PATRICK INDUSTRIES INC
Form 10-K
March 29, 2013

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

FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2012
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ……………… to ………………

Commission file number 000-03922

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

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

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

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

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

Common stock, without par value	Nasdaq Stock Market LLC
(Title of each class)	(Name of each exchange on which registered)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer o Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company x

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on July 1, 2012 (based upon the closing price on the Nasdaq Stock Market LLC and an estimate that 45.64% of the shares are owned by non-affiliates) was $61,229,158. The closing market price was $12.75 on that day and 10,522,101 shares of the Company's common stock were outstanding. As of March 15, 2013, there were 10,755,137 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its Annual Meeting of Shareholders scheduled to be held on May 23, 2013 are incorporated by reference into Part III of this Form 10-K.

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FINANCIAL SECTION

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INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This Form 10-K contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive position, industry growth and projections, growth opportunities for existing products, plans and objectives of management, markets for the common stock of Patrick Industries, Inc. (collectively, the “Company,” “we,”, “our” or “Patrick”) and other matters. Statements in this Form 10-K as well as other statements contained in the annual report and statements contained in future filings with the Securities and Exchange Commission and publicly disseminated press releases, and statements which may be made from time to time in the future by management of the Company in presentations to shareholders, prospective investors, and others interested in the business and financial affairs of the Company, which are not historical facts, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements. Patrick does not undertake to publicly update or revise any forward-looking statements, except as required by law. You should consider forward-looking statements, therefore, in light of various important factors, including those set forth in the reports and documents that the Company files with the Securities and Exchange Commission, including this Annual Report on Form 10-K for the year ended December 31, 2012.

There are a number of factors, many of which are beyond the control of the Company, which could cause actual results and events to differ materially from those described in the forward-looking statements. Many of these factors are identified in the “Risk Factors” section of this Form 10-K as set forth in Part I, Item 1A. These factors include, without limitation, the impact of any economic downturns especially in the residential housing market, pricing pressures due to competition, costs and availability of raw materials, availability of commercial credit, availability of retail and wholesale financing for residential and manufactured homes, availability and costs of labor, inventory levels of retailers and manufacturers, levels of repossessed residential and manufactured homes, the financial condition of our customers, retention and concentration of significant customers, the ability to generate cash flow or obtain financing to fund growth, the ability to effectively manage the costs and the implementation of the new enterprise resource management system, future growth rates in the Company’s core businesses, the successful integration of recent acquisitions, interest rates, oil and gasoline prices, stock price fluctuations, the outcome of litigation, adverse weather conditions impacting retail sales, and our ability to remain in compliance with our credit agreement covenants. In addition, national and regional economic conditions and consumer confidence may affect the retail sale of recreational vehicles and residential and manufactured homes.

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

PART I

ITEM 1. BUSINESS

Company Overview

Patrick Industries, Inc., which was founded in 1959 and incorporated in Indiana in 1961, is a major manufacturer of component products and distributor of building products and materials to the recreational vehicle (“RV”) and manufactured housing (“MH”) industries. In addition, we are a supplier to certain other industrial markets, such as kitchen cabinet, household furniture, fixtures and commercial furnishings, marine, and other industrial markets. We manufacture a variety of products including decorative vinyl and paper laminated panels, solid surface, granite and quartz countertops, wrapped vinyl, paper and hardwood profile mouldings, cabinet doors and components, hardwood furniture, interior passage doors, exterior graphics, and slotwall panels and components.

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

The general economic environment, while still overshadowed by an uncertain domestic political environment and still in the process of emerging from the residual effects and overhang of the economic recession, has shown signs of improvement over the past several years. Like many other companies over the past several years, our business was adversely affected by the deterioration in the residential housing market, the subprime lending crisis, the general credit market and financing crisis, increased commodity costs, concerns about inflation, decreased consumer confidence, reduced corporate profits and capital spending, and liquidity concerns (the “economic crisis”). While these conditions negatively impacted demand in all three major end-markets we serve, specifically the RV, MH and industrial markets, we executed on a number of strategic initiatives to position the Company to take advantage of a subsequent recovery in each of these markets. These items include deleveraging our balance sheet, operational restructuring at certain manufacturing and distribution facilities, disposition of non-core operations, streamlining administrative and support activities, aggressive management of inventory levels to changes in sales levels, and refinancing our credit facility. In addition, as the economic environment and our financial condition improved, we completed nine strategic acquisitions from January 2010 through October 2012. The combination of improving economic conditions, particularly in the RV industry, and the execution of the strategic initiatives identified above, among others, resulted in our sales, operating income, net income and cash flows improving significantly in the three years ended December 31, 2012. In the Executive Summary section of Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” we provide an overview of the impact that macroeconomic conditions had on our operations and in the RV, MH, and industrial markets in 2012.

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

Patrick had two reportable operating segments in 2012, Manufacturing and Distribution. Financial information about these operating segments is included in Note 21 to the Consolidated Financial Statements and incorporated herein by reference.

Competitive Position

The RV and MH industries are highly competitive with low barriers to entry which carries through to the suppliers to these industries. Across the Company’s range of products and services, competition exists primarily on price, product features, quality, and service. We believe that the quality, service, design and price of our products and the short order turnaround time that we provide allow us to compete favorably in the RV and MH markets. Several competitors compete with us on a regional and local basis. However, in order for a competitor to compete with us on a national basis, we believe that a substantial capital commitment and investment in personnel would be required. The other industrial markets in which we continue to expand are also highly competitive.

Given the environment in the industries in which we operate, the Company has identified several operating strategies to maintain or enhance earnings through strategic acquisitions, productivity initiatives, expansion into new product lines, and optimization of capacity utilization.

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Strategy

Overview

We believe that we have developed strong working relationships with our customers and suppliers, and have oriented our business to the needs of these customers. These customers include all of the larger RV and MH manufacturers and a number of large to medium-sized industrial customers. Our industrial customers are generally directly linked to the residential housing markets. Our RV and MH customers generally demand the lowest competitive prices, high quality standards, short lead times, and a high degree of flexibility from their suppliers. Our industrial customers generally are less price sensitive than our RV and MH customers, and focused on consistent high quality products, exceptional customer service, and quick response time.

In order to best serve our customer base, we have focused our efforts on driving the execution of our Organizational Strategic Agenda ("OSA"), embedding our 'Customer 1st' performance-oriented culture throughout all levels of the organization, implementing talent development initiatives to ensure we have the resources to meet our customers' evolving needs, developing a nationwide manufacturing and distribution presence in response to our customers' needs for flexibility and short lead times, and bringing value added products to our customers through the introduction of new products, line extensions, and strategic acquisitions. Additionally, because of the short lead times, which can include same day order, receipt and delivery, we have intensified our focus on reducing our inventory levels with vendor managed inventory programs. We believe that these initiatives are instrumental in improving our operating cash flow and liquidity.

As we explore new markets and industries, we believe that these and other strategic initiatives provide us with a strong foundation for future growth. In 2012, approximately 69% of our sales were to the RV industry, 19% to the MH industry, and 12% to the industrial markets. In 2011, approximately 61% of our sales were to the RV industry, 24% to the MH industry, and 15% to the industrial markets. The increase in wholesale unit shipments in the RV market compared to the softness in the other primary market sectors in which Patrick operates, the introduction of new products to the marketplace, and the impact of the acquisitions completed in the last three years, have contributed to an increase in our RV market sales concentration in 2012 when compared to prior periods.

Operating Strategies

Key operating strategies identified by management include the following:

Strategic Acquisitions and Expansion

We supply a broad variety of building materials and component products to the RV, MH and industrial markets. With our nationwide manufacturing and distribution capabilities, we believe that we are well positioned for the introduction of new products to further bring value to our customer base. In order to facilitate this initiative, we are focused on driving growth through the acquisition of companies with strong management teams with strategic fit to our core values, business model and customer presence, as well as additional product lines, facilities, or other assets to complement or expand our existing businesses. From January 2010 through October 2012, we completed nine acquisitions, which directly complement our core competencies and product lines, and introduced over 100 new products and line extensions to the marketplace.

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

In 2011, we completed three acquisitions that expanded our product offerings to our existing customer base in the RV and industrial markets. In June 2011, we acquired The Praxis Group ("Praxis"), a manufacturer and distributor of high and low gloss painted countertops, foam products, shower doors, electronics and furniture products. In September 2011, we acquired A.I.A. Countertops, LLC ("AIA"), a fabricator of solid surface, granite, quartz and laminated countertops, backsplashes, tables, signs, and other products, and in December 2011, we acquired

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Infinity Graphics (formerly Performance Graphics), a designer, producer and installer of exterior graphics for the RV, marine, automotive, racing and enclosed trailer industries.

In 2012, we invested approximately $29 million to complete four acquisitions: Décor Mfg., LLC (“Décor”) in March 2012, a manufacturer of laminated and wrapped products for the Northwestern U.S.-based RV industry; Gustafson Lighting (“Gustafson”) in July 2012, a distributor of interior and exterior lighting products, ceiling fans and accessories; Creative Wood Designs, Inc. (“Creative Wood”) in September 2012, a manufacturer of hardwood furniture; and Middlebury Hardwood Products, Inc. (“Middlebury Hardwoods”) in October 2012, a manufacturer of hardwood cabinet doors, components and other hardwood products. See Note 4 to the Consolidated Financial Statements for further details.

Diversification into Other Markets

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

We believe that diversification into other industrial markets provides opportunities for improved operating margins with complementary products that increase our capacity utilization. In addition, we believe that our nationwide manufacturing and distribution capabilities have enabled us to be well positioned for new product expansion.

Utilization of Manufacturing Capacity

Efficiency Optimization

We have the ability to increase volumes in almost all of our existing facilities without adding comparable incremental fixed costs. With the expected continued weak economic conditions in certain parts of the country, we are continually exploring opportunities for further facility consolidation. However, we have remained committed to certain geographic areas, specifically where there is a larger concentration of RV and MH manufacturers but where our revenues and profitability have been limited in recent years. Additionally, we are focused on cross-training all of our manufacturing work force in our manufacturing cells within each facility to maximize our efficiencies and increase the flexibility of our labor force.

Plant Consolidations / Closures and Plant Expansion

Certain manufacturing and distribution operating facilities were either consolidated or expanded during 2011 and 2012 in an effort to improve operating efficiencies in the plants through increased capacity utilization, accommodate increased sales volumes, keep the overhead structure at a level consistent with operating needs, and continue the Company’s efforts to reduce its leverage position.

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

Included in the targeted capital investments we made in 2012 to support new business and leverage our operating platform, we purchased a building in proximity to our Indiana operations in July 2012 to increase capacity to support the growth in one of our manufacturing divisions. In September 2012, we consolidated our Woodburn, Oregon high-pressure laminate manufacturing cell for the industrial market and a distribution center for the RV and MH markets into our recently acquired manufacturing operation in Tualatin, Oregon.

In the fourth quarter of 2012, we consolidated the interior passage doors product line from the newly acquired manufacturing business of Creative Wood into one of our existing manufacturing facilities in Elkhart, Indiana that

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engages in similar activities. In addition, we closed our owned distribution facility in Halstead, Kansas and consolidated the business into the existing Waco, Texas distribution facility as a result of the continued deterioration of the Kansas manufactured housing market.

Product Development and New Product Introductions/Discontinuations

With our versatile manufacturing and distribution capabilities, we are continually striving to increase our market presence in all of the markets that we serve and gain entrance into other markets. We remain committed to new product introduction and to new product development initiatives. New product development is a key component of our strategy to grow our revenue base, keep up with changing market conditions, and proactively address customer demand. We have a design team that works exclusively with RV and MH manufacturers to meet their creative design and product needs, which includes creating new styles and utilizing new colors, patterns, and wood types for panels and mouldings, cabinet doors and other products. We plan to continue to devote our time and attention to manufacturing and distributing products that fit within the strategic parameters of our current business model, including appropriate margin and inventory turn levels.

In addition to the new product offerings stemming from acquisitions, we further enhanced our product offerings to our RV, MH and industrial markets customers through the introduction of several new products and the expansion of our existing product lines in 2012. On the manufacturing side, we began to manufacture several new cabinet door styles, upgraded cabinetry, new slide-out trim, new styles of interior passage doors for RVs, pressed countertops, and suspended ceiling panels for residential and commercial markets. Our distribution line was expanded to include new faucets modeled after the residential market, residential furniture, televisions and sound bars, ceramic tile, flat-pack cabinets, and fireplaces for RVs.

In 2012, we discontinued certain lightweight countertop lines and a high-pressure laminating countertop line.

