 at Variable rates** | \$5,068,958 | \$1,223,750 | \$1,196,250 | \$870,000 | \$850,000 |

| | | | | | |
|---|--------------|-------------|-------------|-------------|-------------|
| Long-term debt, including interest \$0 at Fixed rates** | \$2,695,651 | \$2,695,651 | \$0 | \$0 | \$0 |
| Operating Leases \$73,331 | \$3,620,012 | \$1,550,837 | \$1,093,239 | \$635,314 | \$267,291 |
| Total contractual cash obligations \$1,002,289 | \$11,384,621 | \$5,470,238 | \$2,289,489 | \$1,505,314 | \$1,117,291 |

**Interest payments have been calculated using the fixed rate of 6.82% for the Senior notes and the projected 2005 annual interest rate of 2.50% for the Industrial Revenue Bonds.

</TABLE>

22

We also have a commercial commitment as described below:

<TABLE>
<CAPTION>

| DATE OF EXPIRATION | OTHER COMMERCIAL COMMITMENT | TOTAL AMOUNT COMMITTED | OUTSTANDING AT 12/31/04 | |
|--------------------|-----------------------------|------------------------|-------------------------|-----|
| | | | | |
| | | | | |
| | | | | |
| 31, 2006 | Revolving Credit Agreement | \$15,000,000 | \$7,300,000 | May |

</TABLE>

We believe that our cash balance, availability under our line of credit as amended, and anticipated cash flows from operations will be adequate to fund our cash requirements for fiscal 2005.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are summarized in the footnotes to our financial statements. Some of the most critical policies are also discussed below.

Our major operating assets are accounts receivable, inventory, and property and equipment. Exclusive of the write-off of certain assets related to the Oakwood Homes Corporation bankruptcy filing in November, 2002, and the write-off of certain receivables in the fourth quarter of 2004 related to one customer, we have not experienced significant bad debts losses and our reserve for doubtful accounts of \$250,000 should be adequate for any exposure to loss in our December 31, 2004 accounts receivable. We have also established reserves for slow moving and obsolete inventories and believe them to be adequate. We depreciate our property and equipment over their estimated useful lives and we have not identified any items that are impaired for the twelve months ended December 31, 2004.

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 moderate. Accordingly, the Company's sales and profits are generally highest in the second and third quarters.

SALE OF PROPERTY

During 2004, the Company sold its corporate office complex, which includes two office buildings and a 109,000 square foot facility, which was used for warehousing, and recorded a gain of \$0.2 million.

During 2003, the Company sold its 50,900 square foot manufacturing facility in Goshen, Indiana. This building had previously been leased to a third party and the transaction resulted in a gain on sale of approximately \$0.2 million. Also during 2003, the Company sold its vacant 62,000 square foot building located in Bristol, Indiana in a transaction that resulted in a gain on sale of approximately \$0.2 million.

PURCHASE OF PROPERTY

In February, 2005, the Company purchased a 35,000 square foot corporate office building in Elkhart, Indiana and expects to spend approximately \$1.6 million, including renovations, which will be complete in the second quarter of 2005.

In March, 2004, the Company purchased a 155,000 square foot building complex in Elkhart, Indiana and consolidated all of its manufacturing operations into this facility.

23

INFLATION

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

SAFE HARBOR STATEMENT

The Company makes forward-looking statements from time to time and desires to take advantage of the "safe harbor" which is afforded such statements under the Private Securities Litigation Reform Act of 1995 when they are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements.

The statements contained in the foregoing "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as other statements contained in the Quarterly Report and statements contained in future filings with the Securities and Exchange Commission and publicly disseminated press releases, and statements which may be made from time to time in the future by management of the Company in presentations to shareholders, prospective investors, and others interested in the business and financial affairs of the Company, which are not historical facts, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements. Any projections of financial performance or statements concerning expectations as to future developments should not be construed in any manner as a guarantee that such results or developments will, in fact, occur. There can be no assurance that any forward-looking statement will be realized or that actual results will not be significantly different from that set forth in such forward-looking statement. In addition to the risks and uncertainties of ordinary business operations, the forward-looking statements of the Company referred to above are also subject to the following risks and uncertainties:

- o The Company operates in a highly competitive business environment, and its sales could be negatively affected by its inability to maintain or increase prices, changes in geographic or product mix, or the decision of its customers to purchase competitive products instead of the Company's products. Sales could also be affected by pricing, purchasing, financing, operational, advertising, or promotional decisions made by purchasers of the Company's products.
- o On an annual basis, the Company negotiates renewals for property, casualty, workers compensation, general liability, and health insurance coverage. Due to conditions within these insurance markets and other factors beyond the Company's control, future coverages and the amount of the related premiums could have a negative effect on the Company's results.
- o The primary markets to which the Company sells include the Manufactured Housing and Recreational Vehicle industries, which are cyclical and dependent on various factors including interest rates, access to financing, inventory and production levels, and other economic and demographic factors. The Company's sales levels could be negatively impacted by changes in any one of the above items.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk related to interest rate changes on

its debt. Long term debt includes \$2,571,430 of indebtedness bearing interest at a fixed rate of 6.82%. The related maturities and interest are reported in the contractual obligations table in Item 7.

24

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is set forth in Item 15 (a) 1. on page 27 of this report.

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

None

ITEM 9A. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that the Company's disclosure controls and procedures are effective in all material respects in ensuring that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of the previous mentioned evaluation.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Directors of the Company

The information required by this item with respect to directors is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 12, 2005, under the captions "Election of Directors", and "Section 16(a) Beneficial Ownership Reporting Compliance", which information is hereby incorporated herein by reference. The information with respect to executive officers is set forth at the end of Part I of this Form 10-K.

Executive Officers of the Company

Reference is made to "Executive Officers of the Company" in Part I of this annual report.

Audit Committee Financial Expert

The Company has determined that Robert C. Timmins, Larry D. Renbarger, Terrence D. Brennan, and Walter E. Wells all qualify as "audit committee financial experts" as defined in Item 401(h) of Regulation S-K, and that these directors are "independent" as the term is used in Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act.

25

Code of Business Conduct

The Company has adopted a Code of Ethics Policy applicable to all employees. Additionally, the Company has adopted a Code of Business Conduct applicable to Senior Executives including, but not limited to, the Chief Executive Officer and Chief Financial Officer of the Company. The Company's Code of Ethics and Code of Business Conduct Applicable to Senior Executives is available on the Company's web site at www.patrickind.com under "Corporate Governance". The Company intends to post on its web site any amendments to, or waivers from, its Corporate Governance Guidelines and its Code of Ethics and Business Conduct Policy applicable to Senior Executives. The Company will provide shareholders with a copy of these policies upon written request directed to the Company's Secretary at the Company's address.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 12, 2005, 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 AND RELATED STOCK MATTERS

The information required by this item is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 12, 2005, under the captions "Election of Directors", and "Equity Compensation Plan Information", 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 the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 12, 2005, under the caption "Certain Transactions," which information is hereby incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 12, 2005, under the heading "Accounting Information", which information is hereby incorporated herein by reference.

26

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

| | Page |
|---|--------|
| (a) 1. FINANCIAL STATEMENTS | |
| Report of Independent Registered Public Accounting Firm | F-1 |
| Consolidated balance sheets - December 31, 2004 and 2003 | F-2 |
| Consolidated statements of operations-years ended December 31, 2004, 2003, and 2002 | F-3 |
| Consolidated statements of shareholders' equity years ended December 31, 2004, 2003, 2002 | F-4 |
| Consolidated statements of cash flows- years ended December 31, 2004, 2003, and 2002 | F-5 |
| Notes to the financial statements | F-6-22 |
| (a) 2. VALUATION AND QUALIFYING ACCOUNTS AND RESERVES | F-23 |

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 53, 54, 55, and 56 are filed or incorporated by reference as part of this report.

27

SIGNATURES

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

PATRICK INDUSTRIES, INC

By /S/Robert C. Timmins

Robert C. Timmins, Lead Director

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 Company and in the capacities and on the dates indicated.

| <TABLE> <CAPTION> | Signature | Title | Date |
|----------------------|------------------------------|---|-----------------------|
| <S> | /S/Robert C. Timmins | <C> Lead Director | <C> March 18, 2005 |
| | ----- Robert C. Timmins | | ----- |
| | /S/Paul E. Hassler | President and Chief Executive Officer | March 18, 2005 |
| | ----- Paul E. Hassler | | ----- |
| | /S/Andy L. Nemeth | Executive Vice President Finance, | March 18, 2005 |
| | ----- Andy L. Nemeth | Secretary-Treasurer and Chief Financial Officer | ----- |
| | /S/Mervin D. Lung | Chairman Emeritus and Director | March 18, 2005 |
| | ----- Mervin D. Lung | | ----- |
| | /S/Keith V. Kankel | Director | March 18, 2005 |
| | ----- Keith V. Kankel | | ----- |
| | /S/David D. Lung | Director | March 18, 2005 |
| | ----- David D. Lung | | ----- |
| | /S/Harold E. Wyland | Director | March 18, 2005 |
| | ----- Harold E. Wyland | | ----- |
| | /S/John H. McDermott | Director | March 18, 2005 |
| | ----- John H. McDermott | | ----- |
| | /S/Terrence D. Brennan | Director | March 18, 2005 |
| | ----- Terrence D. Brennan | | ----- |
| | /S/Walter E. Wells | Director | March 18, 2005 |
| | ----- Walter E. Wells | | ----- |
| | /S/Larry D. Renbarger | Director | March 18, 2005 |
| | ----- Larry D. Renbarger | | ----- |

</TABLE>

28

CONTENTS

Report of Independent Registered Public Accounting Firm F-1

Financial Statements

| | |
|---|----------|
| Consolidated balance sheets | F-2 |
| Consolidated statements of operations | F-3 |
| Consolidated statements of shareholders' equity | F-4 |
| Consolidated statements of cash flows | F-5 |
| Notes to financial statements | F-6-F-22 |

McGladrey & Pullen
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We have also audited Schedule II of PATRICK INDUSTRIES, INC. AND SUBSIDIARIES for each of the years in the three-year period ended December 31, 2004. In our opinion, this schedule presents fairly, in all material respects, the information required to be set forth therein.

/s/ McGladrey & Pullen, LLP]

Elkhart, Indiana
January 28, 2005

McGladrey & Pullen, LLP is a member firm of RSM International -
an affiliation of separate and independent legal entities.

F-1

Patrick Industries, Inc.
And Subsidiaries

Consolidated Balance Sheets
December 31, 2004 and 2003

| | 2004 | 2003 |
|---------------------------|-----------|--------------|
| ----- | | |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 82,787 | \$ 7,077,390 |

| | | |
|--|--------------|--------------|
| Trade receivables | 16,720,245 | 14,240,556 |
| Inventories | 34,343,558 | 23,042,444 |
| Prepaid expenses | 951,192 | 913,650 |
| Deferred tax assets | 1,658,000 | 1,954,000 |
| | ----- | ----- |
| TOTAL CURRENT ASSETS | 53,755,782 | 47,228,040 |
| Property and Equipment, net | 35,642,867 | 30,692,910 |
| Other Assets | 2,976,026 | 3,221,010 |
| | ----- | ----- |
| TOTAL ASSETS | \$92,374,675 | \$81,141,960 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 3,671,430 | \$ 3,671,429 |
| Short-term borrowings | 7,300,000 | -- |
| Accounts payable | 11,389,966 | 4,883,038 |
| Accrued liabilities | 2,624,489 | 3,038,926 |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 24,985,885 | 11,593,393 |
| Long-Term Debt, less current maturities | 4,100,000 | 7,771,430 |
| Deferred Compensation Obligations | 2,169,606 | 2,103,403 |
| Deferred Tax Liabilities | 379,000 | 426,000 |
| | ----- | ----- |
| TOTAL LIABILITIES | 31,634,491 | 21,894,226 |
| Commitments and Contingencies | | |
| Shareholders' Equity | | |
| Preferred stock, no par value; authorized 1,000,000 shares | -- | -- |
| Common stock, no par value; authorized 12,000,000 shares; issued 2004 4,746,698 shares; 2003 4,616,886 | 19,128,021 | 18,236,386 |
| Retained earnings | 41,612,163 | 41,011,348 |
| | ----- | ----- |
| TOTAL SHAREHOLDERS' EQUITY | 60,740,184 | 59,247,734 |
| | ----- | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$92,374,675 | \$81,141,960 |
| | ===== | ===== |

See Notes to Financial Statements.

F-2

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

<TABLE>
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

<CAPTION>

| | 2004 | 2003 | 2002 |
|--------------------------------------|----------------|----------------|----------------|
| | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| Net sales | \$ 301,554,460 | \$ 274,681,995 | \$ 308,754,982 |
| Cost of goods sold | 265,674,780 | 242,498,880 | 269,561,768 |
| | ----- | ----- | ----- |
| GROSS PROFIT | 35,879,680 | 32,183,115 | 39,193,214 |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Warehouse and delivery | 13,718,515 | 12,916,460 | 14,329,135 |
| Selling, general, and administrative | 20,489,105 | 18,442,660 | 23,546,020 |
| Restructuring charges | -- | 235,000 | 269,180 |
| | ----- | ----- | ----- |
| TOTAL OPERATING EXPENSES | 34,207,620 | 31,594,120 | 38,144,335 |
| | ----- | ----- | ----- |
| OPERATING INCOME | 1,672,060 | 588,995 | 1,048,879 |

| | | | |
|---|------------|-------------|-----------|
| Interest expense, net | 671,245 | 679,645 | 891,259 |
| ----- | | | |
| INCOME (LOSS) BEFORE INCOME TAXES (CREDITS) | 1,000,815 | (90,650) | 157,620 |
| Federal and state income taxes (credits) | 400,000 | (35,200) | 63,100 |
| NET INCOME (LOSS) | \$ 600,815 | \$ (55,450) | \$ 94,520 |
| ===== | | | |
| Basic earnings (loss) per common share | \$ 0.13 | \$ (0.01) | \$ 0.02 |
| ===== | | | |
| Diluted earnings (loss) per common share | \$ 0.13 | \$ (0.01) | \$ 0.02 |
| ===== | | | |

See Notes to Financial Statements.

</TABLE>

F-3

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

<TABLE>
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

<CAPTION>

| | Preferred Stock | Common Stock | Retained Earnings | |
|--|--------------------|-----------------|----------------------|-----|
| Total | | | | |
| ----- | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Balance, December 31, 2001 | \$ -- | 17,620,517 | 41,883,004 | |
| 59,503,521 | | | | |
| Net income | -- | -- | 94,520 | |
| 94,520 | | | | |
| Issuance of 24,000 shares of common stock for stock award plan | -- | 216,000 | -- | |
| 216,000 | | | | |
| Issuance of 30,595 shares of common stock upon exercise of common stock options | -- | 192,316 | -- | |
| 192,316 | | | | |
| Dividends on common stock (\$.16 per share) | -- | -- | (727,447) | |
| (727,447) | | | | |
| ----- | | | | |
| Balance, December 31, 2002 | -- | 18,028,833 | 41,250,077 | |
| 59,278,910 | | | | |
| Net (loss) | -- | -- | (55,450) | |
| (55,450) | | | | |
| Issuance of 12,000 shares of common stock for stock award plan | -- | 78,600 | -- | |
| 78,600 | | | | |
| Issuance of 20,625 shares of common stock upon exercise of common stock options | -- | 128,953 | -- | |
| 128,953 | | | | |
| Dividends on common stock (\$.04 per share) | -- | -- | (183,279) | |
| (183,279) | | | | |
| ----- | | | | |
| Balance, December 31, 2003 | -- | 18,236,386 | 41,011,348 | |
| 59,247,734 | | | | |
| Net income | -- | -- | 600,815 | |
| 600,815 | | | | |
| Issuance of 21,000 shares of common stock for stock award plan | -- | 210,231 | -- | |
| 210,231 | | | | |
| Issuance of 108,812 shares of common stock upon exercise of common stock options | -- | 681,404 | -- | |
| 681,404 | | | | |
| ----- | | | | |
| Balance, December 31, 2004 | \$ -- | 19,128,021 | 41,612,163 | |
| 60,740,184 | | | | |
| ===== | | | | |

See Notes to Financial Statements.

</TABLE>

F-4

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

<TABLE>
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

<CAPTION>

| | 2004 | 2003 | 2002 |
|--|--------------|--------------|--------------|
| <hr/> | | | |
| <S> | <C> | <C> | <C> |
| Cash Flows From Operating Activities | | | |
| Net income (loss) | \$ 600,815 | \$ (55,450) | \$ 94,520 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 4,941,831 | 5,708,211 | 6,118,568 |
| Deferred income taxes | 249,000 | (68,000) | 473,000 |
| Stock based compensation expense | 202,354 | 188,840 | 176,820 |
| (Gain) loss on sale of property and equipment | (321,625) | (840,121) | 11,775 |
| Other | 305,975 | 205,689 | 371,051 |
| Change in assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Trade receivables | (2,479,689) | (2,695,803) | 2,177,463 |
| Inventories | (11,301,114) | 9,049,501 | (3,466,198) |
| Income tax refund claims receivable | -- | 1,592,551 | 1,454,248 |
| Prepaid expenses | (37,542) | (64,306) | (44,946) |
| Increase (decrease) in: | | | |
| Accounts payable and accrued liabilities | 6,092,491 | (1,453,121) | (1,998,108) |
| | | | |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (1,747,504) | 11,567,991 | 5,368,193 |
| <hr/> | | | |
| Cash Flows From Investing Activities | | | |
| Capital expenditures | (10,605,333) | (5,293,264) | (4,186,726) |
| Proceeds from sale of property and equipment | 1,183,524 | 1,862,952 | 904,599 |
| Other | 214,010 | (546,950) | 116,929 |
| | | | |
| NET CASH (USED IN) INVESTING ACTIVITIES | (9,207,799) | (3,977,262) | (3,165,198) |
| <hr/> | | | |
| Cash Flows From Financing Activities | | | |
| Short term borrowings | 7,300,000 | -- | -- |
| Principal payments on long-term debt | (3,671,429) | (3,671,429) | (3,671,428) |
| Payments on deferred compensation obligations | (239,772) | (278,863) | (258,094) |
| Proceeds from exercise of common stock options | 681,404 | 128,953 | 192,316 |
| Cash dividends paid | -- | (183,279) | (727,447) |
| Other | (109,503) | (60,953) | (100,393) |
| | | | |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 3,960,700 | (4,065,571) | (4,565,046) |
| <hr/> | | | |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (6,994,603) | 3,525,158 | (2,362,051) |
| Cash and cash equivalents, beginning | 7,077,390 | 3,552,232 | 5,914,283 |
| <hr/> | | | |
| Cash and cash equivalents, ending | \$ 82,787 | \$ 7,077,390 | \$ 3,552,232 |
| <hr/> | | | |

See Notes to Financial Statements.

</TABLE>

F-5

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS, USE OF ESTIMATES, RISKS AND UNCERTAINTIES, 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, Recreational Vehicle, and Industrial markets for customers throughout the United States.

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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.

RISKS AND UNCERTAINTIES:

The Company purchases significant amounts of materials, which are commodities, from a limited number of suppliers. The purchase price of such items can be volatile as it is subject to prevailing market conditions, both domestically and internationally. The Company's purchases of these items can be based on supplier allocations.

SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Patrick Industries, Inc., its wholly-owned subsidiary, Harlan Machinery Company, Inc., and its majority-owned subsidiary, Patrick Mouldings, L.L.C. ("the Company"). During the year ended December 31, 2002, Patrick Mouldings, L.L.C. ceased operations, and is not a consolidated subsidiary at December 31, 2004 and 2003. All significant intercompany accounts and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS:

The Company has cash on deposit in financial institutions in amounts which, at times, may be in excess of insurance coverage provided by the Federal Deposit Insurance Corporation.

For purposes of the statement of cash flows, the Company considers all overnight repurchase agreements and commercial paper with a maturity of 30 days or less acquired in connection with its sweep account arrangements with its bank to be cash equivalents.

F-6

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

TRADE RECEIVABLES:

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Trade receivables in the accompanying balance sheets at December 31, 2004 and 2003 are stated net of an allowance for doubtful accounts of \$250,000. Management determines the allowance for doubtful accounts by evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. In conjunction with the Company's credit terms, trade receivables are considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. Customer terms are generally on an unsecured basis for terms of 30 days.

The following table provides the changes in the Company's allowance for doubtful accounts for 2004 and 2003:

2004 2003

| | | |
|---------------------------------|------------|------------|
| Balance, beginning | \$ 250,000 | \$ 300,000 |
| Provisions made during the year | 440,000 | (155,000) |
| Write-offs | (526,000) | (115,000) |
| Recoveries during the year | 86,000 | 220,000 |
| | ----- | ----- |
| Balance, ending | \$ 250,000 | \$ 250,000 |
| | ===== | ===== |

INVENTORIES:

Inventories are stated at the lower of cost (first-in, first-out (FIFO) method) or market. Inventories are also written-down for management's estimates of product which will not sell at historical cost. Write-downs of inventories establish a new cost basis which is not increased for future increases in the market value of inventories or changes in estimated obsolescence.

During the year ended December 31, 2003, the Company entered into an agreement whereby certain materials, which were previously acquired as inventory, were held on consignment and entered into inventory when the material is introduced into the manufacturing process. This agreement was terminated in 2004.

PROPERTY AND EQUIPMENT:

Property and equipment is recorded at cost. 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.

LONG-LIVED ASSETS:

The Company reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of the long-lived assets with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Company would recognize an impairment loss at that date. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the long-lived assets.

F-7

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

REVENUE RECOGNITION:

The Company ships product based on specific orders from customers and revenue is recognized at the time of passage of title and risk of loss to the customer, which is generally upon delivery.

Shipping and handling charges billed to the customers are included in net sales. Shipping and handling costs incurred by the Company are included in warehouse and delivery expenses.

STOCK OPTION PLAN:

At December 31, 2004, the Company has a stock option plan with shares of common stock reserved for options to key employees. The Company accounts for stock-based compensation under the provisions of APB No. 25. The Company has adopted the disclosure-only provisions of FASB No. 123, Accounting for Stock-Based Compensation. Accordingly, no compensation expense has been recognized as the exercise price of all options equals the fair market value of the underlying stock at the date of grant. The table below illustrates the effect on net income (loss) and earnings (loss) per share had compensation expense for the stock option plan been determined based on the fair value at the grant date for awards consistent with the provision of FASB No. 123. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions.

| | 2004 | 2001 |
|-------------------------|---------|---------|
| | ----- | ----- |
| Dividend rate | 0.00% | 2.25% |
| Risk-free interest rate | 3.50% | 5.25% |
| Expected option life | 4 YEARS | 4 years |
| Price volatility | 31.00% | 43.00% |

<TABLE>
<CAPTION>

| | 2004 | 2003 | 2002 |
|---|------------|--------------|-------------|
| Net income (loss): | | | |
| <S> | <C> | <C> | <C> |
| As reported | \$ 600,815 | \$ (55,450) | \$ 94,520 |
| Deduct total stock-based employee compensation expense determined under fair value based method for all awards net of related tax effects | (166,668) | (152,155) | (152,155) |
| Pro forma | \$ 434,147 | \$ (207,605) | \$ (57,635) |
| Basic earnings (loss) per share: | | | |
| As reported | \$ 0.13 | \$ (0.01) | \$ 0.02 |
| Pro forma | 0.09 | (0.04) | (0.01) |
| Diluted earnings (loss) per share: | | | |
| As reported | \$ 0.13 | \$ (0.01) | \$ 0.02 |
| Pro forma | 0.09 | (0.04) | (0.01) |

</TABLE>

F-8

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS:

The Company's financial instruments consist principally of cash and cash equivalents, receivables, long-term debt and accounts payable. The Company believes cash and cash equivalents, receivables, and accounts payable are recorded at amounts that approximate their current market values. Based on the borrowing rates currently available to the Company for long-term debt with similar terms and average maturities, the fair value of the long-term debt instruments approximates their carrying value.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

In December 2004, the Financial Accounting Standards Board ("FASB") published FASB Statement No. 123 (revised 2004), "Share-Based Payment" ("FAS 123(R)" or the "Statement"). FAS 123(R) requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options, be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. FAS 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. FAS 123(R) is a replacement of FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretive guidance (APB 25).

The effect of the Statement will be to require entities to measure the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award. FAS 123(R) permits entities to use any option-pricing model that meets the fair value objective in the Statement.

The Company will be required to apply FAS 123(R) as of the beginning of its interim period that begins January 1, 2006.

FAS 123(R) allows two methods for determining the effects of the transition: the modified prospective transition method and the modified retrospective method of transition. Under the modified prospective transition method, an entity would use the fair value based accounting method for all employee awards granted, modified, or settled after the effective date. As of the effective date, compensation cost related to the nonvested portion of awards outstanding as of that date would be based on the grant-date fair value of those awards as calculated under the original provisions of Statement No. 123; that is, an entity would not remeasure the grant-date fair value estimate of the unvested portion of awards granted prior to the effective date. An entity will have the further option to either apply the Statement to only the quarters in the period of adoption and subsequent periods, or apply the Statement to all quarters in the fiscal year of adoption. Under the modified retrospective method of

transition, an entity would revise its previously issued financial statements to recognize employee compensation cost for prior periods presented in accordance with the original provisions of Statement No. 123.

The Company has not yet completed its study of the transition methods or made any decisions about how it will adopt FAS 123(R). The impact of this Statement on the Company in 2006 and beyond will depend upon various factors, among them being the Company's future compensation strategy. The pro forma compensation costs presented in the stock option table above and in prior filings for the Company have been calculated using a Black-Scholes option pricing model and may not be indicative of amounts which should be expected in future years. No decisions have been made as to which option-pricing model is most appropriate for the Company for future awards.

F-9

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

EARNINGS PER COMMON SHARE:

Following is information about the computation of the earnings per share data for the years ended December 31, 2004, 2003, and 2002:

<TABLE>
<CAPTION>

| | 2004 | 2003 | 2002 |
|--|------------|-------------|-----------|
| | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| Numerator for basic and diluted earnings per share, net income (loss) | \$ 600,815 | \$ (55,450) | \$ 94,520 |
| | ===== | ===== | ===== |
| Denominator: | | | |
| Weighted average shares, denominator for basic earnings per share | 4,703,671 | 4,600,746 | 4,547,075 |
| Effect of dilutive potential common shares, employee stock options (a) | 51,086 | -- | 66,821 |
| | ----- | ----- | ----- |
| Denominator for diluted earnings per share | 4,754,757 | 4,600,746 | 4,613,896 |
| | ===== | ===== | ===== |
| Basic earnings (loss) per share | \$ 0.13 | \$ (0.01) | \$ 0.02 |
| | ===== | ===== | ===== |
| Diluted earnings (loss) per share | \$ 0.13 | \$ (0.01) | \$ 0.02 |
| | ===== | ===== | ===== |

(a) Due to the loss incurred during the year ended December 31, 2003, the dilutive potential of 29,139 common shares were not included because the effect would be antidilutive.

</TABLE>

F-10

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 2. BALANCE SHEET DATA

| INVENTORIES: | 2004 | 2003 |
|--------------------------------|--------------|--------------|
| | ----- | ----- |
| Raw materials | \$20,466,965 | \$12,733,414 |
| Work in process | 1,955,284 | 1,630,052 |
| Finished goods | 5,336,306 | 3,501,779 |
| Materials purchased for resale | 6,585,003 | 5,177,199 |
| | ----- | ----- |

\$34,343,558 \$23,042,444
 =====

PROPERTY AND EQUIPMENT:

| | | |
|-------------------------------|--------------|--------------|
| Land and improvements | \$ 3,748,124 | \$ 3,783,829 |
| Buildings and improvements | 26,376,504 | 24,656,022 |
| Machinery and equipment | 59,133,177 | 57,116,232 |
| Transportation equipment | 1,619,259 | 1,754,781 |
| Leasehold improvements | 3,284,469 | 3,309,180 |
| | ----- | ----- |
| | 94,161,533 | 90,620,044 |
| Less accumulated depreciation | 58,518,666 | 59,927,134 |
| | ----- | ----- |
| | \$35,642,867 | \$30,692,910 |
| | ===== | ===== |

OTHER ASSETS:

| | | |
|------------------------------|--------------|--------------|
| Cash value of life insurance | \$ 2,765,940 | \$ 2,979,950 |
| Other | 210,086 | 241,060 |
| | ----- | ----- |
| | \$ 2,976,026 | \$ 3,221,010 |
| | ===== | ===== |

ACCRUED LIABILITIES:

| | | |
|------------------------------|--------------|--------------|
| Payroll and related expenses | \$ 810,152 | \$ 1,018,117 |
| Property taxes | 476,397 | 561,390 |
| Group insurance | 600,000 | 700,000 |
| Other | 737,940 | 759,419 |
| | ----- | ----- |
| | \$ 2,624,489 | \$ 3,038,926 |
| | ===== | ===== |

PATRICK INDUSTRIES, INC.
 AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 3. NOTE PAYABLE, PLEDGED ASSETS AND LONG-TERM DEBT

The Company has an unsecured revolving credit agreement which allows borrowings up to \$15,000,000 of which \$7,300,000 was outstanding at December 31, 2004. This agreement expires on May 31, 2006. Interest on this note is at prime or the Eurodollar rate plus a percentage based on the Company's cash flow. The Company pays a commitment fee of between .25% and .375% of the unused portion of the revolving line, based on the Company's cash flow. The borrowings bear interest at an effective rate of 4.38% at December 31, 2004. In addition, this agreement requires the Company to, among other things, maintain minimum levels of debt service coverage, tangible net worth, working capital, and debt to net worth.

Long-term debt at December 31, 2004 and 2003 is as follows:

| | 2004 | 2003 |
|--|--------------|--------------|
| | ----- | ----- |
| Senior Notes, insurance company | \$ 2,571,430 | \$ 5,142,859 |
| Indiana Development Finance Authority Bonds | 600,000 | 900,000 |
| State of Oregon Economic Development Revenue Bonds | 2,000,000 | 2,400,000 |
| State of North Carolina Economic Development Revenue Bonds | 2,600,000 | 3,000,000 |
| | ----- | ----- |
| | 7,771,430 | 11,442,859 |
| Less current maturities | 3,671,430 | 3,671,429 |
| | ----- | ----- |
| | \$ 4,100,000 | \$ 7,771,430 |
| | ===== | ===== |

The senior notes bear interest at a fixed rate of 6.82% and are unsecured. The notes are due in annual principal installments of \$2,571,429 and the final installment is due September 15, 2005. This agreement requires that the Company maintain a minimum level of tangible net worth.

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 (2.15% at December 31, 2004). 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 totaling approximately \$636,000.

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 (2.15% at December 31, 2004). The final installment is due December 1, 2009. The bonds are collateralized by real estate and equipment purchased with the bond funds and are backed by a bank standby letter of credit totaling approximately \$2,090,000.

The State of North Carolina Economic Development Revenue Bonds are payable in annual installments of \$400,000 plus quarterly interest payments at a variable tax exempt bond rate (2.15% at December 31, 2004). Annual payments of \$500,000 are due in each of the last two years with a final payment due August 1, 2010. The bonds are collateralized by real estate and equipment purchased with the bond funds and are backed by a bank standby letter of credit totaling approximately \$2,694,000.

Aggregate maturities of long-term debt for the next five years ending December 31, are; 2005 \$3,671,430; 2006 \$1,100,000; 2007 \$800,000; 2008 \$800,000; 2009 \$900,000; and thereafter \$500,000.

F-12

In addition, the Company is contingently liable for standby letters of credit of approximately \$3,675,000 to meet credit requirements for one of the Company's insurance providers.

Interest expense for the years ended December 31, 2004, 2003, and 2002 was approximately \$711,000, \$755,000, and \$1,035,000 respectively.

NOTE 4. EQUITY TRANSACTIONS

SHAREHOLDER RIGHTS PLAN:

On February 29, 1996, the Company's Board of Directors adopted a shareholder rights agreement, granting certain new rights to holders of the Company's common stock. Under the agreement, one right was granted for each share of common stock held as of March 20, 1996, and one right will be granted for each share subsequently issued. Each right entitles the holder to 1/100th of a preferred share after paying the exercise price (currently \$30), and in an unfriendly takeover situation, to purchase Patrick common stock having a market value equal to two times the exercise price. Also, if the Company is merged into another corporation, or if 50 percent or more of the Company's assets are sold, then rightholders are entitled, upon payment of the exercise price, to buy common shares of the acquiring corporation's common stock having a then current market value equal to two times the exercise price. In either situation, these rights are not available to the acquiring party. However, these exercise features will not be activated if the acquiring party makes an offer to acquire the Company's outstanding shares at a price which is judged by the Board of Directors to be fair to all Patrick shareholders. The rights may be redeemed by the Company under certain circumstances at the rate of \$.01 per right. The rights will expire on March 20, 2006. The Company has authorized 100,000 shares of preferred stock, Series A, no par value, in connection with this plan, none of which have been issued.

NOTE 5. COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Company leases office, manufacturing, and warehouse facilities and certain equipment under various noncancelable agreements, which expire at various dates through 2009. 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 emeritus/major shareholder and expire at various dates through August 31, 2005.

The total minimum rental commitment at December 31, 2004 under the leases mentioned above is approximately \$3,620,000 which is due approximately \$1,551,000 in 2005, \$1,093,000 in 2006, \$635,000 in 2007, and \$267,000 in 2008, and \$74,000 in 2009.

The total rent expense included in the statements of operations for the years ended December 31, 2004, 2003, and 2002 is approximately \$2,600,000, \$3,800,000, and \$3,900,000 respectively, of which approximately \$744,000 was paid in 2004, \$828,000 was paid in 2003, \$1,100,000 was paid in 2002, to the chairman emeritus/major shareholder.

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 6. MAJOR CUSTOMER

Net sales for the years ended December 31, 2004, 2003, and 2002 included sales to one customer accounting for 13.4%, 14.7%, and 12.7%, respectively of total net sales of the Company.

The balances due from this customer at December 31, 2004 and 2003 were approximately \$2,200,000 and \$2,031,000 respectively.

NOTE 7. INCOME TAX MATTERS

Federal and state income taxes (credits) for the years ended December 31, 2004, 2003, and 2002, all of which are domestic, consist of the following:

| | 2004 | 2003 | 2002 |
|----------|------------|-------------|-------------|
| Current: | | | |
| Federal | \$ 111,000 | \$ 32,800 | \$(233,900) |
| State | 40,000 | -- | (176,000) |
| Deferred | 249,000 | (68,000) | 473,000 |
| | \$ 400,000 | \$ (35,200) | \$ 63,100 |

The provisions for income taxes (credits) for the years ended December 31, 2004, 2003, and 2002 are different from the amounts that would otherwise be computed by applying a graduated federal statutory rate to income before income taxes. A reconciliation of the differences is as follows:

| | 2004 | 2003 | 2002 |
|--|------------|-------------|-----------|
| Rate applied to pretax income | \$ 340,300 | \$ (31,700) | \$ 55,100 |
| State taxes, net of federal tax effect | 26,000 | (4,000) | 9,000 |
| Other | 33,700 | 500 | (1,000) |
| | \$ 400,000 | \$ (35,200) | \$ 63,100 |

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.

