



# 2009 ANNUAL REPORT

## LETTER TO STOCKHOLDERS

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Decorator Industries just finished the most difficult year in the company's history. As in 2009, we continue to face many uncertainties as we begin 2010. Although there are signs that the recession may be ending, we expect that its effects will linger for an extended period. While we have made many changes over the last two years to better align our operations with the markets we serve, we believe business conditions in 2010 will continue to be challenging.

We took many steps to improve liquidity during 2009. In May 2009, we generated \$1.4 million through the sale-leaseback of two operating facilities. On September 30, 2009, we negotiated a loan modification with Wachovia Bank (a Wells Fargo Company) extending the original loan agreement until December 31, 2010 and capping the loan amount at \$3.3 million. The loan modification allowed us to seek additional financing using our accounts receivable and inventory. We obtained a \$2 million credit line on April 20, 2010 with Crestmark Bank. Recently, we received a \$1.2 million income tax refund, a benefit from the change in the net operating loss carryback rules. We continue to market the four idled facilities for sale and two Alabama buildings for sale-leaseback. We recently received offers to purchase our idled Douglas, GA facility and complete a sale-leaseback on our active Haleyville, AL building. Should these two transactions be completed, they could raise as much as \$600,000. These funds and any funds received from the disposition of the remaining four buildings will be used to reduce our loan with Wachovia Bank.

We entered 2009 with a strong hospitality backlog and watched it decline through the third quarter. Lending for new hotel construction and major refurbishment has virtually disappeared and project cancellations and postponements in the industry are at record levels. Lodging Econometrics forecasted that there will be a 45% drop in new hotels built, which creates a 44% drop in rooms opened in 2010 compared to 2009. The hospitality industry saw its key metrics decline in 2009: revenue per available room declined 17%, and occupancy and the average daily rate fell 9% each. The difficult conditions have made many hotels unprofitable and many face possible foreclosure. When these properties are taken over and repositioned they should present opportunities for refurbishment work. Until the lenders address the debt issues and room rates recover, the poor financial condition of the hotels will continue to be a drag on the recovery of our hospitality business.

In 2009, we launched a new healthcare program and have started to see it gaining momentum. We are in the process of introducing a healthcare fabric line called "*Eco Contempo*" as another vehicle to grow our healthcare business. Today, about 40 million Americans are age 65 and older. By the year 2020, this number will grow by 35% to over 54 million Americans. This demographic will create a growing need for more healthcare and extended care facilities for decades to come. We plan on positioning ourselves as a market leader in the supply of cubicle curtains, window treatments and bed coverings to capitalize on this growing demand in the healthcare industry.

Manufactured Housing (“MH”) shipments finished 2009 at an all-time low of 49,789 homes shipped, down 39% from 2008. Manufactured Housing shipments were adversely impacted by the large number of residential home foreclosures, a lack of credit, high unemployment and higher interest rate loans than traditional site-built homes. On April 30, 2010, the \$8,000 first-time home buyer and \$6,500 repeat home buyer tax credits will expire. It is unclear how this will impact home sales or if Congress will choose to extend the tax credits a second time. To adjust to the declining sales we closed our Salisbury, NC facility and moved this production to Haleyville, AL during the third quarter of 2009. This action and similar restructurings taken in 2008 allowed us to reduce our manufactured housing overheads by more than \$850,000 annually as well as improve our margins during 2009. We continue to be the leading supplier to the MH industry from our two strategically located facilities in Alabama and Louisiana. The manufactured housing industry continues to provide a high-quality affordable home and as the economy rebounds and Americans are put back to work, the manufactured housing industry should benefit from the recovery.

Recreational Vehicle (“RV”) shipments finished down 30% from 2008 totaling 165,700 units shipped in 2009. Shipments were impacted by tight credit, high unemployment and a lack of consumer confidence. More recently, shipments were up 100% in the first two months of 2010 over last year. The first quarter of 2009 was the

low point, and shipments have been increasing ever since. After losing two significant customers in the first quarter of 2009 and facing the inability to raise prices to bring about profitability, we stopped supplying sewn goods to the RV industry and now only provide pleated shades through our Specialty Window Coverings division located in Goshen, IN. We are a leading supplier of pleated shades to the RV industry and are pursuing ways to grow this business. We reduced our RV overheads by more than \$850,000 annually in 2009 and will realize further reductions in 2010. The RV industry is said to lead into and out of a recession. If this measuring stick is true, then the improvements we see in RV shipments may suggest the worst is over.

As our markets rebound, the company should benefit from our streamlined structure. The improved margins and reduced overheads should favorably impact the bottom line. In addition, we have been planting many seeds in numerous areas and are starting to see some green shoots appear. It’s important that we continue planting these seeds and working hard at cultivating new opportunities to return the company to profitability.

I thank the employees for their continued hard work and the shareholders for continuing to support us during this difficult period.

William Johnson  
President and Chief Executive Officer