Principal Products

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

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

Manufactured laminated panels and hardwood doors contributed 47% and 14%, respectively, of total 2012 manufacturing segment sales. The electronics division and the wiring, electrical and plumbing products division within our Distribution segment contributed 26% and 23%, respectively, of total sales in this segment in 2012.

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

Branding

In conjunction with our acquisition strategy, we continue to focus our efforts on providing specific product knowledge, expertise and support to our customers through a branding strategy which includes product managers for each of our key product lines, support staff, and strategic supplier relationships which allows us to partner with them as a supplier of choice to drive efficiency and maximize value by providing the expertise and product support in the products that we sell. Our primary product brands include Adorn, Custom Vinyls, Patrick Distribution, AIA Countertops, Quest Audio Video, Interior Components Plus, Gravure Ink, Praxis Group, Infinity Graphics, Décor, Gustafson, Creative Wood, and Middlebury Hardwoods. In addition, in April 2012, our industrial sales business

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launched several new products targeted to serve unique, consumer-driven channels under its new brand name, Decorative Dynamics.

Manufacturing Processes and Operations

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

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

Our vinyl printing facility produces a wide variety of decorative vinyls, which are 3.2 mil nominal thickness and are shipped in rolls ranging from 300-800 yards in length. This facility produces material for both internal use by Patrick and sale to external customers.

Markets

We are engaged in the manufacturing and distribution of building products and material for use primarily by the RV and MH industries, and in other industrial markets. We are continuing to capture market share through our strategic acquisition and new product initiatives, which has resulted in sales levels increasing beyond the general industry results since 2010. While there remains general uncertainty related to the strength of the overall economy, job growth, the European debt crisis, and retail and commercial credit and lending conditions, the equity markets have rebounded and the three primary markets that we serve have experienced, and are expected to continue to experience steady growth into the first half of 2013 with full year seasonal patterns tracking trends consistent with the prior year.

In 2011 and 2012, sales to the RV industry improved as evidenced by higher production levels and wholesale unit shipments versus the prior year periods. We believe that ongoing credit concerns, slow job growth, and swings in consumer confidence levels will all continue to contribute to further volatility in the markets we serve in 2013 before a sustained recovery takes hold.   Recreational vehicle purchases are generally consumer discretionary income purchases, and therefore, any situation which causes concerns related to discretionary income can have a negative impact on these markets.

The MH industry, which showed signs of a mild recovery in 2012, continues to be negatively impacted by a lack of retail financing and credit availability, slow job growth, and significant foreclosed residential housing inventories. Financing concerns and the current credit situation in the residential housing market have put additional pressure on potential purchasers of manufactured homes, many of whom use conventional mortgage financing as a source of funding for purchases.

Approximately 60% of our industrial revenue base in 2012 was associated with the U.S. residential housing market, and therefore, there is a direct correlation between the demand for our products in this market and new residential housing construction and remodeling activities.

In order to offset some of the impacts of the weakness in the residential housing market, we have focused on diversification, strategic acquisitions, and bringing new and innovative products to the market, and have targeted

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certain sales efforts towards market segments that are less directly tied to residential new home construction, including the retail fixture, furniture, and countertop markets. As a result, we have seen a shift in our product mix, which has had a positive impact on revenues from the industrial markets.

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

Recreational Vehicles

The RV industry has been characterized by cycles of growth and contraction in consumer demand, reflecting prevailing general economic conditions, which affect disposable income for leisure time activities. We believe that fluctuations in interest rates, consumer confidence, the level of disposable income, and equity securities market trends have an impact on RV sales. Over the past several years, however, we believe there has been a level of resilience in the RV marketplace where RV buyers appear to have prioritized the purchase of a unit over other items in an effort to pursue their desired “lifestyle”. While concerns about the availability and price of gasoline can have an impact on RV demand, market trends also indicate that the average RV owner travels less distance but with similar frequency than during periods of lower gas prices and greater availability.

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

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

Conventional travel trailers and folding camping trailers are non-motorized vehicles designed to be towed by passenger automobiles, sport utility vehicles, crossover vehicles, pick-up trucks or vans. They provide comfortable, self-contained living facilities for short periods. Conventional travel trailers and folding camping trailers are towed by means of a frame hitch attached to the towing vehicle. Fifth wheel trailers, designed to be towed by heavy-duty pick-up trucks, are constructed with a raised forward section that is attached to the bed area of the pick-up truck. This allows for a bi-level floor plan and more living space than a conventional travel trailer. A motor home is a self-powered vehicle built on a motor vehicle chassis. The interior typically includes a driver’s area, kitchen, bathroom, shower, dining, and sleeping areas. Although they are not designed for permanent or semi-permanent living, motor homes do provide comfortable living facilities for short periods.

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

Wholesale unit shipments of RVs in 2006 totaled 390,500, the highest total in the past 25 years. After five consecutive years of record growth, RV shipments declined 9.5% in 2007 as consumers postponed purchases because of early effects of the U.S. economic downturn. Wholesale shipment levels declined approximately 33% to 237,000 units in 2008 from 2007 and declined an additional 30% to 165,700 units in 2009 reflecting tight credit conditions, declining consumer confidence, reduced disposable income levels, and the generally depressed economic environment. However, production levels in the RV industry were stronger than expected in the latter half of 2009 based on a higher demand for RVs by retail dealers. In 2010, the RV industry continued to strengthen as shipment levels increased 46% from 2009 reaching 242,300 units and increased 4% in 2011 to 252,300 units. In 2012, shipment levels increased 13% to 285,700 units, resulting in a cumulative gain of approximately 72% since the recession low in 2009. Despite these increases, wholesale unit shipments of RVs in 2012 were still 15% lower than the average shipment levels during the period 2000-2007. The RVIA expects the recovery to strengthen as credit availability, job security and consumer confidence improve and is currently forecasting full year 2013 wholesale unit shipments to increase by approximately 8% compared to the 2012 level.

The Company estimates that approximately 90% of its revenues related to the RV industry are derived from the towables sector of the market, which is consistent with the overall RV production mix. The towable units are lighter and less expensive than standard gas or diesel powered motorized units, representing a more attractive solution for the cost-conscious buyer. From 2011 to 2012, motorized unit shipments rose approximately 14% and towable unit shipments rose approximately 13%. We believe that we are well positioned with respect to our product mix within the RV industry to take advantage of any improved market conditions.

The following chart reflects the historical wholesale unit shipment levels in the RV industry from 1992 through 2012 per RVIA statistics:

Manufactured Housing

Manufactured homes historically have been one of the principal means for first time homebuyers to overcome the obstacles of large down payments and higher monthly mortgage payments due to the relatively lower cost of construction as compared to site-built homes. Manufactured housing also provides a cost effective alternative for those individuals and families seeking to establish home ownership or whose credit ratings have been impacted by the economic and jobs environment over the past several years. In addition, manufactured homes are an attractive option for those who have migrated to temporary housing alternatives or for retirees and others desiring a lifestyle in which home ownership is less burdensome than in the case of site-built homes. The increase in square footage of living space and updated modern designs in manufactured homes created by multi-sectional models have made them a viable alternative to a larger segment of homebuyers.

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Manufactured homes are constructed to the building standards of the U.S. Department of Housing and Urban Development ("HUD") and are factory built and transported to a site where they are installed, often permanently. Some manufactured homes have design limitations imposed by the constraints of efficient production and over-the-road transit. Delivery expense limits the effective competitive shipping range of the manufactured homes to approximately 400 to 600 miles.

Modular homes, which are built in accordance with state and local building codes, are factory built homes that are built in sections and transported to the site for installation. These homes are generally set on a foundation and are subject to land/home-financing terms and conditions.

The manufactured housing industry is cyclical and is affected by the availability of alternative housing, such as apartments, town houses, condominiums and site-built housing, including repossessed residential housing inventory levels. From 2000 to 2009, annual industry-wide wholesale unit shipments of manufactured homes declined 80%. The 2009 level of 49,800 wholesale units was at the lowest level in the last 50 years. MH unit shipments rose 0.4% in 2010 and 3% in 2011. In 2012, MH unit shipments rose 6%.

We believe the factors responsible for the past decade-plus decline include lack of available financing and access to the asset-backed securities markets, high levels of repossessed housing inventories, over-built housing markets in certain regions of the country that resulted in fewer sales of new manufactured homes, as well as the generally depressed economic environment. Additionally, low conventional mortgage rates and less restrictive lending terms for residential site-built housing over much of this period contributed to the decline as manufactured home loans generally carry a higher interest rate and less competitive terms. The MH industry has also had to contend with credit requirements that became more stringent and a reduction in availability of lenders for manufactured homes for both retailers and dealers. Many of the causes of the recent residential housing crisis are similar to the factors that resulted in the decline in the MH industry beginning in late 1999. While there is demand for permanent rebuilding in areas damaged by catastrophic events in recent years, credit conditions remain adverse especially as a result of the recent credit crisis, and current overall economic conditions are unfavorable in relation to the factors which will promote positive growth. The availability of financing and access to the asset-backed securities market is still restricted, and we believe that employment growth and standard quality-oriented lending practices in the conventional site-built housing markets are needed to enable more balanced demand, thus resulting in the potential for increased production and shipment levels in the MH industry.

Manufactured housing has been negatively impacted by a lack of retail financing and credit availability, slow job growth, and significant foreclosed residential housing inventories, as well as limited channels for the sale of mortgages to the asset-backed credit markets. We expect moderate growth in this industry assuming the availability of credit and recalibration of quality credit standards. However, due to the current real estate and economic environment, fluctuating consumer confidence, and the current retail and wholesale credit markets, the Company currently projects that industry-wide wholesale shipments of manufactured homes will remain low by historical standards until these conditions improve. Factors that may favorably impact production levels in this industry in the future include quality credit standards in the residential housing market, job growth, favorable changes in financing laws, new tax credits for new home buyers and other government incentives, and higher interest rates on traditional residential housing loans.

The following chart reflects the historical wholesale unit shipment levels in the MH industry from 1992 through 2012 per the Manufactured Housing Institute:

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Other Markets

Many of our core manufacturing products, including paper/vinyl laminated panels, shelving, drawer-sides, high-pressure laminated panels, and solid surface, granite and quartz countertops are utilized in the kitchen cabinet, store fixture and commercial furnishings, and residential furniture markets. These markets are generally categorized by a more performance-than-price driven customer base, and provide an opportunity for us to diversify our customer base, while providing increased contribution to our core laminating and fabricating competencies. While the residential furniture markets have been impacted by import pressures, other residential and commercial segments have been less vulnerable, and therefore provide opportunities for increased sales penetration and market share gains. Over the past year, residential housing markets in particular have shown signs of improving across the country and should increase the demand for our products in 2013. Our sales to the industrial market generally lag new housing starts by six to nine months and will vary based on differences in regional economic prospects. As a result, we believe continued focus on the industrial markets will help mitigate the impact of the cyclical patterns in the RV/MH markets on our operating results. We have the available capacity to increase industrial revenue and benefit from the diversity of multiple market segments, unique regional economies and varied customer strategies.

Marketing and Distribution

Our sales are to recreational vehicle and manufactured housing manufacturers and other industrial products manufacturers. We have approximately 600 active customers. We have five customers, who together accounted for approximately 64% and 60% of our consolidated net sales in 2012 and 2011, respectively. The Company had two RV customers that together accounted for approximately 54% and 49% of consolidated net sales for the years ended December 31, 2012 and 2011, respectively.

A majority of products for distribution are generally purchased in carload or truckload quantities, warehoused, and then sold and delivered by us. In addition, approximately 28% and 29% of our distribution segment's products were shipped directly from the suppliers to our customers in 2012 and 2011, respectively. We typically experience a one to two week delay between issuing our purchase orders and the delivery of products to our warehouses or customers. As lead times have declined over the years, in some instances, certain customers have required same-day or next-day service. We generally keep backup supplies of various commodity products in our warehouses to ensure that we have product on hand at all times for our distribution customers. Our customers do not maintain long-term supply contracts, and therefore we must bear the risk of accurate advanced estimation of customer orders. In periods of declining market conditions, customer order rates can decline, resulting in less efficient logistics planning and fulfillment and thus increasing delivery costs due to increased numbers of shipments with fewer products in each shipment. We have no significant backlog of orders.

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With the recent acquisitions in 2012 and certain plant consolidations, we operate 13 warehouse and distribution centers and 14 manufacturing operations located in Alabama, Arizona, California, Georgia, Illinois, Indiana, Minnesota, Oregon, Pennsylvania, Tennessee and Texas. By using these facilities, we are able to minimize our in-transit delivery time and cost to the regional manufacturing plants of our customers.