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

The composition of the deferred tax assets and liabilities at December 31, 2004 and 2003 is as follows:

| | 2004 | 2003 |
|---------------------------------|----------------|----------------|
| Gross deferred tax liabilities: | | |
| Accelerated depreciation | \$ (2,372,000) | \$ (1,920,000) |
| Prepaid expenses | (135,000) | (273,000) |

| | | |
|--|--------------|--------------|
| | (2,507,000) | (2,193,000) |
| ----- | | |
| Gross deferred tax assets: | | |
| Trade receivables allowance | 99,000 | 99,000 |
| Inventory capitalization | 426,000 | 335,000 |
| Accrued expenses | 523,000 | 876,000 |
| Deferred compensation | 857,000 | 861,000 |
| Unvested stock awards | 47,000 | 201,000 |
| Noncompete agreement | 154,000 | 173,000 |
| Inventory reserves | 123,000 | 144,000 |
| AMT and other tax credit carryforwards | 311,000 | 311,000 |
| Federal and State NOL carryforwards | 1,038,000 | 488,000 |
| Other | 208,000 | 233,000 |
| | ----- | ----- |
| | 3,786,000 | 3,721,000 |
| | ----- | ----- |
| Net deferred tax assets | \$ 1,279,000 | \$ 1,528,000 |
| | ===== | ===== |

The deferred tax amounts above have been reflected on the accompanying consolidated balance sheets as of December 31, 2004 and 2003 as follows:

| | | |
|------------------------------------|--------------|--------------|
| | 2004 | 2003 |
| | ----- | ----- |
| Current deferred tax assets | \$ 1,658,000 | \$ 1,954,000 |
| Long-term deferred tax liabilities | (379,000) | (426,000) |
| | ----- | ----- |
| | \$ 1,279,000 | \$ 1,528,000 |
| | ===== | ===== |

At December 31, 2004, the Company has net operating loss carryforwards of approximately \$1,975,000 available under provisions of the Internal Revenue Code and approximately \$4,575,000 of net operating loss carryforwards available under various state revenue codes to be applied against future taxable income. These carryforwards expire in varying amounts between 2010 and 2024.

At December 31, 2004, the Company has federal AMT credit and state manufacturing credit carryforwards which are available to be directly offset against future federal and state income tax liabilities. These carryforwards expire in varying amounts between 2008 and 2020.

F-15

NOTE 8. SELF-INSURED PLANS

The Company has a self-insured health plan for its employees under which there is both a participant stop loss and an aggregate stop loss based on total participants. The Company is potentially responsible for annual claims not to exceed approximately \$4,433,000 in the aggregate at December 31, 2004. The excess loss portion of the employees' coverage has been insured with a commercial carrier.

The Company is partially self-insured for its workers' compensation liability, general liability and automobile insurance. The Company is responsible for a per occurrence limit, with an aggregate amount not to exceed approximately \$7,500,000 on an annual basis. The excess loss portion of the employees' coverage has been insured with a commercial carrier.

The Company has accrued an estimated liability for these benefits based upon claims incurred.

NOTE 9. 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 future 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 \$720,000, \$632,000, and \$790,000, for the years ended December 31, 2004, 2003, and 2002 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 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 amounts of contributions for the years ended December 31, 2004, 2003, and 2002 were immaterial.

F-16

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

STOCK OPTION PLAN:

A summary of transactions of granted shares under option for the years ended December 31, 2004, 2003 and 2002 is as follows:

<TABLE>
<CAPTION>

| | 2004 | | 2003 | | 2002 | |
|--|-----------|--|----------|--|----------|--|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Outstanding, beginning of year | 244,462 | \$ 6.24 | 274,775 | \$ 6.24 | 349,800 | \$ 6.25 |
| Issued during the year | 125,000 | 10.01 | -- | -- | -- | -- |
| Canceled during the year | (12,000) | 6.18 | (9,688) | 6.24 | (44,430) | 6.24 |
| Exercised during the year | (108,812) | 6.26 | (20,625) | 6.25 | (30,595) | 6.29 |
| Outstanding, end of year | 248,650 | \$ 8.12 | 244,462 | \$ 6.24 | 274,775 | \$ 6.24 |
| Eligible, end of year for exercise | 123,650 | \$ 6.26 | 223,425 | \$ 6.25 | 182,856 | \$ 6.27 |
| Weighted average fair value of options granted during the year | | \$ 3.01 | | N/A | | \$ 1.86 |

</TABLE>

A further summary about fixed options outstanding at December 31, 2004 is as follows:

<TABLE>
<CAPTION>

| | Options Outstanding | | | Options Exercisable | |
|---|---------------------|---|---------------------------------|---------------------|---------------------------------|
| | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| <S> | <C> | <C> | <C> | <C> | <C> |
| 2000 Grants: Exercise price of \$6.13 | 52,400 | 1.5 | \$ 6.13 | 52,400 | \$ 6.13 |
| 2001 Grants: Exercise price of \$6.30 | 71,250 | 2.5 | \$ 6.30 | 71,250 | \$ 6.30 |
| 2004 Grants: Exercise price of \$10.01 | 125,000 | 5.5 | \$ 10.01 | -- | \$ -- |

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

STOCK AWARD PLAN:

The Company has adopted a stock award plan for the non-employee directors. Grants awarded during May 2004 and 2003 of 21,000 shares and 12,000 shares, respectively are subject to forfeiture in the event the recipient terminates within one year from the date of grant as a director. The related compensation expense is being recognized over the one-year vesting period. Total compensation expense for the years ended December 31, 2004, 2003, and 2002 were \$202,354, \$188,840, and \$176,820, respectively.

NOTE 10. RESTRUCTURINGS AND ASSET IMPAIRMENTS

In July 2003, the Company decided to close an unprofitable cabinet door division in the Wood Segment. Accordingly, the Company recorded restructuring charges of approximately \$235,000, or \$.03 per share, net of tax, related to severance, retention, and accrued vacation for approximately 61 hourly and salaried employees, all of which were terminated from this particular operation. Other charges included shut down expenses and the write-off of obsolete inventory. The operation was closed in September 2003 and all of the restructuring reserve was utilized in the fourth quarter.

In June 2002, the Company decided to close an unprofitable division in the Wood segment and consolidate it into another existing plant location. Accordingly, the Company recorded charges of approximately \$269,000 which included plant shut down expenses, the write-down of obsolete inventory, and severance payments of approximately \$62,000 to 51 employees. These restructuring charges approximated \$162,000 after tax, or \$.04 per share and were all utilized in the third quarter of 2002.

NOTE 11. CONTINGENCIES

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

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 12. CASH FLOWS INFORMATION

Supplemental information relative to the statements of cash flows for the years ended December 31, 2004, 2003, and 2002 is as follows:

| | 2004 | 2003 | 2002 |
|---|-----------|-----------|-----------|
| | ----- | | |
| Supplemental disclosures of cash flows information: | | | |
| Cash payments for: | | | |
| Interest | \$747,718 | \$727,295 | \$875,059 |
| | ===== | | |
| Income taxes | \$ 88,765 | \$ 81,285 | \$717,232 |
| | ===== | | |

Supplemental schedule of noncash financing activities:
Issuance of common stock

for stock award plan \$210,231 \$ 78,600 \$216,000
=====

NOTE 13. UNAUDITED INTERIM FINANCIAL INFORMATION

Presented below is certain selected unaudited quarterly financial information for the years ended December 31, 2004 and 2003 (dollars in thousands, except per share data):

<TABLE>
<CAPTION>

| | Quarter Ended | | | |
|--|---------------|-----------|---------------|--------------|
| | March 31, | June 30, | September 30, | December 31, |
| | 2004 | | | |
| <S> | <C> | <C> | <C> | <C> |
| Net sales | \$ 65,712 | \$ 78,621 | \$ 80,261 | \$ 76,961 |
| Gross profit | 7,593 | 9,538 | 10,413 | 8,336 |
| Net income (loss) | (522) | 555 | 667 | (99) |
| Earnings (loss) per common share | (0.11) | 0.12 | 0.14 | (0.02) |
| Weighted average common shares outstanding | 4,640,741 | 4,697,159 | 4,731,127 | 4,744,900 |
| | 2003 | | | |
| Net sales | \$ 67,285 | \$ 70,950 | \$ 70,267 | \$ 66,180 |
| Gross profit | 7,071 | 8,562 | 8,909 | 7,641 |
| Net income (loss) | (900) | 25 | 228 | 592 |
| Earnings (loss) per common share | (0.20) | 0.01 | 0.05 | 0.13 |
| Weighted average common shares outstanding | 4,584,261 | 4,590,327 | 4,611,037 | 4,616,886 |

* During the 4th quarter ended December 31, 2003, the Company recorded pre-tax positive adjustments of \$1.2 million, or .16 cents per share net of tax related to gains on disposal of a building, sale of equipment as a result of a plant closing, and increases in cash surrender value of life insurance policies.

</TABLE>

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 14. SEGMENT INFORMATION

Effective January 1, 2004, the Company changed its segment reporting to no longer allocate corporate expense to the individual business units. Accordingly, the segment results have been restated to reflect this change.

The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting, which segregates its business by product category and production/distribution process. Effective January 1, 2004, in accordance with the Company's internal reporting, the Company changed its segment reporting from four reportable segments to three. As a result of this change, two of the operations in the wood segment were combined into the Primary Manufactured Products segment and two of the operations were combined into the Other Component Manufactured Products segment. The Company's reportable segments are as follows:

Primary Manufactured Products - Utilizes various materials including gypsum, particleboard, plywood, and fiberboard which are bonded by adhesives or a heating process to a number of products including vinyl, paper, foil, and high pressure laminate. These products are utilized to produce furniture, shelving, wall, counter, and cabinet products with a wide variety of finishes and textures.

Distribution - Distributes primarily pre-finished wall and ceiling panels,

particleboard, hardboard and vinyl siding, roofing products, high pressure laminates, passage doors, building hardware, insulation, and other products.

Other Component Manufactured Products - Includes aluminum extrusion and fabricating, an adhesive division, two cabinet door divisions, and a machine manufacturing division.

The accounting policies of the segments are the same as those described in "Significant Accounting Policies," except that segment data includes intersegment revenues, as well as a charge allocating a majority of the corporate costs to each of its operating segments based on a percentage of sales. Assets are identified with the segments with the exception of cash, land and buildings, and intangibles which are identified with the corporate division. The corporate division charges rents to the segment for use of the land and buildings based upon market rates. The Company accounts for intersegment sales as if the sales were to third parties, that is, at current market prices. The Company also records income from purchase incentive agreements as corporate division revenue. The Company evaluates the performance of its segments and allocates resources to them based on a variety of indicators including revenues, cost of goods sold, operating income, and total identifiable assets.

F-20

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

The table below presents information about the net income (loss) and segment assets used by the chief operating decision makers of the Company as of and for the years ended December 31, 2004, 2003, and 2002.

| | Primary Manufactured Products | Distribution | Other Component Manufactured Products | Total |
|------------------------|-------------------------------------|--------------|--|-----------|
| ----- 2004 ----- | | | | |
| Sales | \$157,642 | \$102,369 | \$ 41,544 | \$301,555 |
| Sales, intersegment | 7,184 | 1,150 | 9,530 | 17,864 |
| ----- | | | | |
| Total sales | 164,826 | 103,519 | 51,074 | 319,419 |
| Cost of goods sold | 149,763 | 90,866 | 45,993 | 286,622 |
| Operating income | 4,606 | 4,135 | 777 | 9,518 |
| Identifiable assets | 40,972 | 12,657 | 10,529 | 64,158 |
| Depreciation | 2,328 | 148 | 626 | 3,102 |
| ----- 2003 ----- | | | | |
| Sales | \$144,561 | \$ 89,992 | \$ 40,129 | \$274,682 |
| Sales, intersegment | 7,133 | 639 | 8,008 | 15,780 |
| ----- | | | | |
| Total sales | 151,694 | 90,631 | 48,137 | 290,462 |
| Cost of goods sold | 137,607 | 78,980 | 44,369 | 260,956 |
| Operating income | 4,631 | 3,148 | (204) | 7,575 |
| Identifiable assets | 30,510 | 9,779 | 7,802 | 48,091 |
| Depreciation | 2,455 | 172 | 856 | 3,483 |
| ----- 2002 ----- | | | | |
| Sales | \$153,062 | \$107,376 | \$ 48,317 | \$308,755 |
| Sales, intersegment | 7,410 | 758 | 9,662 | 17,830 |
| ----- | | | | |
| Total sales | 160,472 | 108,134 | 57,979 | 326,585 |
| Cost of goods sold | 142,946 | 94,839 | 53,180 | 290,965 |

| | | | | |
|---------------------|--------|--------|-------|--------|
| Operating income | 7,046 | 4,442 | (650) | 10,838 |
| Identifiable assets | 35,289 | 10,357 | 9,141 | 54,787 |
| Depreciation | 2,756 | 250 | 958 | 3,964 |

F-21

PATRICK INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

A reconciliation of total segment sales, cost of goods sold, and operating income to consolidated sales, cost of goods sold, and segment information to the consolidated financial statements as of and for the years ended December 31, 2004, 2003, and 2002 is as follows (dollars in thousands):

<TABLE>
<CAPTION>

| | 2004 | 2003 | 2002 |
|---|------------|------------|------------|
| <S> | <C> | <C> | <C> |
| Sales: | | | |
| Total sales for reportable segments | \$ 319,419 | \$ 290,462 | \$ 326,585 |
| Elimination of intersegment revenue | (17,864) | (15,780) | (17,830) |
| Consolidated sales | \$ 301,555 | \$ 274,682 | \$ 308,755 |
| Cost of goods sold: | | | |
| Total cost of goods sold for reportable segments | \$ 286,622 | \$ 260,956 | \$ 290,965 |
| Elimination of intersegment cost of goods sold | (17,864) | (15,780) | (17,830) |
| Consolidation reclassifications | (842) | (1,197) | (1,397) |
| Corporate incentive agreements | (2,047) | (1,815) | (2,427) |
| Other | (194) | 335 | 251 |
| Consolidated cost of goods sold | \$ 265,675 | \$ 242,499 | \$ 269,562 |
| Operating income: | | | |
| Operating income for reportable segments | 9,518 | 7,575 | 10,838 |
| Corporate incentive agreements | 2,047 | 1,815 | 2,427 |
| Consolidation reclassifications | 435 | 852 | 131 |
| Gain (loss) on sale of property and equipment | 322 | 840 | (12) |
| Restructuring charge | -- | (235) | (269) |
| Unallocated corporate expenses | (10,650) | (10,258) | (12,066) |
| Consolidated operating income | \$ 1,672 | \$ 589 | \$ 1,049 |
| Consolidated assets: | | | |
| Identifiable assets for reportable segments | \$ 64,158 | \$ 48,091 | \$ 54,787 |
| Corporate property and equipment | 22,055 | 19,632 | 22,235 |
| Current assets not allocated to segments | 3,533 | 10,511 | 6,703 |
| Intangible and other assets not allocated to segments | 2,976 | 3,221 | 2,937 |
| Consolidation eliminations | (347) | (313) | (196) |
| Consolidated assets | \$ 92,375 | \$ 81,142 | \$ 86,466 |
| Depreciation and amortization: | | | |
| Depreciation for reportable segments | \$ 3,102 | \$ 3,483 | \$ 3,964 |
| Corporate depreciation and amortization | 1,840 | 2,225 | 2,155 |
| Consolidated depreciation and amortization | \$ 4,942 | \$ 5,708 | \$ 6,119 |

</TABLE>

Patrick Industries, Inc.
And Subsidiaries

<TABLE>
Schedule II
Valuation And Qualifying Accounts And Reserves
December 31, 2004, 2003, and 2002

<CAPTION>

| | Balance At Beginning Of Period | Charged To Operations | Deductions From Reserves | Balance At Close Of Period |
|--|--------------------------------------|--------------------------|--------------------------------|----------------------------------|
| Allowance for doubtful accounts - deducted from trade receiv- ables in the balance sheets: | | | | |
| 2002 | \$ 175,000 | \$ 1,762,297 | \$ 1,637,297 | \$ 300,000 |
| 2003 | \$ 300,000 | \$ (155,149) | \$ (105,149) | \$ 250,000 |
| 2004 | \$ 250,000 | \$ 439,880 | \$ 439,880 | \$ 250,000 * |
| * Negative balances due to recovery of previously written off balances. | | | | |
| Allowance for restructuring charges - in accrued liabilities in the balance sheets: | | | | |
| 2002 | \$ 126,000 | \$ 269,180 | \$ 395,180 | \$ - |
| 2003 | \$ - | \$ 235,000 | \$ 235,000 | \$ - |
| 2004 | \$ - | \$ - | \$ - | \$ - |
| Allowance for inventory write- downs - in accrued liabilities in the balance sheets: | | | | |
| 2002 | \$ - | \$ 2,569,662 | \$ 2,484,505 | \$ 85,157 |
| 2003 | \$ 85,157 | \$ 1,674,989 | \$ 1,518,716 | \$ 241,430 |
| 2004 | \$ 241,430 | \$ 1,571,724 | \$ 1,534,528 | \$ 278,626 |

</TABLE>

INDEX TO EXHIBITS

| Exhibit Number | Exhibits |
|----------------|---|
| 3 (a) | -Amended Articles of Incorporation of the Company as further amended (filed as Exhibit 3(a) to the Company'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 Company (filed as Exhibit 3(b) to the Company'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(c) - Preferred Share Purchase Rights Agreement (filed April 3, 1996 on Form 8-A and incorporated herein by reference)
- 10(a) -Second Amendment to February 2, 1994 Credit Agreement, dated as of June 26, 1995 among the Company, NBD Bank, as agent, and NBD Bank, N.A. (filed as Exhibit 10(a) to the Company's Form 10-K for the fiscal year ended December 31, 1995 and incorporated herein by reference)
- 10(b) -Note Agreement, dated September 1, 1995, between the Company and Nationwide Life Insurance Company (filed as Exhibit 10(b) to the Company's Form 10-K for the fiscal year ended December 31, 1995 and incorporated herein by reference)
- 10(c) -Commercial Lease and Option to Purchase dated as of October 1, 1995 between Mervin Lung Building Company, Inc., as lessor, and the Company, as lessee (filed as Exhibit 10(c) to the Company's Form 10-K for the fiscal year ended December 31, 1995 and incorporated herein by reference)
- 10(d) -First Amendment to Credit Agreement, dated as of October 27, 1994 among the Company, NBD Bank, as agent, and NBD Bank, N.A. (filed as Exhibit 10(a) to the Company'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 Company'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 Company, NBD Bank, as agent, and NBD Bank, N.A. (filed as Exhibit 10(a) to the Company's Form 10-K for the fiscal year ended December 31, 1993 and incorporated herein by reference)

Exhibit Number
- - - - -

Exhibits
- - - - -

- 10(g) -Loan Agreement dated as of November 1, 1991 between the Company and the Indiana Development Finance Authority, along with the Pledge and Security Agreement relating thereto (filed as Exhibit 10(c) to the Company'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 Company's Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference)
- 10(h)(1)**-Amendment to extend Patrick Industries, Inc. 1987 Stock Option Program to May 2014.
- *10(i) -Patrick Industries, Inc. 401(k) Employee Savings Plan (filed as Exhibit 10(a) to the Company'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 Company'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 Company'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 Company, as lessee (filed as Exhibit 10(k) to the Company's Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference)
- 10(m) -Commercial Lease dated September 1, 1994 between Mervin D. Lung Building Company, Inc., as lessor, and the Company, as lessee (filed as Exhibit 10(l) to the Company'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 Company, as lessee (filed as Exhibit 10(m) to the Company's Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference)

.....
 10(o) -Commercial Lease dated October 1, 1999 between Mervin D. Lung, as lessor, and the Company, as lessee (filed as Exhibit 10(o) to the Company's Form 10-K for the fiscal year ended December 31, 1999 and incorporated herein by reference)

| Exhibit Number | Exhibits |
|----------------|--|
| - ----- | ----- |
| 10(p) | -Commercial Lease dated September 1, 2000 between Mervin D. Lung Building Company, Inc., as lessor, and the Company, as lessee (filed as Exhibit 10(p) to the Company's Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference) |
| 10(q) | -Commercial Lease dated November 1, 2000 between Mervin D. Lung Building Company, Inc., as lessor, and the Company, as lessee (filed as Exhibit 10(q) to the Company's Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference) |
| 10(r) | -Credit Agreement dated as of January 28, 2000 among the Company, Bank One, Indiana, N.A. (filed as Exhibit 10(r) to the Company's Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference) |
| 10(s) | -Commercial Lease dated August 1, 2001 between Mervin D. Lung Building Company, Inc., as lessor, and the company, as lessee (filed as Exhibit 10(s) to the Company's Form 10-K for the fiscal year ended December 31, 2001 and incorporated herein by reference) |
| 10(t) | -Commercial Lease dated October 1, 2002 between M. D. Lung, Inc., as lessor, and the company, as lessee (filed as Exhibit 10(t) to the Company's Form 10-K for the fiscal year ended December 31, 2002 and incorporated herein by reference) |
| 10(u)** | -Commercial Lease and Real Estate Purchase Agreement dated October 1, 2004 between Mervin D. Lung, as lessor, and the company, as lessee (filed as Exhibit 10(u) to the company's Form 10-K for the fiscal year ended December 31, 2004 and incorporated herein by reference) |
| 10(v)** | -Commercial Lease dated December 1, 2004 between Teachers Insurance and Annuity Association of America (TIAA) as lessor, and the company, as lessee (filed as Exhibit 10(v) to the company's Form 10-K for the fiscal year ended December 31, 2004 and incorporated herein by reference) |
| 10(w)** | -Amendment to Credit Facility and Loan Participation Agreement, dated March 3, 2004 among the Company, JPMorgan Chase Bank, N.A. formerly known as Bank One, N.A. and National City Bank of Indiana, and new Term Note Agreement dated March 3, 2004 among the Company, JPMorgan Chase Bank, N.A. (filed as Exhibit 10(w) to the company's Form 10-K for the fiscal year ended December 31, 2004 and incorporated herein by reference) |
| 10(x)** | -Patrick Industries, Inc. Form of Stock Option |
| 10(y)** | -Patrick Industries, Inc. Form of Directors Annual Restricted Stock Grant |

| Exhibit Number | Exhibits |
|----------------|---|
| - ----- | ----- |
| 12** | -Computation of Operating Ratios |
| 23** | -Consent of accountants |
| 31.1** | -Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer |
| 31.2** | -Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer |
| 32.1** | -Certification pursuant to 18 U.S.C. Section 1350 |

*Management contract or compensatory plan or arrangement
 **Filed herewith

Exhibit 10(h) (1)

Explanatory Note: the 1987 Stock Option Program as further proposed to be amended is filed herewith pursuant to Instruction 3 to Item 10 of Schedule 14A and is not part of this proxy statement.

PATRICK INDUSTRIES, INC.

Amendment No. 2 to
1987 Stock Option Program,
As Amended and Restated

Section 3(b) is hereby amended, effective upon shareholder approval at the annual meeting on May 14, 2004, to change the non-employee director awards from bi-annual awards of 6,000 shares vesting over a two-year period to annual awards of 3,000 shares vesting over a one-year period.

Section 12 (Term of Program and Amendment, Modification or Cancellation of Benefits) is hereby amended, effective upon shareholder approval at the annual meeting on May 14, 2004, to extend the expiration date of the Program from May 17, 2004 to May 17, 2014.

In all other respects, the Program shall remain in full force and effect.

COMMERCIAL LEASE AND REAL ESTATE PURCHASE AGREEMENT

THIS AGREEMENT is entered into by and between MERVIN D. LUNG of St. Joseph County, Indiana, hereinafter referred to as "LESSOR/SELLER," who leases and sells to PATRICK INDUSTRIES, INC., an Indiana Corporation with principal offices in Elkhart County, Indiana, hereinafter referred to as "LESSEE/PURCHASER," for and in consideration of the covenants and agreements hereinafter mentioned, that real estate located in McLennan County, Texas, and more particularly described on Exhibit "A" attached hereto and made a part hereof ("Premises").

1.) Lessor/Seller leases to Lessee/Purchaser the Premises from October 1, 2004, to and including the 30th day of March, 2005 (hereinafter referred to as the "Lease Term.")

2.) That Lessee/Purchaser represents it will use said Premises for manufacturing, warehousing, and office purposes only, all in conformity with applicable ordinances, laws and regulations.

3.) Lessee/Purchaser will pay, as rent for said Premises, to the Lessor/Seller at such place as the Lessor/Seller from time to time hereafter may designate in writing, in equal monthly installments of Twenty Five Thousand Twenty-nine Dollars (\$25,029.00) each commencing on the 1st day of October, 2004, and on the first day of each succeeding consecutive month thereafter during the Lease Term to and including the 30th day of March, 2005.

1

Lessee/Purchaser shall further pay as additional rent the following:

A. Real estate taxes levied and/or assessed against the Premises by the State of Texas and/or any political subdivision thereof commencing with the first installment of said taxes payable after October 1, 2004. In the event that there would be any arrearage in real estate taxes, levied and/or assessed against the Premises by the State of Texas, for any period of time prior to this Lease term, by the terms of a predecessor Commercial Lease, Lessee/Purchaser shall be responsible for said taxes.

B. Insurance premiums for fire, extended coverage and hazard insurance on the improvements located on the 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.

4.) Lessee/Purchaser has examined and knows the condition of said Premises and has received the same in good order and repair, and that no representations as to the condition of repair thereof have been made by the Lessor/Seller or his representative, prior to or at the execution of this Lease that are not herein expressed or endorsed hereon. Lessee/Purchaser will keep the interior and exterior of said Premises in good repair, including the roof, walls, overhead door systems, passage doors and windows, 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, downspouting, 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 Agreement.

5.) Lessor/Seller 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 sewage, or the bursting or leaking of plumbing or heating fixtures or waste or soil pipe

2

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.

6.) Lessor/Seller shall not be liable for any injury to the Lessee/Purchaser 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/Seller shall not be liable for damage to Lessee/Purchaser's property or to the property of any other person which may be located in or upon said Premises and the Lessee/Purchaser agrees to indemnify and save harmless the Lessor/Seller 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/Purchaser shall maintain at its expense, for the benefit of Lessor/Seller and Lessee/Purchaser and naming both Lessor/Seller and Lessee/Purchaser as insured parties, liability insurance with limits of not less than Five Million Dollars (\$5,000,000.00) per injury or occurrence and Two Million Dollars (\$2,000,000.00) property damage. Lessee/Purchaser shall deliver from time to time during the term of this Lease to Lessor/Seller evidence of the existence of such liability insurance upon demand from Lessor/Seller.

3

7.) Lessee/Purchaser shall further maintain at its sole expense for the benefit of Lessor/Seller during the entire term of this Lease fire, extended coverage and hazard insurance on the improvements now located on the Premises in an amount equal to the insurable replacement cost of said improvements located on the Premises. It is agreed by and between the parties hereto that the present improvements located on the Premises have an initial insurable replacement value in the amount approved, in writing, by Lessor/Seller. Lessee/Purchaser shall further deliver to Lessor/Seller certificates of insurance issued by the insurer of said improvement and from time to time and when the premiums on said insurance become due and payable and shall further provide Lessor/Seller with evidence of the payment of said premiums.

Lesssor shall be named as Loss Payee and as an Additional Insured party, as applicable, in all insurance policies. Lessee/Purchaser shall arrange so that Lessor/Seller will be given at least thirty (30) days notice before any cancellations of any insurance policy and coverage by any applicable insurance company.

In the event Lessee/Purchaser shall construct or erect any further improvements upon said Premises and/or make any additions or alterations to the existing improvements located upon said Premises during the term of this Lease, Lessee/Purchaser, 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.

8.) The parties agree that Lessee/Purchaser may sublet all or any portion of said Premises during the term of this Lease with the prior written consent of Lessor/Seller. Upon the provision of said Written Consent, Lessee/Purchaser shall deliver copies of any such subleases within five (5) days after the execution thereof and provided, further, that Lessee/Purchaser shall not grant

4

any rights to any such subtenant in excess of the rights and duties granted Lessee/Purchaser herein.

9.) Lessee/Purchaser shall not assign this Lease or any part thereof without the written consent of the Lessor/Seller 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 nor disturb any other the tenants of the Premises or of the neighborhood.

10.) No alterations, changes or additions in said Premises shall be made without first submitting written plans and specifications for the same to the Lessor/Seller and obtaining his written consent to make the same. In the event of any such remodeling, alterations or additions, Lessee/Purchaser shall make the same at its own expense and shall promptly pay for all materials and labor involved in making the same. Lessee/Purchaser shall not permit any liens or claims or demands of any nature to exist against the Lessor/Seller or the Premises. In the event any lien, claim or demand of any action for enforcing the same shall be filed or made against the Lessor/Seller or said Premises, the Lessee/Purchaser shall defend the same at its own expense and Lessee/Purchaser hereby agrees to indemnify and hold harmless the Lessor/Seller 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 Premises and remain thereon as the property of the Lessor/Seller at the termination of said Lease at the option of the Lessor/Seller.

11.) Lessee/Purchaser shall allow Lessor/Seller free access to the Premises for the purpose of examining or exhibiting the same.

5

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

13.) Lessee/Purchaser 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.

14.) If the Lessee/Purchaser shall make any assignment for the benefit of creditors or if a receiver is appointed for the Lessee/Purchaser or its assets or of the Lessor/Seller'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/Purchaser under the United States Bankruptcy Code, the Lessor/Seller may, upon giving the Lessee/Purchaser ten (10) days notice of such election, either terminate Lessee/Purchaser's right to the possession of the Premises or terminate this Lease as in the case of a violation by the Lessee/Purchaser of any of the terms, covenants or conditions of this Lease.

15.) It is agreed by the parties hereto that in the event Lessee/Purchaser has declared bankruptcy 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/Purchaser, then Lessor/Seller shall have the right of immediate possession of said Premises.

6

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

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

18.) On the 1st day of April, 2005, Lessor/Seller agrees to sell to Lessee/Purchaser, and Lessee/Purchaser agrees to purchase from Lessor/Seller, the Premises upon the following covenants, terms, and conditions.

19.) Lessee/Purchaser shall pay an agreed upon purchase price upon the following terms and conditions. The Purchase Price shall be paid in cash or its equivalent at Closing.

This Agreement is NOT conditioned upon Lessee/Purchaser's ability to obtain financing. Lessee/Purchaser shall pay all costs of obtaining financing.

20.) Lessee/Purchaser shall be responsible for, and hereby agrees to assume and to pay, all taxes or assessments due before, at and after Closing.

21.) This transaction shall be closed on 1st day of April, 2005.

Lessee/Purchaser shall continue to have possession at Closing.

22.) Within a reasonable time prior to Closing, Lessor/Seller shall furnish to Lessee/Purchaser an Owner's Title Insurance Policy equal to the Purchase Price insuring merchantable title: such Title Insurance Policy shall be issued by a Title Company mutually agreed by Lessor/Seller and Lessee/Purchaser as of a date as near Closing as reasonably possible and shall disclose merchantable

7

title in Lessor/Seller, subject only to such items to which Lessor/Seller's Deed is to be made subject as provided in this Agreement. If both an Owner's Title Insurance Policy and a Mortgagee's Title Insurance Policy are to be obtained,

Lessor/Seller shall pay the cost of the Owner's Policy and Lessee/Purchaser shall pay the balance thereof.

If defects of title are present, the same shall be pointed out in writing and delivered to Lessor/Seller before Closing. Lessor/Seller shall have not more than One Hundred and Twenty (120) days to cure such defects. If Lessor/Seller does not cure the defects within the time period provided, Lessee/Purchaser may rescind this Agreement, or Lessee/Purchaser may accept said title defects "AS IS" and close this transaction.

At Closing, Lessor/Seller shall execute and deliver to Lessee/Purchaser a General Warranty Deed conveying the Premises free and clear of all liens and encumbrances and subject to all covenants, restrictions, easements, zoning ordinances and any mortgage of record assumed by the Lessee/Purchaser.

23.) The risk of loss or damage to the Premises and improvements, or a substantial portion thereof, by any cause whatsoever is assumed by Lessee/Purchaser prior to, at and after Closing.

24.) No inspections shall be required as the Lessee/Purchaser has inspected the Premises and has agreed to purchase the Premises "AS IS" in any and all respects.

25.) In the event of a default in the terms of this Agreement, each party shall have all rights allowed by prevailing law.

26.) Lessee/Purchaser and Lessor/Seller each represent and warrant to the other Party that no Real Estate Broker has been employed or retained with regard to this Agreement and transaction.

8

27.) It is agreed by the parties that a defaulting party of the terms of this Agreement shall pay and discharge all reasonable costs, attorneys fees and related legal expenses which shall be made and incurred by the non-defaulting party in enforcing the covenants and provisions of this Agreement. All parties to this Agreement agree that the covenants and provisions herein contained shall be binding upon, apply and inure to their respective heirs executors, administrators, successors and assigns.

28.) Lessee/Purchaser does hereby release and relieve Lessor/Seller and waives its entire right of recovery against the Lessor/Seller 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 Premises are located, which occurs in, on or about the Premises, whether due to the negligence of Lessor/Seller, his agents or employees or otherwise.

29.) In the event prior to closing the Premises or any portion thereof shall be acquired or condemned by eminent domain for any public or quasi-public use or purposes, Lessee/Purchaser is hereby entitled to any proceeds resulting from said eminent domain taking and shall assume and take full responsibility for resolving any claims made by any government agency pursuant to the doctrine of eminent domain including performing any obligations required by the condemning authority.

In the event of any such acquisition or condemnation by eminent domain, Lessee/Purchaser shall have no claim against the Lessor/Seller as all right to any proceeds of said eminent domain taking shall belong to the Lessee/Purchaser and shall be Lessee/Purchaser's sole remedy for said condemnation.

9

30.) Nothing herein contained shall be construed as prohibiting Lessor/Seller from assigning its right, title and interest in and to the Premises, subject to the terms of this Agreement, to any third party.

31.) 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:

TO Lessor/Seller:

Mervin D. Lung
707 River Pointe Place
Mishawaka, Indiana 46544

TO Lessee/Purchaser:

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

32.) Lessor/Seller covenants and agrees that so long as Lessee/Purchaser shall perform all of the terms, conditions, covenants and agreements to be kept by Lessee/Purchaser, Lessee/Purchaser shall have the quiet enjoyment of the Premises.

33.) The parties agree that a memorandum of this Agreement in a form approved in writing by Lessor/Seller, may be recorded in the records of McLennan County, Texas.

34.) This Agreement is executed by duly authorized officers of the Lessee/Purchaser for and on behalf of the Lessee/Purchaser and the persons executing this lease for and on behalf of the Lessee/Purchaser acknowledge and state that they have full power and authority to execute this Lease pursuant to law, the by-laws of Lessee/Purchaser corporation and authority of Lessee/Purchaser's board of directors.

10

Dated effective this 15th day of October, 2004.

/S/Mervin D. Lung

Mervin D. Lung
[Lessor/Seller]

Patrick Industries, Inc.
[Lessee/Purchaser]

By: /S/Paul E. Hassler

Paul E. Hassler, President

ATTEST:

/S/Andy L. Nemeth
Andy L. Nemeth, Secretary/Treasurer

11

STATE OF INDIANA)
) SS:
COUNTY OF _____)

Before me, a Notary Public in and for said County and State, personally appeared Mervin D. Lung and acknowledged the execution of the above and foregoing Commercial Lease as Lessor/Seller.

WITNESS my hand and Notarial Seal this ___ day of _____, 2004.

My Commission Expires _____

_____, Notary Public
Residing in _____ County, IN

STATE OF INDIANA)
) SS:
COUNTY OF _____)

Before me, a Notary Public in and for said County and State, personally appeared _____ and _____, the President and

Secretary/Treasurer, respectively, of PATRICK INDUSTRIES, INC., an Indiana Corporation, and acknowledged the execution of the above and foregoing Commercial Lease for and on behalf of said corporation in their respective representative capacities being authorized by it so to do.

WITNESS my hand and Notarial Seal this ___ day of _____, 2004.