Patrick does not engage in significant marketing efforts nor does it incur significant marketing or advertising expenditures other than attendance at certain trade shows and the activities of its sales personnel and the maintenance of customer relationships through price, quality of its products, service and customer satisfaction. In our design showroom located in Elkhart, Indiana, many of our manufactured and distribution products are on display for current and potential customers, their design and purchasing staff, and other key product managers and designers. We believe the design showroom has provided Patrick with the opportunity to grow its market share by educating our customers regarding the style and content options that we have available and by offering in-house custom design services to further differentiate our product lines. In addition, we recently redesigned our Company website, www. patrickind.com, to expand our Internet presence and further showcase our primary product brands to both existing and potential customers.

Suppliers

During the year ended December 31, 2012, we purchased approximately 60% of our raw materials and distributed products from twenty different suppliers. The five largest suppliers accounted for approximately 35% of our purchases. We have terms and conditions with certain suppliers that specify exclusivity in certain areas, pricing structures, rebate agreements and other parameters.

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

Regulation and Environmental Quality

The Company's operations are subject to certain federal, state and local regulatory requirements relating to the use, storage, discharge and disposal of hazardous chemicals used during their manufacturing processes. Over the past several years, Patrick has taken a proactive role in certifying that the composite wood substrate materials that it uses to produce products for its customers in the RV marketplace have complied with applicable emission standards developed by the California Air Resources Board ("CARB"). All suppliers and manufacturers of composite wood materials are required to comply with the current CARB regulations.

In 2012, the Company became certified to sell Forestry Stewardship Council ("FSC") certified materials to its customers. The FSC certification provides a link between responsible production and consumption of materials from the world's forests and it assists our customers in making socially and environmentally responsible buying decisions on the products it purchases.

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

Seasonality

Manufacturing operations in the RV and MH industries historically have been seasonal and are generally at the highest levels when the weather is moderate. Accordingly, the Company's sales and profits have generally been the highest in the second and third quarters. However, seasonal industry trends in the past several years have been different from prior years, primarily reflecting volatile economic conditions, fluctuations in RV dealer

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inventories, changing dealer show schedules, interest rates, access to financing, the cost of fuel, and increased demand from RV dealers since the latter part of 2009. In addition, over the past several years, the seasonality cycle in the RV industry has changed as a result of RV dealer shows being held in the September/October timeframe by the two largest Original Equipment Manufacturers ("OEMs") in the industry. Consequently, future seasonal trends may be different from prior years.

Employees

As of December 31, 2012, we had 1,678 employees, 1,526 of which were engaged directly in production, warehousing, and delivery operations; 62 in sales; and 90 in office and administrative activities, which includes purchasing, inventory and production control, customer service, human resources, accounting, and information technology, among others. There were no manufacturing plants or distribution centers covered by collective bargaining agreements. Patrick continuously reviews benefits and other matters of interest to its employees and considers its relations with its employees to be good.

Executive Officers of the Company

The following table sets forth our executive officers as of December 31, 2012:

Name	Position
Todd M. Cleveland	President and Chief Executive Officer
Jeffrey M. Rodino	Chief Operating Officer (1)
Andy L. Nemeth	Executive Vice President of Finance, Chief Financial Officer, and Secretary-Treasurer
James S. Ritchey	Vice President of Sales - South and West
Courtney A. Blosser	Vice President of Human Resources

(1) As of December 31, 2012, Jeffrey M. Rodino was the Executive Vice President of Sales and Operations for the Company. He was appointed Chief Operating Officer effective March 4, 2013.

Todd M. Cleveland (age 44) was appointed Chief Executive Officer as of February 1, 2009. Mr. Cleveland assumed the position of President and Chief Operating Officer of the Company in May 2008. Prior to that, Mr. Cleveland served as Executive Vice President of Operations and Sales and Chief Operating Officer from August 2007 to May 2008 following the acquisition of Adorn by Patrick in May 2007. Mr. Cleveland spent 17 years with Adorn serving as President and Chief Executive Officer since 2004; President and Chief Operating Officer from 1998 to 2004; Vice President of Operations and Chief Operating Officer from 1994 to 1998; Sales Manager from 1992 to 1994; and Purchasing Manager from 1990 to 1992. Mr. Cleveland has over 22 years of manufactured housing, recreational vehicle, and industrial experience in various operating capacities.

Jeffrey M. Rodino (age 42) was appointed Executive Vice President of Sales and Operations for the Adorn, Custom Vinyls and Patrick Distribution business units as of December 2011 and served in that position for the 2012 fiscal year. In March 2013, Mr. Rodino was appointed Chief Operating Officer of the Company. Prior to that, Mr. Rodino served as Vice President Sales for the Midwest from August 2009 to December 2011 and was elected an Officer in May 2010. Mr. Rodino also served in a variety of top-level sales and marketing roles after joining Patrick in 2007 and also held similar key sales positions during his tenure with Adorn from 2001 until May 2007, when Adorn was acquired by Patrick. Mr. Rodino has over 19 years of experience in serving the recreational vehicle, manufactured housing and industrial markets having held key sales management roles at ASA Electronics, Design Components (a former acquisition of Adorn), Odyssey Group/Blazon, and at Adorn and Patrick.

Andy L. Nemeth (age 43) was elected Executive Vice President of Finance, Chief Financial Officer, and Secretary-Treasurer as of May 2004. Prior to that, Mr. Nemeth was Vice President-Finance, Chief Financial Officer, and Secretary-Treasurer from 2003 to 2004, and Secretary-Treasurer from 2002 to 2003. Mr. Nemeth was a Division Controller from 1996 to 2002 and prior to that, he spent five years in public accounting with Coopers & Lybrand (now PricewaterhouseCoopers). Mr. Nemeth has over 21 years of manufactured housing, recreational vehicle, and industrial experience in various financial capacities.

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James S. Ritchey (age 62) was appointed Vice President Sales for the South & West as of August 2009 and elected an Officer in May 2009. Prior to that, Mr. Ritchey served in a variety of top level sales and marketing roles after joining Patrick in 2007 and also held similar key sales positions during his tenure with Adorn from 2001 until May 2007, when Adorn was acquired by Patrick. Mr. Ritchey has over 15 years of experience in serving the manufactured housing, recreational vehicle and industrial markets having held key sales management roles at Décor Gravure (the predecessor of our Gravure Ink business unit) and Design Components (which are both former acquisitions of Adorn), as well as Adorn and Patrick. Mr. Ritchey's background and experience also includes several key management roles in the office furniture industry over a 22-year span starting in 1974.

Courtney A. Blosser (age 46) was appointed Vice President of Human Resources as of October 2009 and elected an Officer in May 2010. Prior to that, Mr. Blosser served in executive level human resource leadership roles that included Corporate Director-Human Resources, Whirlpool Corporation from 2008 to 2009, and Vice President-Human Resources, Pfizer Inc. from 1999 to 2008. Mr. Blosser held human resource leadership roles of increasing responsibility with JM Smucker Company from 1989 to 1999. Mr. Blosser has over 24 years of operations and human resource experience in various industries.

Website Access to Company Reports

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

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

ITEM 1A. RISK FACTORS

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

Our results of operations may continue to be adversely impacted by the residual effects and overhang of the worldwide macroeconomic downturn and recent concerns over the sustainability of the economic recovery.

Although economic conditions improved somewhat in 2010 and further in 2011 and 2012 following the severe general worldwide macroeconomic downturn from 2008 through part of 2010, and, as a result, our sales, operating income, and cash flows improved, a further deterioration in these conditions could negatively affect our operations and result in lower sales, income, and cash flows in the future. In addition, it is still difficult at times for our customers and us to accurately forecast and plan future business activities. If our business conditions warrant, we may be forced to close and/or consolidate certain of our operating facilities, sell assets, and/or reduce our workforce, which may result in our incurring restructuring charges. We cannot predict the duration of an economic downturn, the timing or strength of a subsequent economic recovery or the extent to which an economic downturn will continue to negatively impact our business, financial condition and results of operations.

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It is also possible that recent economic improvements may be reversed if the current economic turmoil in parts of Europe becomes global or the United States Congress fails to resolve certain critical fiscal policy issues it is now facing. In addition, many local governments and many businesses still face financial difficulties due to depressed consumer spending and continued decreased liquidity in the credit markets.

The continuing depressed conditions in the residential housing market have had an adverse impact on our operations in recent years and could have an adverse impact on our operations in 2013 and other future periods.

The residential housing market has experienced overall declines and is expected to remain at depressed levels by historical standards at least through 2013, despite recent and forecasted improvements. Approximately 60% of our industrial revenue in 2012 was directly tied to the residential housing market. In addition, a significant portion of our other industrial revenue and substantially all of our MH revenue is directly or indirectly influenced by conditions in the residential housing market. The decline in demand for residential housing, ongoing credit concerns and the tightening of consumer credit have lowered demand for our industrial and MH products and have had an adverse impact on our operations as a whole. In addition, the impact of the sub-prime mortgage crisis and housing downturn on consumer confidence, discretionary spending, and general economic conditions has decreased and may continue to decrease demand for our products sold to the RV industry.

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

We periodically assess the cost structure of our operating facilities to distribute and/or manufacture and sell our products in the most efficient manner. In 2011, we consolidated the newly acquired countertop manufacturing business of Praxis into one of our existing manufacturing facilities in Elkhart, Indiana that engages in similar activities. In addition, we consolidated the solid surface operations of one of our existing manufacturing facilities located in Elkhart into the larger manufacturing facility acquired with our acquisition of AIA.

In September 2012, we consolidated our Woodburn, Oregon high-pressure laminate manufacturing cell for the industrial market and a distribution center for the RV and MH markets into our recently acquired manufacturing operation in Tualatin, Oregon. In addition, we consolidated the interior passage doors product line from the newly acquired manufacturing business of Creative Wood into one of our existing manufacturing facilities in Elkhart, Indiana that engages in similar activities. We also closed our owned distribution facility in Halstead, Kansas and consolidated the business into the existing Waco, Texas distribution facility as a result of the continued deterioration of the Kansas manufactured housing market. The charges related to the consolidation and/or closure of certain facilities were not significant in 2011 and 2012.

Based on our assessments and if required by business conditions, we may make capital investments to move, discontinue manufacturing and/or distribution capabilities, sell or close all or part of additional manufacturing and/or distribution facilities in the future. These changes could result in significant future charges or disruptions in our operations, and we may not achieve the expected benefits from these changes, which could result in an adverse impact on our operating results, cash flows and financial condition.

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

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

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

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

We have a number of customers that account for a significant percentage of our net sales. Specifically, two customers in the RV market accounted for a combined 54% of consolidated net sales in 2012. The loss of any of our large customers could have a material adverse impact on our operating results. We do not have long-term agreements with customers and cannot predict that we will maintain our current relationships with these customers or that we will continue to supply them at current levels.

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

In 2012, 69% of our net sales were to the RV industry versus 61% in 2011 and 58% in 2010. The increase in the Company's sales concentration in the RV industry primarily resulted from the recovery in RV wholesale unit shipment levels beginning in late 2009, increased RV market penetration by the Company and the Company's successful completion of several RV-related acquisitions in the 2010 to 2012 period. Future declines in RV unit shipment levels or reductions in industry growth could significantly reduce the Company's revenue from the RV industry and have a material adverse impact on our operating results in 2013 and other future periods.

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

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

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

Cyclical economic conditions and seasonality affect the RV and MH markets the Company serves and the results for any prior period may not be indicative of results for any future period.

The RV and MH markets have been characterized by cycles of growth and contraction in consumer demand and dependent upon various factors, including the general level of economic activity, consumer confidence, interest rates, access to financing, inventory and production levels, and the cost and availability of fuel. Economic and demographic factors can cause substantial fluctuations in production, which in turn impact sales and operating results. Our sales levels and operating results could be negatively impacted by changes in any of these items. Consequently, the results for any prior period may not be indicative of results for any future period.

In addition, manufacturing operations in the RV and MH industries historically have been seasonal and are generally at the highest levels when the weather is moderate. However, seasonal industry trends in the past several years have been different from prior years, primarily reflecting volatile economic conditions, fluctuations in RV dealer inventories, changing dealer show schedules, interest rates, access to financing, the cost of fuel, and increased demand from RV dealers since the latter part of 2009. Consequently, future seasonal trends may be different from prior years.

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

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

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

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

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

The products produced by the RV industry typically require gasoline or diesel fuel for their operation, or the use of a vehicle requiring gasoline or diesel fuel for their operation. There can be no assurance that the supply of gasoline and diesel fuel will continue uninterrupted or that the price or tax on fuel will not significantly increase in the future. Shortages of gasoline and diesel fuel have had a significant adverse effect on the demand for recreational vehicles in the past and would be expected to have a material adverse effect on demand in the future. Rapid significant increases in fuel prices, as we experienced in recent years and are currently experiencing, appear to affect the demand for recreational vehicles when gasoline prices reach unusually high levels. Such a reduction in overall demand for recreational vehicles could have a materially adverse impact on our revenues and profitability. Approximately 69% and 61% of our sales were to the RV industry for 2012 and 2011, respectively.

We are dependent on third-party suppliers and manufacturers.

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

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

Prices of certain materials, including gypsum, lauan, particleboard, MDF, and other commodity products, can be volatile and change dramatically with changes in supply and demand. Certain products are purchased from overseas and their availability is dependent upon climate changes, seasonal and religious holidays, political unrest, economic conditions overseas, natural disasters, vessel shipping schedules and port availability. Further, certain of our commodity product suppliers sometimes operate at or near capacity, resulting in some products having the potential of being put on allocation. We generally have been able to maintain adequate supplies of materials and to pass higher material costs on to our customers in the form of surcharges and base price increases where

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needed. However, it is not certain future price increases can be passed on to our customers without affecting demand or that limited availability of materials will not impact our production capabilities. The recent credit crisis and its continuing impact on the financial and housing markets may also impact our suppliers and affect the availability or pricing of materials. Our sales levels and operating results could be negatively impacted by changes in any of these items.

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

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

New regulations related to conflict minerals could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo ("DRC") and adjoining countries. As a result, in August 2012, the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. These new requirements will require due diligence efforts in fiscal 2013, with initial disclosure requirements beginning in May 2014. There will be costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers offering conflict-free minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. We may also face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

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

The loss of any of our executive officers or other key personnel such as our Chief Executive Officer could reduce our ability to manage our business and strategic plan in the short term and could cause our sales and operating results to decline. In addition, our future success will depend on, among other factors, our ability to attract and retain executive management, key employees and other qualified personnel.

Our ability to integrate acquired businesses may adversely affect operations.

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

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

On October 24, 2012, we entered into a credit agreement (the "2012 Credit Agreement") with Wells Fargo Bank, National Association as the agent and lender ("Wells Fargo"), and Fifth-Third Bank ("Fifth-Third") as participant (collectively, the "Lenders"), to establish a five-year $80 million revolving secured senior credit facility (the "2012 Credit Facility"). As of December 31, 2012, we had approximately $49.7 million of total debt outstanding under our 2012 Credit Facility.

If our indebtedness were to increase, it could have adverse consequences on our future operations, including making it more difficult for us to meet our payments on outstanding debt and we may not be able to find alternative financing sources to replace our indebtedness in such an event. Furthermore, increasing our indebtedness could (i) reduce the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes, and limit our ability to obtain additional financing for these purposes; (ii) limit our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business and the industry in which we operate; (iii) place us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged; and (iv) create concerns about our credit quality which could result in the loss of supplier contracts and/or customers.

Our 2012 Credit Agreement contains various financial performance and other covenants. If we do not remain in compliance with these covenants, our 2012 Credit Agreement could be terminated and the amounts outstanding thereunder could become immediately due and payable.

We have debt outstanding that contains financial and non-financial covenants with which we must comply that place restrictions on us. There can be no assurance that we will maintain compliance with the financial covenants under our 2012 Credit Agreement. These covenants require that we attain a maximum level of a consolidated total leverage ratio and a minimum level of a consolidated interest coverage ratio under the 2012 Credit Facility, and adhere to annual capital expenditure limitations as defined by our 2012 Credit Agreement. If we fail to comply with the covenants contained in our 2012 Credit Agreement, the lenders could cause our debt to become due and payable prior to maturity or it could result in our having to refinance the indebtedness under unfavorable terms. If our debt were accelerated, our assets might not be sufficient to repay our debt in full and there can be no assurance that we would be able to refinance any or all of this indebtedness.

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

We depend on our cash balances, our cash flows from operations, and our 2012 Credit Facility to finance our operating requirements, capital expenditures and other needs. If the general economic conditions that prevailed in 2009 and part of 2010 should return in the future, production of RVs and manufactured homes could decline, resulting in reduced demand for our products. A decline in our operating results could negatively impact our liquidity. If our cash balances, cash flows from operations, and availability under our 2012 Credit Facility are insufficient to finance our operations and alternative capital is not available, we may not be able to expand our business and make acquisitions, or we may need to curtail or limit our existing operations.

We have letters of credit representing collateral for our casualty insurance programs and for general operating purposes. The letters of credit are issued under our 2012 Credit Agreement. The inability to retain our current letters of credit, to obtain alternative letter of credit sources, or to retain our 2012 Credit Agreement to support these programs could require us to post cash collateral, reduce the amount of cash available for our operations, or cause us to curtail or limit existing operations.

Increased levels of inventory may adversely affect our profitability.

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

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

A portion of our total assets as of December 31, 2012 was comprised of goodwill, amortizable intangible assets, and property, plant and equipment. Under generally accepted accounting principles, each of these assets is subject to periodic review and testing to determine whether the asset is recoverable or realizable. The events or changes that could require us to test our goodwill and intangible assets for impairment include changes in our estimated future cash flows, changes in rates of growth in our industry or in any of our reporting units, and decreases in our stock price and market capitalization.

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

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

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

- variations in our and our competitors' operating results;
- historically low trading volume;
- high concentration of shares held by institutional investors and in particular our significant shareholder, Tontine Capital (as defined herein);
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- the gain or loss of significant customers;
- additions or departures of key personnel;
- events affecting other companies that the market deems comparable to us;
- general conditions in industries in which we operate;
- general conditions in the United States and abroad;
- the presence or absence of short selling of our common stock;
- future sales of our common stock or debt securities;
- announcements by us or our competitors of technological improvements or new products; and
- the sale by Tontine Capital or its announcement of an intention to sell, all or a portion of its equity interests in the Company.

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

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

A major portion of our common stock is held by Tontine Capital Partners, L.P. and affiliates (collectively, "Tontine Capital"), which has the ability to influence our affairs significantly, including all matters requiring shareholder approval, and whose interests may not be aligned with the interests of our other shareholders. In addition, the concentration of ownership of our common stock by Tontine Capital and a few other holders may have an adverse effect on the price of our common stock.

Based on information contained in a filing by Tontine Capital with the SEC on January 4, 2013, the aggregate number of shares of the Company's common stock beneficially owned by Tontine Capital was 3,977,661 shares or 37.0% of our outstanding common stock as of March 15, 2013.

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Tontine Capital has the ability to influence our affairs significantly, including all matters requiring shareholder approval, including the election of our directors, the adoption of amendments to our Articles of Incorporation, the approval of mergers and sales of all or substantially all of our assets, decisions affecting our capital structure and other significant corporate transactions. In addition to its current major interest, pursuant to a Securities Purchase Agreement with Tontine Capital, dated April 10, 2007, if Tontine Capital (i) holds between 7.5% and 14.9% of our common stock then outstanding, Tontine Capital has the right to appoint one nominee to our board; or (ii) holds at least 15% of our common stock then outstanding, Tontine Capital has the right to appoint two nominees to our board. As of March 15, 2013, Tontine Capital has one director on the Company's board of directors and has not exercised its right to nominate a second director to the board.

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

The ownership of a significant portion of our common stock is concentrated in the hands of Tontine Capital and a few other holders. We are not able to predict whether or when Tontine Capital or other large stockholders will sell or otherwise dispose of additional shares of our common stock. Sales or other dispositions of our common stock by these stockholders could adversely affect prevailing market prices for our common stock.

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

In filings with the SEC, Tontine Capital has indicated that it may dispose of its equity interests in the Company at any time and from time to time in the open market, through dispositions in kind to parties holding an ownership interest in Tontine Capital or otherwise. The public disclosure of such possible disposition may adversely affect the market price for our common stock due to the large number of shares involved. In addition, we are not able to predict whether or when Tontine Capital will dispose of its stock. Any such future disposition of stock by Tontine Capital may also adversely affect the market price of our common stock.

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

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

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

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

We generally negotiate our insurance contracts annually for property, casualty, workers compensation, general liability, health insurance, and directors and officers liability coverage. Due to conditions within these insurance

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markets and other factors beyond our control, future coverage limits, terms and conditions and the amount of the related premiums could have a negative impact on our operating results. While we continually measure the risk/reward of policy limits and coverage, the lack of coverage in certain circumstances could result in potential uninsured losses.

ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

ITEM 2.PROPERTIES

As of December 31, 2012, the Company owned approximately 1,218,200 square feet of manufacturing and distribution facilities and leased approximately 1,033,400 square feet as listed below.

Location	Use (1)	Area Sq. Ft.	Ownership or Lease Arrangement
Elkhart, IN	Distribution	107,000	Owned
Elkhart, IN	Manufacturing	182,000	Owned
Elkhart, IN	Administrative Offices	35,000	Owned
Elkhart, IN	Manufacturing	211,300	Leased to 2015
Elkhart, IN	Manufacturing	198,000	Leased to 2018
Elkhart, IN	Distribution	175,000	Leased to 2016
Elkhart, IN	Distribution	72,000	Owned
Elkhart, IN	Manufacturing	27,000	Leased to 2014
Elkhart, IN	Design Center	3,200	Leased to 2015
Ligonier, IN	Manufacturing	46,200	Leased to 2015
Middlebury, IN	Manufacturing	134,000	Owned
Syracuse, IN	Manufacturing	142,600	Owned
Syracuse, IN	Manufacturing	72,000	Leased to 2015
Decatur, AL	Manufacturing & Distribution	94,000	Owned
Phoenix, AZ	Manufacturing	44,600	Leased to 2013
Fontana, CA	Manufacturing & Distribution	72,500	Leased to 2015
Valdosta, GA	Distribution	31,000	Owned
Bensenville, IL	Manufacturing	54,400	Leased to 2018
Halstead, KS	Distribution	36,000	Owned
Tualatin, OR	Manufacturing & Distribution	76,200	Leased to 2015
Mt. Joy, PA	Manufacturing & Distribution	89,000	Owned
Madisonville, TN	Distribution	53,000	Leased (2)
Waco, TX	Manufacturing & Distribution	132,600	Owned
New London, NC		163,000	Owned (3)

(1) Certain facilities may contain multiple manufacturing or distribution centers.

(2) Leased on a month-to-month basis through May 2013.

(3) Represents an owned building, formerly used for manufacturing and distribution, that is currently leased to a third party on a month-to-month basis.

Pursuant to the terms of the Company’s 2012 Credit Agreement, all of its owned facilities are subject to a mortgage and security interest.

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

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Lease Expirations

We believe the facilities we occupy as of December 31, 2012 are adequate for the purposes for which they are currently being used and are well maintained. We may, as part of our strategic operating plan, further consolidate and/or close certain owned facilities and, may not renew leases on property with near-term lease expirations. Use of our manufacturing facilities may vary with seasonal, economic and other business conditions.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

Our common stock is listed on The NASDAQ Global Stock MarketSM under the symbol PATK. The high and low trade prices per share of the Company's common stock as reported on NASDAQ for each quarterly period during 2012 and 2011 were as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2012	$ 12.15 - $4.10	$ 14.47 - $8.00	$ 15.56 - $10.51	$ 20.33 - $14.06
2011	$ 2.55 - $1.86	$ 2.89 - $1.80	$ 2.35 - $ 1.83	$ 4.74 - $1.54

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

Holders of Common Stock

As of March 15, 2013, we had approximately 330 shareholders of record in addition to beneficial owners of shares held in broker and nominee names.

Dividends

The Company did not pay cash dividends in 2012. Any future determination to pay cash dividends will be made by the Board of Directors in light of the Company's earnings, financial position, capital requirements, and restrictions under the Company's 2012 Credit Agreement, and such other factors as the Board of Directors deems relevant.

Purchases of Equity Securities by the Issuer or Affiliated Purchasers

In the fourth quarter of 2012, a total of 5,970 shares of common stock at a price of $18.49 per share were delivered to the Company for the sole purpose of satisfying the minimum tax withholding obligations of employees upon the vesting of stock awards held by the employees. No shares were repurchased in the open market.