My Commission Expires

_____, Notary Public
Residing in _____ County, IN

EXHIBIT "A"

REAL ESTATE DESCRIPTION

BEING 13.15 acres of land in the Jacob Walker League, McLennan County, Texas, and being all that certain Tract Two as described in a deed from the Waco Industrial Foundation to Patrick Industries, Inc., as recorded March 13, 1980, in Col. 1347, Pg. 763 of the Deed Records of McLennan County, Texas, described by metes and bounds as follows: BEGINNING at a nail being the northwest corner of said Tract Two, being also in the center of the Old Fort Graham Road; THENCE N 57 deg 3 min 54 sec E with the north line of said Tract Two passing an iron at 25.0 feet continuing for a total distance of 1120.3 feet to an iron stake for a corner being the northeast corner of said tract; THENCE S 30 deg 15 min 27 sec E with the east line of said TRACT TWO a distance of 407.57 feet to an iron stake for a corner being in the northwest line of Texas Central Railroad; THENCE S 18 deg 48 min 15 sec W with said railroad R.O.W. a distance of 225.59 feet to an iron stake for a corner being the southeast corner of said Tract Two; THENCE S 60 deg 32 min W with the south line of said Tract Two, passing an iron stake at a distance of 921.03 feet, continuing for a total distance of 946.03 feet to a nail for a corner being the southwest corner of said Tract Two, being also in the center line of Old Fort Graham Road; THENCE N 30 deg 34 min 32 sec W with the west line of said Tract Two a distance of 490.0 feet to the place of beginning containing 13.15 acres of land more or less, of which .028 acre is being used as a public road, and 0.25 acre is being used as a private gravel drive, ingress, egress easement.

LEASE

RREEF AMERICA REIT CORP.J,
Landlord,
and
PATRICK INDUSTRIES, INC.,
Tenant

TABLE OF CONTENTS

| | Page |
|--|------|
| 1. USE AND RESTRICTIONS ON USE..... | 1 |
| 2. TERM..... | 1 |
| 3. RENT..... | 2 |
| 4. RENT ADJUSTMENTS..... | 2 |
| 5. SECURITY DEPOSIT..... | 5 |
| 6. ALTERATIONS..... | 5 |
| 7. REPAIR..... | 6 |
| 8. LIENS..... | 7 |
| 9. ASSIGNMENT AND SUBLETTING..... | 7 |
| 10. INDEMNIFICATION..... | 8 |
| 11. INSURANCE..... | 9 |
| 12. WAIVER OF SUBROGATION..... | 10 |
| 13. SERVICES AND UTILITIES..... | 10 |
| 14. HOLDING OVER..... | 10 |
| 15. SUBORDINATION..... | 10 |
| 16. RULES AND REGULATIONS..... | 10 |
| 17. REENTRY BY LANDLORD..... | 10 |
| 18. DEFAULT..... | 11 |
| 19. REMEDIES..... | 12 |
| 20. TENANT'S BANKRUPTCY OR INSOLVENCY..... | 14 |
| 21. QUIET ENJOYMENT..... | 15 |
| 22. CASUALTY..... | 15 |
| 23. EMINENT DOMAIN..... | 16 |
| 24. SALE BY LANDLORD..... | 16 |
| 25. ESTOPPEL CERTIFICATES..... | 16 |
| 26. SURRENDER OF PREMISES..... | 17 |
| 27. NOTICES..... | 17 |
| 28. TAXES PAYABLE BY TENANT..... | 17 |
| 29. RELOCATION OF TENANT..... | 18 |

| | |
|--|----|
| 30. DEFINED TERMS AND HEADINGS..... | 18 |
| 31. TENANT'S AUTHORITY..... | 18 |
| 32. FINANCIAL STATEMENTS AND CREDIT REPORTS..... | 18 |
| 33. COMMISSIONS..... | 18 |
| 34. TIME AND APPLICABLE LAW..... | 19 |
| 35. SUCCESSORS AND ASSIGNS..... | 19 |

TABLE OF CONTENTS
(continued)

| | |
|---|------|
| | Page |
| 36. ENTIRE AGREEMENT..... | 19 |
| 37. EXAMINATION NOT OPTION..... | 19 |
| 38. RECORDATION..... | 19 |
| 39. LIMITATION OF LANDLORD'S LIABILITY..... | 19 |
| EXHIBIT A - FLOOR PLAN DEPICTING THE PREMISES | |
| EXHIBIT A-1 - SITE PLAN | |
| EXHIBIT B - INITIAL ALTERATIONS | |
| EXHIBIT C - INTENTIONALLY OMITTED | |
| EXHIBIT D - RULES AND REGULATIONS | |

MULTI-TENANT INDUSTRIAL NET LEASE
REFERENCE PAGES

<TABLE>
<CAPTION>

| | |
|--|---|
| <S> BUILDING: | <C> Freeport Center |
| LANDLORD: | RREEF AMERICA REIT CORP.J, a Maryland corporation |
| LANDLORD'S ADDRESS: | c/o RREEF Management Company 2201 East Camelback Road, Suite 230B Phoenix, Arizona 85016 Attention: District Manager |
| WIRE INSTRUCTIONS AND/OR ADDRESS FOR RENT PAYMENT: | RREEF America REIT Corp.J Department 0243 Los Angeles, California 90084-0243 |
| LEASE REFERENCE DATE: | August 24, 2004 |
| TENANT: | PATRICK INDUSTRIES, INC., an Indiana corporation |
| TENANT'S NOTICE ADDRESS: | 1800 South 14th Street Elkhart, Indiana 46516 Attention: Paul E. Hassler |
| PREMISES ADDRESS: | 601 South 54th Avenue, Suite Number 104 Phoenix, Arizona 85043 |
| PREMISES RENTABLE AREA: Exhibit A) | Approximately 44,544 sq. ft. (for outline of Premises see |
| ----- USE: products and | Lamination and distribution of vinyl and related building materials |
| COMMENCEMENT DATE: | September 1, 2004 |
| TERM OF LEASE: (0) days | Approximately three (3) years, zero (0) months and zero |
| Termination Date. | beginning on the Commencement Date and ending on the |

TERMINATION DATE:

August 31, 2007

ANNUAL RENT and MONTHLY INSTALLMENT OF

RENT (Article 3):

| Period | Rentable Square Footage | Monthly Rent Per Square Foot | Monthly Installment of Rent |
|---------------------------------|-------------------------|------------------------------|-----------------------------|
| From 9/1/2004 through 2/28/2006 | 44,544 | \$0.28 | \$12,472.32 |
| 3/1/2006 through 8/31/2007 | 44,544 | \$0.30 | \$13,363.20 |

INITIAL ESTIMATED MONTHLY INSTALLMENT OF EXPENSES (Article 4): \$1,649.79

INITIAL ESTIMATED MONTHLY INSTALLMENT OF TAXES (Article 4): \$3,165.82

TENANT'S PROPORTIONATE SHARE: 32.58% (based on the ratio of 44,544 square feet of Premises to 136,704 square feet of Building)

SECURITY DEPOSIT: \$13,363.20

ASSIGNMENT/SUBLETTING FEE \$500.00

REAL ESTATE BROKER DUE COMMISSION: RREEF Management Company; Grubb & Ellis

TENANT'S SIC CODE: 5271

AMORTIZATION RATE: 12%

</TABLE>

The Reference Pages information is incorporated into and made a part of the Lease. In the event of any conflict between any Reference Pages information and the Lease, the Lease shall control. This Lease includes Exhibits A through D, all of which are made a part of this Lease.

<TABLE>
<CAPTION>

<S>
LANDLORD:

RREEF AMERICA REIT CORP.J, a Maryland corporation
By: RREEF Management Company, a Delaware corporation
Its: Managing Agent

<C>
TENANT:

PATRICK INDUSTRIES, INC., an Indiana corporation
By: _____
Paul E. Hassler
Its: President

By: _____
Karen Genet
Its: District Manager
Dated: August _____, 2004

Dated: August 25, 2004

</TABLE>

LEASE

By this Lease Landlord leases to Tenant and Tenant leases from Landlord the Premises in the Building as set forth and described on the Reference Pages. The Premises are depicted on the floor plan attached hereto as Exhibit A, and the Building is depicted on the site plan attached hereto as Exhibit A-1. The Reference Pages, including all terms defined thereon, are incorporated as part of this Lease.

1. USE AND RESTRICTIONS ON USE.

1.1 The Premises are to be used solely for the purposes set forth on the Reference Pages. Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building or injure, annoy, or disturb them, or allow the Premises to be used for any improper, immoral, unlawful, or objectionable purpose, or commit any waste. Tenant shall not do, permit or suffer in, on, or about the Premises the sale of any alcoholic liquor without the written consent of Landlord first obtained. Tenant shall comply with all governmental laws, ordinances and regulations applicable to the use of the Premises and its occupancy and shall promptly comply with all governmental orders and directions for the correction, prevention and abatement of any violations in the Building or appurtenant land, caused or permitted by, or

resulting from the specific use of the Premises by, Tenant, all at Tenant's sole expense. Tenant shall not do or permit anything to be done on or about the Premises or bring or keep anything into the Premises which will in any way increase the rate of, invalidate or prevent the procuring of any insurance protecting against loss or damage to the Building or any of its contents by fire or other casualty or against liability for damage to property or injury to persons in or about the Building or any part thereof.

1.2 Tenant shall not, and shall not direct, suffer or permit any of its agents, contractors, employees, licensees or invitees (collectively, the "Tenant Entities") to at any time handle, use, manufacture, store or dispose of in or about the Premises or the Building any (collectively "Hazardous Materials") flammables, explosives, radioactive materials, hazardous wastes or materials, toxic wastes or materials, or other similar substances, petroleum products or derivatives or any substance subject to regulation by or under any federal, state and local laws and ordinances relating to the protection of the environment or the keeping, use or disposition of environmentally hazardous materials, substances, or wastes, presently in effect or hereafter adopted, all amendments to any of them, and all rules and regulations issued pursuant to any of such laws or ordinances (collectively "Environmental Laws"), nor shall Tenant suffer or permit any Hazardous Materials to be used in any manner not fully in compliance with all Environmental Laws, in the Premises or the Building and appurtenant land or allow the environment to become contaminated with any Hazardous Materials. Notwithstanding the foregoing, Tenant may handle, store, use or dispose of products containing small quantities of Hazardous Materials (such as aerosol cans containing insecticides, toner for copiers, paints, paint remover and the like) to the extent customary and necessary for the use of the Premises for general office purposes; provided that Tenant shall always handle, store, use, and dispose of any such Hazardous Materials in a safe and lawful manner and never allow such Hazardous Materials to contaminate the Premises, Building and appurtenant land or the environment. Tenant shall protect, defend, indemnify and hold each and all of the Landlord Entities (as defined in Article 30) harmless from and against any and all loss, claims, liability or costs (including court costs and attorney's fees) incurred by reason of any actual or asserted failure of Tenant to fully comply with all applicable Environmental Laws, or the presence, handling, use or disposition in or from the Premises of any Hazardous Materials by Tenant or any Tenant Entity (even though permissible under all applicable Environmental Laws or the provisions of this Lease), or by reason of any actual or asserted failure of Tenant to keep, observe, or perform any provision of this Section 1.2.

1.3 Tenant and the Tenant Entities will be entitled to the non-exclusive use of the common areas of the Building as they exist from time to time during the Term, including the parking facilities, subject to Landlord's rules and regulations regarding such use. However, in no event will Tenant or the Tenant Entities park more vehicles in the parking facilities than Tenant's Proportionate Share of the total parking spaces available for common use. The foregoing shall not be deemed to provide Tenant with an exclusive right to any

parking spaces or any guaranty of the availability of any particular parking spaces or any specific number of parking spaces.

2. TERM.

2.1 The Term of this Lease shall begin on September 1, 2004 ("Commencement Date"), and shall terminate on the date of August 31, 2007, as shown on the Reference Pages ("Termination Date"), unless sooner terminated by the provisions of this Lease. Landlord shall tender possession of the Premises with all the work, if any, to be performed by Landlord pursuant to Exhibit B to this Lease substantially completed. Tenant shall deliver a punch list of items not completed within thirty (30) days after Landlord tenders possession of the Premises and Landlord agrees to proceed with due diligence to perform its obligations regarding such items.

2.2 Tenant agrees that in the event of the inability of Landlord to deliver possession of the Premises on the Commencement Date for any reason, Landlord shall not be liable for any damage resulting from such inability, but Tenant shall not be liable for any rent until the time when Landlord can, after notice to Tenant, deliver possession of the Premises to Tenant. No such failure to give possession on the Commencement Date shall affect the other obligations of Tenant under this Lease, except that if Landlord is unable to deliver possession of the Premises within one hundred twenty (120) days after the Commencement Date (other than as a result of strikes, shortages of materials, holdover tenancies or similar matters beyond the reasonable control of Landlord and Tenant is notified by Landlord in writing as to such delay), Tenant shall have the option to terminate this Lease unless said delay is as a result of: (a) Tenant's failure to agree to plans and specifications and/or construction cost estimates or bids; (b) Tenant's request for materials, finishes or installations other than Landlord's standard except those, if any, that Landlord shall have expressly agreed to furnish without extension of time agreed by Landlord; (c) Tenant's change in any plans or specifications; or, (d) performance or completion by a party employed by Tenant (each of the foregoing, a "Tenant Delay"). If any delay is the result of a Tenant Delay, the Commencement Date and the payment of rent under this Lease shall be accelerated by the number of days of such Tenant

Delay.

2.3 In the event Landlord permits Tenant, or any agent, employee or contractor of Tenant, to enter, use or occupy the Premises prior to the Commencement Date, such entry, use or occupancy shall be subject to all the provisions of this Lease other than the payment of rent, including, without limitation, Tenant's compliance with the insurance requirements of Article 11. Said early possession shall not advance the Termination Date.

3. RENT.

3.1 Tenant agrees to pay to Landlord the Annual Rent in effect from time to time by paying the Monthly Installment of Rent then in effect on or before the first day of each full calendar month during the Term, except that the first full month's rent shall be paid upon the execution of this Lease. Rent for any period during the Term which is less than a full month shall be a prorated portion of the Monthly Installment of Rent based upon the number of days in such month. Said rent shall be paid to Landlord, without deduction or offset and without notice or demand, at the Rent Payment Address, as set forth on the Reference Pages, or to such other person or at such other place as Landlord may from time to time designate in writing. If an Event of Default occurs, Landlord may require by notice to Tenant that all subsequent rent payments be made by an automatic payment from Tenant's bank account to Landlord's account, without cost to Landlord. Tenant must implement such automatic payment system prior to the next scheduled rent payment or within ten (10) days after Landlord's notice, whichever is later. Unless specified in this Lease to the contrary, all amounts

and sums payable by Tenant to Landlord pursuant to this Lease shall be deemed additional rent.

3.2 Tenant recognizes that late payment of any rent or other sum due under this Lease will result in administrative expense to Landlord, the extent of which additional expense is extremely difficult and economically impractical to ascertain. Tenant therefore agrees that if rent or any other sum is not paid when due and payable pursuant to this Lease, a late charge shall be imposed in an amount equal to the greater of: (a) Fifty Dollars (\$50.00), or (b) six percent (6%) of the unpaid rent or other payment. The amount of the late charge to be paid by Tenant shall be reassessed and added to Tenant's obligation for each successive month until paid. The provisions of this Section 3.2 in no way relieve Tenant of the obligation to pay rent or other payments on or before the date on which they are due, nor do the terms of this Section 3.2 in any way affect Landlord's remedies pursuant to Article 19 of this Lease in the event said rent or other payment is unpaid after date due.

4. RENT ADJUSTMENTS.

4.1 For the purpose of this Article 4, the following terms are defined as follows:

4.1.1 Lease Year: Each fiscal year (as determined by Landlord from time to time) falling partly or wholly within the Term.

4.1.2 Expenses: All costs of operation, maintenance, repair, replacement and management of the Building, as determined in accordance with generally accepted accounting principles, including the following costs by way of illustration, but not limitation: water and sewer charges; insurance charges of or relating to all insurance policies and endorsements deemed by Landlord to be reasonably necessary or desirable and relating in any manner to the protection, preservation, or operation of the Building or any part thereof; utility costs, including, but not limited to, the cost of heat, light, power, steam, gas; waste disposal; the cost of janitorial services; the cost of security and alarm services (including any central station signaling system); costs of cleaning, repairing, replacing and maintaining the common areas, including parking and landscaping, window cleaning costs; labor costs; costs and expenses of managing the Building including management and/or administrative fees (not to exceed five percent [5%] of the gross revenues of the Building for the fiscal year); air conditioning maintenance costs; elevator maintenance fees and supplies; material costs; equipment costs including the cost of maintenance, repair and service agreements and rental and leasing costs; purchase costs of equipment; current rental and leasing costs of items which would be capital items if purchased; tool costs; licenses, permits and inspection fees; wages, salaries, employee benefits and payroll taxes for all on-site personnel rendering services to the Building and, on a pro rata basis, all off-site personnel rendering significant services for the Building (but specifically excluding all personnel operating at Landlord's administrative offices and performing solely administrative functions); accounting fees; any sales, use or service taxes incurred in connection therewith. In addition, Landlord shall be entitled to recover, as additional rent (which, along with any other capital expenditures constituting Expenses, Landlord may either include in Expenses or cause to be billed to Tenant along with Expenses and Taxes but as a separate item), Tenant's Proportionate Share of: (i) an allocable portion of the cost of capital improvement items which are reasonably calculated to reduce operating expenses; (ii) the cost of fire sprinklers and suppression systems and other life safety systems; and (iii) other capital expenses which are required under

any governmental laws, regulations or ordinances which were not applicable to the Building at the time it was constructed; but the costs described in this sentence shall be amortized over the reasonable life of such expenditures in accordance with such reasonable life and amortization schedules as shall be determined by Landlord in accordance with generally accepted accounting principles, with interest on the unamortized amount at one percent (1%) in excess of the Wall Street Journal prime lending rate announced from time to time. Expenses shall not include depreciation or amortization of the Building or equipment in the Building except as provided herein, loan principal payments, costs of alterations of tenants' premises, leasing commissions, interest expenses on long-term borrowings or advertising costs. Expenses also shall not include any of the following:

- (a) except as provided above, any capital expenditure to the extent not amortized over the reasonably anticipated useful life of the improvement, replacement, repair or equipment related to such expenditure;
- (b) interest, points and fees on debt or amortization on any mortgage or mortgages encumbering the Building;
- (c) any costs of improvements and alterations for Tenant or any other tenant or tenants or occupant or occupants of the Building;
- (d) any costs of services or other benefits which are not available to Tenant but which are available to any other tenant or tenants or occupant or occupants or other user or users of the Building;
- (e) any costs for which Landlord is reimbursed by any other tenants, occupants or users of the Building other than by payment of its pro rata share of Expenses by any such tenant, occupant or user of the Building;
- (f) any leasing commissions, attorneys' fees or any other expenses (including without limitation advertising and other promotional expenses) incurred in connection with leasing or subleasing space in the Building or enforcing any such leases or subleases or buying, selling or financing the Building;
- (g) any depreciation or amortization, other than as specifically enumerated above and except on materials, tools, supplies and vendor-type equipment purchased by Landlord to enable Landlord to supply services Landlord might otherwise contract for with a third party where such depreciation and amortization would otherwise have been included in the charge for such third party's services and when depreciation or amortization is permitted or required, the item shall be amortized over its reasonably anticipated useful life;
- (h) any fines, penalties or other costs incurred due to Landlord's or any other occupant's violation of any governmental regulations;
- (i) any expense representing an amount paid to a corporation or entity affiliated with Landlord that is in excess of the amount that would be paid in the absence of such affiliation;
- (j) Landlord's corporate overhead and general administration expenses;
- (k) costs, including permit, license and inspection costs, incurred with respect to the installation of tenant improvements made for tenants in the Building or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants of the Building;
- (l) any costs for which Tenant or any other tenants or occupants of the Building are charged directly (that is, other than as an Expense);
- (m) costs incurred by Landlord for the repair of damage to the Building caused by fire, other casualty or condemnation to the extent covered by insurance or condemnation proceeds;
- (n) any cost for which Landlord is reimbursed by insurance or otherwise compensated by persons or entities other than tenants of the Building; or
- (o) any costs incurred because Landlord violated the terms of any lease, sublease or other agreement.

4.1.3 Taxes: Real estate taxes and any other taxes, charges and assessments which are levied with respect to the Building or the land appurtenant to the Building, or with respect to any improvements, fixtures and equipment or other property of Landlord, real or personal, located in the Building and used in connection with the operation of the Building and said land, any payments to any ground lessor in reimbursement of tax payments made by such lessor; and all fees, expenses and costs incurred by Landlord in investigating, protesting, contesting or in any way seeking to reduce or avoid increase in any assessments, levies or the tax rate pertaining to any Taxes to be paid by Landlord in any Lease Year. Taxes shall not include any corporate

franchise, or estate, inheritance or net income tax, or tax imposed upon any transfer by Landlord of its interest in this Lease or the Building or any taxes to be paid by Tenant pursuant to Article 28.

4.2 Tenant shall pay as additional rent for each Lease Year Tenant's Proportionate Share of Expenses and Taxes incurred for such Lease Year.

4.3 The annual determination of Expenses shall be made by Landlord and shall be binding upon Landlord and Tenant, subject to the provisions of this Section 4.3. During the Term, Tenant may review, at Tenant's sole cost and expense, the books and records supporting such determination in an office of Landlord, or Landlord's agent, during normal business hours, upon giving Landlord five (5) days advance written notice within sixty (60) days after receipt of such determination, but in no event more often than once in any one (1) year period, subject to execution of a confidentiality agreement acceptable to Landlord, and provided that if Tenant utilizes an independent accountant to perform such review it shall be one of national standing which is reasonably acceptable to Landlord, is not compensated on a contingency basis and is also subject to such confidentiality agreement. If Tenant fails to object to Landlord's determination of Expenses within ninety (90) days after receipt, or if any such objection fails to state with specificity the reason for the objection, Tenant shall be deemed to have approved such determination and shall have no further right to object to or contest such determination.

4.4 Prior to the actual determination thereof for a Lease Year, Landlord may from time to time in good faith estimate Tenant's liability for Expenses and/or Taxes under Section 4.2, Article 6 and Article 28 for the Lease Year or portion thereof. Landlord will give Tenant written notification of the amount of such estimate and Tenant agrees that it will pay, by increase of its Monthly Installments of Rent due in such Lease Year, additional rent in the amount of such estimate. Any such increased rate of Monthly Installments of Rent pursuant to this Section 4.4 shall remain in effect until further written notification to Tenant pursuant hereto.

4.5 When the above mentioned actual determination of Tenant's liability for Expenses and/or Taxes is made for any Lease Year, Landlord shall so notify Tenant in writing. Landlord agrees to use reasonable efforts to notify Tenant of such determination no later than October 31 of such fiscal year. and When Tenant is so notified in writing, then:

4.5.1 If the total additional rent Tenant actually paid pursuant to Section 4.3 on account of Expenses and/or Taxes for the Lease Year is less than Tenant's liability for Expenses and/or Taxes, then Tenant shall pay such deficiency to Landlord as additional rent in one lump sum within thirty (30) days of receipt of Landlord's bill therefor; and

4.5.2 If the total additional rent Tenant actually paid pursuant to Section 4.3 on account of Expenses and/or Taxes for the Lease Year is more than Tenant's liability for Expenses and/or Taxes, then Landlord shall credit the difference against the then next due payments to be made by Tenant under this Article 4, or, if the Lease has terminated or if such refund exceeds the aggregate payments to be due under this Article 4, refund the difference or such excess amount, as the case may be, in cash.

4.6 If the Commencement Date is other than January 1 or if the Termination Date is other than December 31, Tenant's liability for Expenses and Taxes for the Lease Year in which said Date occurs shall be prorated based upon a three hundred sixty-five (365) day year.

5. SECURITY DEPOSIT. Tenant shall deposit the Security Deposit with Landlord upon the execution of this Lease. Said sum shall be held by Landlord as security for the faithful performance by Tenant of all the terms, covenants and

conditions of this Lease to be kept and performed by Tenant and not as an advance rental deposit or as a measure of Landlord's damage in case of Tenant's default. If Tenant defaults with respect to any provision of this Lease, Landlord may use any part of the Security Deposit for the payment of any rent or any other sum in default, or for the payment of any amount which Landlord may spend or become obligated to spend by reason of Tenant's default, or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. If any portion is so used, Tenant shall within five (5) days after written demand therefor, deposit with Landlord an amount sufficient to restore the Security Deposit to its original amount and Tenant's failure to do so shall be a material breach of this Lease. Except to such extent, if any, as shall be required by law, Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security Deposit or any balance thereof shall be returned to Tenant at such time after termination of this Lease when Landlord shall have determined that all of Tenant's obligations under this Lease have been fulfilled.

6. ALTERATIONS.

6.1 Except for those, if any, specifically provided for in Exhibit B to this Lease, Tenant shall not make or suffer to be made any alterations, additions, or improvements, including, but not limited to, the attachment of any fixtures or equipment in, on, or to the Premises or any part thereof or the making of any improvements as required by Article 7, without the prior written consent of Landlord. When applying for such consent, Tenant shall, if requested by Landlord, furnish complete plans and specifications for such alterations, additions and improvements. Landlord's consent shall not be unreasonably withheld with respect to alterations which (i) are not structural in nature, (ii) are not visible from the exterior of the Building, (iii) do not affect or require modification of the Building's electrical, mechanical, plumbing, HVAC or other systems, and (iv) in aggregate do not cost more than \$5.00 per rentable square foot of that portion of the Premises affected by the alterations in question.

6.2 In the event Landlord consents to the making of any such alteration, addition or improvement by Tenant, the same shall be made by using either Landlord's contractor or a contractor reasonably approved by Landlord, in either event at Tenant's sole cost and expense. If Tenant shall employ any contractor other than Landlord's contractor and such other contractor or any subcontractor of such other contractor shall employ any non-union labor or supplier, Tenant shall be responsible for and hold Landlord harmless from any and all delays, damages and extra costs suffered by Landlord as a result of any dispute with any labor unions concerning the wage, hours, terms or conditions of the employment of any such labor. In any event where Landlord's contractor is employed, Landlord may charge Tenant a construction management fee not to exceed five percent (5%) of the cost of such work to cover its overhead as it relates to such proposed work, plus third-party costs actually incurred by Landlord in connection with the proposed work and the design thereof, with all such amounts being due five (5) days after Landlord's demand.

6.3 All alterations, additions or improvements proposed by Tenant shall be constructed in accordance with all government laws, ordinances, rules and regulations, using Building standard materials where applicable, and Tenant shall, prior to construction, provide the additional insurance required under Article 11 in such case, and also all such assurances to Landlord as Landlord shall reasonably require to assure payment of the costs thereof, including but not limited to, notices of non-responsibility, waivers of lien, surety company performance bonds and funded construction escrows and to protect Landlord and the Building and appurtenant land against any loss from any mechanic's, materialmen's or other liens. Tenant shall pay in addition to any sums due pursuant to Article 4, any increase in real estate taxes attributable to any such alteration, addition or improvement for so long, during the Term, as such increase is ascertainable; at Landlord's election said sums shall be paid in the same way as sums due under Article 4. In the event Tenant's financial ability is not in good faith considered satisfactory by Landlord, Landlord may, as a condition to its consent to any particular alterations or improvements, require Tenant to deposit with Landlord the amount reasonably estimated by Landlord as sufficient to cover the cost of removing such alterations or improvements and restoring the Premises, to the extent required under Section 26.2

7 REPAIR.

7.1 Landlord shall have no obligation to alter, remodel, improve, repair, decorate or paint the Premises, except as specified in Exhibit B if attached to this Lease and except that Landlord shall repair and maintain the structural portions of the roof (including roof replacement if necessary), foundation and walls of the Building. By taking possession of the Premises, Tenant accepts them as being in good order, condition and repair and in the condition in which Landlord is obligated to deliver them, except as set forth in the punch list to be delivered pursuant to Section 2.1. It is hereby understood and agreed that no representations respecting the condition of the Premises or the Building have been made by Landlord to Tenant, except as specifically set forth in this Lease. Landlord shall not be liable for any failure to make any repairs or to perform any maintenance unless such failure shall persist for an unreasonable time not to exceed thirty (30) days after written notice of the need of such repairs or maintenance is given to Landlord by Tenant (or such longer period of time as may be reasonably required to make any such repair or perform any such maintenance which, due to its nature, cannot reasonably be made or performed within thirty (30) days). Notwithstanding anything to the contrary provided above, Landlord warrants the HVAC system serving the Premises for a period of twelve (12) months from the Commencement Date for major replacements (except to the extent caused by the acts or omissions of Tenant, its agents, employees or contractors, or Tenant's failure to keep in full force the required HVAC maintenance/service contract provided below). If Tenant has not notified Landlord in writing by the expiration of such twelve (12) month period of any alleged major replacements which Tenant claims to be necessary, Landlord shall have no further duty pursuant to this paragraph, except as may be otherwise specifically required by this Lease.

7.2 Tenant shall at its own cost and expense keep and maintain all parts of the Premises and such portion of the Building and improvements as are within the exclusive control of Tenant in good condition, promptly making all necessary

repairs and replacements, whether ordinary or extraordinary, with materials and workmanship of the same character, kind and quality as the original (including, but not limited to, repair and replacement of all fixtures installed by Tenant, water heaters serving the Premises, windows, glass and plate glass, doors, exterior stairs, skylights, any special office entries, interior walls and finish work, floors and floor coverings, heating and air conditioning systems serving the Premises, electrical systems and fixtures, sprinkler systems, dock boards, truck doors, dock bumpers, plumbing work and fixtures, and performance of regular removal of trash and debris). Tenant as part of its obligations hereunder shall keep the Premises in a clean and sanitary condition. Tenant will, as far as possible keep all such parts of the Premises from deterioration due to ordinary wear and from falling temporarily out of repair, and upon termination of this Lease in any way Tenant will yield up the Premises to Landlord in good condition and repair, loss by fire or other casualty excepted (but not excepting any damage to glass). Subject to the provisions of Article 12, Tenant shall, at its own cost and expense, repair any damage to the Premises or the Building resulting from and/or caused in whole or in part by the negligence or misconduct of Tenant, its agents, employees, contractors, invitees, or any other person entering upon the Premises as a result of Tenant's business activities or caused by Tenant's default hereunder.

7.3 Except as provided in Article 22, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Building or the Premises or to fixtures, appurtenances and equipment in the Building. Except to the extent, if any, prohibited by law, Tenant waives the right to make repairs at Landlord's expense under any law, statute or ordinance now or hereafter in effect.

7.4 Tenant shall, at its own cost and expense, enter into a regularly scheduled preventive maintenance/service contract with a maintenance contractor approved by Landlord for servicing all heating and air conditioning systems and equipment serving the Premises (and a copy thereof shall be furnished to Landlord). The service contract must include all services suggested by the equipment manufacturer in the operation/maintenance manual and must become effective within thirty (30) days of the date Tenant takes possession of the Premises. Should Tenant fail to do so, Landlord may, upon notice to Tenant, enter into such a maintenance/ service contract on behalf of Tenant or perform the work and in either case, charge Tenant the cost thereof along with a reasonable amount for Landlord's overhead.

7.5 Landlord shall coordinate any repairs and other maintenance of any railroad tracks serving the Building and, if Tenant uses such rail tracks, Tenant shall reimburse Landlord or the railroad company from time to time upon demand, as additional rent, for its share of the costs of such repair and maintenance and for any other sums specified in any agreement to which Landlord or Tenant is a party respecting such tracks, such costs to be borne proportionately by all tenants in the Building using such rail tracks, based upon the actual number of rail cars shipped and received by such tenant during each calendar year during the Term.

8. LIENS. Tenant shall keep the Premises, the Building and appurtenant land and Tenant's leasehold interest in the Premises free from any liens arising out of any services, work or materials performed, furnished, or contracted for by Tenant, or obligations incurred by Tenant. In the event that Tenant fails, within fifteen (15) ten (10) days following the imposition of any such lien, to either cause the same to be released of record or provide Landlord with insurance against the same issued by a major title insurance company or such other protection against the same as Landlord shall accept (such failure to constitute an Event of Default), Landlord shall have the right to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith shall be payable to it by Tenant within five (5) days Landlord's demand .

9. ASSIGNMENT AND SUBLETTING.

9.1 Tenant shall not have the right to assign or pledge this Lease or to sublet the whole or any part of the Premises whether voluntarily or by operation of law, or permit the use or occupancy of the Premises by anyone other than Tenant, and shall not make, suffer or permit such assignment, subleasing or occupancy without the prior written consent of Landlord, such consent not to be unreasonably withheld, and said restrictions shall be binding upon any and all assignees of this Lease and subtenants of the Premises. In the event Tenant desires to sublet, or permit such occupancy of, the Premises, or any portion thereof, or assign this Lease, Tenant shall give written notice thereof to Landlord at least sixty (60) days but no more than one hundred twenty (120) days prior to the proposed commencement date of such subletting or assignment, which notice shall set forth the name of the proposed subtenant or assignee, the relevant terms of any sublease or assignment and copies of financial reports and other relevant financial information of the proposed subtenant or assignee.

9.2 Notwithstanding any assignment or subletting, permitted or otherwise, Tenant shall at all times remain directly, primarily and fully responsible and

liable for the payment of the rent specified in this Lease and for compliance with all of its other obligations under the terms, provisions and covenants of this Lease. Upon the occurrence of an Event of Default, if the Premises or any part of them are then assigned or sublet, Landlord, in addition to any other remedies provided in this Lease or provided by law, may, at its option, collect directly from such assignee or subtenant all rents due and becoming due to Tenant under such assignment or sublease and apply such rent against any sums due to Landlord from Tenant under this Lease, and no such collection shall be construed to constitute a novation or release of Tenant from the further performance of Tenant's obligations under this Lease.

9.3 In addition to Landlord's right to approve of any subtenant or assignee, Landlord shall have the option, in its sole discretion, in the event of any proposed subletting or assignment, to terminate this Lease, or in the case of a proposed subletting of less than the entire Premises, to recapture the portion of the Premises to be sublet, as of the date the subletting or assignment is to be effective. The option shall be exercised, if at all, by Landlord giving Tenant written notice given by Landlord to Tenant within thirty (30) days following Landlord's receipt of Tenant's written notice as required above. However, if Tenant notifies Landlord, within five (5) days after receipt of Landlord's termination notice, that Tenant is rescinding its proposed assignment or sublease, the termination notice shall be void and this Lease shall continue in full force and effect. If this Lease shall be terminated with respect to the entire Premises pursuant to this Section, the Term of this Lease shall end on the date stated in Tenant's notice as the effective date of the sublease or assignment as if that date had been originally fixed in this Lease for the expiration of the Term. If Landlord recaptures under this Section only a

portion of the Premises, the rent to be paid from time to time during the unexpired Term shall abate proportionately based on the proportion by which the approximate square footage of the remaining portion of the Premises shall be less than that of the Premises as of the date immediately prior to such recapture. Tenant shall, at Tenant's own cost and expense, discharge in full any outstanding commission obligation which may be due and owing as a result of any proposed assignment or subletting, whether or not the Premises are recaptured pursuant to this Section 9.3 and rented by Landlord to the proposed tenant or any other tenant.

9.4 In the event that Tenant sells, sublets, assigns or transfers this Lease, Tenant shall pay to Landlord as additional rent an amount equal to one hundred percent (100%) of any Increased Rent (as defined below), less the Costs Component (as defined below), when and as such Increased Rent is received by Tenant. As used in this Section, "Increased Rent" shall mean the excess of (i) all rent and other consideration which Tenant is entitled to receive by reason of any sale, sublease, assignment or other transfer of this Lease, over (ii) the rent otherwise payable by Tenant under this Lease at such time. For purposes of the foregoing, any consideration received by Tenant in form other than cash shall be valued at its fair market value as determined by Landlord in good faith. The "Costs Component" is that amount which, if paid monthly, would fully amortize on a straight-line basis, over the entire period for which Tenant is to receive Increased Rent, the reasonable costs incurred by Tenant for leasing commissions and tenant improvements in connection with such sublease, assignment or other transfer.

9.5 Notwithstanding any other provision hereof, it shall be considered reasonable for Landlord to withhold its consent to any assignment of this Lease or sublease of any portion of the Premises if at the time of either Tenant's notice of the proposed assignment or sublease or the proposed commencement date thereof, there shall exist any uncured default of Tenant or matter which will become a default of Tenant with passage of time unless cured, or if the proposed assignee or sublessee is an entity: (a) with which Landlord is already in negotiation; (b) is already an occupant of the Building unless Landlord is unable to provide the amount of space required by such occupant; (c) is a governmental agency; (d) is incompatible with the character of occupancy of the Building; (e) with which the payment for the sublease or assignment is determined in whole or in part based upon its net income or profits; or (f) would subject the Premises to a use which would: (i) involve increased personnel or wear upon the Building; (ii) violate any exclusive right granted to another tenant of the Building; (iii) require any addition to or modification of the Premises or the Building in order to comply with building code or other governmental requirements; or, (iv) involve a violation of Section 1.2. Tenant expressly agrees that for the purposes of any statutory or other requirement of reasonableness on the part of Landlord, Landlord's refusal to consent to any assignment or sublease for any of the reasons described in this Section 9.5, shall be conclusively deemed to be reasonable.

9.6 Upon any request to assign or sublet, Tenant will pay to Landlord the Assignment/Subletting Fee plus, on demand, a sum equal to all of Landlord's costs, including reasonable attorney's fees, incurred in investigating and considering any proposed or purported assignment or pledge of this Lease or sublease of any of the Premises, regardless of whether Landlord shall consent to, refuse consent, or determine that Landlord's consent is not required for, such assignment, pledge or sublease. Any purported sale, assignment, mortgage, transfer of this Lease or subletting which does not comply with the provisions

of this Article 9 shall be void.

9.7 If Tenant is a corporation, the capital stock of which is not publicly traded on a recognized national stock exchange, limited liability company, partnership or trust, any transfer or transfers of or change or changes within any twelve (12) month period in the number of the outstanding voting shares of the corporation or limited liability company, the general partnership interests in the partnership or the identity of the persons or entities controlling the activities of such partnership or trust resulting in the persons or entities owning or controlling a majority of such shares, partnership interests or activities of such partnership or trust at the beginning of such period no longer having such ownership or control shall be regarded as equivalent to an assignment of this Lease to the persons or entities acquiring such ownership or control and shall be subject to all the provisions of this Article 9 to the same extent and for all intents and purposes as though such an assignment.

10. INDEMNIFICATION. None of the Landlord Entities shall be liable and Tenant hereby waives all claims against them for any damage to any property or any injury to any person in or about the Premises or the Building by or from any cause whatsoever (including without limiting the foregoing, rain or water leakage of any character from the roof, windows, walls, basement, pipes, plumbing works or appliances, the Building not being in good condition or repair, gas, fire, oil, electricity or theft), except to the extent caused by or arising from the gross negligence or willful misconduct of Landlord or its agents, employees or contractors. Tenant shall protect, indemnify and hold the Landlord Entities harmless from and against any and all loss, claims, liability or costs (including court costs and attorney's fees) incurred by reason of (a) any damage to any property (including but not limited to property of any Landlord Entity) or any injury (including but not limited to death) to any person occurring in, on or about the Premises or the Building to the extent that such injury or damage shall be caused by or arise from any actual or alleged act, neglect, fault, or omission by or of Tenant or any Tenant Entity to meet any standards imposed by any duty with respect to the injury or damage; (b) the conduct or management of any work or thing whatsoever done by the Tenant in or about the Premises or from transactions of the Tenant concerning the Premises; (c) Tenant's failure to comply with any and all governmental laws, ordinances and regulations applicable to the condition or use of the Premises or its occupancy; or (d) any breach or default on the part of Tenant in the performance of any covenant or agreement on the part of the Tenant to be performed pursuant to this Lease. Except for the negligence or willful misconduct of Tenant, its employees, agents, contractors, subtenants and assigns, or a breach of this Lease by Tenant or Tenant's employees, agents, contractors, subtenants and assigns, Landlord hereby indemnifies and agrees to hold Tenant harmless from and against any and all loss, claims, liability or costs (including court costs and attorneys' fees) incurred by reason of any damage to property or injury to any person arising from any negligence or willful misconduct of Landlord in connection with the common areas of the Building. The provisions of this Article shall survive the termination of this Lease with respect to any claims or liability accruing prior to such termination.

11. INSURANCE.

11.1 Tenant shall keep in force throughout the Term: (a) a Commercial General Liability insurance policy or policies to protect the Landlord Entities against any liability to the public or to any invitee of Tenant or a Landlord Entity incidental to the use of or resulting from any accident occurring in or upon the Premises with a limit of not less than \$1,000,000 per occurrence and not less than \$2,000,000 in the annual aggregate, or such larger amount as Landlord may prudently require from time to time, covering bodily injury and property damage liability; (b) Business Auto Liability covering owned, non-owned and hired vehicles with a limit of not less than \$1,000,000 per accident; (c) insurance protecting against liability under Worker's Compensation Laws with limits at least as required by statute; and (d) All Risk or Special Form coverage protecting Tenant against loss of or damage to Tenant's alterations, additions, improvements, carpeting, floor coverings, panelings, decorations, fixtures, inventory and other business personal property situated in or about the Premises to the full replacement value of the property so insured.

11.2 The aforesaid policies shall (a) be provided at Tenant's expense; (b) name the Landlord Entities as additional insureds (General Liability) and loss payee (Property--Special Form); (c) be issued by an insurance company with a minimum Best's rating of "A:VII" during the Term; and (d) provide that said insurance shall not be canceled unless thirty (30) days prior written notice (ten days for non-payment of premium) shall have been given to Landlord; a certificate of Liability insurance on ACORD Form 25 and a certificate of Property insurance on ACORD Form 27 shall be delivered to Landlord by Tenant upon the Commencement Date and at least thirty (30) days prior to each renewal of said insurance.

11.3 Whenever Tenant shall undertake any alterations, additions or improvements in, to or about the Premises ("Work") the aforesaid insurance protection must extend to and include injuries to persons and damage to property arising in connection with such Work, without limitation including liability under any applicable structural work act, and such other insurance as Landlord

shall require; and the policies of or certificates evidencing such insurance must be delivered to Landlord prior to the commencement of any such Work.

11.4 Landlord shall, at all times from and after the Commencement Date, as a component of Expenses, maintain in effect a policy or policies of insurance covering the Building, in an amount not less than eighty percent (80%) of full replacement cost (exclusive of the cost of excavations, foundations and footings) from time to time during the Term or the amount of such insurance Landlord's lender may require Landlord to maintain, whichever is the greater, providing protection against any peril generally included in the classification "Causes of Loss-Special Form" (including flood and earthquake damage coverage if so elected by Landlord), together with insurance against sprinkler damage, vandalism and malicious mischief and if deemed necessary by Landlord, the following endorsements: boiler and machinery, difference in conditions, business income and extra expense (with extended period of indemnity), service interruption, building ordinance or law and excess rental value. In addition, Landlord shall maintain, as a component of Expenses, commercial general liability insurance with a combined single limit of not less than One Million and No/100 Dollars (\$1,000,000.00), per occurrence, insuring against any and all liability of Landlord with respect to the operation and use of the Building, and if deemed necessary by Landlord, fidelity and owned or rented automobile coverage. Landlord's obligation to carry the insurance required in this Section 11.4 may be brought within the coverage of any so-called blanket policy or policies of insurance carried and maintained by Landlord, provided that the coverage afforded will not be reduced or diminished by reason of the of such blanket policy of insurance.

12. WAIVER OF SUBROGATION. Tenant and Landlord hereby mutually waive their respective rights of recovery against each other for any loss insured by fire, extended coverage, All Risks or other insurance now or hereafter existing for the benefit of the respective party. Each party shall obtain any special endorsements required by their insurer to evidence compliance with the aforementioned waiver.

13. SERVICES AND UTILITIES. Tenant shall pay for all water, gas, heat, light, power, telephone, sewer, sprinkler system charges and other utilities and services used on or from the Premises, together with any taxes, penalties, and surcharges or the like pertaining thereto and any maintenance charges for utilities. Tenant shall furnish all electric light bulbs, tubes and ballasts, battery packs for emergency lighting and fire extinguishers. If any such services are not separately metered to Tenant, Tenant shall pay such proportion of all charges jointly metered with other premises as determined by Landlord, in its sole discretion, to be reasonable. Any such charges paid by Landlord and assessed against Tenant shall be immediately payable to Landlord on demand and shall be additional rent hereunder. Tenant will not, without the written consent of Landlord, which consent shall not be unreasonably withheld, contract with a utility provider to service the Premises with any utility, including, but not limited to, telecommunications, electricity, water, sewer or gas, which is not previously providing such service to other tenants in the Building. Landlord shall in no event be liable for any interruption or failure of utility services on or to the Premises. Notwithstanding the foregoing, in the event that essential utility services to the Premises are interrupted for a consecutive period of three (3) or more business days as a result of the negligence or willful misconduct of Landlord or its agents, and such interruption substantially interferes with Tenant's use of all or a substantial portion of the Premises for the conduct of its business, then, as its sole and exclusive remedy, Tenant's obligation to pay the Monthly Installment of Rent to Landlord under this Lease shall be abated or reduced from the date Tenant delivers written notice to Landlord of such circumstance (which shall be at least three (3) business days after the commencement of such circumstance) until sufficient utility services are restored in the proportion that the floor area of the Premises that Tenant is prevented from using and does not use bears to the total floor area of the Premises.

14. HOLDING OVER. Tenant shall pay Landlord for each day Tenant retains possession of the Premises or part of them after termination of this Lease by lapse of time or otherwise at the rate ("Holdover Rate") which shall be Two Hundred Percent (200%) of the greater of (a) the amount of the Annual Rent for the last period prior to the date of such termination plus all Rent Adjustments under Article 4; and (b) the then market rental value of the Premises as

determined by Landlord assuming a new lease of the Premises of the then usual duration and other terms, in either case, prorated on a daily basis, and also pay all damages sustained by Landlord by reason of such retention. If Landlord gives notice to Tenant of Landlord's election to such effect, such holding over shall constitute renewal of this Lease for a period from month to month or one (1) year, whichever shall be specified in such notice, in either case at the Holdover Rate, but if the Landlord does not so elect, no such renewal shall result notwithstanding acceptance by Landlord of any sums due hereunder after such termination; and instead, a tenancy at sufferance at the Holdover Rate shall be deemed to have been created. In any event, no provision of this Article 14 shall be deemed to waive Landlord's right of reentry or any other right under

this Lease or at law.

15. SUBORDINATION. Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, this Lease shall be subject and subordinate at all times to ground or underlying leases and to the lien of any mortgages or deeds of trust now or hereafter placed on, against or affecting the Building, Landlord's interest or estate in the Building, or any ground or underlying lease; provided, however, that if the lessor, mortgagee, trustee, or holder of any such mortgage or deed of trust elects to have Tenant's interest in this Lease be superior to any such instrument, then, by notice to Tenant, this Lease shall be deemed superior, whether this Lease was executed before or after said instrument. Notwithstanding the foregoing, Tenant covenants and agrees to execute and deliver within ten (10) days of Landlord's request such further instruments evidencing such subordination or superiority of this Lease as may be reasonably required by Landlord.

16. RULES AND REGULATIONS. Tenant shall faithfully observe and comply with all the rules and regulations as set forth in Exhibit D to this Lease and all reasonable and non-discriminatory modifications of and additions to them from time to time put into effect by Landlord. Landlord shall not be responsible to Tenant for the non-performance by any other tenant or occupant of the Building of any such rules and regulations.

17. REENTRY BY LANDLORD.

17.1 Landlord reserves and shall at all times have the right to re-enter the Premises to inspect the same, to show said Premises to prospective purchasers, mortgagees or tenants, and to alter, improve or repair the Premises and any portion of the Building, without abatement of rent, and may for that purpose erect, use and maintain scaffolding, pipes, conduits and other necessary structures and open any wall, ceiling or floor in and through the Building and Premises where reasonably required by the character of the work to be performed, provided entrance to the Premises shall not be blocked thereby, and further provided that the business of Tenant shall not be interfered with unreasonably. Landlord shall have the right at any time to change the arrangement and/or locations of entrances, or passageways, doors and doorways, and corridors, windows, elevators, stairs, toilets or other public parts of the Building and to change the name, number or designation by which the Building is commonly known. In the event that Landlord damages any portion of any wall or wall covering, ceiling, or floor or floor covering within the Premises, Landlord shall repair or replace the damaged portion to match the original as nearly as commercially reasonable but shall not be required to repair or replace more than the portion actually damaged. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned by any action of Landlord authorized by this Article 17.

17.2 Landlord shall have the right to use any and all means which Landlord may deem proper to open all doors in the Premises in an emergency to obtain entry to any portion of the Premises and the cost of repairing any damage occurring in doing so shall be borne by Tenant and paid to Landlord within five (5) days of Landlord's demand.

18. DEFAULT.

18.1 Except as otherwise provided in Article 20, the following events shall be deemed to be Events of Default under this Lease:

18.1.1 Tenant shall fail to pay when due any sum of money becoming due to be paid to Landlord under this Lease, whether such sum be any installment of the rent reserved by this Lease, any other amount treated as additional rent under this Lease, or any other payment or reimbursement to Landlord required by this Lease, whether or not treated as additional rent under this Lease, and such failure shall continue for a period of five (5) days after written notice that such payment was not made when due, but if any such notice shall be given, for the twelve (12) month period commencing with the date of such notice, the failure to pay within five (5) days after due any additional sum of money becoming due to be paid to Landlord under this Lease during such period shall be an Event of Default, without notice.

18.1.2 Tenant shall fail to comply with any term, provision or covenant of this Lease which is not provided for in another Section of this Article and shall not cure such failure within twenty (20) days (forthwith, if the failure involves a hazardous condition) after written notice of such failure to Tenant provided, however, that such failure shall not be an event of default if such failure could not reasonably be cured during such twenty (20) day period, Tenant has commenced the cure within such twenty (20) day period and thereafter is diligently pursuing such cure to completion, but the total aggregate cure period shall not exceed ninety (90) days.

18.1.3 Tenant shall fail to vacate the Premises immediately upon termination of this Lease, by lapse of time or otherwise, or upon termination of Tenant's right to possession only.

18.1.4 Tenant shall become insolvent, admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy or a petition to take advantage of any insolvency statute, make an assignment for the benefit of creditors, make a transfer in fraud of creditors, apply for or consent to the appointment of a receiver of itself or of the whole or any substantial part of its property, or file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable law or statute of the United States or any state thereof.

18.1.5 A court of competent jurisdiction shall enter an order, judgment or decree adjudicating Tenant bankrupt, or appointing a receiver of Tenant, or of the whole or any substantial part of its property, without the consent of Tenant, or approving a petition filed against Tenant seeking reorganization or arrangement of Tenant under the bankruptcy laws of the United States, as now in effect or hereafter amended, or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of entry thereof.

19. REMEDIES.

19.1 Except as otherwise provided in Article 20, upon the occurrence of any of the Events of Default described or referred to in Article 18, Landlord shall have the option to pursue any one or more of the following remedies without any notice or demand whatsoever, concurrently or consecutively and not alternatively:

19.1.1 Landlord may, at its election, terminate this Lease or terminate Tenant's right to possession only, without terminating this Lease.

19.1.2 Upon any termination of this Lease, whether by lapse of time or otherwise, or upon any termination of Tenant's right to possession without termination of this Lease, Tenant shall surrender possession and vacate the Premises immediately, and deliver possession thereof to Landlord, and Tenant hereby grants to Landlord full and free license to enter into and upon the Premises in such event and to repossess Landlord of the Premises as of Landlord's former estate and to expel or remove Tenant and any others who may be

occupying or be within the Premises and to remove Tenant's signs and other evidence of tenancy and all other property of Tenant therefrom without being deemed in any manner guilty of trespass, eviction or forcible entry or detainer, and without incurring any liability for any damage resulting therefrom, Tenant waiving any right to claim damages for such re-entry and expulsion, and without relinquishing Landlord's right to rent or any other right given to Landlord under this Lease or by operation of law.

19.1.3 Upon any termination of this Lease, whether by lapse of time or otherwise, Landlord shall be entitled to recover as damages, all rent, including any amounts treated as additional rent under this Lease, and other sums due and payable by Tenant on the date of termination, plus as liquidated damages and not as a penalty, an amount equal to the sum of: (a) an amount equal to the then present value of the rent reserved in this Lease for the residue of the stated Term of this Lease including any amounts treated as additional rent under this Lease and all other sums provided in this Lease to be paid by Tenant, minus the fair rental value of the Premises for such residue; (b) the value of the time and expense necessary to obtain a replacement tenant or tenants, and the estimated expenses described in Section 19.1.4 relating to recovery of the Premises, preparation for reletting and for reletting itself; and (c) the cost of performing any other covenants which would have otherwise been performed by Tenant.

19.1.4 Upon any termination of Tenant's right to possession only without termination of this Lease:

19.1.4.1 Neither such termination of Tenant's right to possession nor Landlord's taking and holding possession thereof as provided in Section 19.1.2 shall terminate this Lease or release Tenant, in whole or in part, from any obligation, including Tenant's obligation to pay the rent, including any amounts treated as additional rent, under this Lease for the full Term, and if Landlord so elects Tenant shall continue to pay to Landlord the entire amount of the rent as and when it becomes due, including any amounts treated as additional rent under this Lease, for the remainder of the Term plus any other sums provided in this Lease to be paid by Tenant for the remainder of the Term.

19.1.4.2 Landlord shall use commercially reasonable efforts to relet the Premises or portions thereof to the extent required by applicable law. Landlord and Tenant agree that nevertheless Landlord shall at most be required to use only the same efforts Landlord then uses to lease premises in the Building generally and that in any case that Landlord shall not be required to give any preference or priority to the showing or leasing of the Premises or portions thereof over any other space that Landlord may be leasing or have available and may place a suitable prospective tenant in any such other space regardless of when such other space becomes available and that Landlord shall

have the right to relet the Premises for a greater or lesser term than that remaining under this Lease, the right to relet only a portion of the Premises, or a portion of the Premises or the entire Premises as a part of a larger area, and the right to change the character or use of the Premises. In connection with or in preparation for any reletting, Landlord may, but shall not be required to, make repairs, alterations and additions in or to the Premises and redecorate the same to the extent Landlord deems necessary or desirable, and Tenant shall pay the cost thereof, together with Landlord's expenses of reletting, including, without limitation, any commission incurred by Landlord, within five (5) days of Landlord's demand. Landlord shall not be required to observe any instruction given by Tenant about any reletting or accept any tenant offered by Tenant unless such offered tenant has a credit-worthiness acceptable to Landlord and leases the entire Premises upon terms and conditions including a rate of rent (after giving effect to all expenditures by Landlord for tenant improvements, broker's commissions and other leasing costs) all no less favorable to Landlord than as called for in this Lease, nor shall Landlord be required to make or permit any assignment or sublease for more than the current term or which Landlord would not be required to permit under the provisions of Article 9.

19.1.4.3 Until such time as Landlord shall elect to terminate this Lease and shall thereupon be entitled to recover the amounts specified in such case in Section 19.1.3, Tenant shall pay to Landlord upon demand the full amount of all rent, including any amounts treated as additional rent under this Lease and other sums reserved in this Lease for the remaining Term, together with the costs of repairs, alterations, additions, redecorating and Landlord's expenses of reletting and the collection of the rent accruing therefrom

(including reasonable attorney's fees and broker's commissions), as the same shall then be due or become due from time to time, less only such consideration as Landlord may have received from any reletting of the Premises; and Tenant agrees that Landlord may file suits from time to time to recover any sums falling due under this Article 19 as they become due. Any proceeds of reletting by Landlord in excess of the amount then owed by Tenant to Landlord from time to time shall be credited against Tenant's future obligations under this Lease but shall not otherwise be refunded to Tenant or inure to Tenant's benefit.

19.2 Upon the occurrence of an Event of Default, Landlord may (but shall not be obligated to) cure such default at Tenant's sole expense. Without limiting the generality of the foregoing, Landlord may, at Landlord's option, enter into and upon the Premises if Landlord determines in its sole discretion that Tenant is not acting within a commercially reasonable time to maintain, repair or replace anything for which Tenant is responsible under this Lease or to otherwise effect compliance with its obligations under this Lease and correct the same, without being deemed in any manner guilty of trespass, eviction or forcible entry and detainer and without incurring any liability for any damage or interruption of Tenant's business resulting therefrom and Tenant agrees to reimburse Landlord within five (5) days of Landlord's demand as additional rent, for any expenses which Landlord may incur in thus effecting compliance with Tenant's obligations under this Lease, plus interest from the date of expenditure by Landlord at the Wall Street Journal prime rate.

19.3 Tenant understands and agrees that in entering into this Lease, Landlord is relying upon receipt of all the Annual and Monthly Installments of Rent to become due with respect to all the Premises originally leased hereunder over the full Initial Term of this Lease for amortization, including interest at the Amortization Rate. For purposes hereof, the "Concession Amount" shall be defined as the aggregate of all amounts forgone or expended by Landlord as free rent under this Lease, under Exhibit B hereof for construction allowances (excluding therefrom any amounts expended by Landlord for Landlord's Work, as defined in Exhibit B), and for brokers' commissions payable by reason of this Lease. Accordingly, Tenant agrees that if this Lease or Tenant's right to possession of the Premises leased hereunder shall be terminated as of any date ("Default Termination Date") prior to the expiration of the full Initial Term hereof by reason of a default of Tenant, there shall be due and owing to Landlord as of the day prior to the Default Termination Date, as rent in addition to all other amounts owed by Tenant as of such Date, the amount ("Unamortized Amount") of the Concession Amount determined as set forth below; provided, however, that in the event that such amounts are recovered by Landlord pursuant to any other provision of this Article 19, Landlord agrees that it shall not attempt to recover such amounts pursuant to this Paragraph 19.3. For the purposes hereof, the Unamortized Amount shall be determined in the same manner as the remaining principal balance of a mortgage with interest at the Amortization Rate payable in level payments over the same length of time as from the effectuation of the Concession concerned to the end of the full Initial Term of this Lease would be determined. The foregoing provisions shall also apply to and upon any reduction of space in the Premises, as though such reduction were a termination for Tenant's default, except that (i) the Unamortized Amount shall be reduced by any amounts paid by Tenant to Landlord to effectuate such reduction and (ii) the manner of application shall be that the Unamortized Amount shall first be determined as though for a full termination as of the Effective Date of the elimination of the portion, but then the amount so determined shall be multiplied by the fraction of which the numerator is the rentable square footage of the eliminated portion and the denominator is the rentable square footage of the Premises originally leased hereunder; and the

amount thus obtained shall be the Unamortized Amount.

19.4 If, on account of any breach or default by Tenant in Tenant's obligations under the terms and conditions of this Lease, it shall become necessary or appropriate for Landlord to employ or consult with an attorney or collection agency concerning or to enforce or defend any of Landlord's rights or remedies arising under this Lease or to collect any sums due from Tenant, Tenant agrees to pay all reasonable costs and fees so incurred by Landlord, including, without limitation, reasonable attorneys' fees and costs. TENANT EXPRESSLY WAIVES ANY RIGHT TO: (A) TRIAL BY JURY; AND (B) SERVICE OF ANY NOTICE REQUIRED BY ANY PRESENT OR FUTURE LAW OR ORDINANCE APPLICABLE TO LANDLORDS OR TENANTS BUT NOT REQUIRED BY THE TERMS OF THIS LEASE (EXCLUDING SERVICE OF PROCESS AS REQUIRED BY 16 A.R.S. RULES OF CIVIL PROCEDURE, RULE 4).

19.5 Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies provided in this Lease or any other remedies provided by law (all such remedies being cumulative), nor shall pursuit of any remedy provided in this Lease constitute a forfeiture or waiver of any rent due to Landlord under this Lease or of any damages accruing to Landlord by reason of the violation of any of the terms, provisions and covenants contained in this Lease.

19.6 No act or thing done by Landlord or its agents during the Term shall be deemed a termination of this Lease or an acceptance of the surrender of the Premises, and no agreement to terminate this Lease or accept a surrender of said Premises shall be valid, unless in writing signed by Landlord. No waiver by Landlord of any violation or breach of any of the terms, provisions and covenants contained in this Lease shall be deemed or construed to constitute a waiver of any other violation or breach of any of the terms, provisions and covenants contained in this Lease. Landlord's acceptance of the payment of rental or other payments after the occurrence of an Event of Default shall not be construed as a waiver of such Default, unless Landlord so notifies Tenant in writing. Forbearance by Landlord in enforcing one or more of the remedies provided in this Lease upon an Event of Default shall not be deemed or construed to constitute a waiver of such Default or of Landlord's right to enforce any such remedies with respect to such Default or any subsequent Default.

19.7 To secure the payment of all rentals and other sums of money becoming due from Tenant under this Lease, Landlord shall have and Tenant grants to Landlord a first lien upon the leasehold interest of Tenant under this Lease, which lien may be enforced in equity.

19.8 Any and all property which may be removed from the Premises by Landlord pursuant to the authority of this Lease or of law, to which Tenant is or may be entitled, may be handled, removed and/or stored, as the case may be, by or at the direction of Landlord but at the risk, cost and expense of Tenant, and Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. Tenant shall pay to Landlord, upon demand, any and all expenses incurred in such removal and all storage charges against such property so long as the same shall be in Landlord's possession or under Landlord's control. Any such property of Tenant not retaken by Tenant from storage within thirty (30) days after removal from the Premises shall, at Landlord's option, be deemed conveyed by Tenant to Landlord under this Lease as by a bill of sale without further payment or credit by Landlord to Tenant.

19.9 If more than one (1) Event of Default occurs during the Term or any renewal thereof, Tenant's renewal options, expansion options, purchase options and rights of first offer and/or refusal, if any are provided for in this Lease, shall be null and void.

20. TENANT'S BANKRUPTCY OR INSOLVENCY.

20.1 If at any time and for so long as Tenant shall be subjected to the provisions of the United States Bankruptcy Code or other law of the United States or any state thereof for the protection of debtors as in effect at such time (each a "Debtor's Law"):

20.1.1 Tenant, Tenant as debtor-in-possession, and any trustee or receiver of Tenant's assets (each a "Tenant's Representative") shall have no greater right to assume or assign this Lease or any interest in this Lease, or to sublease any of the Premises than accorded to Tenant in Article 9, except to the extent Landlord shall be required to permit such assumption, assignment or sublease by the provisions of such Debtor's Law. Without limitation of the

generality of the foregoing, any right of any Tenant's Representative to assume or assign this Lease or to sublease any of the Premises shall be subject to the conditions that:

20.1.1.1 Such Debtor's Law shall provide to Tenant's Representative a right of assumption of this Lease which Tenant's Representative shall have timely exercised and Tenant's Representative shall have fully cured any default of Tenant under this Lease.

20.1.1.2 Tenant's Representative or the proposed assignee, as the case shall be, shall have deposited with Landlord as security for the timely payment of rent an amount equal to the larger of: (a) three (3) months' rent and other monetary charges accruing under this Lease; and (b) any sum specified in Article 5; and shall have provided Landlord with adequate other assurance of the future performance of the obligations of the Tenant under this Lease. Without limitation, such assurances shall include, at least, in the case of assumption of this Lease, demonstration to the satisfaction of the Landlord that Tenant's Representative has and will continue to have sufficient unencumbered assets after the payment of all secured obligations and administrative expenses to assure Landlord that Tenant's Representative will have sufficient funds to fulfill the obligations of Tenant under this Lease; and, in the case of assignment, submission of current financial statements of the proposed assignee, audited by an independent certified public accountant reasonably acceptable to Landlord and showing a net worth and working capital in amounts determined by Landlord to be sufficient to assure the future performance by such assignee of all of the Tenant's obligations under this Lease.

20.1.1.3 The assumption or any contemplated assignment of this Lease or subleasing any part of the Premises, as shall be the case, will not breach any provision in any other lease, mortgage, financing agreement or other agreement by which Landlord is bound.

20.1.1.4 Landlord shall have, or would have had absent the Debtor's Law, no right under Article 9 to refuse consent to the proposed assignment or sublease by reason of the identity or nature of the proposed assignee or sublessee or the proposed use of the Premises concerned.

21. QUIET ENJOYMENT. Landlord represents and warrants that it has full right and authority to enter into this Lease and that Tenant, while paying the rental and performing its other covenants and agreements contained in this Lease, shall peaceably and quietly have, hold and enjoy the Premises for the Term without hindrance or molestation from Landlord subject to the terms and provisions of this Lease. Landlord shall not be liable for any interference or disturbance by other tenants or third persons, nor shall Tenant be released from any of the obligations of this Lease because of such interference or disturbance.

22. CASUALTY.

22.1 In the event the Premises or the Building are damaged by fire or other cause and in Landlord's reasonable estimation such damage can be materially restored within one hundred fifty (150) days, Landlord shall forthwith repair the same and this Lease shall remain in full force and effect, except that Tenant shall be entitled to a proportionate abatement in rent from the date of such damage. Such abatement of rent shall be made pro rata in accordance with the extent to which the damage and the making of such repairs shall interfere with the use and occupancy by Tenant of the Premises from time to time. Within forty-five (45) days from the date of such damage, Landlord shall notify Tenant, in writing, of Landlord's reasonable estimation of the length of time within which material restoration can be made, and Landlord's determination shall be binding on Tenant. For purposes of this Lease, the Building or Premises shall be deemed "materially restored" if they are in such condition as would not prevent or materially interfere with Tenant's use of the Premises for the purpose for which it was being used immediately before such damage.

22.2 If such repairs cannot, in Landlord's reasonable estimation, be made within one hundred fifty (150) days or in the event of substantial destruction of the Premises (i.e., a destruction to an extent of at least fifty percent [50%] of the then full replacement cost of the Premises as of the date of destruction) during the last two (2) years of the Term, Landlord and Tenant shall each have the option of giving the other, at any time within ninety (90) days after such damage, notice terminating this Lease as of the date of such damage. In the event of the giving of such notice, this Lease shall expire and all interest of the Tenant in the Premises shall terminate as of the date of such damage as if such date had been originally fixed in this Lease for the expiration of the Term. In the event that neither Landlord nor Tenant exercises its option to terminate this Lease, then Landlord shall repair or restore such damage, this Lease continuing in full force and effect, and the rent hereunder shall be proportionately abated as provided in Section 22.1.

22.3 Landlord shall not be required to repair or replace any damage or loss by or from fire or other cause to any panelings, decorations, partitions, additions, railings, ceilings, floor coverings, office fixtures or any other property or improvements installed on the Premises by, or belonging to, Tenant. Any insurance which may be carried by Landlord or Tenant against loss or damage to the Building or Premises shall be for the sole benefit of the party carrying such insurance and under its sole control.

22.4 In the event that Landlord should fail to complete such repairs and material restoration within sixty (60) days after the date estimated by Landlord therefor as extended by this Section 22.4, Tenant may at its option and as its sole remedy terminate this Lease by delivering written notice to Landlord, within fifteen (15) days after the expiration of said period of time, whereupon

this Lease shall end on the date of such notice or such later date fixed in such notice as if the date of such notice was the date originally fixed in this Lease for the expiration of the Term; provided, however, that if construction is delayed because of changes, deletions or additions in construction requested by Tenant, strikes, lockouts, casualties, Acts of God, war, material or labor shortages, government regulation or control or other causes beyond the reasonable control of Landlord, the period for restoration, repair or rebuilding shall be extended for the amount of time Landlord is so delayed.

22.5 Notwithstanding anything to the contrary contained in this Article:

(a) Landlord shall not have any obligation whatsoever to repair, reconstruct, or restore the Premises when the damages resulting from any casualty covered by the provisions of this Article 22 occur during the last twelve (12) months of the Term or any extension thereof, but if Landlord determines not to repair such damages Landlord shall notify Tenant and if such damages shall render any material portion of the Premises untenable Tenant shall have the right to terminate this Lease by notice to Landlord within fifteen (15) days after receipt of Landlord's notice; and (b) in the event the holder of any indebtedness secured by a mortgage or deed of trust covering the Premises or Building requires that any insurance proceeds be applied to such indebtedness, then Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within fifteen (15) days after such requirement is made by any such holder, whereupon this Lease shall end on the date of such damage as if the date of such damage were the date originally fixed in this Lease for the expiration of the Term.

22.6 In the event of any damage or destruction to the Building or Premises by any peril covered by the provisions of this Article 22, it shall be Tenant's responsibility to properly secure the Premises and upon notice from Landlord to remove forthwith, at its sole cost and expense, such portion of all of the property belonging to Tenant or its licensees from such portion or all of the Building or Premises as Landlord shall request.

23. EMINENT DOMAIN. If all or any substantial part of the Premises shall be taken or appropriated by any public or quasi-public authority under the power of eminent domain, or conveyance in lieu of such appropriation, either party to this Lease shall have the right, at its option, of giving the other, at any time within thirty (30) days after such taking, notice terminating this Lease, except that Tenant may only terminate this Lease by reason of taking or appropriation, if such taking or appropriation shall be so substantial as to materially interfere with Tenant's use and occupancy of the Premises. If neither party to this Lease shall so elect to terminate this Lease, the rental thereafter to be paid shall be adjusted on a fair and equitable basis under the circumstances. In addition to the rights of Landlord above, if any substantial part of the

Building shall be taken or appropriated by any public or quasi-public authority under the power of eminent domain or conveyance in lieu thereof, and regardless of whether the Premises or any part thereof are so taken or appropriated, Landlord shall have the right, at its sole option, to terminate this Lease. Landlord shall be entitled to any and all income, rent, award, or any interest whatsoever in or upon any such sum, which may be paid or made in connection with any such public or quasi-public use or purpose, and Tenant hereby assigns to Landlord any interest it may have in or claim to all or any part of such sums, other than any separate award which may be made with respect to Tenant's trade fixtures and moving expenses; Tenant shall make no claim for the value of any unexpired Term.

24. SALE BY LANDLORD. In event of a sale or conveyance by Landlord of the Building, provided that Landlord's successor in interest assumes, in writing, the liabilities, covenants and obligations of Landlord under this Lease, the same shall operate to release Landlord from any future liability upon any of the covenants or conditions, expressed or implied, contained in this Lease in favor of Tenant, and in such event Tenant agrees to look solely to the responsibility of the successor in interest of Landlord in and to this Lease. Except as set forth in this Article 24, this Lease shall not be affected by any such sale and Tenant agrees to attorn to the purchaser or assignee. If any security has been given by Tenant to secure the faithful performance of any of the covenants of this Lease, Landlord shall may transfer or deliver said security, as such, to Landlord's successor in interest and thereupon Landlord shall be discharged from any further liability with regard to said security.

25. ESTOPPEL CERTIFICATES. Within fifteen (15) days following any written request which Landlord may make from time to time, Tenant shall execute and deliver to Landlord or mortgagee or prospective mortgagee a sworn statement certifying: (a) the date of commencement of this Lease; (b) the fact that this Lease is unmodified and in full force and effect (or, if there have been modifications to this Lease, that this lease is in full force and effect, as modified, and stating the date and nature of such modifications); (c) the date to which the rent and other sums payable under this Lease have been paid; (d) the fact that there are no current defaults under this Lease by either Landlord or Tenant except as specified in Tenant's statement; and (e) such other matters as may be reasonably requested by Landlord. Landlord and Tenant intend that any statement delivered pursuant to this Article 25 may be relied upon by any mortgagee, beneficiary or purchaser, and Tenant shall be liable for all loss,

cost or expense resulting from the failure of any sale or funding of any loan caused by any material misstatement contained in such estoppel certificate. Tenant irrevocably agrees that if Tenant fails to execute and deliver such certificate within such fifteen (15) ten (10) day period Landlord or Landlord's beneficiary or agent may execute and deliver such certificate on Tenant's behalf, and that such certificate shall be fully binding on Tenant.