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Period	(a) Total Number of Shares Purchased		(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
Oct. 1 - Oct. 28, 2012	5,970	$	18.49	-	-
Oct. 29 - Dec. 2, 2012	-		-	-	-
Dec. 3 - Dec. 31, 2012	-		-	-	-
Total	5,970			-	-

Stock Buyback Plan

On February 22, 2013, the Company's Board of Directors authorized a stock repurchase program for purchasing up to $10 million of the Company's common stock from time to time through open market or private transactions over the next 12 months. The timing and amount of purchases under the program will be determined by management based upon market conditions and other factors. As of March 15, 2013, the Company had repurchased 193,847 shares at an average price of $13.63 for a total cost of approximately $2.6 million.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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

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

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

Year Ended December 31, 2012 Compared to 2011
Year Ended December 31, 2011 Compared to 2010

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2,251,364

2008	450,000	225,000	473,765	—	—	79,317	(6)	1,228,082

(1) Represents the discretionary portion of the NEO's bonus to be paid on or before March 15, 2011.

(2) All stock awards were granted under our stock incentive plan. The value reported above in the "Stock Awards" column is the aggregate grant date fair value for each NEO's restricted share award granted in 2010, 2009 and 2008. Assumptions used in the calculation of these amounts are included in Note 10 of the Notes to Consolidated Financial Statements in our Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

(3) All option awards were granted under our stock incentive plan. The value reported above in the "Option Awards" column is the aggregate grant date fair value for Mr. Goldberg's option awards granted in 2010, 2009 and 2008, determined in accordance with FASB ASC Topic 718, "Compensation—Stock Compensation". Assumptions used in the calculation of these amounts are included in Note 10 of the Notes to Consolidated Financial Statements in our Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

(4) As discussed in the "Compensation Discussion & Analysis" section of this proxy statement, the quantitative component of each NEO's bonus is calculated and paid two years following the end of the fiscal year in which the business is underwritten and is based on performance over this extended period. Accordingly, quantitative bonuses are not earned in the year in which the business is underwritten but rather they are earned at the end of the applicable performance period. In the case of the 2008 quantitative bonus, in February 2011 our Compensation Committee approved the amounts reported above based on performance through December 31, 2010 and calculations performed as of January 1, 2011. These amounts are expected to be paid on or before March 15, 2011 and are reported as non-equity incentive plan compensation for the 2010 year.

As of December 31, 2010, we estimate that the bonus amounts relating to the 2009 and 2010 underwriting years, payable in 2012 and 2013 respectively, would equal approximately $1,293,953 for Mr. Goldberg (2010: $1,175,305; 2009: $118,648), $1,293,953 for Mr. Hedges (2010: $1,175,305; 2009: $118,648) and $232,912 for Mr. Courtis (2010: $211,555; 2009: $21,357). We note, however, that these amounts will be adjusted based on changes in underwriting results and the ultimate amount paid could be materially different than the estimates provided. Additionally, because our Compensation Committee has discretion to pay more or less than the amount resulting from the performance based funding calculation, the ultimate amount of the quantitative portion of the bonus for each NEO may differ from the estimate provided herein. We expect that final decisions with respect to the 2009 and 2010 quantitative bonus amounts will be made in February 2012 and February 2013, respectively, subject to any timing adjustments required pursuant to Code Section 457A.

(5) The amounts shown in this column include a housing allowance and the amounts we contributed to our defined contribution pension plan on behalf of each NEO.

(6) Includes a $72,000 housing allowance and amounts contributed to our defined contribution pension plan on behalf of each of Mr. Goldberg, Mr. Hedges and Mr. Courtis.

(7) Includes a $102,000 housing allowance and amounts contributed to our defined contribution pension plan on behalf of Mr. Goldberg.

Grants of Plan Based Awards for Fiscal Year 2010

Our Compensation Committee, or our Board of Directors acting as our Compensation Committee, granted stock option and restricted share awards under our stock incentive plan and established target quantitative bonuses (which will be paid in 2013) for our NEOs in 2010. Set forth in the following table is information regarding stock option and restricted share awards granted in 2010 as well as 2010 estimated quantitative bonus amounts.

GRANTS OF PLAN BASED AWARDS IN FISCAL YEAR 2010

	Grant Date	Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)	Estimated Future Payouts Under Equity Incentive Plan Awards	All other Stock Awards: Number of Shares of Stock or Units (#)(2)	All other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)(4)
Leonard Goldberg	3/15/10	2/16/10	—	—	19,040	—	—	476,000
Leonard Goldberg	8/05/10	12/30/08	—	—	—	80,000	32.42(3)	830,960
Leonard Goldberg	—	—	1,175,305	—	—	—	—	—
Tim Courtis	3/15/10	2/16/10	—	—	19,040	—	—	476,000
Tim Courtis	—	—	211,555	—	—	—	—	—
Barton Hedges	3/15/10	2/16/10	—	—	19,040	—	—	476,000
Barton Hedges	—	—	1,175,305	—	—	—	—	—

(1) The amounts reflect the NEO’s estimated quantitative bonus amounts with respect to the 2010 underwriting year.

(2) The amount represents a grant of restricted shares made pursuant to our stock incentive plan. Each restricted share award is subject to three-year cliff vesting.

(3) The exercise price of the option award is 1.7 times the fully diluted book value as of the immediately preceding quarter end before the grant date.

(4) The amounts reflect the aggregate grant date fair value for each NEO's restricted share and option awards granted in 2010, determined in accordance with FASB ASC Topic 718, "Compensation—Stock Compensation". Assumptions used in the calculation of these amounts are included in Note 10 of the Notes to Consolidated Financial Statements in our Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END 2010

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(1)	Market Value of Shares or Units of Stock That Have Not Vested ($)(2)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Leonard Goldberg	500,000	—	—	11.10	8/15/15	90,725 (11)	2,432,337	—	—
	110,000	—	—	13.48	10/05/16	—	—	—	—
	50,000 (5)	—	—	19.60	8/15/17	—	—	—	—
	60,000 (6)	20,000	—	29.39	8/11/18	—	—	—	—
	40,000 (7)	40,000	—	28.44	8/14/19	—	—	—	—
	20,000 (8)	60,000	—	32.42	8/05/20	—	—	—	—
Tim Courtis	75,000	—	—	12.72	5/01/16	85,725 (12)	2,298,287	—	—
Barton Hedges	250,000 (10)	—	—	11.63	1/02/16	84,058 (13)	2,253,595	—	—

(1) Reflects grants of restricted shares made pursuant to our stock incentive plan. All restricted shares are subject to three-year cliff vesting.

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(2) Assumes a stock price of $26.81, the closing price of the Class A ordinary shares on December 31, 2010.

(3) Mr. Goldberg was granted an option to purchase 500,000 Class A ordinary shares on August 15, 2005 in accordance with the terms of his employment agreement. The option became exercisable with respect to 166,666 shares on August 15, 2006 and became exercisable with respect to another 166,667 shares on each of August 15, 2007 and August 15, 2008.

(4) Mr. Goldberg was granted an option to purchase 110,000 Class A ordinary shares on October 5, 2006, 100,000 of which were granted in accordance with the terms of his employment agreement and another 10,000 of which were granted at the discretion of the Compensation Committee. The option became exercisable with respect to 36,667 shares each on each of October 5, 2007 and October 5, 2008, and became exercisable with respect to 36,666 shares on October 5, 2009.

(5) Mr. Goldberg was granted an option to purchase 50,000 Class A ordinary shares on August 15, 2007 in accordance with the terms of his employment agreement. The option became exercisable with respect to 16,667 shares on each of August 15, 2008 and August 15, 2009, and became exercisable with respect to an additional 16,666 shares on August 15, 2010.

(6) Mr. Goldberg was granted an option to purchase 80,000 Class A ordinary shares on August 11, 2008 in accordance with the terms of his employment agreement. The option became exercisable with respect to 20,000 shares immediately upon grant and became exercisable with respect to another 20,000 shares on each of August 11, 2009 and August 11, 2010 and will become exercisable with respect to the remaining 20,000 shares on August 11, 2011.

(7) Mr. Goldberg was granted an option to purchase 80,000 Class A ordinary shares on August 14, 2009 in accordance with the terms of his employment agreement. The option became exercisable with respect to 20,000 shares immediately upon grant and became exercisable with respect to another 20,000 shares on August 14, 2010 and will become exercisable with respect to an additional 20,000 shares on each of August 14, 2011 and August 14, 2012.

(8) Mr. Goldberg was granted an option to purchase 80,000 Class A ordinary shares on August 5, 2010 in accordance with the terms of his employment agreement. The option became exercisable with respect to 20,000 shares immediately upon grant and will become exercisable with respect to an additional 20,000 shares on each of August 5, 2011, August 5, 2012 and August 5, 2013.

(9) Mr. Courtis was granted an option to purchase 75,000 Class A ordinary shares on May 1, 2006 in accordance with the terms of his employment agreement. The option became exercisable with respect to 25,000 shares on each of May 1, 2007, May 1, 2008 and May 1, 2009.

(10) Mr. Hedges was granted an option to purchase 250,000 Class A ordinary shares on January 2, 2006 in accordance with the terms of his employment agreement. The option became exercisable with respect to 83,334 shares on January 2, 2007 and became exercisable with respect to 83,333 shares on each of January 2, 2008 and January 2, 2009.

(11) Mr. Goldberg was awarded 24,935 restricted shares on March 24, 2008, 46,750 restricted shares on March 13, 2009, and 19,040 restricted shares on March 15, 2010. These restricted shares will vest on the third anniversary of each grant date respectively.

(12) Mr. Courtis was awarded 24,935 restricted shares on March 24, 2008, 41,750 restricted shares on March 13, 2009, and 19,040 restricted shares on March 15, 2010. These restricted shares will vest on the third anniversary of each grant date respectively.

(13) Mr. Hedges was awarded 24,935 restricted shares on March 24, 2008, 40,083 restricted shares on March 13, 2009, and 19,040 restricted shares on March 15, 2010. These restricted shares will vest on the third anniversary of each grant date respectively.

Option Exercises and Stock Vested in Fiscal 2010

No stock options were exercised by our NEOs in 2010. The following table provides information regarding the stock awards that vested in 2010.

Name	Number of Shares Acquired On Vesting (#)	Value Realized on Vesting
Leonard Goldberg	37,000	$925,000
Tim Courtis	19,065	$476,625
Barton Hedges	33,500	$837,500

Equity Compensation Plan Information

The following table provides information as of December 31, 2010 with respect to the Company's Class A ordinary shares that may be issued upon the exercise of options, warrants and restricted shares granted to employees, consultants or members of the board of directors under all of our existing compensation plans, including the 2004 stock incentive plan, each as amended.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)	
Equity compensation plans approved by security holders	1,659,000	(1)	$ 14.35	1,419,295	(2)
Equity compensation plans not approved by security holders	—		—	—	
Total	1,659,000	(1)	$14.35	1,419,295	(2)

(1) Includes 1,359,000 Class A ordinary shares issuable upon the exercise of options that were outstanding under the Stock Incentive Plan as of December 31, 2010. Also includes 400,000 Class A ordinary shares issuable upon the exercise of share purchase options granted in 2004 to a consultant, First International Capital Holdings, Ltd., or FIC, less 100,000 Class A ordinary share purchase options repurchased from FIC.

(2) Represents the difference between the number of securities issuable under the stock incentive plan (3,500,000) and the number of securities issued under the stock incentive plan as of December 31, 2010 (2,080,705). The number of securities issued under the stock incentive plan consists of options to acquire 1,359,000 Class A ordinary shares as well as 721,705 issued shares.

Pension Benefits

None of our NEOs participate in a qualified or non-qualified defined benefit pension plan sponsored by us. In accordance with the National Pensions Law (2000 Revision) of the Cayman Islands, all Cayman Islands-based employers are required to make a contribution to a pension plan for each person they employ. As of June 1, 2006, we adopted a defined contribution pension plan. The amounts contributed to this plan on behalf of the NEOs are set forth in the following table.

Non-qualified Deferred Compensation in Fiscal Year 2010

Name	Executive Contributions in Last Fiscal Year ($)	Registrant Contributions in Last Fiscal Year ($)(1)	Aggregate Earnings in Last Fiscal Year ($)(2)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year-End ($)
Leonard Goldberg	—	7,317	2,832	—	36,061
Tim Courtis	—	7,317	2,283	—	36,009
Barton Hedges	—	7,317	2,794	—	35,594

(1) The amounts provided in this column represent the amount of the contributions we made on behalf of each NEO to our defined contribution pension plan during 2010. These amounts are also reported as compensation in the Summary Compensation Table under the "All Other Compensation" column.

(2) Earnings are measured based on the NEO's individual investment selections. The aggregate earnings and aggregate balance data for each NEO under the defined contribution pension plan is reported net of any pension plan expenses.

Employment Agreements

The following paragraphs summarize the material terms of the employment agreements of our NEOs. The severance provisions of these agreements are summarized in the section titled "Potential Payments Upon Termination or Change in Control" below.

Chief Executive Officer

Leonard Goldberg. We have entered into an employment agreement with Leonard Goldberg under which he serves as our Chief Executive Officer for a term beginning on August 15, 2008 (amended December 30, 2008) and ending on August 14, 2011. Under the terms of his employment agreement, Mr. Goldberg is entitled to receive an annual salary of not less than $400,000, subject to increase as determined by our Board of Directors, and an annual performance-based bonus with a target equal to 125% of base salary. Mr. Goldberg receives a Cayman Islands housing allowance of $6,000 per month and is entitled to participate in our employee benefit plans and insurance programs. Mr. Goldberg is also reimbursed for certain tax preparation expenses. Under the terms of his employment agreement, on August 11, 2008, August 14, 2009 and August 5, 2010, Mr. Goldberg was granted an option to acquire 80,000 Class A ordinary shares, respectively. On each third Nasdaq trading day following our release of earnings results for the quarterly period ended June 30, on which Mr. Goldberg is employed by us, he will be granted an additional option to acquire 80,000 Class A ordinary shares. All shares subject to an option must have an exercise price equal to the greater of the fair market value per share on the date of grant and 1.7 times our fully diluted book value per share at June 30 preceding the grant date.

Mr. Goldberg is subject to a six-month post-termination non-competition restriction and a one-year post-termination non-solicitation restriction in addition to perpetual confidentiality and non-disparagement requirements. The non-competition restriction does not apply if Mr. Goldberg's employment terminates at the end of its term under circumstances that do not entitle him to receive severance payments.

Executive Officers

Barton Hedges. We have entered into an employment agreement effective January 10, 2006 (amended December 30, 2008) with Barton Hedges under which he serves as our President and Chief Underwriting Officer of Greenlight Re. The employment agreement does not have a fixed term. Under the terms of his employment agreement, Mr. Hedges is entitled to receive an annual salary of not less than $450,000, subject to increase as determined by our Board of Directors, and an annual performance-based bonus with a target equal to 100% of base salary. Mr. Hedges receives a Cayman Islands housing allowance of $6,000 per month and is entitled to participate in our employee benefit plans and insurance programs. Mr. Hedges is also reimbursed for certain tax preparation expenses. Under the terms of his employment agreement, on January 2, 2006, Mr. Hedges received an option to acquire 250,000 Class A ordinary shares with an exercise price equal to the fair market value per share on the date of grant. On February 18, 2009 we amended the employment agreement with Mr. Hedges such that, with effect from January 1, 2009, Mr. Hedges is entitled to receive an annual salary of $500,000.

Tim Courtis. We have entered into an employment agreement effective May 1, 2006 (amended December 30, 2008) with Tim Courtis under which he serves as our Chief Financial Officer. The employment agreement does not have a fixed term. Mr. Courtis receives an annual base salary of not less than $300,000, subject to increase as determined by our Board of Directors, and an annual performance-based bonus with a target equal to 50% of base salary. Mr. Courtis receives a Cayman Islands housing allowance of $6,000 per month and is entitled to participate in our employee benefit plans and insurance programs. Under the terms of his employment agreement, on May 1, 2006, Mr. Courtis received an option to acquire 75,000 Class A ordinary shares with an exercise price equal to the fair market value per share on the date of grant. On February 18, 2009 we amended the employment agreement with Mr. Courtis such that, with effect from January 1, 2009, Mr. Courtis' target bonus is 60% of base salary.

Mr. Hedges and Mr. Courtis are also subject to a six-month post-termination non-competition restriction and a one-year post-termination non-solicitation restriction in addition to perpetual confidentiality and non-disparagement requirements.

The employment agreements of our NEOs were amended in 2008 in order to comply with Section 409A and Section 457A of the Code.

The Stock Incentive Plan

General

On August 11, 2004, we adopted the Greenlight Capital Re, Ltd. 2004 stock incentive plan, or the stock incentive plan, which was amended and restated on August 15, 2005, February 14, 2007, May 4, 2007 and April 28, 2010. The general purpose of the stock incentive plan is to enable us and our affiliates to retain the services of eligible employees, directors and consultants through the grant of stock options, stock bonuses and rights to acquire restricted shares (collectively referred to as the awards).

Subject to adjustment in accordance with the terms of the stock incentive plan, 3,500,000 Class A ordinary shares are available for the grant of awards under the stock incentive plan. The maximum number of Class A ordinary shares with respect to which options may be granted to any participant during any calendar year is 500,000 Class A ordinary shares. As of December 31, 2010, 1,419,000 options and 661,705 restricted shares have been granted under the stock incentive plan.

Administration

Our Compensation Committee administers the stock incentive plan and has broad discretion, subject to the terms of the stock incentive plan, to determine which eligible participants will be granted awards, prescribe the terms and conditions of awards, establish rules and regulations for the interpretation and administration of the stock incentive plan and adopt any modifications, procedures or sub-plans that may be necessary or desirable to comply with the laws of foreign countries in which we or our affiliates operate to assure the viability of awards granted under the stock incentive plan.

Options

Options are subject to such terms and conditions as our Compensation Committee deems appropriate. Our Compensation Committee determines the per share exercise price of options which will not be less than 100% of the fair market value of the Class A ordinary shares on the date of grant. Options generally expire ten years from the date of grant and vest and become exercisable as determined by our Compensation Committee on the date of grant.

Unless otherwise provided in an individual option agreement and subject to the stock incentive plan's adjustment provision, a change of control will not affect any options granted under the stock incentive plan.

Restricted Shares

Restricted shares are subject to such terms and conditions as our Compensation Committee deems appropriate as set forth in individual award agreements. Participants may be entitled to vote the restricted shares while held in our custody. Our Compensation Committee determines the purchase price, if any, of restricted Class A ordinary shares.

Stock Bonus Awards

Stock bonus awards are subject to such terms and conditions as our Compensation Committee deems appropriate. To the extent permitted so that the Class A ordinary shares awarded will be treated as fully paid, a stock bonus may be awarded in consideration for past services rendered.

Adjustments

Our Compensation Committee will determine the appropriate adjustments to be made in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available with respect to an award upon the occurrence of certain events affecting our capitalization such as a dividend or other distribution, recapitalization, reclassification, stock split, reverse stock split, reorganization, merger, consolidation, spin-off or sale, transfer or disposition of all or substantially all of our assets or stock. For example, our Compensation Committee shall adjust the number of Class A ordinary shares subject to outstanding awards and the exercise price of outstanding options.

Amendment/Termination

Our Board of Directors may amend the stock incentive plan at any time. Except as provided in the stock incentive plan, no amendment will be effective unless approved by our shareholders to the extent shareholder approval is necessary to satisfy any applicable law or any national securities exchange listing requirement, and no amendment will be made that would adversely affect rights under an award previously granted under the stock incentive plan without the consent of the affected participants. Our Compensation Committee may suspend or terminate the stock incentive plan at any time.

Unless sooner terminated, the stock incentive plan will terminate on April 27, 2020.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Employment Agreements

Leonard Goldberg

In the event that we terminate Mr. Goldberg's employment without cause (as defined below), Mr. Goldberg terminates his employment for good reason (as defined below) or his employment terminates at the end of the term of his employment agreement without an offer from us of continued employment on substantially similar terms, we will pay Mr. Goldberg a lump sum payment as soon as practicable following termination but in no event later than 90 days following the date of termination equal to accrued but unpaid base salary, bonus, and vacation pay; and a pro-rated portion of the target bonus that would have been paid for the year in which his employment terminated assuming targets had been achieved. In addition, we will pay him as severance in twelve monthly installments the sum of his annual base salary and target bonus provided that he does not breach the restrictive covenants in his employment agreement. The commencement of these payments will be delayed for six months if our Board of Directors determines that such payments constitute non-qualified deferred compensation and Mr. Goldberg is a "specified employee" within the meaning of Section 409A of the Code with the first payment after the delay period being equal to the amount that would have been paid had no delay been imposed. In addition, the final severance payment to Mr. Goldberg will be paid no later than December 31 of the year following the year in which the severance payments are no longer subject to a substantial risk of forfeiture.

If Mr. Goldberg's employment terminates as a result of his death or permanent retirement from the reinsurance industry, Mr. Goldberg and/or his beneficiaries, legal representatives or estate will become entitled to accrued but unpaid base salary, bonus and vacation pay; and a pro-rated portion of the target bonus that would have been paid for the year in which his employment terminated assuming targets had been achieved, as soon as practicable following termination but in no event later than 90 days following the date of termination. In addition, if Mr. Goldberg's employment terminates as a result of his death, his spouse and dependents will become entitled to receive health benefits for one year. We may terminate Mr. Goldberg's employment agreement upon 30 days' prior written notice if he becomes disabled. If Mr. Goldberg's employment terminates because of disability (as defined below), in addition to the accrued but unpaid compensation discussed above and pro-rated bonus, Mr. Goldberg will become entitled to receive base salary and continued health benefits for the lesser of one year or until Mr. Goldberg is eligible to receive long-term disability benefits under any long-term disability plan that we may establish; provided, that, in no event will the final payment be made later than December 31 of the year following the year in which the severance payments are no longer subject to a substantial risk of forfeiture. Continued base salary payments will be paid in accordance with our regular payroll schedule. The commencement of these payments will be delayed for six months if our Board of Directors determines that such payments constitute non-qualified deferred compensation and Mr. Goldberg is a "specified employee" within the meaning of Section 409A of the Code with the first payment after the delay period being equal to the amount that would have been paid had no delay been imposed. If we are not able to provide Mr. Goldberg, his spouse, or dependents with continued participation in our health plan, we will pay Mr. Goldberg for the cost of such benefits which does not exceed the amount which we would have paid if they had been entitled to participate. The cost of such benefits will be paid in accordance with the procedures we establish.

We may require that Mr. Goldberg execute a release of claims against us as a condition for compensation or benefits payable upon any termination of employment.

Tim Courtis and Barton Hedges

In the event that we terminate either Mr. Courtis' or Mr. Hedges' employment without cause (as defined below), or either NEO terminates his employment for good reason (as defined below), we will pay him accrued but unpaid base salary, bonus and vacation pay; and a pro-rated portion of the target bonus that would have been paid for the year in which he was terminated assuming targets had been achieved, as soon as practicable following termination but in no event later than 90 days following the date of termination. In addition, we will pay him severance in twelve monthly installments equal to the sum of his annual base salary and target bonus assuming targets had been achieved, provided that he does not breach the restrictive covenants in his employment agreement. Because he would need to relocate upon his termination from the Company, Mr. Courtis is also entitled to receive an additional $25,000 lump sum payment at the same time he receives his first monthly severance payment. The commencement of the payments will be delayed for six months if our Board of Directors determines that such payments constitute nonqualified deferred compensation and Mr. Courtis or Mr. Hedges is a "specified employee" within the meaning of Section 409A of the Code and the first payment will be equal to the aggregate amount the NEO would have received during the delay period had no delay been imposed. In addition, the final severance payment to either Mr. Courtis or Mr. Hedges will be paid no later than December 31 of the year following the year in which the severance payments are no longer subject to a substantial risk of forfeiture.

If either Mr. Courtis' or Mr. Hedges' employment terminates as a result of his death, his beneficiary, legal representatives or estate will become entitled to accrued but unpaid base salary, bonus and vacation pay; and a pro-rated portion of the target bonus that would have been paid for the year in which his employment terminated assuming targets had been achieved, as soon as practicable following termination but in no event later than 90 days following the date of termination. In addition, his spouse and dependents will become entitled to receive health benefits for one year. We may terminate either Mr. Courtis' or Mr. Hedges' employment agreement upon 30 days' prior written notice if he becomes disabled. If either Mr. Courtis' or Mr. Hedges' employment terminates because of disability, he will become entitled to accrued but unpaid base salary, bonus and vacation pay; a pro-rated portion of the target bonus that would have been paid for the year in which his employment was terminated assuming targets had been achieved, as soon as practicable following termination but in no event later than 90 days following the date of termination; and base salary and continued health benefits for the lesser of one year or until he is eligible to receive long-term disability benefits under any long-term disability plan that we may establish. Continued base salary payments will be paid in accordance with our regular payroll schedule. The commencement of these payments will be delayed for six months if our Board of Directors determines that such payments constitute non-qualified deferred compensation and Mr. Hedges or Mr. Courtis is a "specified employee" within the meaning of Section 409A of the Code with the first payment after the delay period being equal to the amount that would have been paid had no delay been imposed. If we are not able to provide either Mr. Courtis or Mr. Hedges, their spouses or dependents with continued participation in our health plan, we will pay for the cost of such benefits which does not exceed the amount which we would have paid if they have been entitled to participate. The cost of such benefits will be paid in accordance with the procedures we establish.