26. SURRENDER OF PREMISES.

26.1 Tenant shall arrange to meet Landlord for two (2) joint inspections of the Premises, the first to occur at least thirty (30) days (but no more than sixty (60) days) before the last day of the Term, and the second to occur not later than forty-eight (48) hours after Tenant has vacated the Premises. In the event of Tenant's failure to arrange such joint inspections and/or participate in either such inspection, Landlord's inspection at or after Tenant's vacating the Premises shall be conclusively deemed correct for purposes of determining Tenant's responsibility for repairs and restoration.

26.2 All alterations, additions, and improvements in, on, or to the Premises made or installed by or for Tenant, including carpeting (collectively, "Alterations"), shall be and remain the property of Tenant during the Term. Upon the expiration or sooner termination of the Term, all Alterations shall become a part of the realty and shall belong to Landlord without compensation, and title shall pass to Landlord under this Lease as by a bill of sale. At the end of the Term or any renewal of the Term or other sooner termination of this Lease, Tenant will peaceably deliver up to Landlord possession of the Premises, together with all Alterations by whomsoever made, in the same conditions received or first installed, broom clean and free of all debris, excepting only ordinary wear and tear and damage by fire or other casualty. Notwithstanding the foregoing, if Landlord elects by notice given to Tenant at least ten (10) days prior to expiration of the Term, Tenant shall, at Tenant's sole cost, remove any Alterations, including carpeting, so designated by Landlord's notice, and repair any damage caused by such removal. Tenant must, at Tenant's sole cost, remove

upon termination of this Lease, any and all of Tenant's furniture, furnishings, movable partitions of less than full height from floor to ceiling and other trade fixtures and personal property (collectively, "Personalty"). Personalty not so removed shall be deemed abandoned by the Tenant and title to the same shall thereupon pass to Landlord under this Lease as by a bill of sale, but Tenant shall remain responsible for the cost of removal and disposal of such Personalty, as well as any damage caused by such removal. In lieu of requiring Tenant to remove Alterations and Personalty and repair the Premises as aforesaid, Landlord may, by written notice to Tenant delivered at least thirty (30) days before the Termination Date, require Tenant to pay to Landlord, as additional rent hereunder, the cost of such removal and repair in an amount reasonably estimated by Landlord.

26.3 All obligations of Tenant under this Lease not fully performed as of the expiration or earlier termination of the Term shall survive the expiration or earlier termination of the Term. Upon the expiration or earlier termination of the Term, Tenant shall pay to Landlord the amount, as estimated by Landlord, necessary to repair and restore the Premises as provided in this Lease and/or to discharge Tenant's obligation for unpaid amounts due or to become due to Landlord. All such amounts shall be used and held by Landlord for payment of such obligations of Tenant, with Tenant being liable for any additional costs upon demand by Landlord, or with any excess to be returned to Tenant after all such obligations have been determined and satisfied. Any otherwise unused Security Deposit shall be credited against the amount payable by Tenant under this Lease.

27. NOTICES. Any notice or document required or permitted to be delivered under this Lease shall be addressed to the intended recipient, by fully prepaid registered or certified United States Mail return receipt requested, or by reputable national overnight delivery service furnishing a written record of attempted or actual delivery, and shall be deemed to be delivered when tendered for delivery to the addressee at its address set forth on the Reference Pages, or at such other address as it has then last specified by written notice delivered in accordance with this Article 27, or if to Tenant at either its aforesaid address or its last known registered office or home of a general partner or individual owner, whether or not actually accepted or received by the addressee. Any such notice or document may also be personally delivered if a receipt is signed by and received from, the individual, if any, named in Tenant's Notice Address.

28. TAXES PAYABLE BY TENANT. In addition to rent and other charges to be paid by Tenant under this Lease, Tenant shall reimburse to Landlord, upon demand, any and all taxes payable by Landlord (other than net income taxes) whether or not now customary or within the contemplation of the parties to this Lease: (a) upon, allocable to, or measured by or on the gross or net rent payable under this Lease, including without limitation any gross income tax or excise tax levied by the State, any political subdivision thereof, or the Federal Government with respect to the receipt of such rent; (b) upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy of the Premises or any portion thereof, including any sales,

use or service tax imposed as a result thereof; (c) upon or measured by the Tenant's gross receipts or payroll or the value of Tenant's equipment, furniture, fixtures and other personal property of Tenant or leasehold improvements, alterations or additions located in the Premises; or (d) upon this transaction or any document to which Tenant is a party creating or transferring any interest of Tenant in this Lease or the Premises. In addition to the foregoing, Tenant agrees to pay, before delinquency, any and all taxes levied or assessed against Tenant and which become payable during the term hereof upon Tenant's equipment, furniture, fixtures and other personal property of Tenant located in the Premises.

29. RESERVED

30. DEFINED TERMS AND HEADINGS. The Article headings shown in this Lease are for convenience of reference and shall in no way define, increase, limit or describe the scope or intent of any provision of this Lease. Any indemnification or insurance of Landlord shall apply to and inure to the benefit of all the following "Landlord Entities", being Landlord, Landlord's investment manager, and the trustees, boards of directors, officers, general partners, beneficiaries, stockholders, employees and agents of each of them. Any option granted to Landlord shall also include or be exercisable by Landlord's trustee, beneficiary, agents and employees, as the case may be. In any case where this Lease is signed by more than one person, the obligations under this Lease shall be joint and several. The terms "Tenant" and "Landlord" or any pronoun used in place thereof shall indicate and include the masculine or feminine, the singular or plural number, individuals, firms or corporations, and their and each of their respective successors, executors, administrators and permitted assigns, according to the context hereof. The term "rentable area" shall mean the rentable area of the Premises or the Building as calculated by the Landlord on the basis of the plans and specifications of the Building. Tenant hereby accepts and agrees to be bound by the figures for the rentable square footage of the Premises and Tenant's Proportionate Share shown on the Reference Pages; however, Landlord may adjust either or both figures if there is manifest error, addition or subtraction to the Building or any business park or complex of which the Building is a part, remeasurement or other circumstance reasonably justifying adjustment. The term "Building" refers to the structure in which the Premises are located and the common areas (parking lots, sidewalks, landscaping, etc.) appurtenant thereto. If the Building is part of a larger complex of structures, the term "Building" may include the entire complex, where appropriate (such as shared Expenses or Taxes) and subject to Landlord's reasonable discretion.

31. TENANT'S AUTHORITY. If Tenant signs as a corporation, partnership, trust or other legal entity each of the persons executing this Lease on behalf of Tenant represents and warrants that Tenant has been and is qualified to do business in the state in which the Building is located, that the entity has full right and authority to enter into this Lease, and that all persons signing on behalf of the entity were authorized to do so by appropriate actions. If requested by Landlord, Tenant agrees to deliver to Landlord, simultaneously with the delivery of this Lease, a corporate resolution, proof of due authorization by partners, opinion of counsel or other appropriate documentation reasonably acceptable to Landlord evidencing the due authorization of Tenant to enter into this Lease.

32. CREDIT REPORTS. Tenant hereby authorizes Landlord to obtain one or more credit reports on Tenant at any time, and shall execute such further authorizations as Landlord may reasonably require in order to obtain a credit report.

33. COMMISSIONS. Each of the parties represents and warrants to the other that it has not dealt with any broker or finder in connection with this Lease, except as described on the Reference Pages.

34. TIME AND APPLICABLE LAW. Time is of the essence of this Lease and all of its provisions. This Lease shall in all respects be governed by the laws of the state in which the Building is located.

35. SUCCESSORS AND ASSIGNS. Subject to the provisions of Article 9, the terms, covenants and conditions contained in this Lease shall be binding upon and inure to the benefit of the heirs, successors, executors, administrators and assigns of the parties to this Lease.

36. ENTIRE AGREEMENT. This Lease, together with its exhibits, contains all agreements of the parties to this Lease and supersedes any previous negotiations. There have been no representations made by the Landlord or any of

its representatives or understandings made between the parties other than those set forth in this Lease and its exhibits. This Lease may not be modified except by a written instrument duly executed by the parties to this Lease.

37. EXAMINATION NOT OPTION. Submission of this Lease shall not be deemed to be a reservation of the Premises. Landlord shall not be bound by this Lease until it has received a copy of this Lease duly executed by Tenant and has delivered to Tenant a copy of this Lease duly executed by Landlord, and until such delivery

Landlord reserves the right to exhibit and lease the Premises to other prospective tenants. Notwithstanding anything contained in this Lease to the contrary, Landlord may withhold delivery of possession of the Premises from Tenant until such time as Tenant has paid to Landlord any security deposit required by Article 5, the first month's rent as set forth in Article 3 and any sum owed pursuant to this Lease.

38. RECORDATION. Tenant shall not record or register this Lease or a short form memorandum hereof without the prior written consent of Landlord, and then shall pay all charges and taxes incident such recording or registration.

39. LIMITATION OF LANDLORD'S LIABILITY. Redress for any claim against Landlord under this Lease shall be limited to and enforceable only against and to the extent of Landlord's interest in the Building. The obligations of Landlord under this Lease are not intended to be and shall not be personally binding on, nor shall any resort be had to the private properties of, any of its or its investment manager's trustees, directors, officers, partners, beneficiaries, members, stockholders, employees, or agents, and in no case shall Landlord be liable to Tenant hereunder for any lost profits, damage to business, or any form of special, indirect or consequential damages.

<TABLE>
<CAPTION>

| | |
|--|--|
| <S> LANDLORD: RREEF AMERICA REIT CORP.J, a Maryland corporation By: RREEF Management Company, a Delaware corporation Its: Managing Agent | <C> TENANT: PATRICK INDUSTRIES, INC., an Indiana corporation By: _____ Paul E. Hassler Its: President |
| By: _____ Karen Genet Its: District Manager Dated: August _____, 2004 | Dated: August _____, 2004 |

</TABLE>

EXHIBIT A - FLOOR PLAN DEPICTING THE PREMISES

attached to and made a part of Lease bearing the
Lease Reference Date of August 24, 2004, between
RREEF AMERICA REIT CORP.J, a Maryland corporation, as Landlord, and
PATRICK INDUSTRIES, INC., an Indiana corporation, as Tenant

Exhibit A is intended only to show the general layout of the Premises as of the beginning of the Term of this Lease. It does not in any way supersede any of Landlord's rights set forth in Article 17 with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate.

EXHIBIT A-1 - SITE PLAN

attached to and made a part of Lease bearing the
Lease Reference Date of August 24, 2004, between
RREEF AMERICA REIT CORP.J, a Maryland corporation, as Landlord, and
PATRICK INDUSTRIES, INC., an Indiana corporation, as Tenant

Exhibit A-1 is intended only to show the general layout of the Premises as of the beginning of the Term of this Lease. It does not in any way supersede any of Landlord's rights set forth in Article 17 with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate.

EXHIBIT B -- INITIAL ALTERATIONS

attached to and made a part of Lease bearing the
Lease Reference Date of August 24, 2004, between
RREEF AMERICA REIT CORP.J, a Maryland corporation, as Landlord, and
PATRICK INDUSTRIES, INC., an Indiana corporation, as Tenant

1. Landlord shall apply to Union Pacific for rail service to the Premises and shall pay the application fee in connection therewith, in the amount of Five Hundred Dollars (\$500.00). Upon approval of the application by Union Pacific, Landlord and Tenant shall enter into a three-party agreement with Union Pacific for the rail service. Tenant shall be responsible for any and all costs in excess of the application fees in connection with obtaining the rail service, including, without limitation, any additional cost incurred to expedite the application if so requested by Tenant.

2. Landlord shall, at Landlord's sole cost and expense, using Building standard materials and specifications, complete the following tenant improvements in connection with Tenant's initial occupancy of the Premises: (i) expand two (2) roll up doors (one on the east side and one on the west side of the warehouse) to approximately sixteen feet (16'); and (ii) install a grade level loading ramp on the west side of the Premises in the Dock High loading area.

3. Except as provided in Paragraphs 1 and 2 above, Tenant acknowledges and agrees that the Premises are being leased to Tenant in an "AS IS" condition, without representation, warranty or covenant of or from Landlord and without any obligation of Landlord to construct or pay for any other tenant improvements of any kind or character whatsoever. Tenant acknowledges that Landlord has made no representations or warranties, express or implied, concerning the tenant improvements presently existing at, or the condition of, the Premises, and Tenant further acknowledges that it has had adequate opportunity to inspect and approve, and has adequately inspected and approved, the tenant improvements presently existing at, and the condition of, the Premises.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

EXHIBIT C - COMMENCEMENT DATE MEMORANDUM

attached to and made a part of Lease bearing the
Lease Reference Date of August 24, 2004, between
RREEF AMERICA REIT CORP.J, a Maryland corporation, as Landlord, and
PATRICK INDUSTRIES, INC., an Indiana corporation, as Tenant

INTENTIONALLY OMITTED

EXHIBIT D - RULES AND REGULATIONS

attached to and made a part of Lease bearing the
Lease Reference Date of August 24, 2004, between
RREEF AMERICA REIT CORP.J, a Maryland corporation, as Landlord, and
PATRICK INDUSTRIES, INC., an Indiana corporation, as Tenant

1. No sign, placard, picture, advertisement, name or notice (collectively referred to as "Signs") shall be installed or displayed on any part of the outside of the Building without the prior written consent of the Landlord which consent shall in Landlord's sole discretion. All approved Signs shall be printed, painted, affixed or inscribed at Tenant's expense by a person or vendor approved by Landlord and shall be removed by Tenant at Tenant's expense upon vacating the Premises. Landlord shall have the right to remove any Sign installed or displayed in violation of this rule at Tenant's expense and without notice.

2. If Landlord objects in writing to any curtains, blinds, shades or screens attached to or hung in or used in connection with any window or door of the Premises or Building, Tenant shall immediately discontinue such use. No awning shall be permitted on any part of the Premises. Tenant shall not place anything or allow anything to be placed against or near any glass partitions or doors or windows which may appear unsightly, in the opinion of Landlord, from outside the Premises.

3. Tenant shall not alter any lock or other access device or install a new or additional lock or access device or bolt on any door of its Premises without the prior written consent of Landlord. Tenant, upon the termination of its tenancy, shall deliver to Landlord the keys or other means of access to all doors.

4. If Tenant requires telephone, data, burglar alarm or similar service, the cost of purchasing, installing and maintaining such service shall be borne solely by Tenant. No boring or cutting for wires will be allowed without the prior written consent of Landlord. Landlord shall direct electricians as to where and how telephone, data, and electrical wires are to be introduced or installed. The location of burglar alarms, telephones, call boxes or other office equipment affixed to the Premises shall be subject to the prior written approval of Landlord.

5. Tenant shall not place a load upon any floor of its Premises, including mezzanine area, if any, which exceeds the load per square foot that such floor was designed to carry and that is allowed by law. Heavy objects shall stand on such platforms as determined by Landlord to be necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such equipment or other property from any cause, and all damage done to the Building by maintaining or moving such equipment or other property shall be repaired at the expense of Tenant.

6. Tenant shall not install any radio or television antenna, satellite dish, loudspeaker or other device on the roof or exterior walls of the Building without Landlord's prior written consent which consent shall be in Landlord's sole discretion.

7. Tenant shall not mark, drive nails, screw or drill into the partitions, woodwork, plaster or drywall (except for pictures and general office uses) or in any way deface the Premises or any part thereof. Tenant shall not affix any floor covering to the floor of the Premises or paint or seal any floors in any manner except as approved by Landlord. Tenant shall repair any damage resulting from noncompliance with this rule.

8. No cooking shall be done or permitted on the Premises, except that Underwriters' Laboratory approved microwave ovens or equipment for brewing coffee, tea, hot chocolate and similar beverages shall be permitted, provided that such equipment and use is in accordance with all applicable federal, state and city laws, codes, ordinances, rules and regulations.

9. Tenant shall not use any hand trucks except those equipped with the rubber tires and side guards, and may use such other material-handling equipment as Landlord may approve. Tenant shall not bring any other vehicles of any kind

into the Building. Forklifts which operate on asphalt areas shall only use tires that do not damage the asphalt.

10. Tenant shall not use the name of the Building or any photograph or other likeness of the Building in connection with or in promoting or advertising Tenant's business except that Tenant may include the Building name in Tenant's address. Landlord shall have the right, exercisable without notice and without liability to any tenant, to change the name and address of the Building.

11. All trash and refuse shall be contained in suitable receptacles at locations approved by Landlord. Tenant shall not place in the trash receptacles any personal trash or material that cannot be disposed of in the ordinary and customary manner of removing such trash without violation of any law or ordinance governing such disposal.

12. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governing authority.

13. Tenant assumes all responsibility for securing and protecting its Premises and its contents including keeping doors locked and other means of entry to the Premises closed.

14. Tenant shall not use any method of heating or air conditioning other than that supplied by Landlord without Landlord's prior written consent.

15. No person shall go on the roof without Landlord's permission.

16. Tenant shall not permit any animals, other than seeing-eye dogs, to be brought or kept in or about the Premises or any common area of the property.

17. Tenant shall not permit any motor vehicles to be washed or mechanical work or maintenance of motor vehicles to be performed on any portion of the Premises or parking lot.

18. These Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms, covenants, agreements and conditions of any lease of any premises in the Building. Landlord may waive any one or more of these Rules and Regulations for the benefit of any tenant or tenants, and any such waiver by Landlord shall not be construed as a waiver of such Rules and Regulations for any or all tenants.

19. Landlord reserves the right to make such other and reasonable rules and regulations as in its judgment may from time to time be needed for safety and security, for care and cleanliness of the Building and for the preservation of good order in and about the Building. Tenant agrees to abide by all such rules and regulations herein stated and any additional rules and regulations which are adopted. Tenant shall be responsible for the observance of all of the foregoing rules by Tenant's employees, agents, clients, customers, invitees and guests.

20. Any toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown into them. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the Tenant who, or whose employees or invitees, shall have caused it.

21. Tenant shall not permit smoking or carrying of lighted cigarettes or cigars in areas reasonably designated by Landlord or any applicable governmental agencies as non-smoking areas.

22. Reserved.

23. Canvassing, soliciting, distribution of handbills or any other written material in the Building or Project Area is prohibited and each tenant shall

cooperate to prevent the same. No tenant shall solicit business from other tenants or permit the sale of any goods or merchandise in the Building or Project Area without the written consent of Landlord.

24. Any equipment belonging to Tenant which causes noise or vibration that may be transmitted to the structure of the Building or to any space therein to such a degree as to be objectionable to Landlord or to any tenants in the Building shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate the noise or vibration.

25. Driveways, sidewalks, halls, passages, exits, entrances and stairways ("Access Areas") shall not be obstructed by tenants or used by tenants for any purpose other than for ingress to and egress from their respective premises. Access areas are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence, in the judgement of Landlord, shall be prejudicial to the safety, character, reputation and interests of the Building or its tenants.

26. Landlord reserves the right to designate the use of parking areas and spaces. Tenant shall not park in visitor, reserved, or unauthorized parking areas. Tenant and Tenant's guests shall park between designated parking lines only and shall not park motor vehicles in those areas designated by Landlord for loading and unloading. Vehicles in violation of the above shall be subject to being towed at the vehicle owner's expense. Vehicles parked overnight without prior written consent of the Landlord shall be deemed abandoned and shall be subject to being towed at vehicle owner's expense. Tenant will from time to time, upon the request of Landlord, supply Landlord with a list of license plate numbers of vehicles owned or operated by its employees or agents.

27. No trucks, tractors or similar vehicles can be parked anywhere other than in Tenant's own truck dock area. Tractor-trailers which must be unhooked or parked with dolly wheels beyond the concrete loading areas must use steel plates or wood blocks under the dolly wheels to prevent damage to the asphalt paving surfaces. No parking or storing of such trailers will be permitted in the parking areas or on streets adjacent thereto.

28. During periods of loading and unloading, Tenant shall not unreasonably interfere with traffic flow and loading and unloading areas of other tenants. All products, materials or goods must be stored within the Tenant's Premises and not in any exterior areas, including, but not limited to, exterior dock platforms, against the exterior of the Building, parking areas and driveway areas. Tenant agrees to keep the exterior of the Premises clean and free of nails, wood, pallets, packing materials, barrels and any other debris produced from their operation.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

ADDENDUM TO LEASE

This is an Addendum to the Lease between TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA, for the benefit of its Separate Real Estate Account ("TIAA") (as "Landlord"), and PATRICK INDUSTRIES, INC., an Indiana corporation (as "Tenant"). The basic Lease was originally negotiated between RREEF America REIT CORP. J and Patrick Industries, Inc. The basic Lease has been executed by Tenant but not Landlord. The Premises was sold and title thereto conveyed to TIAA after execution by Tenant but prior to execution of the basic Lease by Landlord. The terms of this Addendum shall be incorporated by referenced and made a part of the Lease as a condition to TIAA executing the basic Lease. In the event that terms of this Addendum modify the basic Lease or are in conflict with the terms of the basic Lease, the terms of this Addendum shall amend, supercede and prevail over the terms of the basic Lease.

Accordingly, the following provisions shall be incorporated into the basic Lease:

a. The name TIAA shall be deemed to replace the name RREEF America REIT CORP. J in each instance throughout the basic Lease. The term "Landlord" shall mean and refer to TIAA.

b. With regard to Section 2 (captioned "Term") and Reference Pages of the basic Lease, the "Commencement Date" of the Lease shall be:

On or about December 1, 2004.

The "Termination Date" shall be:

The date which is the last day of the thirty-sixth (36th) month after the Commencement Date; provided, however, that if the Commencement Date is a date other than the first day of a month, the Expiration Date shall be the last day of the month which is thirty-six (36) months after the month in which the Commencement

Date falls, unless extended or earlier terminated pursuant to this Lease.

c. With regard to the Reference Pages of the basic Lease, the Landlord's Address shall be:

TIAA - CREF Mortgage & Real Estate Division
730 3rd Avenue, 7th Floor
New York, New York 10017
Attention: TIAA Real Estate Account

and

CB Richard Ellis, Inc.
3200 East Camelback Road, #120
Phoenix, Arizona 85018
Attention: Property Manager

d. With regard to the Reference Pages of the basic Lease, the Wire Instructions and/or Address for Payment of Rent shall be:

TIAA-CREF
c/o CB Richard Ellis, Inc.
P.O. Box 90325
Chicago, Illinois 60696-0325

e. With regard to the Reference Pages and Section 3 of the basic Lease, the Annual Rent and Monthly Installment of Rent shall be as follows:

<TABLE>
<CAPTION>

| Period | Rentable Square Footage | Monthly Rent Per Square Foot | Monthly Installment of Rent |
|----------------------|-------------------------|------------------------------|-----------------------------|
| <S> | <C> | <C> | <C> |
| Months 1 through 18 | 44,544 | \$0.28 | \$12,472.32 |
| Months 19 through 36 | 44,544 | \$0.30 | \$13,363.20 |

</TABLE>

f. Section 12 of the basic Lease captioned "Waiver of Subrogation" is amended to read as follows: Tenant agrees to waive its right of recovery, and to waive its right of subrogation against Landlord. Tenant, on its behalf and on behalf of its insurers, further waives its right of recovery for loss of its owned or leased property or property under its care, custody and control. Tenant's commercial, general liability insurance shall be primary with respect to any commercial, general liability insurance carried by Landlord.

g. Notices. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal service evidenced by a signed receipt or sent by registered or certified mail, return receipt requested, addressed to Tenant at the Premises or to Landlord at:

TIAA-CREF Mortgage and Real Estate Division
730 3rd Avenue, 7th Floor
New York, New York 10017
Attention: TIAA Real Estate Account

and:

CB Richard Ellis, Inc.
3200 East Camelback Road, #120
Phoenix, Arizona 85018
Attention: Biltmore Commerce Center
Property Manager

or Landlord's then-current on-site property manager or at the address from time to time established by Landlord and which shall be effective upon proof of delivery. Either party may by notice to the other specify a different address for notice purposes except that, upon Tenant's taking possession of the Premises, the Premises shall constitute Tenant's address for notice purposes. A copy of all notices to be given to Landlord hereunder shall be concurrently transmitted by Tenant to such party hereafter designated by notice from Landlord to Tenant. Any notices sent by Landlord regarding or relating to eviction procedures, including without limitation three day notices, may be sent by regular mail. Until further written notice from Landlord, Landlord's address for remittance of rent shall be:

TIAA
c/o CB Richard Ellis, Inc.
P.O. Box 90325

With regard to the Reference Pages and Section 33 of the Lease, the Real Estate Brokerage Commission shall be paid to CB Richard Ellis, Inc. and Grubbe & Ellis.

h. Section 31 of the basic Lease captioned "Tenant's Authority" shall be deleted in its entirety and the following shall be deemed inserted in its place:

31. Signing Authority. If Tenant is a corporation, partnership or limited liability company, each individual executing this Lease on behalf of said entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity in accordance with: (i) if Tenant is a corporation, a duly adopted resolution of the Board of Directors of said corporation or in accordance with the by-laws of said corporation, (ii) if Tenant is a partnership, the terms of the partnership agreement, and (iii) if Tenant is a limited liability company, the terms of its operating agreement, and that this Lease is binding upon said entity in accordance with its terms. Concurrently with Tenant's execution of this Lease, Tenant shall provide to Landlord a copy of: (i) if Tenant is a corporation, such resolution of the Board of Directors or Bylaws authorizing the execution of this Lease on behalf of such corporation, which copy of resolution shall be duly certified by the secretary or an assistant secretary of the corporation to be a true copy of a resolution or Bylaws duly adopted by the Board of Directors of said corporation in a form reasonably acceptable to Landlord, (ii) if Tenant is a partnership, a copy of the provisions of the partnership agreement granting the requisite authority to each individual executing this Lease on behalf of said partnership, and (iii) if Tenant is a limited liability company, a copy of the provisions of its operating agreement granting the requisite authority to each individual executing this Lease on behalf of said limited liability company. In the event Tenant fails to comply with the requirements set forth in this Section g, then each individual executing this Lease shall be personally liable for all of Tenant's obligations in this Lease.

i. Identification of Tenant.

(i) If Tenant constitutes more than one person or entity, (A) each of them shall be jointly and severally liable for the keeping, observing and performing of all of the terms, covenants, conditions and provisions of this Lease to be kept, observed and performed by Tenant, (B) the term "Tenant" as used in this Lease shall mean and include each of them jointly and severally, and (C) the act of or notice from, or notice or refund to, or the signature of, any one or more of them, with respect to the tenancy of this Lease, including, but not limited to, any renewal, extension, expiration, termination or modification, of this Lease, shall be binding upon each and all of the persons or entities executing this Lease as Tenant with the same force and effect as if each and all of them had so acted or so given or received such notice or refund or so signed.

(ii) If Tenant is a partnership (or is comprised of two or more persons, individually and as co-partners of a partnership) or if Tenant's interest in this Lease shall be assigned to a partnership (or to two or more persons, individually and as co-partners of a partnership) pursuant to Section j hereof (any such partnership and such persons hereinafter referred to in this Section h as "Partnership Tenant"), the following provisions of this Lease shall apply to such Partnership Tenant:

(A) The liability of each of the parties comprising Partnership Tenant shall be joint and several.

(B) Each of the parties comprising Partnership Tenant hereby consents in advance to, and agrees to be bound by, any written instrument which may hereafter be executed, changing, modifying or discharging this Lease, in whole or in part, or surrendering all or any part of the Premises to the Landlord, and by notices, demands, requests or other communication which may hereafter be given, by the individual or individuals authorized to execute this Lease on behalf of Partnership Tenant under Section g above.

(C) Any bills, statements, notices, demands, requests or other communications given or rendered to Partnership Tenant or to any of the parties comprising Partnership Tenant shall be deemed given or rendered to Partnership Tenant and to all such parties and shall be binding upon Partnership Tenant and all such parties.

(D) If Partnership Tenant admits new partners, all of such new partners shall, by their admission to Partnership Tenant, be deemed to have assumed performance of all of the terms, covenants and conditions of this Lease on Tenant's part to be observed and performed.

(E) Partnership Tenant shall give prompt notice to Landlord of the admission of any such new partners, and, upon demand of Landlord, shall cause each such new partner to execute and deliver to Landlord an agreement in form satisfactory to Landlord, wherein each such new partner shall assume performance of all of the terms, covenants and conditions of this

Lease on Partnership Tenant's part to be observed and performed (but neither Landlord's failure to request any such agreement nor the failure of any such new partner to execute or deliver any such agreement to Landlord

shall terminate the provisions of clause (D) of this Section h or relieve any such new partner of its obligations thereunder).

j. Tenant Representation. Tenant represents and warrants to Landlord that: (i) Tenant does not directly or indirectly control Teachers Insurance and Annuity Association of America ("TIAA") or TIAA Realty, Inc. ("TIAA Realty") and is not directly or indirectly controlled by or under common control with TIAA or TIAA Realty; (ii) neither Tenant nor any principal of Tenant is an officer, director or employee of TIAA or TIAA Realty, or any subsidiary or affiliate thereof; and (iii) Tenant is not a partnership in which TIAA or TIAA Realty, or any subsidiary or affiliate thereof, is a ten percent (10%) or more (directly or indirectly in capital or profits) partner.

k. Unrelated Business Income.

(i) Landlord shall have the right at any time and from time to time to unilaterally amend the provisions of this Lease, if Landlord is advised by its counsel that all or any portion of the monies paid by Tenant to Landlord hereunder are, or may be deemed to be, unrelated business income within the meaning of the United States Internal Revenue Code or regulations issued thereunder, and Tenant agrees that it will execute all documents or instruments necessary to effect such amendment or amendments, provided that no such amendment shall result in Tenant having to pay in the aggregate more money on account of its occupancy of the Premises under the terms of this Lease, as so amended, and provided further than no such amendment shall result in Tenant receiving less services than it is presently entitled to receive under this Lease, or services of a lesser quality.

(ii) Any services which Landlord is required to furnish pursuant to the provisions of this Lease may, at Landlord's option, be furnished from time to time, in whole or in part, by employees of Landlord or Property Manager or its employees or by one or more third persons hired by Landlord or the Property Manager. Tenant agrees that upon Landlord's written request it will enter into direct agreements with the Property Manager or other parties designated by Landlord for the furnishing of any such services required to be furnished by Landlord hereunder, in form and content approved by Landlord, provided however that no such contract shall result in Tenant having to pay in the aggregate more money on account of its occupancy of the Premises under the terms of this Lease, and provided further that no such contract shall result in Tenant receiving less services than it is presently entitled to receive under this Lease, or services of a lesser quality.

l. Exculpatory Provisions. It is expressly understood and agreed by and between the parties hereto, anything herein to the contrary notwithstanding, that each and all of the representations, warranties, covenants, undertakings and agreements herein made on the part of any Landlord while in form purporting to be the representations, warranties, covenants, undertakings and agreements of such Landlord are nevertheless each and every one of them made and intended, not as personal representations, warranties, covenants, undertakings and agreements by such Landlord, or for the purpose or with the intention of binding such Landlord personally, but are made and intended for the purpose only of subjecting such Landlord's interest in the Premises and the Project to the terms of this Lease and for no other purpose whatsoever, and in case of default

hereunder by such Landlord (or default through, under or by any of the representatives, servants, employees or representatives of such Landlord), Tenant shall look solely to the interests of such Landlord in the Premises and the Project; that no Landlord shall have any personal liability to pay any indebtedness accruing hereunder or to perform any covenant, either express or implied, herein contained; that no personal liability or personal responsibility of any sort is assumed by, nor shall at any time be asserted or enforceable against, Landlord, or Landlord's Property Manager, employees or representatives, on account of this Lease or on account of any representation, warranty, covenant, undertaking or agreement of Landlord in this Lease contained, either express or implied. All such personal liability, if any, is hereby expressly waived and released by Tenant and by all persons claiming by, through or under Tenant.

Tenant further acknowledges and agrees that the Project is an asset held in Landlord's separate Real Estate Account (the "Separate Account") and that the assets and liabilities of the Separate Account are segregated from the assets and liabilities of Landlord's general account and all other separate accounts of Landlord (existing either now or in the future) other than the Separate Account. Without limiting the generality of the preceding provisions of this Section k, Tenant agrees that the assets of Landlord's general account and the assets of any separate account of Landlord other than the Separate Account (and then only to the extent of Landlord's interest in the Project as described above) will not be charged with any liabilities arising under the terms of this Lease and will not be available in order to satisfy Landlord's obligations hereunder.

m. Railroad Track and Service. Tenant has been advised and understands that there is no railroad service available to the Premises. In the event that Union Pacific Railroad Company should make service available to the Premises that Landlord will, upon Tenant's request and at Tenant's sole cost and expense, cooperate and use reasonable efforts to enter into an Industry Track Contract Articles of Agreement (which includes Exhibits "B" and "C" thereto) and Use Agreement substantially in the forms attached hereto and referenced as Exhibits "E" and "F" to the Lease in connection with the railroad tracks on and service to the Premises. Tenant shall execute the Use Agreement. In the event such Agreements are entered into, Tenant shall timely and diligently perform all of the duties and obligations of Industry under the Industry Track Contract Articles of Agreement as though Tenant was a direct party to such Agreement, and timely and diligently perform its duties and obligations under the Use Agreement. Tenant shall pay all costs and expenses required of Industry under such Agreements or otherwise related to the maintenance, operation or use of the railroad track. Tenant shall indemnify, defend and hold Landlord harmless from all expenses, damage, loss, injury or any other liability arising out of or related to the Industry Tract Contract Articles of Agreement, Use Agreement or the maintenance, operation or use of the railroad track or railroad service. In addition to the insurance required under the Lease Tenant shall satisfy all requirements for insurance coverage under the Industry Track Contract Articles of Agreement, Use Agreement and provide that Landlord shall be an additional insured under such policy(ies) of insurance. A breach or default by Tenant under the Industry Track Contract Articles of Agreement or Use Agreement shall be an Event of Default under the Lease.

n. Truck Storage. Tenant shall not park trucks or other vehicles (excluding forklifts, "cherry pickers" and loading equipment) in the building on the Premises if it is prohibited under any law, ordinance, regulation or Landlord's insurance policy or causes increases the premium charged for any of Landlord's insurance policies.

o. Exhibit "B" captioned Initial Alterations shall include the following additional provisions:

(i) The Freeport Center Proposal from Doerr Design Associates dated September 8, 2004 is hereby incorporated by reference (Exhibit B-1). Landlord and Tenant shall approve final plans and/or working drawings, specifications and cost bids. Neither Landlord or Tenant shall unreasonably withhold or delay such approvals.

(ii) Section 2 of Exhibit "B" is hereby modified to limit the amount Landlord shall be obligated to pay toward the construction of the tenant improvements to seventy-five thousand dollars (\$75,000.00) referenced to herein as the "Improvement Allowance". Tenant shall approve in advance and in writing all changes or expenditures for tenant improvements exceeding the Improvement Allowance. Tenant shall pay all costs for tenant improvements in excess of the Improvement Allowance as additional rent within ten (10) days after Tenant's receipt of an invoice therefore.

(iii) Landlord hereby assigns to Tenant all warranties and guaranties by the contractor who constructs the tenant improvements or manufacturer of devises, components or materials incorporated into the tenant improvements and Tenant hereby waives all claims against Landlord relating to or arising out of the construction of the tenant improvements.

(iv) Contractor shall be retained by Landlord to construct the tenant improvements in accordance with the attached proposal and approved plans.

(v) Tenant shall cooperate with Landlord and the Contractor in connection with the design and construction of tenant improvements.

(vi) Tenant acknowledges the "concerns and challenges" outlined on Exhibit B-1 and that alterations in the tenant improvements may be required to resolve or comply with government laws, ordinances and regulations and that resolution to compliance may result in delays in Substantial Completion and increase costs of the tenant improvements.

(vii) Substantial Completion. For purposes of this Lease, "SUBSTANTIAL COMPLETION" of the tenant improvements in the Premises shall occur upon the completion of construction of the tenant improvements in the Premises pursuant to the approved plans, with the exception of any punch list items, as determined by Landlord, in Landlord's reasonable discretion.