We may require that Mr. Courtis or Mr. Hedges execute a release of claims against us as a condition for compensation or benefits payable upon any termination of employment.

For purposes of the employment agreements, "cause" generally means:

- the NEO's drug or alcohol use which impairs his ability to perform his duties;
- conviction by a court, or plea of "no contest" or guilty to a criminal offense;
- engaging in fraud, embezzlement or any other illegal conduct with respect to us and/or any of our affiliates;
- willful violation of the restrictive covenants set forth in his employment agreement;
- willful failure or refusal to perform the duties under his employment agreement; or
- breach of any material provision of his employment agreement or any of our or any of our affiliates' policies related to conduct which is not cured, if curable, within ten days after written notice is given.

For purposes of the employment agreements, "good reason" generally means any of the following events which is not cured, if curable, within 30 days after the NEO has given notice thereof:

- any material and adverse change to the NEO's duties or authority which is inconsistent with his title and position;
- a reduction of the NEO's base salary; or
- a failure by us to comply with any other material provisions of the employment agreement.

In addition to the above provisions, the definition of "good reason" in Mr. Goldberg's employment agreement also includes a diminution of his title or position or a change in control (change in control has the same definition as in the stock incentive plan discussed above).

For purposes of the employment agreements, "disability" generally means if, as a result of incapacity due to physical or mental illness, the NEO is substantially unable to perform his duties for an entire period of at least 90 consecutive days or 180 non-consecutive days within any 365-day period.

Stock Incentive Plan and Awards Granted Thereunder

Under the terms of the stock incentive plan, unless an option award provides otherwise, upon termination other than for cause, death or disability (as defined below), all unvested options terminate and the participant may exercise his or her vested options within the period ending upon the earlier of three months following termination or ten years from the grant date of the option (i.e., the option's expiration date). Unless an option award provides otherwise, upon termination for cause (as defined below), all vested and unvested options will terminate. Unless an option award provides otherwise, upon termination for death or disability, all unvested options will terminate, and the vested portion of the option may be exercised for the period ending upon the earlier of twelve months following termination or the option's expiration date.

Under the terms of the option grants which Mr. Goldberg received in 2007, 2008, 2009 and 2010, any unvested portion of each option award vests upon our termination of his employment without cause (as defined in his employment agreement, see description above), or Mr. Goldberg's termination of employment for good reason (as defined in his employment agreement, see description above), or when his employment period expires if we do not offer Mr. Goldberg continued employment on substantially similar terms, and the option will remain exercisable until the expiration date. Upon Mr. Goldberg's termination due to his death or disability (as defined in his employment agreement, see description above), any unvested portion of the option will terminate and any vested portion of the option will remain exercisable until the expiration date. If we terminate Mr. Goldberg's employment due to his permanent retirement from the reinsurance industry, any unvested portion of the option will terminate, and the vested portion will remain exercisable until expiration, unless Mr. Goldberg becomes employed by an entity which competes with any aspect of our or our affiliates' business, in which case, the option will immediately terminate. If we terminate Mr. Goldberg's employment for cause, all vested and unvested portions of the option will terminate. If Mr. Goldberg's employment terminates under any other circumstances, the unvested portion of the option will terminate and the vested portion will remain exercisable for 90 days, but no later than the expiration date.

Under the terms of the option grants awarded to Mr. Courtis and Mr. Hedges, upon termination of employment, the awards remain exercisable in accordance with the terms of the stock incentive plan, except that upon termination, other than for cause, death or disability each as defined below, all vested options remain exercisable for the period ending upon the earlier of 90 days or the expiration date.

Under the terms of the restricted share awards granted to each of Messrs. Goldberg, Hedges and Courtis, the awards will automatically vest upon the executive's termination of employment due to death or disability or upon the occurrence of a change in control. If the executive's employment terminates for any other reason, the unvested shares of restricted shares will be automatically repurchased by the Company for par value and cancelled.

Upon a change in control , our Compensation Committee has the discretion to vest unvested options and restricted shares. In the tables below, it is assumed that the Compensation Committee exercised its discretion to vest unvested options and restricted shares.

For purposes of the stock incentive plan, "cause" generally means: if the participant is a party to an employment agreement or other agreement with us or an affiliate and such agreement provides for a definition of cause, the definition contained in the agreement, or, if no such agreement or definition exists, cause means a participant's:

- material breach of his employment agreement or other agreement;
- continued failure to satisfactorily perform assigned job responsibilities or to follow the reasonable instructions of his superiors, including, without limitation, our Board of Directors;

- commission of a crime constituting a criminal offense or felony (or its equivalent) or other crime involving moral turpitude; or

- material violation of any material law or regulation or any policy or code of conduct adopted by us or engaging in any other form of misconduct which, if it were made public, could reasonably be expected to adversely affect our or an affiliate's business reputation or affairs.

For purposes of the stock incentive plan, "disability" generally means, if the participant is a party to an employment agreement or other agreement with us or an affiliate and the agreement provides for a definition of disability, the definition contained in the agreement, or, if no such agreement or definition exists, disability will mean the failure of the participant to perform his duties due to physical or mental incapacity as determined by our Compensation Committee.

For purposes of our stock incentive plan, "change in control" generally means the occurrence of one of the following events: (i) any person or group becomes the beneficial owner, directly or indirectly, of 51% or more of our common stock (measured by voting power rather than number of shares); or (ii) we consolidate or merge with or into any other person or group or sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of our assets and the assets of our direct and indirect subsidiaries to any other person or group, in either one transaction or a series of related transactions that occur within six months, other than a consolidation or merger or disposition of assets.

Assuming Mr. Goldberg's employment terminated under each of the circumstances described above on December 31, 2010, such payments and benefits have an estimated value of:

Event	Pro-Rated Bonus $	Total Cash Severance $	Value of Medical Continuation $	Value of Accelerated Equity(3) $	Total $
Termination without Cause, for Good Reason, or upon expiration of Employment Agreement without similar offer of employment	500,000	900,000 (1)	N/A	—	1,400,000
Death	500,000	N/A	15,205	2,432,337	2,947,542
Permanent Resignation from the Reinsurance Industry	500,000	N/A	N/A	N/A	500,000
Disability	500,000	400,000 (2)	15,205	2,432,337	3,347,542
Change in Control	N/A	N/A	N/A	2,432,337	2,432,337

(1) Calculated as the sum of base salary ($400,000) and target bonus ($500,000).

(2) Calculated as one times base salary.

(3) Calculated as the sum of (i) the spread value (being the difference between the exercise price and the share value on December 31, 2010) of the options and (ii) the fair market value of unvested restricted shares subject to accelerated vesting if a termination or change in control occurred on December 31, 2010 and using a share price of $26.81, the December 31, 2010 closing share price.

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Assuming Mr. Hedges' employment terminated under each of the circumstances described above on December 31, 2010, such payments and benefits have an estimated value of:

Event	Pro-Rated Bonus $	Total Cash Severance $	Value of Medical Continuation $	Value of Accelerated Equity(3) $	Total $
Termination without Cause or for Good Reason	500,000	1,000,000 (1)	N/A	N/A	1,500,000
Death	500,000	N/A	11,375	2,253,595	2,764,970
Disability	500,000	500,000 (2)	11,375	2,253,595	3,264,970
Change in Control	N/A	N/A	N/A	2,253,595	2,253,595

(1) Calculated as the sum of base salary ($500,000) and target bonus ($500,000).

(2) Calculated as one times base salary.

(3) Calculated as the sum of (i) the spread value of the options and (ii) the fair market value of the unvested restricted shares subject to accelerated vesting if a change in control occurred on December 31, 2010 and using a share price of $26.81, the December 31, 2010 closing share price.

Assuming Mr. Courtis' employment terminated under each of the circumstances described above on December 31, 2010, such payments and benefits have an estimated value of:

Event	Pro-Rated Bonus $	Total Cash Severance $	Value of Medical Continuation $	Value of Accelerated Equity(3) $	Total $
Termination without Cause or for Good Reason	180,000	505,000 (1)	N/A	N/A	685,000
Death	180,000	N/A	15,205	2,298,287	2,493,492
Disability	180,000	300,000 (2)	15,205	2,298,287	2,793,492
Change in Control	N/A	N/A	N/A	2,298,287	2,298,287

(1) Calculated as the sum of base salary ($300,000) and target bonus ($180,000) plus an additional $25,000 for relocation expenses.

(2) Calculated as one times base salary.

(3) Calculated as the sum of (i) the spread value of the options and (ii) the fair market value of the unvested restricted shares subject to accelerated vesting if a change in control occurred on December 31, 2010 and using a share price of $26.81, the December 31, 2010 closing share price.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee currently consists of Messrs. Isaacs, Murphy and Platt, each of whom the Board of Directors concluded was independent in accordance with the director independence standards of the Nasdaq stock market rules.

AUDIT COMMITTEE REPORT

Management has the primary responsibility for establishing and maintaining adequate internal control over financial reporting, preparing the financial statements and the public reporting process. The Audit Committee's primary purpose is to assist the Board of Directors in fulfilling its responsibilities to oversee the participation of management in the financial reporting process and the role and responsibilities of the independent auditors.

In performing its oversight role in connection with the audit of the Company's consolidated financial statements for the year ended December 31, 2010, the Audit Committee has:

1. reviewed and discussed the audited consolidated financial statements with management;

2. discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1 AU Section 380, as adopted by the Public Company Accounting Oversight Board in Rule 3200); and

3. received the written disclosures and the letter from the independent auditors required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditors' communications with the Audit Committee concerning independence and has discussed with the independent auditors the independent auditor's independence.

Based on the review and discussions referred to above, and in reliance on the information, opinions, reports or statements presented to the Audit Committee by management and the independent auditors, the Audit Committee recommended to the Board of Directors that the December 31, 2010 audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ending December 31, 2010.

The Audit Committee

Alan Brooks (Chairman)
Frank Lackner
Bryan Murphy

Independent Public Accountant Fees and Services

Audit Fees

The aggregate amount of fees billed by BDO USA, LLP for professional services rendered for (1) the audit of our financial statements during the fiscal years ended December 31, 2010 and 2009; (2) the review of the financial statements included in our Quarterly Reports on Form 10-Q in 2010 and 2009; (3) the 2010 and 2009 audits of the Company's internal control over financial reporting with the objective of obtaining reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects; and (4) services that are normally provided by the auditor in connection with statutory and regulatory filings or engagements were approximately $328,000 and $340,000, respectively.

Audit-Related Fees

The Company did not incur any fees billed by BDO USA, LLP for audit related services during the fiscal years ended December 31, 2010 and 2009.

Tax Fees

The Company did not incur any fees billed by BDO USA, LLP for tax services during the fiscal years ended December 31, 2010 and 2009.

All Other Fees

The Company did not incur any other fees billed by BDO USA, LLP during the fiscal years ended December 31, 2010 and 2009.

Audit Committee's Pre-Approval Policies and Procedures

Our Audit Committee charter includes our policy regarding the approval of audit and non-audit services performed by our independent auditors. The Audit Committee is responsible for retaining and evaluating the independent auditors' qualifications, performance and independence. The Audit Committee pre-approves all auditing services, internal control-related services and permitted non-audit services (including the fees and terms thereof) to be performed for us by our independent auditors, subject to such exceptions for non-audit services as permitted by applicable laws and regulations. The Audit Committee may delegate this authority to a subcommittee consisting of one or more Audit Committee members, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals are presented to the full Audit Committee at its next meeting. The Audit Committee approved all professional services provided to us by BDO during 2010.

PRINCIPAL SHAREHOLDERS

The following table shows information known to us with respect to the beneficial ownership of both classes of our ordinary shares as of February 18, 2011 for:

- each person or group who beneficially owns more than 5% of each class of our ordinary shares;
- each of our NEOs, Messrs. Goldberg, Hedges and Courtis;

- each of our directors; and
- all of our directors and NEOs as a group.

Beneficial ownership of shares is determined under the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power. Except as indicated by footnote, and subject to applicable community property laws, each person identified in the table possesses sole voting and investment power with respect to all ordinary shares held by them. Class A ordinary shares subject to options and warrants currently exercisable or exercisable within 60 days of February 17, 2011, and not subject to repurchase as of that date, are deemed to be outstanding for calculating the percentage of outstanding shares of the person holding these options, but are not deemed to be outstanding for calculating the percentage of any other person.