(a) Delay of the Substantial Completion of the Premises. Except as provided in this Section vii(a), the Commencement Date shall occur as set forth in the Lease. If there shall be a delay or there are delays in the

Substantial Completion of the Improvements in the Premises as a result of the following (collectively, "TENANT DELAYS"):

(1) Tenant's failure to timely approve any matter requiring

Tenant's approval;

(2) A breach by Tenant of the Lease;

(3) Tenant's request for changes in the approved plans or working drawings;

(4) Changes in any of the approved plans, working drawings because the same do not comply with applicable laws;

(5) Necessary materials, components, finishes or improvements which are not available in a commercially reasonable time given the anticipated date of Substantial Completion of the tenant improvements;

(6) Delays attributed to the presence of Tenant, Tenant's agents, contractors, employees or Tenant's personal property in the Premises;

(7) Changes to the base, shell and core work of the project required by the approved plans or any changes thereto;

(8) Any other acts or omissions of Tenant, or its agents, or employees; then, notwithstanding anything to the contrary set forth in the Lease and regardless of the actual date of the Substantial Completion of the tenant improvements in the Premises, the date of Substantial Completion thereof shall be deemed to be the date that Substantial Completion would have occurred if no Tenant Delay or Delays, as set forth above, had occurred;

(viii) Tenant's Representative. Tenant has designated _____ as its sole representative with respect to the matters relating to construction of tenant improvements, who, until further notice to Landlord, shall have full authority and responsibility to act on behalf of the Tenant relating to construction of tenant improvements.

(ix) Initial Alterations and Improvements. Tenant understands that the Initial Alterations and Improvements will be constructed during Tenant's occupancy of the Premises and shall not delay the Commencement Date or date upon which payment of Rent shall commence. Landlord shall not be liable for any interference with Tenant's business or loss or damage to Tenant's property caused by or arising out of the construction of the Initial Alterations and Improvements.

(x) Paragraph 1 of Exhibit "B" relating to the railroad service shall be deleted and Exhibit B-1 is added as attached.

"LANDLORD"

TEACHERS INSURANCE AND ANNUITY
ASSOCIATION OF AMERICA, for the benefit of its
Separate Real Estate Account

By: /S/Laura M. Hill

Laura M. Hill, Associate Director
[Printed Name and Title]

"TENANT"

PATRICK INDUSTRIES, INC., an Indiana corporation

By: /S/Andy L. Nemeth

Andy L. Nemeth, Executive VP-Finance
[Printed Name and Title]

AMENDMENT TO CREDIT FACILITIES

This Amendment to Credit Facilities ("Amendment") is effective as of _____, 2005 (the "Amendment Effective Date") by Patrick Industries, Inc. ("Company") and JPMorgan Chase Bank, N.A., a national banking association formerly named Bank One, NA ("Bank").

RECITALS

A. Company and Bank are parties to a Credit Agreement, dated February 2, 1997, as previously amended (as amended, the "Credit Agreement").

B. Under the Credit Agreement Bank has provided Company a revolving line of credit in the principal amount of up to \$15,000,000 (the "Revolving Credit Line"). In addition, Bank has provided a Line of Credit to Company under which Bank has extended certain letters of credit for the account of the Company in an aggregate principal amount not to exceed \$4,000,000 (the "Letter of Credit Line").

C. The Company is obligated to Bank under the following reimbursement agreements:

(i) the Reimbursement and Pledge Agreement between the Company and the Bank dated as of August 13, 1998, relating to the Five Million Dollars (\$5,000,000) principal amount The Stanly County Industrial Facilities and Pollution Control Financing Authority Variable Rate Demand Economic Development Revenue Bonds (Patrick Industries, Inc. Project), Series 1998 (the "1998 Reimbursement Agreement"),

(ii) the Reimbursement Agreement made by the Company in favor of the Bank dated as of December 1, 1994, relating to the Six Million Dollars (\$6,000,000) principal amount State of Oregon Economic Development Revenue Bonds, Series CLI (Patrick Industries, Inc. Project), dated December 22, 1994 (the "1994 Reimbursement Agreement"),

(iii) the Reimbursement Agreement made by the Company in favor of the Bank dated as of November 1, 1991, relating to the Three Million Nine Hundred Thousand Dollars (\$3,900,000) principal amount The Indiana Development Finance Authority Limited Obligation Refunding Revenue Bonds (Patrick Industries, Inc. Project), Series 1991, dated December 5, 1991 (the "1991 Reimbursement Agreement") (collectively, the 1998 Reimbursement Agreement, the 1994 Reimbursement Agreement and the 1991 Reimbursement Agreement, all as previously amended, are referred to herein as the "Reimbursement Agreements").

D. The Company has requested Bank to amend the Credit Agreement (i) to provide for a new \$15,000,000 Term Loan; (ii) to adjust the amount of the Revolving Credit Line to be \$10,000,000 until August 31, 2005, \$15,000,000 from September 1, 2005 through January 31, 2006 and thereafter \$10,000,000 until maturity at May 31, 2006; (iii) to provide for different financial covenants; (iv) to provide for an interest rate swap, and (v) to increase the amount of and extend the term of the Letter of Credit Line effective as of the Amendment

Effective Date, as herein provided. Bank has agreed to amend the Credit Agreement to address the items in the preceding sentence, as set forth in this Amendment, all subject to the terms and conditions of this Amendment, including the conditions precedent set forth in Section 8.

AGREEMENT

NOW, THEREFORE, in consideration of the Recitals and the mutual covenants and agreements herein, and for other good and valuable considerations, the receipt and sufficiency of which are acknowledged by the parties to this Amendment, it is agreed as follows:

1. Definitions. Terms which are defined in the Credit Agreement shall have the same meanings in this Amendment as are ascribed to them in the Credit Agreement, as amended hereby, excepting only those terms which are expressly defined in this Amendment, which shall have the meanings ascribed to them in this Amendment.

2. Amendments to Reflect Changing Bank's Name. References to "Bank" in the Credit Agreement, in the Note, in the Reimbursements Agreements and in documentation evidencing the Letter of Credit Line and in all documentation

relating to any of such matters shall be deemed to refer to "JPMorgan Chase Bank, N.A.," which is the successor in interest to the Bank and the new name of the Bank.

3. Amendments to Credit Agreement. The Credit Agreement is amended as follows as of the Amendment Effective Date:

a. The definitions of "Business Day", "Debt Service Coverage Ratio", "Eurodollar Rate", "Eurodollar Rate Loan", "Eurodollar Interest Period", "Eurodollar Margin", "Notes", "Prime Rate", "Prime Rate Loan", "Revolving Credit Commitment", and "Revolving Credit Loan Eurodollar Margin" set forth in Section 1.1 of the Credit Agreement are amended and restated in their respective entireties to read as follows:

"Business Day" means (i) with respect to any borrowing, payment or rate selection of Eurodollar Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Indiana and/or New York for the conduct of substantially all of their commercial lending activities and on which dealings in United States dollars are carried on in the London interbank market and (ii) for all other purposes, a day other than a Saturday, Sunday or any other day on which national banking associations are authorized to be closed.

"Debt Service Coverage Ratio" means the ratio of the sum of Company's EBITDA plus goodwill impairment less dividends, taxes, common stock repurchases, and 50% of depreciation expense, to the sum of the current portion of Company's long-term debt payments and interest expense. For purposes of determining Debt Service Coverage Ratio, the Company's obligations to Nationwide Insurance shall (despite being

2

actually payable once annually) be included as a quarterly item of principal debt service of \$642,857 each quarter through December 31, 2005 and thereafter shall be included in the following amounts as of the quarters ending as follows:

| AMOUNT | QUARTER ENDED |
|-------------|--------------------|
| \$1,928,571 | March 31, 2006 |
| \$1,285,714 | June 30, 2006 |
| \$ 642,857 | September 30, 2006 |

"Eurodollar Margin" means the Revolving Credit Loan Applicable Margin.

"Eurodollar Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the sum of (i) the Applicable Margin plus (ii) the quotient of (a) the Eurodollar Base Rate applicable to such Interest Period, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period.

"Eurodollar Rate Loan" means any Loan which bears interest at the Eurodollar Rate, and includes a Eurodollar Advance.

"Interest Period" means, with respect to a Eurodollar Advance, a period of one (1), two (2), three (3), or six (6) month(s) commencing on a Business Day selected by the Borrower pursuant to this Note. Such Interest Period shall end on the day which corresponds numerically to such date one (1), two (2), three (3), or six (6) month(s) thereafter, as applicable, provided, however, that if there is no such numerically corresponding day in such first, second, third, or sixth succeeding month(s), as applicable, such Interest Period shall end on the last Business Day of such first, second, third, or sixth succeeding month(s), as applicable. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, provided, however, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Notes" means the Revolving Credit Note and the Term Note, and Note means either the Revolving Credit Note or the Term Note as the context may require.

"Prime Rate" means a rate per annum equal to the prime rate of interest announced from time to time by the Bank or its parent (which is not necessarily the lowest rate charged to any customer), changing when and as said prime rate changes.

3

"Prime Rate Loan" means any loan which bears interest at the Prime Rate, and includes a Prime Rate Advance.

"Revolving Credit Commitment" shall mean the commitment of the Bank to make Revolving Credit Loans pursuant to Section 2.1(a) in amounts not exceeding in the aggregate the following principal amounts outstanding at the following times:

| AMOUNT | TIME |
|--------------|--|
| \$10,000,000 | Effective Date through August 31, 2005 |
| \$15,000,000 | September 1, 2005 through January 31, 2006 |
| \$10,000,000 | February 1, 2006 through May 31, 2006 |

"Revolving Credit Loan Applicable Margin" shall mean, with respect to any Prime Rate Advance or Eurodollar Advance, as the case may be, under the Revolving Credit Loan, two percent (2%) per annum, but if Company is in compliance with Section 5.2(k) captioned "Debt Service Coverage", then while Company is so in compliance, shall mean the following amounts based on the ratio of consolidated Funded Debt to consolidated EBITDA of the Company and its Subsidiaries as of the end of the most recent fiscal quarter of the Company for which financial statements of the Company have been delivered pursuant to Section 5.1(d)(ii) of the Credit Agreement:

| Ratio of Funded Debt to Consolidated EBITDA | Revolving Credit Loan |
|--|-----------------------|
| ----- | ----- |
| | Applicable Margin |
| | ----- |
| Less than or equal to 3.50 to 1.00 but greater than 3.00 to 1.00 | 1.75% per annum |
| Less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00 | 1.625% per annum |
| Less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00 | 1.50% per annum |
| Less than or equal to 2.00 to 1.00 | 1.375% per annum |

b. New definitions of "Advance", "Eurodollar Advance", "Prime Rate Advance", "Rate Management Transaction", "Regulation D", "Reserve Requirement", "Term Loan," "Term Loan Applicable Margin" and "Term Note" are added to Section 1 of the Credit Agreement to read as follows:

"Advance" means a Eurodollar Advance or a Prime Rate Advance and "Advances" means all Eurodollar Advances and all Prime Rate Advances under this Note.

4

"Eurodollar Advance" means any borrowing under a Note when and to the extent that its interest rate is determined by reference to the Eurodollar Rate.

"Prime Rate Advance" means any Advance under a Note when and to the extent that its interest rate is determined by reference to the Prime Rate.

"Rate Management Transaction" means any transaction (including an agreement with respect thereto) now existing or hereafter entered into between Company and Bank and/or its affiliates which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

"Reserve Requirement" means, with respect to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D.

"Term Loan" shall mean the loan made pursuant to Section 2.1(b) and evidenced by the Term Note.

"Term Note" shall mean the promissory note of the Company evidencing the Term Loan, in substantially the form of Exhibit A, as amended or modified from time to time and together with any promissory note or notes issued in exchange for that promissory note.

"Term Loan Applicable Margin" shall mean, with respect to any Prime Rate Advance or Eurodollar Advance, as the case may be, under the Term Loan, the following amounts based on the ratio of consolidated Funded Debt to consolidated EBITDA of the Company and its Subsidiaries as of the end of the most recent fiscal quarter of the Company for which

5

financial statements of the Company have been delivered pursuant to Section 5.1(d)(ii) of the Credit Agreement:

| Ratio of Funded Debt to Consolidated EBITDA ----- | Term Loan ----- Applicable Margin ----- |
|--|--|
| Less than or equal to 3.50 to 1.00 but greater than 3.00 to 1.00 | 2.00 % per annum |
| Less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00 | 1.875% per annum |
| Less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00 | 1.75% per annum |
| Less than or equal to 2.00 to 1.00 | 1.625% per annum |

c. A new Subsection 2.1(b) is added to the Credit Agreement to provide in its entirety as follows:

(b) Term Loan. Bank has made the Term Loan to Company in the original principal amount of \$15,000,000, evidenced by the Term Note, with interest at the Term Loan Applicable Margin payable on the last day of each month commencing _____, 2005 through and including January 2006, and thereafter payable in consecutive monthly principal payments each in the amount of \$138,889, plus accrued interest, at the Term Loan Applicable Margin, payable on the last day of each month until January 31, 2010, when all remaining principal and accrued interest (if not sooner due and payable as provided in the Credit Agreement) shall be due and payable.

d. Section 5.2(c) of the Credit Agreement is amended and restated to provide in its entirety as follows:

(c) Tangible Net Worth. Permit or suffer the consolidated Tangible Net Worth of the Company and its Subsidiaries to be less than \$55,000,000 at any time.

e. Section 5.2(k) of the Credit Agreement is amended and restated to provide in its entirety as follows:

(k) Debt Service Coverage. The Company shall not permit or suffer its Debt Service Coverage to be less than 1.0 to 1.0, determined and tested on a cumulative basis for the six-month period ending June 30, 2005, and determined and tested on a cumulative basis for the nine-month period

6

ending September 30, 2005; and thereafter determined and tested on a rolling four-quarter basis beginning with the four quarters period ending December 31, 2005.

f. Section 5.2(j) of the Credit Agreement, captioned "Capital Expenditures" is deleted, and that provision is replaced with "RESERVED" to avoid renumbering other provisions.

g. A new Section 5.2(l) is added to the Credit Agreement to provide as follows:

(l) Funded Debt to EBITDA Ratio. Permit or suffer the ratio of the Company's consolidated Funded Debt to its consolidated EBITDA to be greater than the following ratios during the following periods.

| Ratio ----- | Period ----- |
|----------------|---|
| 3.50 to 1.00 | Effective Date through June 30, 2005 |
| 3.25 to 1.00 | July 1, 2005 through December 31, 2005 |
| 3.00 to 1.00 | January 1, 2006 through December 31, 2006 |
| 2.50 to 1.00 | From and after January 1, 2007 |

h. A new Section 6.1(i) is added to the Credit Agreement to provide in its entirety as follows:

The occurrence or existence of any default, event of default or other similar condition or event (however described) with respect to Rate Management Transactions.

4. Construction. If there is any conflict or inconsistency between the provisions of the Revolving Credit Note or the Term Note, on the one hand, and the Credit Agreement, on the other hand, the provisions of the Revolving Credit Note or Term Note, as the case may be, shall control over conflicting or inconsistent provisions of the Credit Agreement, except that any Events of Default/Acceleration identified in the Revolving Credit Note or the Term Note shall be in addition to any Events of Default identified in the Credit Agreement.

5. Amendment to Letter of Credit Line. The Letter of Credit Line is amended to extend the term of that Letter of Credit Line until the earlier to occur of (a) May 31, 2006 and (b) the date on which the Bank takes the action referred to in Section 6.2(ii) of the Credit Agreement.

6. Rate Management Transaction. On the date of this Amendment, the Company shall execute and deliver to Bank documentation in form and substance acceptable to Bank (the "Rate Management Transaction Documentation") for the swap of \$15,000,000 for ten years.

7. Representations and Warranties. The Company represents and warrants to Bank that:

a. (i) The execution, delivery and performance of this Amendment and all agreements and documents delivered pursuant hereto by the Company has been duly authorized by all necessary action (whether corporate,

7

partnership or otherwise) and does not and will not violate any provision of any law, rule, regulation, order, judgment, injunction, or award presently in effect applying to the Company, or of the Company's articles of incorporation, by-laws, articles of organization or operating agreement (as applicable) or result in a breach of or constitute a default under any material agreement, lease or instrument to which the Company is a party or by which the Company's properties may be bound or affected; (ii) no authorization, consent, approval, license, exemption or filing of a registration with any court or governmental department, agency or instrumentality is or will be necessary to the valid execution, delivery or performance by any of them of this Amendment and all agreements and documents delivered pursuant hereto; and (iii) this Amendment and all agreements and documents delivered pursuant hereto by the Company are its legal, valid and binding obligations and enforceable against the Company in accordance with the terms thereof.

b. After giving effect to the amendments contained in this Amendment, the representations and warranties contained in Section 4 of the Credit Agreement are true and correct on and as of the Amendment Effective Date with the same force and effect as if made on and as of the Amendment Effective Date, except that the representation in Section 4.6 of the Credit Agreement shall be deemed to refer to the financial statements of Company most recently delivered to Bank prior to the Amendment Effective Date.

c. No Event of Default or Unmatured Event of Default has occurred and is continuing or will exist under the Credit Agreement as of the Amendment Effective Date.

8. GENERAL RELEASE. THE COMPANY FOR ITSELF AND ITS LEGAL REPRESENTATIVES, SUCCESSORS AND ASSIGNS (COLLECTIVELY, THE "RELEASING PARTIES"), HEREBY RELEASES AND DISCHARGES BANK, ITS OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, ATTORNEYS, LEGAL REPRESENTATIVES, SUCCESSORS AND ASSIGNS (COLLECTIVELY, THE "RELEASED PARTIES") FROM ANY AND ALL CLAIMS, DEMANDS, ACTIONS, DAMAGES AND CAUSES OF ACTION WHICH ANY OF THE RELEASING PARTIES HAS ASSERTED OR CLAIMED OR MIGHT NOW OR HEREAFTER ASSERT OR CLAIM AGAINST ALL OF ANY OF THE RELEASED PARTIES, WHETHER KNOWN OR UNKNOWN, ARISING OUT OF, RELATED TO OR IN ANY WAY CONNECTED WITH OR BASED UPON ANY PRIOR RELATED EVENT (AS SUCH TERM IS HEREINAFTER DEFINED). THE TERM "PRIOR RELATED EVENT" SHALL MEAN ANY ACT, OMISSION, CIRCUMSTANCE, AGREEMENT, LOAN EXTENSION OF CREDIT, TRANSACTION, TRANSFER, PAYMENT, EVENT,

ACTION OR OCCURRENCE BETWEEN OR INVOLVING THE COMPANY AND ALL OR ANY OF THE RELEASED PARTIES AND WHICH WAS MADE OR EXTENDED OR WHICH OCCURRED AT ANY TIME OR TIMES PRIOR TO THE EXECUTION OF THIS AGREEMENT, INCLUDING WITHOUT LIMITING IN ANY RESPECT THE GENERALITY OF THE FOREGOING: (I) ANY ACTION TAKEN ON OR PRIOR TO THE EXECUTION OF THIS AGREEMENT TO OBTAIN PAYMENT OF ANY OBLIGATIONS OR TO OTHERWISE ENFORCE OR EXERCISE ANY RIGHT OR PURPORTED RIGHT OF BANK AS A CREDITOR; (II) ANY FAILURE OR REFUSAL TO MAKE ANY LOAN OR ADVANCE; AND (III) ANY PAYMENT OR OTHER TRANSFER MADE TO BANK BY OR FOR THE ACCOUNT OF THE COMPANY AT ANY TIME PRIOR TO THE EXECUTION OF THIS AGREEMENT. THE COMPANY AGREES AND ACKNOWLEDGES THAT THIS SECTION IS NOT TO BE CONSTRUED AS OR DEEMED AN ACKNOWLEDGMENT OR ADMISSION ON THE PART OF ANY OF THE RELEASED PARTIES OF LIABILITY FOR ANY MATTER OR AS PRECEDENT UPON WHICH ANY LIABILITY MAY BE ASSERTED.

9. Conditions. The obligation of Bank to execute and to perform this Amendment shall be subject to full satisfaction of the following conditions precedent:

- a. This Amendment shall have been duly executed and delivered by the Company.
- b. A new Note in form and substance acceptable to the Bank evidencing the revised principal amount of the Revolving Credit Line shall have been duly executed and delivered by the Company to the Bank in substitution for the existing Note evidencing the Revolving Credit Line.
- c. The Term Note shall have been executed and delivered by the Company to the Bank.
- d. The Swap Documentation shall have been executed and delivered by the Company to the Bank.
- e. National City Bank of Indiana shall participate in 50% of the Term Loan and in 40% of the Swap Transaction pursuant to an amendment to the Loan Participation Agreement between Bank and National City Bank of Indiana in form and substance satisfactory to Bank.
- f. Bank shall have received such additional agreements, documents and certifications, fully executed by the Company as may be reasonably requested by Bank, or its counsel.

10. Binding on Successors and Assigns. All of the terms and provisions of this Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective successors, assigns and legal representatives.

11. Governing Law/Entire Agreement/Survival. This Amendment is a contract 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 with such state and without giving effect to the choice of law principles of such state. This Amendment constitutes and expresses the entire understanding between the parties hereto with respect to the subject matter hereof, and supersedes all prior agreements and understandings, commitments, inducements or conditions, whether express or implied, oral or written. All covenants, agreements, undertakings, representations and warranties made in this Amendment shall survive the execution and delivery of this Amendment.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the Amendment Effective Date.

JPMORGAN CHASE BANK, N.A.

By: _____
(Printed Name and Title)

PATRICK INDUSTRIES, INC.

By: _____
(Printed Name and Title)

Consented to by:
NATIONAL CITY BANK OF INDIANA, as
Participant under a certain Loan
Participation Agreement, as amended,
relating to the Credit Agreement

By: _____

(Printed Name and Title)

10

[BANK ONE LOGO]

LINE OF CREDIT NOTE

DUE: MAY 31, 2006 \$15,000,000.00
DATE: FEBRUARY _____, 2005

PROMISE TO PAY. On or before May 31, 2006, for value received, Patrick Industries, Inc. (the "Borrower") promises to pay to JPMorgan Chase Bank, N.A., whose address is 121 W. Franklin St., Elkhart, IN 46516 (the "Bank") or order, in lawful money of the United States of America, the sum of Fifteen Million and 00/100 Dollars (\$15,000,000.00) or such lesser sum as is indicated on Bank records, plus interest as provided below.

DEFINITIONS. As used in this Note, the following terms have the following respective meanings:

"CREDIT AGREEMENT" means a certain Credit Agreement, dated February 2, 1997, between the Borrower and the Bank, as amended.

"LIABILITIES" means all obligations, indebtedness and liabilities of the Borrower to any one or more of the Bank, JPMorgan Chase & Co., and any of their subsidiaries, affiliates or successors, now existing or later arising, including, without limitation, all loans, advances, interest, costs, overdraft indebtedness, credit card indebtedness, lease obligations, or obligations relating to any Rate Management Transaction, all monetary obligations incurred or accrued during the pendency of any bankruptcy, insolvency, receivership or other similar proceedings, regardless of whether allowed or allowable in such proceeding, and all renewals, extensions, modifications, consolidations or substitutions of any of the foregoing, whether the Borrower may be liable jointly with others or individually liable as a debtor, maker, co-maker, drawer, endorser, guarantor, surety or otherwise, and whether voluntarily or involuntarily incurred, due or not due, absolute or contingent, direct or indirect, liquidated or unliquidated.

"PRINCIPAL PAYMENT DATE" is defined in the paragraph entitled "Principal Payments" below.

"RATE MANAGEMENT TRANSACTION" means any transaction (including an agreement with respect thereto) now existing or hereafter entered into among the Borrower, the Bank or JPMorgan Chase & Co., or any of its subsidiaries or affiliates or their successors, which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

"RELATED DOCUMENTS" means all loan agreements, credit agreements (including but not limited to the Credit Agreement), reimbursement agreements, security agreements, mortgages, deeds of trust, pledge agreements, assignments, guaranties, or any other instrument or document executed in connection with this Note or in connection with any of the Liabilities.

"REVOLVING CREDIT LOAN APPLICABLE MARGIN" means with respect to any Prime Rate Advance or Eurodollar Advance, as the case may be, the rate per annum set forth below opposite the applicable Funded Debt to EBITDA Ratio. Funded Debt to EBITDA Ratio is defined in the Credit Agreement.

<TABLE>
<CAPTION>

| | Funded Debt to EBITDA Ratio | Revolving Credit Loan Applicable Margin |
|-------|-----------------------------|---|
| ----- | | |

| | Prime Rate Advance | Eurodollar Advance |
|---|--------------------|--------------------|
| <S> Less than or equal to 3.50 to 1.00 but greater than 3.00 to 1.00 | <C> 0.00% | <C> 1.75% |
| Less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00 | 0.00% | 1.625% |
| Less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00 | 0.00% | 1.50% |
| Less than or equal to 2.00 to 1.00 | 0.00% | 1.375% |

</TABLE>

The Revolving Credit Loan Applicable Margin shall, in each case, be determined and adjusted quarterly on the first day of the month after the date of delivery of the quarterly and annual financial statements required by the Credit Agreement, provided, however, that if such financial statements are not delivered within two Business Days after the required date (each, an "Interest Determination Date"), the Revolving Credit Loan Applicable Margin shall increase to the maximum percentage amount set forth in the table above from the date such financial statements were required to be delivered to the Bank until received by the Bank. The Revolving Credit Loan Applicable Margin shall be effective from an

Interest Determination Date until the next Interest Determination Date. Such determinations by the Bank shall be conclusive absent manifest error. The initial Revolving Credit Loan Applicable Margin for Prime Rate Advances is 0.00% and for Eurodollar Advances is _____%.

"COLLATERAL" means all real or personal property described in all security agreements, pledge agreements, mortgages, deeds of trust, assignments, or other instruments now or hereafter executed in connection with this Note or in connection with any of the Liabilities. If applicable, the Collateral secures the payment of this Note and the Liabilities.

Capitalized terms used but not defined in this Note have the meanings ascribed to them in the Credit Agreement.

INTEREST RATES. The Borrower shall pay interest to the Bank on the outstanding and unpaid principal amount of each Prime Rate Advance at the Prime Rate plus the Applicable Margin and each Eurodollar Advance at the Eurodollar Rate. Interest shall be calculated on the basis of the actual number of days elapsed in a year of 360 days. In no event shall the interest rate applicable to any Advance exceed the maximum rate allowed by law. Any interest payment which would for any reason be deemed unlawful under applicable law shall be applied to principal.

BANK RECORDS. The Bank shall, in the ordinary course of business, make notations in its records of the date, amount, interest rate and Interest Period of each Advance hereunder, the amount of each payment on the Advances, and other information. Such records shall, in the absence of manifest error, be conclusive as to the outstanding principal balance of and interest rate or rates applicable to this Note.

NOTICE AND MANNER OF ELECTING INTEREST RATES ON ADVANCES. The Borrower shall give the Bank written notice (effective upon receipt) of the Borrower's intent to draw down an Advance under this Note no later than 11:00 a.m. Eastern time, one (1) Business Day before disbursement, if the full amount of the drawn Advance is to be disbursed as a Prime Rate Advance and three (3) Business Days before disbursement, if any part of such Advance is to be disbursed as a Eurodollar Advance. The Borrower's notice must specify: (a) the disbursement date, (b) the amount of each Advance, (c) the type of each Advance (Prime Rate Advance or Eurodollar Advance), and (d) for each Eurodollar Advance, the duration of the applicable Interest Period; provided, however, that the Borrower may not elect an Interest Period ending after the maturity date of this Note. Each Eurodollar Advance shall be in a minimum amount of Two Hundred Fifty Thousand and 00/100 Dollars (\$250,000.00). All notices under this paragraph are irrevocable. By the Bank's close of business on the disbursement date and upon fulfillment of the conditions set forth herein and in any other of the Related Documents, the Bank shall disburse the requested Advances in immediately available funds by crediting the amount of such Advances to the Borrower's account with the Bank.

CONVERSION AND RENEWALS. The Borrower may elect from time to time to convert one type of Advance into another or to renew any Advance by giving the Bank written notice no later than 11:00 a.m. Eastern time, one (1) Business Day before

conversion into a Prime Rate Advance and three (3) Business Days before conversion into or renewal of a Eurodollar Advance, specifying: (a) the renewal or conversion date, (b) the amount of the Advance to be converted or renewed, (c) in the case of conversion, the type of Advance to be converted into (Prime Rate Advance or Eurodollar Advance), and (d) in the case of renewals of or conversion into a Eurodollar Advance, the applicable Interest Period, provided that (i) the minimum principal amount of each Eurodollar Advance outstanding after a renewal or conversion shall be Two Hundred Fifty Thousand and 00/100 Dollars (\$250,000.00); (ii) a Eurodollar Advance can only be converted on the last day of the Interest Period for the Advance; and (iii) the Borrower may not elect an Interest Period ending after the maturity date of this Note. All notices given under this paragraph are irrevocable. If the Borrower fails to give the Bank the notice specified above for the renewal or conversion of a Eurodollar Advance by 11:00 a.m. Eastern time three (3) Business Days before the end of the Interest Period for that Advance, the Advance shall automatically be converted to a Prime Rate Advance on the last day of the Interest Period for the Advance.

Notwithstanding any other provision in this Note, the maximum principal amount available under this Note shall be for to the following amount(s) on and after the following date(s): Ten Million and 00/100 Dollars (\$10,000,000.00) from the effective date of this Note until August 31, 2005; increasing to Fifteen Million and 00/100 Dollars (\$15,000,000.00) on September 1, 2005; and decreasing to Ten Million and 00/100 Dollars (\$10,000,000.00) on February 1, 2006 (each a "Principal Reduction Date"). The Borrower shall, on or before the effective date of this Note and on or before February 1, 2006, make such principal payments as are needed to reduce the outstanding principal balance under this Note.

The Borrower shall select interest rates and Interest Periods such that on each Principal Reduction Date the sum of the principal amount of the Prime Rate Advance outstanding on that date plus the aggregate principal amount of the Eurodollar Advances with Interest Periods ending on that date is greater than or equal to any principal payment that may be due on that date. Any election that does not comply with this requirement will be invalid unless the Bank elects, in its sole discretion, to honor such election. Although the Bank may choose to honor any such election, the Borrower shall continue to be subject to the terms of the paragraph of this Note captioned "Funding Loss Indemnification" in regard to payment of a Eurodollar Advance on a date other than the last day of the Interest Period for the Advance.

2

INTEREST PAYMENTS. Interest on the Advances shall be paid as follows:

A. For each Prime Rate Advance, on the last day of each month beginning with the first month following disbursement of the Advance or following conversion of an Advance into a Prime Rate Advance, and at the maturity or conversion of the Advance into a Eurodollar Advance;

B. For each Eurodollar Advance, on the last day of the Interest Period for the Advance and, if the Interest Period is longer than three months, at three-month intervals beginning with the day three months from the date the Advance is disbursed.

PRINCIPAL PAYMENTS. All outstanding principal and interest is due and payable in full on May 31, 2006, which is defined herein as the "Principal Payment Date".

DEFAULT RATE OF INTEREST. After a default has occurred under this Note, whether or not the Bank elects to accelerate the maturity of this Note because of such default, all Advances outstanding under this Note, including all Eurodollar Advances, shall bear interest at a per annum rate equal to the Prime Rate, plus the Applicable Margin for a Prime Rate Advance, plus three percent (3.00%) from the date the Bank elects to impose such rate. Imposition of this rate shall not affect any limitations contained in this Note on the Borrower's right to repay principal on any Eurodollar Advance before the expiration of the Interest Period for that Advance.

PREPAYMENT. The Borrower may prepay all or any part of any Prime Rate Advance at any time without premium or penalty. The Borrower may prepay any Eurodollar Advance only at the end of an Interest Period.

FUNDING LOSS INDEMNIFICATION. Upon the Bank's request, the Borrower shall pay the Bank amounts sufficient (in the Bank's reasonable opinion) to compensate it for any loss, cost, or expense incurred as a result of:

A. Any payment of a Eurodollar Advance on a date other than the last day of the Interest Period for the Advance, including, without limitation, acceleration of the Advances by the Bank pursuant to this Note or the Related Documents; or

B. Any failure by the Borrower to borrow or renew a Eurodollar Advance on the date specified in the relevant notice from the Borrower to the Bank.

ADDITIONAL COSTS. If any applicable domestic or foreign law, treaty, government rule or regulation now or later in effect (whether or not it now applies to the Bank) or the interpretation or administration thereof by a governmental authority charged with such interpretation or administration, or compliance by the Bank with any guideline, request or directive of such an authority (whether or not having the force of law), shall (a) affect the basis of taxation of payments to the Bank of any amounts payable by the Borrower under this Note or the Related Documents (other than taxes imposed on the overall net income of the Bank by the jurisdiction or by any political subdivision or taxing authority of the jurisdiction in which the Bank has its principal office), or (b) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by the Bank, or (c) impose any other condition with respect to this Note or the Related Documents and the result of any of the foregoing is to increase the cost to the Bank of maintaining any Eurodollar Advance or to reduce the amount of any sum receivable by the Bank on such an Advance, or (d) affect the amount of capital required or expected to be maintained by the Bank (or any corporation controlling the Bank) and the Bank determines that the amount of such capital is increased by or based upon the existence of the Bank's obligations under this Note or the Related Documents and the increase has the effect of reducing the rate of return on the Bank's (or its controlling corporation's) capital as a consequence of the obligations under this Note or the Related Documents to a level below that which the Bank (or its controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy) by an amount deemed by the Bank to be material, then the Borrower shall pay to the Bank, from time to time, upon request by the Bank, additional amounts sufficient to compensate the Bank for the increased cost or reduced sum receivable. Whenever the Bank shall learn of circumstances described in this section which are likely to result in additional costs to the Borrower, the Bank shall give prompt written notice to the Borrower of the basis for and the estimated amount of any such anticipated additional costs. A statement as to the amount of the increased cost or reduced sum receivable, prepared in good faith and in reasonable detail by the Bank and submitted by the Bank to the Borrower, shall be conclusive and binding for all purposes absent manifest error in computation.

ILLEGALITY. If any applicable domestic or foreign law, treaty, rule or regulation now or later in effect (whether or not it now applies to the Bank) or the interpretation or administration thereof by a governmental authority charged with such interpretation or administration, or compliance by the Bank with any guideline, request or directive of such an authority (whether or not having the force of law), shall make it unlawful or impossible for the Bank to maintain or fund the Eurodollar Advances, then, upon notice to the Borrower by the Bank, the outstanding principal amount of the Eurodollar Advances, together with accrued interest and any other amounts payable to the Bank under this Note or the Related Documents on account of the Eurodollar Advances shall be repaid (a) immediately upon the Bank's demand if such change or compliance with such requests, in the Bank's judgment, requires immediate repayment, or (b) at the

3

expiration of the last Interest Period to expire before the effective date of any such change or request provided, however, that subject to the terms and conditions of this Note and the Related Documents the Borrower shall be entitled to simultaneously replace the entire outstanding balance of any Eurodollar Advance repaid in accordance with this section with a Prime Rate Advance in the same amount.

INABILITY TO DETERMINE INTEREST RATE. If the Bank determines that (a) quotations of interest rates for the relevant deposits referred to in the definition of Eurodollar Rate are not being provided in the relevant amounts or for the relevant maturities for purposes of determining the interest rate on a Eurodollar Advance as provided in this Note, or (b) the relevant interest rates referred to in the definition of Eurodollar Rate do not accurately cover the cost to the Bank of making or maintaining Eurodollar Advances, then the Bank shall forthwith give notice of such circumstances to the Borrower, whereupon (i) the obligation of the Bank to make Eurodollar Advances shall be suspended until the Bank notifies the Borrower that the circumstances giving rise to the suspension no longer exists, and (ii) the Borrower shall repay in full the then outstanding principal amount of each Eurodollar Advance, together with accrued interest, on the last day of the then current Interest Period applicable to the Advance, provided, however, that, subject to the terms and conditions of this Note and the Related Documents, the Borrower shall be entitled to simultaneously replace the entire outstanding balance of any Eurodollar Advance repaid in accordance with this section with a Prime Rate Advance in the same amount.

OBLIGATIONS DUE ON NON-BUSINESS DAY. Whenever any payment under this Note becomes due and payable on a day that is not a Business Day, if no default then exists under this Note, the maturity of the payment shall be extended to the next succeeding Business Day, except, in the case of a Eurodollar Advance, if the result of the extension would be to extend the payment into another calendar month, the payment must be made on the immediately preceding Business Day.

MATTERS REGARDING PAYMENT. The Borrower will pay the Bank at the Bank's address shown above or at such other place as the Bank may designate. Payments shall be allocated first to interest, then to fees, then to principal unless otherwise agreed or required by applicable law. Acceptance by the Bank of any payment which is less than the payment due at the time shall not constitute a waiver of the Bank's right to receive payment in full at that time or any other time.

AUTHORIZATION FOR DIRECT PAYMENTS (ACH DEBITS). To effectuate any payment due under this Note, the Borrower hereby authorizes the Bank to initiate debit entries to Account Number 300000105104 at the Bank and to debit the same to such account. This authorization to initiate debit entries shall remain in full force and effect until the Bank has received written notification of its termination in such time and in such manner as to afford the Bank a reasonable opportunity to act on it. The Borrower represents that the Borrower is and will be the owner of all funds in such account. The Borrower acknowledges (1) that such debit entries may cause an overdraft of such account which may result in the Bank's refusal to honor items drawn on such account until adequate deposits are made to such account; (2) that the Bank is under no duty or obligation to initiate any debit entry for any purpose; and (3) that if a debit is not made because the above-referenced account does not have a sufficient available balance, or otherwise, the payment may be late or past due.

LATE FEE. If any payment is not received by the Bank within ten (10) days after its due date, the Bank may assess and the Borrower agrees to pay a late fee equal to the greater of: (a) five percent (5.00%) of the past due amount or (b) Twenty Five and 00/100 Dollars (\$25.00), up to the maximum amount of One Thousand Five Hundred and 00/100 Dollars (\$1,500.00) per late charge.

BUSINESS LOAN. The Borrower acknowledges and agrees that this Note evidences a loan for a business, commercial, agricultural or similar commercial enterprise purpose, and that all advances made under this Note shall not be used for any personal, family or household purpose.

CREDIT FACILITY. The Bank has approved a credit facility to the Borrower in a principal amount not to exceed the face amount of this Note. The credit facility is in the form of advances made from time to time by the Bank to the Borrower. This Note evidences the Borrower's obligation to repay those advances. The aggregate principal amount of debt evidenced by this Note is the amount reflected from time to time in the records of the Bank. Until the earliest of maturity, the occurrence of any default, or the occurrence of any event that would constitute a default but for the giving of notice or the lapse of time or both until the end of any grace or cure period, the Borrower may borrow, pay down and reborrow under this Note subject to the terms of the Related Documents.

BANK'S RIGHT OF SETOFF. In addition to the Collateral, if any, the Borrower grants to the Bank a security interest in, and the Bank is authorized after event of default to setoff and apply, all Accounts, Securities and Other Property, and Bank Debt against any and all Liabilities of the Borrower. This right of setoff may be exercised at any time after event of default and from time to time, and without prior notice to the Borrower. This security interest and right of setoff may be enforced or exercised by the Bank regardless of whether or not the Bank has made any demand under this paragraph or whether the Liabilities are contingent, matured, or unmatured. Any delay, neglect or conduct by the Bank in exercising its rights under this paragraph will not be a waiver of the right to exercise this right of setoff or enforce this security interest. The rights of the Bank under this paragraph are in addition to other rights the Bank may have in the Related Documents or by law. In this paragraph: (a) the term "Accounts" means any and all accounts and deposits of the Borrower (whether general, special, time, demand, provisional or final) at any time held by the Bank (including all Accounts held jointly with another, but excluding any IRA or

Keogh Account, or any trust Account in which a security interest would be prohibited by law); (b) the term "Securities and Other Property" means any and all securities and other property of the Borrower in the custody, possession or control of the Bank (other than property held by the Bank in a fiduciary capacity); and (c) the term "Bank Debt" means all indebtedness at any time owing by the Bank, to or for the credit or account of the Borrower.

REPRESENTATIONS BY BORROWER. Each Borrower represents that: (a) the execution and delivery of this Note and the performance of the obligations it imposes do not violate any law, conflict with any agreement by which it is bound, or require the consent or approval of any governmental authority or other third party; (b) this Note is a valid and binding agreement, enforceable according to its terms; and (c) all balance sheets, profit and loss statements, and other financial statements furnished to the Bank in connection with the Liabilities are accurate and fairly reflect the financial condition of the organizations and persons to which they apply on their effective dates, including contingent liabilities of every type, which financial condition has not changed materially and adversely since those dates. Each Borrower, other than a natural person,

further represents that: (a) it is duly organized, existing and in good standing pursuant to the laws under which it is organized; and (b) the execution and delivery of this Note and the performance of the obligations it imposes (i) are within its powers and have been duly authorized by all necessary action of its governing body, and (ii) do not contravene the terms of its articles of incorporation or organization, its by-laws, or any partnership, operating or other agreement governing its affairs.

EVENTS OF DEFAULT/ACCELERATION. If any of the following events occurs this Note shall become due immediately, without notice, at the Bank's option:

1. The Borrower, or any guarantor of this Note (the "Guarantor"), fails to pay when due any amount payable under this Note, under any of the Liabilities, or under any agreement or instrument evidencing debt to any creditor.
2. The Borrower or any Guarantor (a) fails to observe or perform any other term of this Note; (b) makes any materially incorrect or misleading representation, warranty, or certificate to the Bank; (c) makes any materially incorrect or misleading representation in any financial statement or other information delivered to the Bank; or (d) defaults under the terms of any agreement or instrument relating to any debt for borrowed money (other than the debt evidenced by this Note) and the effect of such default will allow the creditor to declare the debt due before its maturity.
3. In the event (a) there is a default under the terms of the Credit Agreement or any Related Document, (b) any guaranty of the loan evidenced by this Note is terminated or becomes unenforceable in whole or in part, (c) any Guarantor fails to promptly perform under its guaranty, or (d) the Borrower fails to comply with, or pay, or perform under any agreement, now or hereafter in effect, between the Borrower and JPMorgan Chase & Co., or any of its subsidiaries or affiliates or their successors.
4. There is any loss, theft, damage, or destruction of any Collateral not covered by insurance in excess of \$1,000,000.00.
5. A "reportable event" (as defined in the Employee Retirement Income Security Act of 1974 as amended) occurs that would permit the Pension Benefit Guaranty Corporation to terminate any employee benefit plan of the Borrower or any affiliate of the Borrower.
6. The Borrower or any Guarantor becomes insolvent or unable to pay its debts as they become due.
7. The Borrower or any Guarantor (a) makes an assignment for the benefit of creditors; (b) consents to the appointment of a custodian, receiver, or trustee for itself or for a substantial part of its assets; or (c) commences any proceeding under any bankruptcy, reorganization, liquidation, insolvency or similar laws of any jurisdiction.
8. A custodian, receiver, or trustee is appointed for the Borrower or any Guarantor or for a substantial part of its assets without its consent.
9. Proceedings are commenced against the Borrower or any Guarantor under any bankruptcy, reorganization, liquidation, or similar laws of any jurisdiction, and they remain undischarged for thirty (30) days after commencement; or the Borrower or the Guarantor consents to the commencement of those proceedings.
10. Any judgment is entered against the Borrower or any Guarantor, or any attachment, levy, or garnishment is issued against any property of the Borrower or any Guarantor in excess of \$1,000,000.00 and not covered by insurance.
11. The Borrower or any Guarantor dies, or a guardian or conservator is appointed for the Borrower or any Guarantor or all or any portion of the Borrower's assets, any Guarantor's assets, or the Collateral.
12. The Borrower or any Guarantor, without the Bank's written consent (a) is dissolved, (b) merges or consolidates with any third party, (c) leases, sells or otherwise conveys a material part of its assets or business outside the ordinary course of its business, (d) leases, purchases, or otherwise acquires a material part of the assets of any other business entity, except in the ordinary course of its business, or (e) agrees to do any of the foregoing (notwithstanding the foregoing, any subsidiary may merge or consolidate with any other subsidiary, or with the Borrower, so long as the Borrower is the survivor).
13. There is a substantial change in the existing or prospective financial condition of the Borrower or any Guarantor that the Bank in good faith determines to be materially adverse.

REMEDIES. If this Note is not paid at maturity, whether by acceleration or otherwise, the Bank shall have all of the rights and remedies provided by any law or agreement. The Bank is authorized to cause all or any part of the Collateral to be transferred to or registered in its name or in the name of any other person or business entity, with or without designating the capacity of that nominee. Without limiting any other available remedy, the Borrower is liable for any deficiency remaining after disposition of any Collateral. The Borrower is liable to the Bank for all reasonable costs and expenses of every kind incurred in the making or collection of this Note, including without

limitation reasonable attorneys' fees and court costs. These costs and expenses include without limitation any costs or expenses incurred by the Bank in any bankruptcy, reorganization, insolvency or other similar proceeding. All amounts payable under the terms of this Note shall be paid without relief from valuation and appraisal laws.

WAIVERS. Any party liable on this Note waives (a) to the extent permitted by law, all rights and benefits under any laws or statutes regarding sureties, as may be amended; (b) any right to receive notice of the following matters before the Bank enforces any of its rights: (i) the Bank's acceptance of this Note, (ii) any credit that the Bank extends to the Borrower, (iii) the Borrower's default, (iv) any demand, diligence, presentment, dishonor and protest, or (v) any action that the Bank takes regarding the Borrower, anyone else, any Collateral, or any of the Liabilities, that it might be entitled to by law or under any other agreement; (c) any right to require the Bank to proceed against the Borrower, any other obligor or guarantor of the Liabilities, or any Collateral, or pursue any remedy in the Bank's power to pursue; (d) any defense based on any claim that any endorser or other parties' obligations exceed or are more burdensome than those of the Borrower; (e) the benefit of any statute of limitations affecting liability of any endorser or other party liable hereunder or the enforcement hereof; (f) any defense arising by reason of any disability or other defense of the Borrower or by reason of the cessation from any cause whatsoever (other than payment in full) of the obligation of the Borrower for the Liabilities; and (g) any defense based on or arising out of any defense that the Borrower may have to the payment or performance of the Liabilities or any portion thereof. Any party liable on this Note consents to any extension or postponement of time of its payment without limit as to the number or period, to any substitution, exchange or release of all or any part of the Collateral, to the addition of any other party, and to the release or discharge of, or suspension of any rights and remedies against, any person who may be liable for the payment of this Note. The Bank may waive or delay enforcing any of its rights without losing them. Any waiver affects only the specific terms and time period stated in the waiver. No modification or waiver of any provision of this Note is effective unless it is in writing and signed by the party against whom it is being enforced.

SUBORDINATION. Any rights of any party liable on this Note, whether now existing or hereafter arising, to receive payment on account of any indebtedness (including interest) owed to any party liable on this Note by the Borrower, or to withdraw capital invested by it in the Borrower, or to receive distributions from the Borrower, shall at all times be subordinate to the full and prior repayment to the Bank of the Liabilities. No party liable on this Note shall be entitled to enforce or receive payment of any sums hereby subordinated until the Liabilities have been paid in full and any such sums received in violation of this paragraph shall be received by such party in trust for the Bank. Any party liable on this Note agrees to stand still with regard to the Bank's enforcement of its rights, including taking no action to delay, impede or otherwise interfere with the Bank's rights to realize on the Collateral. The foregoing notwithstanding, until the occurrence of any default, any party liable on this Note is not prohibited from receiving distributions from the Borrower in an amount equal to any income tax liability imposed on such party liable on this Note attributable to an ownership interest, if any, in the Borrower.

RIGHTS OF SUBROGATION. Any party liable on this Note waives and agrees not to enforce any rights of subrogation, contribution or indemnification that it may have against the Borrower, any person liable on the Liabilities, or the Collateral, until the Borrower and such party liable on this Note have fully performed all their obligations to the Bank, even if those obligations are not covered by this Note.

REINSTATEMENT. All parties liable on this Note agree that to the extent any payment is received by the Bank in connection with the Liabilities, and all or any part of such payment is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid by the Bank or paid over to a trustee, receiver or any other entity, whether under any bankruptcy act or otherwise (any such payment is hereinafter referred to as a "Preferential Payment"), then this Note shall continue to be effective or shall be reinstated, as the case may be, and whether or not the Bank is in possession of this Note, and, to the extent of such payment or repayment by the Bank, the Liabilities or part thereof intended to be satisfied by such Preferential Payment shall be revived and continued in full force and effect as if said Preferential Payment had not been made.

GOVERNING LAW AND VENUE. This Note is delivered in the State of Indiana and governed by Indiana law (without giving effect to its laws of conflicts). The Borrower agrees that any legal action or proceeding with respect to any of its obligations under this Note may be brought by the Bank in any state or federal court located in the State of Indiana, as the Bank in its sole discretion may elect. By the execution and delivery of this Note, the Borrower submits to and accepts, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of those courts. The Borrower waives any claim that the State of Indiana is not a convenient forum or the proper venue for any such suit, action or proceeding.

RENEWAL AND EXTENSION. This Note is given in replacement, renewal and/or

extension of, but not extinguishing the indebtedness evidenced by, that Line of Credit Note dated April 13, 2004 executed by the Borrower in the original principal amount of Fifteen Million and 00/100 Dollars (\$15,000,000.00), including previous renewals or modifications thereof, if any (the "Prior Note"), and is not a novation thereof. All interest evidenced by the Prior Note shall continue to be due and payable until paid. If applicable, all Collateral continues to secure the payment of this Note and the Liabilities. The provisions of this Note are effective on the date that this Note has been executed by all of the signers and delivered to the Bank.

6

MISCELLANEOUS. The Borrower, if more than one, is jointly and severally liable for the obligations represented by this Note, the term "Borrower" means any one or more of them, and the receipt of value by any one of them constitutes the receipt of value by the others. This Note binds the Borrower and its successors, and benefits the Bank, its successors and assigns. Any reference to the Bank includes any holder of this Note. Section headings are for convenience of reference only and do not affect the interpretation of this Note. Any notices and demands under or related to this document shall be in writing and delivered to the intended party at its address stated herein, and if to the Bank, at its main office if no other address of the Bank is specified herein, by one of the following means: (a) by hand, (b) by a nationally recognized overnight courier service, or (c) by certified mail, postage prepaid, with return receipt requested. Notice shall be deemed given: (a) upon receipt if delivered by hand, (b) on the Delivery Day after the day of deposit with a nationally recognized courier service, or (c) on the third Delivery Day after the notice is deposited in the mail. "Delivery Day" means a day other than a Saturday, a Sunday, or any other day on which national banking associations are authorized to be closed. Any party may change its address for purposes of the receipt of notices and demands by giving notice of such change in the manner provided in this provision. This Note and any Related Documents embody the entire agreement between the Borrower and the Bank regarding the terms of the loan evidenced by this Note and supersede all oral statements and prior writings relating to that loan. If there is any conflict or inconsistency between the provisions of this Note and the Credit Agreement, the provisions of this Note shall control over conflicting or inconsistent provisions of the Credit Agreement, except that Events of Default/Acceleration identified in this Note shall be in addition to any Events of Default identified in the Credit Agreement. If any provision of this Note cannot be enforced, the remaining portions of this Note shall continue in effect. The Borrower agrees that the Bank may provide any information or knowledge the Bank may have about the Borrower or about any matter relating to this Note or the Related Documents to JPMorgan Chase & Co., or any of its subsidiaries or affiliates or their successors, or to any one or more purchasers or potential purchasers of this Note or the Related Documents. The Borrower agrees that the Bank may at any time sell, assign or transfer one or more interests or participations in all or any part of its rights and obligations in this Note to one or more purchasers whether or not related to the Bank.

GOVERNMENT REGULATION. Borrower shall not (a) be or become subject at any time to any law, regulation, or list of any government agency (including, without limitation, the U.S. Office of Foreign Asset Control list) that prohibits or limits Bank from making any advance or extension of credit to Borrower or from otherwise conducting business with Borrower, or (b) fail to provide documentary and other evidence of Borrower's identity as may be requested by Bank at any time to enable Bank to verify Borrower's identity or to comply with any applicable law or regulation, including, without limitation, Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318.

USA PATRIOT ACT NOTIFICATION. The following notification is provided to Borrower pursuant to Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318:

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person or entity that opens an account, including any deposit account, treasury management account, loan, other extension of credit, or other financial services product. What this means for Borrower: When Borrower opens an account, if Borrower is an individual Bank will ask for Borrower's name, taxpayer identification number, residential address, date of birth, and other information that will allow Bank to identify Borrower, and if Borrower is not an individual Bank will ask for Borrower's name, taxpayer identification number, business address, and other information that will allow Bank to identify Borrower. Bank may also ask, if Borrower is an individual to see Borrower's driver's license or other identifying documents, and if Borrower is not an individual to see Borrower's legal organizational documents or other identifying documents.

WAIVER OF SPECIAL DAMAGES. THE BORROWER WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT THE UNDERSIGNED MAY HAVE TO CLAIM OR RECOVER FROM THE BANK IN ANY LEGAL ACTION OR PROCEEDING ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.

JURY WAIVER. THE BORROWER AND THE BANK (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN THE BORROWER AND THE BANK ARISING OUT OF OR IN ANY WAY RELATED TO THIS NOTE OR THE OTHER RELATED DOCUMENTS. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE BANK TO PROVIDE THE FINANCING EVIDENCED BY THIS NOTE.

BORROWER:

Address: 1800 S. 14th Street
Elkhart, IN 46516

Patrick Industries, Inc.

By: _____

7

Printed Name Title

Date Signed: _____

8

[BANK ONE LOGO]

TERM NOTE

DUE: JANUARY 31, 2010 \$15,000,000.00
DATE: FEBRUARY _____, 2005

PROMISE TO PAY. On or before January 31, 2010, for value received, Patrick Industries, Inc. (the "Borrower") promises to pay to JPMorgan Chase Bank, N.A., whose address is 121 W. Franklin St., Elkhart, IN 46516 (the "Bank") or order, in lawful money of the United States of America, the sum of Fifteen Million and 00/100 Dollars (\$15,000,000.00) plus interest as provided below.

DEFINITIONS. As used in this Note, the following terms have the following respective meanings:

"COLLATERAL" means all real or personal property described in all security agreements, pledge agreements, mortgages, deeds of trust, assignments, or other instruments now or hereafter executed in connection with this Note or in connection with any of the Liabilities. If applicable, the Collateral secures the payment of this Note and the Liabilities.

"CREDIT AGREEMENT" means a certain Credit Agreement, dated February 2, 1997, between the Borrower and the Bank, as amended.

"LIABILITIES" means all obligations, indebtedness and liabilities of the Borrower to any one or more of the Bank, JPMorgan Chase & Co., and any of their subsidiaries, affiliates or successors, now existing or later arising, including, without limitation, all loans, advances, interest, costs, overdraft indebtedness, credit card indebtedness, lease obligations, or obligations relating to any Rate Management Transaction, all monetary obligations incurred or accrued during the pendency of any bankruptcy, insolvency, receivership or other similar proceedings, regardless of whether allowed or allowable in such proceeding, and all renewals, extensions, modifications, consolidations or substitutions of any of the foregoing, whether the Borrower may be liable jointly with others or individually liable as a debtor, maker, co-maker, drawer, endorser, guarantor, surety or otherwise, and whether voluntarily or involuntarily incurred, due or not due, absolute or contingent, direct or indirect, liquidated or unliquidated.

"PRINCIPAL PAYMENT DATE" is defined in the paragraph entitled "Principal Payments" below.

"RATE MANAGEMENT TRANSACTION" means any transaction (including an agreement with respect thereto) now existing or hereafter entered into among the Borrower, the Bank or JPMorgan Chase & Co., or any of its subsidiaries or affiliates or their successors, which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction,

currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

"RELATED DOCUMENTS" means all loan agreements, credit agreements, reimbursement agreements, security agreements, mortgages, deeds of trust, pledge agreements, assignments, guaranties, or any other instrument or document executed in connection with this Note or in connection with any of the Liabilities.

"TERM LOAN APPLICABLE MARGIN" means with respect to any Prime Rate Advance or Eurodollar Advance, as the case may be, the rate per annum set forth below opposite the applicable Funded Debt to EBITDA Ratio. Funded Debt to EBITDA Ratio is defined in the Credit Agreement.

<TABLE>
<CAPTION>

| | Funded Debt to EBITDA Ratio | | Term Loan Applicable Margin | |
|--|-----------------------------|--|-----------------------------|--------------------|
| | | | Prime Rate Advance | Eurodollar Advance |
| <S> | | | <C> | <C> |
| Less than or equal to 3.50 to 1.00 but greater than 3.00 to 1.00 | | | 0.00% | 2.00% |
| Less than or equal to 3.00 to 1.00 but greater than 2.50 to 1.00 | | | 0.00% | 1.875% |
| Less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00 | | | 0.00% | 1.75% |
| Less than or equal to 2.00 to 1.00 | | | 0.00% | 1.625% |

</TABLE>

The Term Loan Applicable Margin shall, in each case, be determined and adjusted quarterly on the first day of the month after the date of delivery of the quarterly and annual financial statements required by the Credit Agreement, provided, however, that if such financial statements are not delivered within two Business Days after the required date (each, an "Interest Determination Date"), the Term Loan Applicable Margin shall increase to the maximum percentage

amount set forth in the table above from the date such financial statements were required to be delivered to the Bank until received by the Bank. The Term Loan Applicable Margin shall be effective from an Interest Determination Date until the next Interest Determination Date. Such determinations by the Bank shall be conclusive absent manifest error. The initial Term Loan Applicable Margin for Prime Rate Advances is 0.00% and for Eurodollar Advances is -----%.

Capitalized terms used but not defined in this Note have the meanings ascribed to them in the Credit Agreement.

INTEREST RATES. The Borrower shall pay interest to the Bank on the outstanding and unpaid principal amount of each Prime Rate Advance at the Prime Rate plus the Applicable Margin and each Eurodollar Advance at the Eurodollar Rate. Interest shall be calculated on the basis of the actual number of days elapsed in a year of 360 days. In no event shall the interest rate applicable to any Advance exceed the maximum rate allowed by law. Any interest payment which would for any reason be deemed unlawful under applicable law shall be applied to principal.

BANK RECORDS. The Bank shall, in the ordinary course of business, make notations in its records of the date, amount, interest rate and Interest Period of each Advance hereunder, the amount of each payment on the Advances, and other information. Such records shall, in the absence of manifest error, be conclusive as to the outstanding principal balance of and interest rate or rates applicable to this Note.

NOTICE AND MANNER OF ELECTING INTEREST RATES ON ADVANCES. The Borrower shall give the Bank written notice (effective upon receipt) of the Borrower's intent to draw down an Advance under this Note no later than 11:00 a.m. Eastern time, one (1) Business Day before disbursement, if the full amount of the drawn Advance is to be disbursed as a Prime Rate Advance and three (3) Business Days before disbursement, if any part of such Advance is to be disbursed as a Eurodollar Advance. The Borrower's notice must specify: (a) the disbursement

date, (b) the amount of each Advance, (c) the type of each Advance (Prime Rate Advance or Eurodollar Advance), and (d) for each Eurodollar Advance, the duration of the applicable Interest Period; provided, however, that the Borrower may not elect an Interest Period ending after the maturity date of this Note. Each Eurodollar Advance shall be in a minimum amount of Two Hundred Fifty Thousand and 00/100 Dollars (\$250,000.00). All notices under this paragraph are irrevocable. By the Bank's close of business on the disbursement date and upon fulfillment of the conditions set forth herein and in any other of the Related Documents, the Bank shall disburse the requested Advances in immediately available funds by crediting the amount of such Advances to the Borrower's account with the Bank.

CONVERSION AND RENEWALS. The Borrower may elect from time to time to convert one type of Advance into another or to renew any Advance by giving the Bank written notice no later than 11:00 a.m. Eastern time, one (1) Business Day before conversion into a Prime Rate Advance and three (3) Business Days before conversion into or renewal of a Eurodollar Advance, specifying: (a) the renewal or conversion date, (b) the amount of the Advance to be converted or renewed, (c) in the case of conversion, the type of Advance to be converted into (Prime Rate Advance or Eurodollar Advance), and (d) in the case of renewals of or conversion into a Eurodollar Advance, the applicable Interest Period, provided that (i) the minimum principal amount of each Eurodollar Advance outstanding after a renewal or conversion shall be Two Hundred Fifty Thousand and 00/100 Dollars (\$250,000.00); (ii) a Eurodollar Advance can only be converted on the last day of the Interest Period for the Advance; and (iii) the Borrower may not elect an Interest Period ending after the maturity date of this Note. All notices given under this paragraph are irrevocable. If the Borrower fails to give the Bank the notice specified above for the renewal or conversion of a Eurodollar Advance by 11:00 a.m. Eastern time three (3) Business Days before the end of the Interest Period for that Advance, the Advance shall automatically be converted to a Prime Rate Advance on the last day of the Interest Period for the Advance.

INTEREST PAYMENTS. Interest on the Advances shall be paid as follows:

A. For each Prime Rate Advance, on the last day of each month beginning with the first month following disbursement of the Advance or following conversion of an Advance into a Prime Rate Advance, and at the maturity or conversion of the Advance into a Eurodollar Advance;

B. For each Eurodollar Advance, on the last day of the Interest Period for the Advance and, if the Interest Period is longer than three months, at three-month intervals beginning with the day three months from the date the Advance is disbursed.

PRINCIPAL PAYMENTS. Commencing February 28, 2006, and continuing on the last day of each calendar month thereafter until the maturity date of this Note (each, a "Principal Payment Date"), the Borrower shall pay the Bank One Hundred Thirty-Eight Thousand Eight Hundred Eighty-Nine and 00/100 Dollars (\$138,889.00); and

On January 31, 2010, the Borrower shall pay the Bank the entire outstanding principal balance of this Note, plus all accrued but unpaid interest, and any other unpaid amounts due under this Note.

2

The Borrower shall select interest rates and Interest Periods such that on each Principal Payment Date the sum of the principal amount of the Prime Rate Advance outstanding on that date plus the aggregate principal amount of the Eurodollar Advances with Interest Periods ending on that date is greater than or equal to the principal payment due on that date. Any election that does not comply with this requirement will be invalid unless the Bank elects, in its sole discretion, to honor such election. Although the Bank may choose to honor any such election, the Borrower shall continue to be subject to the terms of the paragraph of this Note captioned "Funding Loss Indemnification" in regard to payment of a Eurodollar Advance on a date other than the last day of the Interest Period for the Advance.

DEFAULT RATE OF INTEREST. After a default has occurred under this Note, whether or not the Bank elects to accelerate the maturity of this Note because of such default, all Advances outstanding under this Note, including all Eurodollar Advances, shall bear interest at a per annum rate equal to the Prime Rate, plus the Applicable Margin for a Prime Rate Advance, plus three percent (3.00%) from the date the Bank elects to impose such rate. Imposition of this rate shall not affect any limitations contained in this Note on the Borrower's right to repay principal on any Eurodollar Advance before the expiration of the Interest Period for that Advance.

PREPAYMENT. The Borrower may prepay all or any part of any Prime Rate Advance at any time without premium or penalty. The Borrower may prepay any Eurodollar Advance only at the end of an Interest Period.

FUNDING LOSS INDEMNIFICATION. Upon the Bank's request, the Borrower shall pay the Bank amounts sufficient (in the Bank's reasonable opinion) to compensate it for any loss, cost, or expense incurred as a result of:

A. Any payment of a Eurodollar Advance on a date other than the last day of the Interest Period for the Advance, including, without limitation, acceleration of the Advances by the Bank pursuant to this Note or the Related Documents; or

B. Any failure by the Borrower to borrow or renew a Eurodollar Advance on the date specified in the relevant notice from the Borrower to the Bank.

ADDITIONAL COSTS. If any applicable domestic or foreign law, treaty, government rule or regulation now or later in effect (whether or not it now applies to the Bank) or the interpretation or administration thereof by a governmental authority charged with such interpretation or administration, or compliance by the Bank with any guideline, request or directive of such an authority (whether or not having the force of law), shall (a) affect the basis of taxation of payments to the Bank of any amounts payable by the Borrower under this Note or the Related Documents (other than taxes imposed on the overall net income of the Bank by the jurisdiction or by any political subdivision or taxing authority of the jurisdiction in which the Bank has its principal office), or (b) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by the Bank, or (c) impose any other condition with respect to this Note or the Related Documents and the result of any of the foregoing is to increase the cost to the Bank of maintaining any Eurodollar Advance or to reduce the amount of any sum receivable by the Bank on such an Advance, or (d) affect the amount of capital required or expected to be maintained by the Bank (or any corporation controlling the Bank) and the Bank determines that the amount of such capital is increased by or based upon the existence of the Bank's obligations under this Note or the Related Documents and the increase has the effect of reducing the rate of return on the Bank's (or its controlling corporation's) capital as a consequence of the obligations under this Note or the Related Documents to a level below that which the Bank (or its controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy) by an amount deemed by the Bank to be material, then the Borrower shall pay to the Bank, from time to time, upon request by the Bank, additional amounts sufficient to compensate the Bank for the increased cost or reduced sum receivable. Whenever the Bank shall learn of circumstances described in this section which are likely to result in additional costs to the Borrower, the Bank shall give prompt written notice to the Borrower of the basis for and the estimated amount of any such anticipated additional costs. A statement as to the amount of the increased cost or reduced sum receivable, prepared in good faith and in reasonable detail by the Bank and submitted by the Bank to the Borrower, shall be conclusive and binding for all purposes absent manifest error in computation.

ILLEGALITY. If any applicable domestic or foreign law, treaty, rule or regulation now or later in effect (whether or not it now applies to the Bank) or the interpretation or administration thereof by a governmental authority charged with such interpretation or administration, or compliance by the Bank with any guideline, request or directive of such an authority (whether or not having the force of law), shall make it unlawful or impossible for the Bank to maintain or fund the Eurodollar Advances, then, upon notice to the Borrower by the Bank, the outstanding principal amount of the Eurodollar Advances, together with accrued interest and any other amounts payable to the Bank under this Note or the Related Documents on account of the Eurodollar Advances shall be repaid (a) immediately upon the Bank's demand if such change or compliance with such requests, in the Bank's judgment, requires immediate repayment, or (b) at the expiration of the last Interest Period to expire before the effective date of any such change or request provided, however, that subject to the terms and conditions of this Note and the Related Documents the Borrower shall be entitled to simultaneously replace the entire outstanding balance of any Eurodollar Advance repaid in accordance with this section with a Prime Rate Advance in the same amount.

INABILITY TO DETERMINE INTEREST RATE. If the Bank determines that (a) quotations of interest rates for the relevant deposits referred to in the definition of Eurodollar Rate are not being provided in the relevant amounts or for the relevant maturities for purposes of determining the interest rate on a Eurodollar Advance as provided in this Note, or (b) the relevant interest rates referred to in the definition of Eurodollar Rate do not accurately cover the cost to the Bank of making or maintaining Eurodollar Advances, then the Bank shall forthwith give notice of such circumstances to the Borrower, whereupon (i) the obligation of the Bank to make Eurodollar Advances shall be suspended until the Bank notifies the Borrower that the circumstances giving rise to the suspension no longer exists, and (ii) the Borrower shall repay in full the then outstanding principal amount of each Eurodollar Advance, together with accrued interest, on the last day of the then current Interest Period applicable to the

Advance, provided, however, that, subject to the terms and conditions of this Note and the Related Documents, the Borrower shall be entitled to simultaneously replace the entire outstanding balance of any Eurodollar Advance repaid in accordance with this section with a Prime Rate Advance in the same amount.

OBLIGATIONS DUE ON NON-BUSINESS DAY. Whenever any payment under this Note becomes due and payable on a day that is not a Business Day, if no default then exists under this Note, the maturity of the payment shall be extended to the next succeeding Business Day, except, in the case of a Eurodollar Advance, if the result of the extension would be to extend the payment into another calendar month, the payment must be made on the immediately preceding Business Day.

MATTERS REGARDING PAYMENT. The Borrower will pay the Bank at the Bank's address shown above or at such other place as the Bank may designate. Payments shall be allocated first to interest, then to fees, then to principal unless otherwise agreed or required by applicable law. Acceptance by the Bank of any payment which is less than the payment due at the time shall not constitute a waiver of the Bank's right to receive payment in full at that time or any other time.

AUTHORIZATION FOR DIRECT PAYMENTS (ACH DEBITS). To effectuate any payment due under this Note, the Borrower hereby authorizes the Bank to initiate debit entries to Account Number 300000105104 at the Bank and to debit the same to such account. This authorization to initiate debit entries shall remain in full force and effect until the Bank has received written notification of its termination in such time and in such manner as to afford the Bank a reasonable opportunity to act on it. The Borrower represents that the Borrower is and will be the owner of all funds in such account. The Borrower acknowledges (1) that such debit entries may cause an overdraft of such account which may result in the Bank's refusal to honor items drawn on such account until adequate deposits are made to such account; (2) that the Bank is under no duty or obligation to initiate any debit entry for any purpose; and (3) that if a debit is not made because the above-referenced account does not have a sufficient available balance, or otherwise, the payment may be late or past due.

LATE FEE. If any payment is not received by the Bank within ten (10) days after its due date, the Bank may assess and the Borrower agrees to pay a late fee equal to the greater of: (a) five percent (5.00%) of the past due amount or (b) Twenty Five and 00/100 Dollars (\$25.00), up to the maximum amount of One Thousand Five Hundred and 00/100 Dollars (\$1,500.00) per late charge.

BUSINESS LOAN. The Borrower acknowledges and agrees that this Note evidences a loan for a business, commercial, agricultural or similar commercial enterprise purpose, and that all advances made under this Note shall not be used for any personal, family or household purpose.

BANK'S RIGHT OF SETOFF. In addition to the Collateral, if any, the Borrower grants to the Bank a security interest in, and the Bank is authorized after event of default to setoff and apply, all Accounts, Securities and Other Property, and Bank Debt against any and all Liabilities of the Borrower. This right of setoff may be exercised at any time after event of default and from time to time, and without prior notice to the Borrower. This security interest and right of setoff may be enforced or exercised by the Bank regardless of whether or not the Bank has made any demand under this paragraph or whether the Liabilities are contingent, matured, or unmatured. Any delay, neglect or conduct by the Bank in exercising its rights under this paragraph will not be a waiver of the right to exercise this right of setoff or enforce this security interest. The rights of the Bank under this paragraph are in addition to other rights the Bank may have in the Related Documents or by law. In this paragraph: (a) the term "Accounts" means any and all accounts and deposits of the Borrower (whether general, special, time, demand, provisional or final) at any time held by the Bank (including all Accounts held jointly with another, but excluding any IRA or Keogh Account, or any trust Account in which a security interest would be prohibited by law); (b) the term "Securities and Other Property" means any and all securities and other property of the Borrower in the custody, possession or control of the Bank (other than property held by the Bank in a fiduciary capacity); and (c) the term "Bank Debt" means all indebtedness at any time owing by the Bank, to or for the credit or account of the Borrower.