Applicable percentage ownership in the following table is based on 30,200,835 Class A ordinary shares outstanding as of February 18, 2011 and 6,254,949 Class B ordinary shares outstanding as of February 18, 2011. Unless otherwise indicated, the address of each of the named individuals is c/o Greenlight Capital Re, Ltd., 65 Market Street, Suite 1207, Jasmine Court, Camana Bay, P.O. Box 31110, Grand Cayman, KY1-1205, Cayman Islands.

Name and address of beneficial owner	Beneficial ownership of principal shareholders			
	Number of Class A Ordinary Shares	%	Number of Class B Ordinary Shares	%
David Einhorn(1)	—	—	6,254,949	100
Morgan Stanley(2)	2,874,189	9.52	—	—
Horizon Asset Management(3)	2,037,772	6.75	—	—
BlackRock, Inc.(4)	1,563,690	5.18	—	—
Leonard Goldberg(5)	993,725	3.29	—	—
Barton Hedges(6)	399,058	1.32	—	—
Tim Courtis(7)	232,790	*	—	—
Alan Brooks(8)	86,444	*	—	—
Ian Isaacs(9)	72,145	*	—	—
Frank Lackner(10)	88,131	*	—	—
Bryan Murphy(11)	34,131	*	—	—
Joseph Platt(12)	105,444	*	—	—
All directors and NEOs as a group (9 persons)	2,011,868	6.66	6,254,949	100

* Represents less than 1% of the outstanding ordinary shares.

(1) Mr. Einhorn, together with his affiliates, is limited to voting the number of Class B ordinary shares equal to 9.5% of the total voting power of the total issued and outstanding ordinary shares. Mr. Einhorn owns 4,864,461 Class B ordinary shares directly. Mr. Einhorn also retains beneficial ownership of 1,390,488 Class B ordinary shares held by the David M. Einhorn 2007 Family Trust. Mr. Einhorn has appointed Mr. Roitman as his alternate director. Mr. Roitman has beneficial ownership of 220,000 Class A ordinary shares. If Mr. Roitman's Class A ordinary shares were included in the total shares held by the directors and NEOs, such number would be 2,231,868 shares, or 7.39%.

(2) Morgan Stanley's beneficial ownership is based on a Schedule 13G/A filed on February 9, 2011. The business address for Morgan Stanley is 1585 Broadway, New York, New York 10036.

(3) Horizon Asset Management's beneficial ownership is based on a schedule 13G filed on February 7, 2011. The business address for Horizon Asset Management is 470 Park Avenue South, New York, NY 10016.

(4) BlackRock, Inc.'s beneficial ownership is based on a Schedule 13G filed on February 4, 2011. The business address for BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055.

(5) Includes 780,000 Class A ordinary shares subject to options and 90,725 restricted shares subject to forfeiture held by Mr. Goldberg. Additionally, Mr. Goldberg owns 100,130 Class A ordinary shares directly and also retains beneficial ownership of 22,870 Class A ordinary shares held by the Leonard R. Goldberg 2007 Family Trust.

(6) Includes 250,000 Class A ordinary shares subject to options and 84,058 restricted shares subject to forfeiture.

(7) Includes 75,000 Class A ordinary shares subject to options and 85,725 restricted shares subject to forfeiture.

(8) Includes 2,000 Class A ordinary shares subject to options and 6,956 restricted shares subject to forfeiture.

(9) Includes 6,956 restricted Class A ordinary shares subject to forfeiture.

(10) Includes 22,000 Class A ordinary shares subject to options held by Mr. Lackner, including 20,000 options transferred to him from First International Capital Holdings, Ltd., and 6,956 restricted shares subject to forfeiture.

(11) Includes 6,956 restricted shares subject to forfeiture.

(12) Includes 2,000 Class A ordinary shares subject to options held by Mr. Platt, 6,956 restricted shares subject to forfeiture and 75,000 Class A ordinary shares held by a partnership of which Mr. Platt is the general partner.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires that our directors, executive officers and the persons who beneficially own more than 10% of our ordinary shares file reports of ownership and changes of ownership on Forms 3, 4 and 5 with the SEC. Executive officers, directors and greater than 10% shareholders are required by regulations promulgated by the SEC to furnish us with copies of all Forms 3, 4 and 5 they file. Based solely on the reports received by us and on the written representations of the reporting persons, we believe that no director, executive officer or greater than 10% shareholder failed to file on a timely basis the reports required by Section 16(a) of the Exchange Act during, or with respect to, fiscal 2010.

CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS

Related-Party Transaction Policy and Audit Committee Charter

We have established a written related-party transaction policy which provides procedures for the review of transactions in excess of $120,000 in any year between us and any covered person having a direct or indirect material interest, subject to certain exceptions. Covered persons include any director, executive officer, director nominee, 5% shareholder or any immediate family members of the foregoing. Any such related-party transactions shall require advance approval by a majority of our independent directors or a majority of the members of a committee constituted solely of our independent directors. In addition, our Audit Committee charter provides that the Audit Committee will review and approve all related-party transactions.

Investment Advisory Agreement

The Company, Greenlight Re, GRIL and DME Advisors, LP, or DME, (each a “Participant” and collectively the “Participants”), entered into an amended and restated agreement, effective August 31, 2010, pursuant to which the Participants agreed to create a joint venture for the purpose of managing certain jointly held assets of each of the Participants, which we refer to as the Agreement. DME is a related party and is controlled by David Einhorn, the Chairman of the Board, the president of Greenlight Capital, Inc, and the beneficial owner of all of the issued and outstanding Class B ordinary shares. The Agreement amends and restates the agreement, dated January 1, 2008, among Greenlight Re, the Company and DME, as amended on February 20, 2009, which we refer to as the Prior Agreement.

Pursuant to the Agreement, subject to the investment guidelines adopted separately by Greenlight Re’s and GRIL’s respective Board of Directors, DME, shall be empowered to: (a) formulate the overall trading and investment strategy of the Participants and (b) exercise full discretion in the management of the trading and investment transactions and related activities of the Participants.

The term of the Agreement is August 31, 2010 through December 31, 2013. The term of the Prior Agreement was from January 1, 2008 through December 31, 2010. The Agreement renews automatically for successive three-year periods unless at least 90 days prior to the end of the then current term, DME notifies the other Participants, of its desire to terminate the Agreement or any other Participant notifies DME of its desire to withdraw from the Agreement. During the term of the Agreement, neither the Company, Greenlight Re nor GRIL shall engage an investment advisor other than DME (or an affiliate of DME) to manage its investable assets (as defined in the Agreement). Additionally, the Company, Greenlight Re and GRIL have agreed to use commercially reasonable efforts to cause each of their respective current and future subsidiaries to become participants or enter into similar agreements.

DME will receive:

- a monthly payment based on an annual rate of 1.5% of the capital account balance of each Participant; and

- performance allocation based on the positive performance change in such Participant's capital account equal to 20% of net profits calculated per annum, subject to a loss carry forward provision.

The loss carry forward provision allows DME to earn a reduced performance allocation of 10% on profits in any year subsequent to the year in which a Participant's capital account (other than DME) incurs a loss, until all the losses are recouped and an additional amount equal to 150% of the loss is earned. DME is not entitled to a performance allocation in a year in which the investment portfolio incurs a loss.

For the year ended December 31, 2010, DME Advisors received $13.4 million in management fees and $12.9 million in performance compensation.

Each of the Company, Greenlight Re and GRIL has agreed to release DME and its affiliates from, and to indemnify and hold them harmless against, any liability arising out of the Agreement, subject to certain exceptions. Furthermore, DME has agreed to indemnify the Company, Greenlight Re, and GRIL against any liability incurred in connection with certain actions.

The Company, Greenlight Re or GRIL may withdraw as a Participant under the Agreement with at least 90 days notice prior to the end of the then current term and prior to the expiration of the Agreement's term only ‘‘for cause,’’ which the Agreement defines as:

- a material violation of applicable law relating to DME's advisory business;

- DME's gross negligence, willful misconduct or reckless disregard of its obligations under the advisory agreement;

- a material breach by DME of Greenlight Re's or GRIL's investment guidelines that is not cured within a 15-day period; or

- a material breach by DME of its obligations to return and deliver assets as any Participant may request.

In addition, GRIL may withdraw as a Participant under the Agreement prior to the expiration of its term due to unsatisfactory long term performance of DME, as determined solely by the Board of Directors of GRIL on each anniversary date of the Agreement.

Mr. Einhorn co-founded and has served as the President and Portfolio Manager of Greenlight Capital, Inc. since January 1996. Mr. Einhorn serves as a senior managing member of DME Advisors, our investment advisor.

Greenlight Capital, Inc. and DME Advisors are affiliates of Greenlight Capital Re, Ltd.

Service Agreement

In February 2007, we entered into a service agreement with DME Advisors, which was amended in August 2007 and October 2007, pursuant to which DME Advisors provides investor relations services to us for compensation of $5,000 per month (plus expenses). The service agreement has an initial term of one year and will continue for sequential one-year periods until terminated by us or DME Advisors. Either party may terminate the service agreement for any reason with 30 days prior written notice to the other party.

For the year ended December 31, 2010, we incurred expenses of $60,000 to DME Advisors for investor relations services.

Shareholders’ Agreement

Pursuant to Shareholders’ Agreement, Greenlight Capital Investors, LLC, or GCI, had the right to unlimited demand registration rights once we are eligible to use Form S-3 (or similar short form registration statements). GCI assigned its demand registration rights under the Shareholders’ Agreement, with our consent, to David Einhorn on January 3, 2007. Mr. Einhorn has registration rights for all of his Class B ordinary shares, including those acquired in a private placement in May 2007, as contemplated under the Shareholders’ Agreement.

OTHER MATTERS

Neither the Board of Directors nor management intends to bring before the Meeting any business other than the matters referred to in the Notice of Annual General Meeting of Shareholders and this Proxy Statement. If any other business should come properly before the Meeting, or any adjournment thereof, the proxy holders will vote on such matters at their discretion.

ADDITIONAL INFORMATION

Other Action at the Meeting

As of the date of this Proxy Statement, the Company has no knowledge of any business, other than described herein and customary procedural matters, which will be presented for consideration at the Meeting. In the event any other business is properly presented at the Meeting, the persons named in the accompanying proxy may, but will not be obligated to, vote such proxy in accordance with their judgment on such business.

Shareholder Proposals for the Annual General Meeting of Shareholders in 2012

Pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended, shareholder proposals must be received in writing by the Secretary of the Company no later than 120 days prior to the date of the Company's proxy statement released to shareholders in connection with the Company's previous year's annual meeting of shareholders and must comply with the requirements of Cayman Islands corporate law and the Articles in order to be considered for inclusion in the Company's Proxy Statement and form of proxy relating to the Annual General Meeting of Shareholders in 2012. The Company believes that shareholder proposals received by November 4, 2011 would be considered timely for inclusion in the 2012 Proxy Statement. Such proposals should be directed to the attention of the Secretary, Greenlight Capital Re, Ltd.

Shareholders who intend to nominate persons for election as directors at the Annual General Meeting of Shareholders in 2012 must comply with the advance notice procedures and other provisions set forth in the Articles in order for such nominations to be properly brought before the Annual General Meeting of Shareholders in 2012.

Any shareholder proposal from the Annual General Meeting of Shareholders in 2012, other than with respect to a nominee for election as a director, which is submitted outside the processes of Rule 14a-8 shall be considered untimely unless received by the Secretary in writing no later than January 18, 2012. If a shareholder proposal is introduced at the Annual General Meeting of Shareholders in 2012 without any discussion of the proposal in the 2012 Proxy Statement and the shareholder does not notify the Company by January 18, 2012, in accordance with Cayman Islands corporate law, of the intent to raise such proposal at the Annual General Meeting of Shareholders in 2012, then proxies received by the Company for the Annual General Meeting of Shareholders in 2012 will be voted by the persons named as such proxies in their discretion with respect to such proposal.

Costs of Solicitation

The entire cost of this proxy solicitation will be borne by the Company, including expenses in connection with preparing, assembly, printing and mailing proxy solicitation materials. In addition to solicitation by mail, officers, directors and employees of the Company may solicit proxies by telephone, facsimile, electronic communication, in person or via the internet, although no compensation will be paid for such solicitation. We will pay additional fees in the event we mutually agree to have BNY Mellon Shareowner Services aid in the solicitation of proxies.

By Order of the Board of Directors

Leonard Goldberg
Chief Executive Officer

Dated: March 4, 2011
Grand Cayman, Cayman Islands