REPRESENTATIONS BY BORROWER. Each Borrower represents that: (a) the execution and delivery of this Note and the performance of the obligations it imposes do not violate any law, conflict with any agreement by which it is bound, or require the consent or approval of any governmental authority or other third party; (b) this Note is a valid and binding agreement, enforceable according to its terms; and (c) all balance sheets, profit and loss statements, and other financial statements furnished to the Bank in connection with the Liabilities are accurate and fairly reflect the financial condition of the organizations and persons to which they apply on their effective dates, including contingent liabilities of every type, which financial condition has not changed materially and adversely since those dates. Each Borrower, other than a natural person, further represents that: (a) it is duly organized, existing and in good standing pursuant to the laws under which it is organized; and (b) the execution and

delivery of this Note and the performance of the obligations it imposes (i) are within its powers and have been duly authorized by all necessary action of its governing body, and (ii) do not contravene the terms of its articles of incorporation or organization, its by-laws, or any partnership, operating or other agreement governing its affairs.

EVENTS OF DEFAULT/ACCELERATION. If any of the following events occurs this Note shall become due immediately, without notice, at the Bank's option:

1. The Borrower, or any guarantor of this Note (the "Guarantor"), fails to pay when due any amount payable under this Note, under any of the Liabilities, or under any agreement or instrument evidencing debt to any creditor.
2. The Borrower or any Guarantor (a) fails to observe or perform any other term of this Note; (b) makes any materially incorrect or misleading representation, warranty, or certificate to the Bank; (c) makes any materially incorrect or misleading representation in any financial statement or other information delivered to the Bank; or (d) defaults under the terms of any agreement or instrument relating to any debt for borrowed money (other than the debt evidenced by this Note) and the effect of such default will allow the creditor to declare the debt due before its maturity.
3. In the event (a) there is a default under the terms of the Credit Agreement or any other Related Document, (b) any guaranty of the loan evidenced by this Note is terminated or becomes unenforceable in whole or in part, (c) any Guarantor fails to promptly perform under its guaranty, or (d) the Borrower fails to comply with, or pay, or perform under any agreement, now or hereafter in effect, between the Borrower and JPMorgan Chase & Co., or any of its subsidiaries or affiliates or their successors.
4. There is any loss, theft, damage, or destruction of any Collateral not covered by insurance in excess of \$1,000,000.00.
5. A "reportable event" (as defined in the Employee Retirement Income Security Act of 1974 as amended) occurs that would permit the Pension Benefit Guaranty Corporation to terminate any employee benefit plan of the Borrower or any affiliate of the Borrower.
6. The Borrower or any Guarantor becomes insolvent or unable to pay its debts as they become due.
7. The Borrower or any Guarantor (a) makes an assignment for the benefit of creditors; (b) consents to the appointment of a custodian, receiver, or trustee for itself or for a substantial part of its assets; or (c) commences any proceeding under any bankruptcy, reorganization, liquidation, insolvency or similar laws of any jurisdiction.
8. A custodian, receiver, or trustee is appointed for the Borrower or any Guarantor or for a substantial part of its assets without its consent.
9. Proceedings are commenced against the Borrower or any Guarantor under any bankruptcy, reorganization, liquidation, or similar laws of any jurisdiction, and they remain undischarged for thirty (30) days after commencement; or the Borrower or the Guarantor consents to the commencement of those proceedings.
10. Any judgment is entered against the Borrower or any Guarantor, or any attachment, levy, or garnishment is issued against any property of the Borrower or any Guarantor in excess of \$1,000,000.00 and not covered by insurance.
11. The Borrower or any Guarantor dies, or a guardian or conservator is appointed for the Borrower or any Guarantor or all or any portion of the Borrower's assets, any Guarantor's assets, or the Collateral.
12. The Borrower or any Guarantor, without the Bank's written consent (a) is dissolved, (b) merges or consolidates with any third party, (c) leases, sells or otherwise conveys a material part of its assets or business outside the ordinary course of its business, (d) leases, purchases, or otherwise acquires a material part of the assets of any other business entity, except in the ordinary course of its business, or (e) agrees to do any of the foregoing (notwithstanding the foregoing, any subsidiary may merge or consolidate with any other subsidiary, or with the Borrower, so long as the Borrower is the survivor).
13. There is a substantial change in the existing or prospective financial condition of the Borrower or any Guarantor that the Bank in good faith determines to be materially adverse.

REMEDIES. If this Note is not paid at maturity, whether by acceleration or otherwise, the Bank shall have all of the rights and remedies provided by any law or agreement. The Bank is authorized to cause all or any part of the Collateral to be transferred to or registered in its name or in the name of any other person or business entity, with or without designating the capacity of that nominee. Without limiting any other available remedy, the Borrower is liable for any deficiency remaining after disposition of any Collateral. The Borrower is liable to the Bank for all reasonable costs and expenses of every kind incurred in the making or collection of this Note, including without limitation reasonable attorneys' fees and court costs. These costs and expenses include without limitation any costs or expenses incurred by the Bank in any bankruptcy, reorganization, insolvency or other similar proceeding. All amounts payable under the terms of this Note shall be paid without relief from valuation and appraisal laws.

WAIVERS. Any party liable on this Note waives (a) to the extent permitted by law, all rights and benefits under any laws or statutes regarding sureties, as may be amended; (b) any right to receive notice of the following matters before the Bank enforces any of its rights: (i) the Bank's acceptance of this Note, (ii) any credit that the Bank extends to the Borrower, (iii) the Borrower's default, (iv) any demand, diligence, presentment, dishonor and protest, or (v) any action that the Bank takes regarding the Borrower, anyone else, any Collateral, or any of the Liabilities, that it might be entitled to by law or under any other agreement; (c) any right to require the Bank to proceed against the Borrower, any other obligor or guarantor of the Liabilities, or any Collateral, or pursue any remedy in the Bank's power to pursue; (d) any defense based on any claim that any endorser or other parties' obligations exceed or are more burdensome than those of the Borrower; (e) the benefit of any statute of limitations affecting liability of any endorser or other party liable hereunder

5

or the enforcement hereof; (f) any defense arising by reason of any disability or other defense of the Borrower or by reason of the cessation from any cause whatsoever (other than payment in full) of the obligation of the Borrower for the Liabilities; and (g) any defense based on or arising out of any defense that the Borrower may have to the payment or performance of the Liabilities or any portion thereof. Any party liable on this Note consents to any extension or postponement of time of its payment without limit as to the number or period, to any substitution, exchange or release of all or any part of the Collateral, to the addition of any other party, and to the release or discharge of, or suspension of any rights and remedies against, any person who may be liable for the payment of this Note. The Bank may waive or delay enforcing any of its rights without losing them. Any waiver affects only the specific terms and time period stated in the waiver. No modification or waiver of any provision of this Note is effective unless it is in writing and signed by the party against whom it is being enforced.

SUBORDINATION. Any rights of any party liable on this Note, whether now existing or hereafter arising, to receive payment on account of any indebtedness (including interest) owed to any party liable on this Note by the Borrower, or to withdraw capital invested by it in the Borrower, or to receive distributions from the Borrower, shall at all times be subordinate to the full and prior repayment to the Bank of the Liabilities. No party liable on this Note shall be entitled to enforce or receive payment of any sums hereby subordinated until the Liabilities have been paid in full and any such sums received in violation of this paragraph shall be received by such party in trust for the Bank. Any party liable on this Note agrees to stand still with regard to the Bank's enforcement of its rights, including taking no action to delay, impede or otherwise interfere with the Bank's rights to realize on the Collateral. The foregoing notwithstanding, until the occurrence of any default, any party liable on this Note is not prohibited from receiving distributions from the Borrower in an amount equal to any income tax liability imposed on such party liable on this Note attributable to an ownership interest in the Borrower, if any.

RIGHTS OF SUBROGATION. Any party liable on this Note waives and agrees not to enforce any rights of subrogation, contribution or indemnification that it may have against the Borrower, any person liable on the Liabilities, or the Collateral, until the Borrower and such party liable on this Note have fully performed all their obligations to the Bank, even if those obligations are not covered by this Note.

REINSTATEMENT. All parties liable on this Note agree that to the extent any payment is received by the Bank in connection with the Liabilities, and all or any part of such payment is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid by the Bank or paid over to a trustee, receiver or any other entity, whether under any bankruptcy act or otherwise (any such payment is hereinafter referred to as a "Preferential Payment"), then this Note shall continue to be effective or shall be reinstated, as the case may be, and whether or not the Bank is in possession of this Note, and, to the extent of such payment or repayment by the Bank, the Liabilities or part thereof intended to be satisfied by such Preferential Payment shall be revived and continued in full force and effect as if said Preferential Payment had not been made.

GOVERNING LAW AND VENUE. This Note is delivered in the State of Indiana and governed by Indiana law (without giving effect to its laws of conflicts). The Borrower agrees that any legal action or proceeding with respect to any of its obligations under this Note may be brought by the Bank in any state or federal court located in the State of Indiana, as the Bank in its sole discretion may elect. By the execution and delivery of this Note, the Borrower submits to and accepts, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of those courts. The Borrower waives any claim that the State of Indiana is not a convenient forum or the proper venue for any such suit, action or proceeding.

MISCELLANEOUS. The Borrower, if more than one, is jointly and severally liable

for the obligations represented by this Note, the term "Borrower" means any one or more of them, and the receipt of value by any one of them constitutes the receipt of value by the others. This Note binds the Borrower and its successors, and benefits the Bank, its successors and assigns. Any reference to the Bank includes any holder of this Note. Section headings are for convenience of reference only and do not affect the interpretation of this Note. Any notices and demands under or related to this document shall be in writing and delivered to the intended party at its address stated herein, and if to the Bank, at its main office if no other address of the Bank is specified herein, by one of the following means: (a) by hand, (b) by a nationally recognized overnight courier service, or (c) by certified mail, postage prepaid, with return receipt requested. Notice shall be deemed given: (a) upon receipt if delivered by hand, (b) on the Delivery Day after the day of deposit with a nationally recognized courier service, or (c) on the third Delivery Day after the notice is deposited in the mail. "Delivery Day" means a day other than a Saturday, a Sunday, or any other day on which national banking associations are authorized to be closed. Any party may change its address for purposes of the receipt of notices and demands by giving notice of such change in the manner provided in this provision. This Note and any Related Documents embody the entire agreement between the Borrower and the Bank regarding the terms of the loan evidenced by this Note and supersede all oral statements and prior writings relating to that loan. If there is any conflict or inconsistency between the provisions of this Note and the Credit Agreement, the provisions of this Note shall control over conflicting or inconsistent provisions of the Credit Agreement, except that Events of Default/Acceleration identified in this Note shall be in addition to any Events of Default identified in the Credit Agreement. If any provision of this Note cannot be enforced, the remaining portions of this Note shall continue in effect. The Borrower agrees that the Bank may provide any information or knowledge the Bank may have about the Borrower or about any matter relating to this Note or the Related Documents to JPMorgan Chase & Co., or any of its subsidiaries or affiliates or their successors, or to any one or more purchasers or potential purchasers of this Note or the Related Documents. The Borrower

6

agrees that the Bank may at any time sell, assign or transfer one or more interests or participations in all or any part of its rights and obligations in this Note to one or more purchasers whether or not related to the Bank.

GOVERNMENT REGULATION. Borrower shall not (a) be or become subject at any time to any law, regulation, or list of any government agency (including, without limitation, the U.S. Office of Foreign Asset Control list) that prohibits or limits Bank from making any advance or extension of credit to Borrower or from otherwise conducting business with Borrower, or (b) fail to provide documentary and other evidence of Borrower's identity as may be requested by Bank at any time to enable Bank to verify Borrower's identity or to comply with any applicable law or regulation, including, without limitation, Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318.

USA PATRIOT ACT NOTIFICATION. The following notification is provided to Borrower pursuant to Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318:

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person or entity that opens an account, including any deposit account, treasury management account, loan, other extension of credit, or other financial services product. What this means for Borrower: When Borrower opens an account, if Borrower is an individual Bank will ask for Borrower's name, taxpayer identification number, residential address, date of birth, and other information that will allow Bank to identify Borrower, and if Borrower is not an individual Bank will ask for Borrower's name, taxpayer identification number, business address, and other information that will allow Bank to identify Borrower. Bank may also ask, if Borrower is an individual to see Borrower's driver's license or other identifying documents, and if Borrower is not an individual to see Borrower's legal organizational documents or other identifying documents.

WAIVER OF SPECIAL DAMAGES. THE BORROWER WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT THE UNDERSIGNED MAY HAVE TO CLAIM OR RECOVER FROM THE BANK IN ANY LEGAL ACTION OR PROCEEDING ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.

JURY WAIVER. THE BORROWER AND THE BANK (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN THE BORROWER AND THE BANK ARISING OUT OF OR IN ANY WAY RELATED TO THIS NOTE OR THE OTHER RELATED DOCUMENTS. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE BANK TO PROVIDE THE FINANCING EVIDENCED BY THIS NOTE.

BORROWER:

Address: 1800 S. 14th Street
Elkhart, IN 46516

Patrick Industries, Inc.

By: _____

Printed Name Title

Date Signed: _____

[JPMORGAN LOGO]

INTEREST RATE SWAP TRANSACTION

The purpose of this letter agreement is to confirm the terms and conditions of the Transaction entered into between:

JPMORGAN CHASE BANK, N.A.
("JPMorgan")

and

PATRICK INDUSTRIES INCORPORATED
(the "Counterparty")

on the Trade Date and identified by the JPMorgan Deal Number specified below (the "Transaction"). This letter agreement constitutes a "Confirmation" as referred to in the Master Agreement specified below, and supersedes any previous confirmation or other writing with respect to the transaction described below.

The definitions and provisions contained in the 2000 ISDA Definitions (the "Definitions"), as published by the International Swaps and Derivatives Association, Inc. are incorporated into this Confirmation. In the event of any inconsistency between those definitions and provisions and this Confirmation, this Confirmation will govern.

This Confirmation supplements, forms part of, and is subject to, the ISDA Master Agreement dated as of 08 February 2005, as amended and supplemented from time to time (the "Agreement"), between JPMORGAN CHASE BANK, N.A. ("JPMorgan") and PATRICK INDUSTRIES INCORPORATED (the "Counterparty"). All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

The terms of the particular Interest Rate Swap Transaction to which this Confirmation relates are as follows:

<TABLE>
<CAPTION>

<S> <C>
A. TRANSACTION DETAILS
JPMorgan Deal Number(s): 0500085005935
Notional Amount: As set forth in the Notional Amount Schedule hereto
Trade Date: 04 March 2005
Effective Date: 08 March 2005
Termination Date: 31 January 2015, subject to adjustment in accordance with the Modified Following Business Day Convention
FIXED AMOUNTS:
Fixed Rate Payer: Counterparty
Fixed Rate Payer Payment Dates: 31 March, 30 April, 31 May, 30 June, 31 July, 31 August, 30 September, 31 October, 30 November, 31 December, 31 January and the last day of February in each year, from and including 31 March 2005 to and including the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention and there will be an adjustment to the Calculation Period.

Fixed Rate: 4.78000 percent
Fixed Rate Day Count Fraction: Actual/360
Business Days: New York, London
FLOATING AMOUNTS:
Floating Rate Payer: JPMorgan
Floating Rate Payer Payment Dates: 31 March, 30 April, 31 May, 30 June, 31 July, 31 August, 30 September, 31 October, 30 November, 31 December, 31 January and the last day of February in each year, from and including 31 March 2005 to and including the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention and there will be an adjustment to the Calculation Period.
Floating Rate Option: USD-LIBOR-BBA
Designated Maturity: 1 Month
Floating Rate for initial Calculation Period: 2.67970 percent
Spread: None
Floating Rate Day Count Fraction: Actual/360
Reset Dates: The first day of each Calculation Period.
Compounding: Inapplicable
Business Days: New York, London
Calculation Agent: JPMorgan, unless otherwise stated in the Agreement.

B. MUTUAL EARLY TERMINATION

a. Optional Early Termination: Applicable
Option Style: European
Exercise Business Day: New York, London
PROCEDURE FOR EXERCISE
Expiration Date: Five Exercise Business Days preceding 31 January 2010
Earliest Exercise Time: 9:00 A.M. New York Time
Expiration Time: 11:00 A.M. New York Time
Partial Exercise: Inapplicable
Multiple Exercise: Inapplicable
Written Confirmation of Exercise: Applicable

SETTLEMENT TERMS

Cash Settlement: Applicable
Cash Settlement Valuation Time: 11:00 A.M. New York Time
Business Days for Valuation: New York, London
Cash Settlement Payment Date: Five Exercise Business Days following the Expiration Date
Cash Settlement Method: Cash Price
Cash Settlement Currency: USD
Cash Settlement Reference Banks: As defined in the Definitions
Quotation Rate: Mid

C. ACCOUNT DETAILS

Payments to JPMorgan in USD: JPMORGAN CHASE BANK NA
JPMORGAN CHASE BANK NA
BIC: CHASUS33XXX

Payments to Counterparty in USD:

As per your standard settlement instructions.

D. OFFICES

JPMorgan:

NEW YORK

Counterparty:

ELKHART

</TABLE>

E. DOCUMENTS TO BE DELIVERED

Each party shall deliver to the other, at the time of its execution of this Confirmation, evidence of the incumbency and specimen signature of the person(s) executing this Confirmation, unless such evidence has been previously supplied and remains true and in effect.

F. RELATIONSHIP BETWEEN PARTIES

Each party will be deemed to represent to the other party on the date on which it enters into a Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for that Transaction):

(a) Non-Reliance. It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations related to the terms and conditions of a Transaction shall not be considered investment advice or a recommendation to enter into that Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of that Transaction.

(b) Assessment and Understanding. It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of that Transaction. It is capable of assuming, and assumes the risks of that Transaction.

(c) Status of Parties. The other party is not acting as a fiduciary for or an adviser to it in respect of that Transaction.

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing a copy of this Confirmation and returning it to us or by sending to us a letter, telex or facsimile substantially similar to this letter, which letter, telex or facsimile sets forth the material terms of the Transaction to which this Confirmation relates and indicates agreement to those terms. When referring to this Confirmation, please indicate: JPMorgan Deal Number(s): 0500085005935

JPMorgan Chase Bank, N.A.

[GRAPHIC OMITTED]

Name: Carmine Pilla

Title: Vice President

Accepted and confirmed as of the date first written:
PATRICK INDUSTRIES INCORPORATED

Name: -----

Title: -----

Your reference number: -----

[JPMORGAN]

NOTIONAL AMOUNT SCHEDULE:

| Effective From: | | Notional Amount: |
|-----------------|-----------|------------------|
| 8-Mar-05 | 31-Mar-05 | 15,000,000 |
| 31-Mar-05 | 30-Apr-05 | 15,000,000 |
| 30-Apr-05 | 31-May-05 | 15,000,000 |
| 31-May-05 | 30-Jun-05 | 15,000,000 |
| 30-Jun-05 | 31-Jul-05 | 15,000,000 |
| 31-Jul-05 | 31-Aug-05 | 15,000,000 |
| 31-Aug-05 | 30-Sep-05 | 15,000,000 |
| 30-Sep-05 | 31-Oct-05 | 15,000,000 |
| 31-Oct-05 | 30-Nov-05 | 15,000,000 |
| 30-Nov-05 | 31-Dec-05 | 15,000,000 |
| 31-Dec-05 | 31-Jan-06 | 15,000,000 |
| 31-Jan-06 | 28-Feb-06 | 15,000,000 |
| 28-Feb-06 | 31-Mar-06 | 14,861,111 |
| 31-Mar-06 | 30-Apr-06 | 14,722,222 |
| 30-Apr-06 | 31-May-06 | 14,583,333 |
| 31-May-06 | 30-Jun-06 | 14,444,444 |
| 30-Jun-06 | 31-Jul-06 | 14,305,555 |
| 31-Jul-06 | 31-Aug-06 | 14,166,666 |
| 31-Aug-06 | 30-Sep-06 | 14,027,777 |
| 30-Sep-06 | 31-Oct-06 | 13,888,888 |
| 31-Oct-06 | 30-Nov-06 | 13,749,999 |
| 30-Nov-06 | 31-Dec-06 | 13,611,110 |
| 31-Dec-06 | 31-Jan-07 | 13,472,221 |
| 31-Jan-07 | 28-Feb-07 | 13,333,332 |
| 28-Feb-07 | 31-Mar-07 | 13,194,443 |
| 31-Mar-07 | 30-Apr-07 | 13,055,554 |
| 30-Apr-07 | 31-May-07 | 12,916,665 |
| 31-May-07 | 30-Jun-07 | 12,777,776 |
| 30-Jun-07 | 31-Jul-07 | 12,638,887 |
| 31-Jul-07 | 31-Aug-07 | 12,499,998 |
| 31-Aug-07 | 30-Sep-07 | 12,361,109 |
| 30-Sep-07 | 31-Oct-07 | 12,222,220 |
| 31-Oct-07 | 30-Nov-07 | 12,083,331 |
| 30-Nov-07 | 31-Dec-07 | 11,944,442 |
| 31-Dec-07 | 31-Jan-08 | 11,805,553 |
| 31-Jan-08 | 29-Feb-08 | 11,666,664 |
| 29-Feb-08 | 31-Mar-08 | 11,527,775 |
| 31-Mar-08 | 30-Apr-08 | 11,388,886 |
| 30-Apr-08 | 31-May-08 | 11,249,997 |
| 31-May-08 | 30-Jun-08 | 11,111,108 |
| 30-Jun-08 | 31-Jul-08 | 10,972,219 |
| 31-Jul-08 | 31-Aug-08 | 10,833,330 |
| 31-Aug-08 | 30-Sep-08 | 10,694,441 |
| 30-Sep-08 | 31-Oct-08 | 10,555,552 |
| 31-Oct-08 | 30-Nov-08 | 10,416,663 |
| 30-Nov-08 | 31-Dec-08 | 10,277,774 |
| 31-Dec-08 | 31-Jan-09 | 10,138,885 |
| 31-Jan-09 | 28-Feb-09 | 9,999,996 |
| 28-Feb-09 | 31-Mar-09 | 9,861,107 |
| 31-Mar-09 | 30-Apr-09 | 9,722,218 |
| 30-Apr-09 | 31-May-09 | 9,583,329 |
| 31-May-09 | 30-Jun-09 | 9,444,440 |
| 30-Jun-09 | 31-Jul-09 | 9,305,551 |
| 31-Jul-09 | 31-Aug-09 | 9,166,662 |
| 31-Aug-09 | 30-Sep-09 | 9,027,773 |
| 30-Sep-09 | 31-Oct-09 | 8,888,884 |
| 31-Oct-09 | 30-Nov-09 | 8,749,995 |
| 30-Nov-09 | 31-Dec-09 | 8,611,106 |
| 31-Dec-09 | 31-Jan-10 | 8,472,217 |
| 31-Jan-10 | 28-Feb-10 | 8,333,328 |
| 28-Feb-10 | 31-Mar-10 | 8,194,439 |
| 31-Mar-10 | 30-Apr-10 | 8,055,550 |
| 30-Apr-10 | 31-May-10 | 7,916,661 |
| 31-May-10 | 30-Jun-10 | 7,777,772 |
| 30-Jun-10 | 31-Jul-10 | 7,638,883 |
| 31-Jul-10 | 31-Aug-10 | 7,499,994 |
| 31-Aug-10 | 30-Sep-10 | 7,361,105 |
| 30-Sep-10 | 31-Oct-10 | 7,222,216 |

| | | |
|-----------|-----------|-----------|
| 31-Oct-10 | 30-Nov-10 | 7,083,327 |
| 30-Nov-10 | 31-Dec-10 | 6,944,438 |
| 31-Dec-10 | 31-Jan-11 | 6,805,549 |
| 31-Jan-11 | 28-Feb-11 | 6,666,660 |
| 28-Feb-11 | 31-Mar-11 | 6,527,771 |
| 31-Mar-11 | 30-Apr-11 | 6,388,882 |
| 30-Apr-11 | 31-May-11 | 6,249,993 |
| 31-May-11 | 30-Jun-11 | 6,111,104 |
| 30-Jun-11 | 31-Jul-11 | 5,972,215 |
| 31-Jul-11 | 31-Aug-11 | 5,833,326 |
| 31-Aug-11 | 30-Sep-11 | 5,694,437 |
| 30-Sep-11 | 31-Oct-11 | 5,555,548 |
| 31-Oct-11 | 30-Nov-11 | 5,416,659 |
| 30-Nov-11 | 31-Dec-11 | 5,277,770 |
| 31-Dec-11 | 31-Jan-12 | 5,138,881 |
| 31-Jan-12 | 29-Feb-12 | 4,999,992 |
| 29-Feb-12 | 31-Mar-12 | 4,861,103 |
| 31-Mar-12 | 30-Apr-12 | 4,722,214 |
| 30-Apr-12 | 31-May-12 | 4,583,325 |
| 31-May-12 | 30-Jun-12 | 4,444,436 |
| 30-Jun-12 | 31-Jul-12 | 4,305,547 |
| 31-Jul-12 | 31-Aug-12 | 4,166,658 |

| | | |
|-----------|-----------|-----------|
| 31-Aug-12 | 30-Sep-12 | 4,027,769 |
| 30-Sep-12 | 31-Oct-12 | 3,888,880 |
| 31-Oct-12 | 30-Nov-12 | 3,749,991 |
| 30-Nov-12 | 31-Dec-12 | 3,611,102 |
| 31-Dec-12 | 31-Jan-13 | 3,472,213 |
| 31-Jan-13 | 28-Feb-13 | 3,333,324 |
| 28-Feb-13 | 31-Mar-13 | 3,194,435 |
| 31-Mar-13 | 30-Apr-13 | 3,055,546 |
| 30-Apr-13 | 31-May-13 | 2,916,657 |
| 31-May-13 | 30-Jun-13 | 2,777,768 |
| 30-Jun-13 | 31-Jul-13 | 2,638,879 |
| 31-Jul-13 | 31-Aug-13 | 2,499,990 |
| 31-Aug-13 | 30-Sep-13 | 2,361,101 |
| 30-Sep-13 | 31-Oct-13 | 2,222,212 |
| 31-Oct-13 | 30-Nov-13 | 2,083,323 |
| 30-Nov-13 | 31-Dec-13 | 1,944,434 |
| 31-Dec-13 | 31-Jan-14 | 1,805,545 |
| 31-Jan-14 | 28-Feb-14 | 1,666,656 |
| 28-Feb-14 | 31-Mar-14 | 1,527,767 |
| 31-Mar-14 | 30-Apr-14 | 1,388,878 |
| 30-Apr-14 | 31-May-14 | 1,249,989 |
| 31-May-14 | 30-Jun-14 | 1,111,100 |
| 30-Jun-14 | 31-Jul-14 | 972,211 |
| 31-Jul-14 | 31-Aug-14 | 833,322 |
| 31-Aug-14 | 30-Sep-14 | 694,433 |
| 30-Sep-14 | 31-Oct-14 | 555,544 |
| 31-Oct-14 | 30-Nov-14 | 416,655 |
| 30-Nov-14 | 31-Dec-14 | 277,766 |
| 31-Dec-14 | 31-Jan-15 | 138,877 |

[JPMORGAN LOGO]

CLIENT SERVICE GROUP

ALL QUERIES REGARDING CONFIRMATIONS SHOULD BE SENT TO:

JPMORGAN CHASE BANK, N.A.

CONTACTS

JPMORGAN CONTACT

TELEPHONE NUMBER

CLIENT SERVICE GROUP

(001) 3026344960

GROUP E-MAIL ADDRESS:

FACSIMILE:

(001) 8888033606

TELEX:

CABLE:

PLEASE QUOTE THE JPMORGAN DEAL NUMBER(S): 0500085005935.

NON-QUALIFIED STOCK OPTION

THIS OPTION granted this twenty-second day of June, 2004, by PATRICK INDUSTRIES, INC. (hereinafter called the "Company"), to "EMPLOYEE" (hereinafter called the "Employee");

WITNESSETH

WHEREAS, the Company's Stock Option Committee (the "Committee") believes it would be to the best interest of the Company and its shareholders for its key employees to increase their stock interest in the Company in order that they will have a greater incentive to work for and manage the Company's affairs in such a way that its shares may become more valuable; and

WHEREAS, the Employee is employed by the Company as such a key employee;

NOW, THEREFORE, in consideration of the premises and of the services required under paragraph 2 in order to receive benefits hereunder the Committee hereby grants this option to the Employee on the terms hereinafter expressed:

1. Option Grant - The Company hereby grants to the Employee an option to purchase a total of 0,000 shares of Common Stock ("Common Stock") of the Company at the option price of \$10.01 per share, being the fair market value of such shares on June 22, 2004.

2. Time of Exercise - Subject to the provisions of paragraph 6, this option may be exercised (as described in paragraph 3 hereof) with respect to 25% of the option shares at the end of the first year from the date hereof and with respect to an additional 25% of the option shares at the end of each year thereafter, subject to the following limitations:

- (a) This option may not be exercised prior to twelve (12) months from the date hereof and not more than six (6) years from the date hereof (the "Expiration Date").
- (b) In the event that the Employee terminates employment with the Company or any of its subsidiaries for any reason (other than retirement, death or disability), this option may be exercised within the six (6) month period following the date of termination of employment, but only to the extent that the option is exercisable on date of termination of employment, and in no event later than the Expiration Date.
- (c) In the event that the Employee retires in accordance with any retirement plan then in effect for the Company or any of its subsidiaries, dies or terminates employment with the Company or any of its subsidiaries by reason of the Employee's Disability, this option may be exercised within a one (1) year period following the date of death or termination of employment, but only to the extent the option was exercisable on the date of death or termination and no later than the Expiration Date. In the event of death or Disability, the legal representative of the Employee, the Employee's estate, or the person to whom this option passes by will or the laws of descent and distribution shall be entitled to exercise this option. For these purposes, "Disability" shall mean the inability of the Employee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that (i) can be expected to result in death, (ii) has lasted for a continuous period of not less than 12 months, or (iii) can be expected to last for a continuous period of not less than 12 months.
- (d) If the Employee dies within twelve (12) months after termination by reason of Disability or retirement or within six (6) months after any other termination of employment, this option may be exercised in whole or in part and from time to time, only within a period of twelve (12) months after the Employee's death (but no later than the Expiration Date), by the Employee's estate or the person to whom the option passes by will or the laws of descent and distribution, but only to the extent that the Employee could have exercised this option during such periods in accordance with paragraphs 2(a), 2(b) and 2(c).

3. Exercise of Option - This option may be exercised only by appropriate notice in writing delivered to the Secretary of the Company at Elkhart, Indiana, and accompanied by a check payable to the order of the Company for the full purchase price of the shares and any taxes required to be withheld thereon. The Employee shall also submit, if then required by any federal or state securities law, a written representation that at the time of exercise it is the Employee's intention to acquire the shares for investment and not for resale.

4. Nontransferability of Option - This option is not transferable by the Employee otherwise than by will or the laws of descent and distribution, and is exercisable, during the Employee's lifetime, only by the Employee.

5. Delivery of Certificates - The Company shall not be required to issue or deliver any certificate for its Common Stock purchased upon the exercise of this option prior to the admission of such shares to listing on any stock exchange on which Common Stock of the Company may at that time be listed. If at any time during the option period the Company shall be advised by its counsel that the shares deliverable upon an exercise of the option are required to be registered under the Federal Securities Act of 1933 or any state securities law, or that delivery of such shares must be accompanied or preceded by a Prospectus meeting the requirements of such Act, the Company will use its best efforts to effect such registration or provide such Prospectus not later than a reasonable time following each exercise of this option, but delivery of shares by the Company may be deferred until such registration is effected or such Prospectus is available. The employee shall have no interest in shares covered by this option until certificates for said shares are issued.

6. Adjustment Provisions - If the Company shall at any time change the number of shares of its Common Stock without new consideration to the Company (such as by stock dividends or stock splits), the total number of shares then remaining subject to purchase hereunder shall be changed in proportion to such change in issued shares and the option price per share shall be adjusted so that the total consideration payable to the Company upon the purchase of all shares not theretofore purchased shall not be changed.

If, during the term of this option, the Common Stock of the Company shall be changed into cash, securities, or evidences of indebtedness of another corporation, other property, or any combination thereof, whether as a result of reorganization, sale, merger, consolidation, or other similar transaction (a "Transaction"), the Company shall cause adequate provision to be made whereby (i) the Employee shall thereafter be entitled to receive upon the due exercise of this option, the cash, securities, evidences of indebtedness, other property, or any combination thereof the Employee would have been entitled to receive for Common Stock acquired through exercise of this option immediately prior to the effective date of such Transaction and (ii) if the Employee's employment is terminated without cause following the Transaction during the term of this option, this option shall become fully exercisable for the balance of the option term. For these purposes, "cause" shall mean (A) commission of a felony involving moral turpitude, (B) substantial failure to perform the duties required by the Employee's employment or (C) material negligence or misconduct in the performance of those duties, all as determined by the Board of Directors of the Company. If appropriate, the option price of the shares or securities remaining subject to purchase following such Transaction may be adjusted, in each case in such equitable manner as the Committee and the Board of Directors may select.

If the Board of Directors of the Company determines that the Company is unable to cause adequate provision to be made to allow the Employee to continue to benefit from the option after the Transaction, the option shall become fully vested and cancelled in exchange for a lump sum payment from the Company in an amount equal to the excess of the then value of the Common Stock as established in the Transaction over the option price.

7. Amendment - The terms and conditions of this option may be amended by the mutual agreement of the Company and the Employee or such other persons as may have an interest herein, evidenced in writing.

IN WITNESS WHEREOF, the Committee has caused this option to be executed on the date first above written.

PATRICK INDUSTRIES, INC.

By _____
President

PATRICK
MEMORANDUM

DATE: XXXXXX XX, XXXX
TO: Board of Directors
FROM: Andy L. Nemeth
RE: _____ Stock Awards

On _____, 20XX the Patrick Industries, Inc. Board of Directors' Stock Option Committee approved the granting of shares as of _____, 20XX to certain non-employee Directors under the Stock Awards section of the amended 1987 Stock Option Plan. The shares issued under the Stock Awards section of the Plan are restricted and are to be held by the Company for one year or until other events remove the restrictions. The certificates will be held by the Secretary-Treasurer until such time as they become unrestricted and contain the following endorsement on the face:

"The shares of stock represented by this certificate and the transferability thereof are restricted by and subject to a "1987 Restricted Stock Agreement", a copy of which is on file with the Secretary of the Company."

Shares have been granted to the following directors for the _____ year:

| NAME | # OF SHARES |
|------|-------------|
| ---- | ----- |

If there are any questions, please feel free to call me.

Sincerely,

Andy L. Nemeth
Vice President - Finance
Secretary-Treasurer

/dlm

Exhibit 12

PATRICK INDUSTRIES, INC.

Statement of Computation of Operating Ratios

Operating ratios which appear in this Form 1-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.

McGladrey & Pullen
Certified Public Accountants

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-04187) and in the related Prospectus of our report, dated January 25, 2005, 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 ended December 31, 2004. We also consent to the reference to our firm under the caption "Selected Financial Data", which is part of this Annual Report.

Elkhart, Indiana
March 31, 2005
- -----

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

CERTIFICATIONS

I, Paul E. Hassler, certify that:

1. I have reviewed this annual report on Form 10K of Patrick Industries, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. The Company's Chief Financial Officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; and
 - b) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of the 10K) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's Chief Financial Officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date March 18, 2005

/s/ Paul E. Hassler

Paul E. Hassler
(President)
(Chief Executive Officer)

CERTIFICATIONS

I, Andy L. Nemeth, certify that:

1. I have reviewed this annual report on Form 10K of Patrick Industries, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;
4. The Company's Chief Executive Officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; and
 - b) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's Chief Executive Officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date March 18, 2005

 /S/Andy L. Nemeth

 Andy L. Nemeth
 (Executive Vice President - Finance)
 (Chief Financial Officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Patrick Industries, Inc. (the "Company") on Form 10K for the period ending December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002 that, based on their knowledge: 1) the Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and 2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

/S/Paul E. Hassler

Paul E. Hassler, Chief Executive Officer

/S/Andy L. Nemeth

Andy L. Nemeth, Chief Financial Officer

March 18, , 2005

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Patrick Industries, Inc. and will be retained by Patrick Industries, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10K and shall not be considered filed as part of the Form 10K.