

UNIVERSAL FOREST PRODUCTS INC
Form 10-Q
July 30, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 28, 2014

OR

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

Commission File Number 0-22684

UNIVERSAL FOREST PRODUCTS, INC.
(Exact name of registrant as specified in its charter)

Michigan 38-1465835
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

2801 East Beltline NE, Grand Rapids, Michigan 49525
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (616) 364-6161

NONE

(Former name or former address, if changed since last report.)

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

Indicate by check mark 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding as of June 28, 2014
Common stock, no par value	20,071,026

UNIVERSAL FOREST PRODUCTS, INC.

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CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

(in thousands, except share data)

	June 28, 2014	December 28, 2013	June 29, 2013
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$-	\$-	\$-
Restricted cash	720	720	753
Accounts receivable, net	286,422	180,452	270,949
Inventories:			
Raw materials	158,646	161,226	140,731
Finished goods	119,143	126,079	112,823
Total inventories	277,789	287,305	253,554
Refundable income taxes	-	2,235	-
Deferred income taxes	6,862	6,866	9,188
Other current assets	19,607	18,820	20,302
TOTAL CURRENT ASSETS	591,400	496,398	554,746
DEFERRED INCOME TAXES	1,354	1,365	1,670
OTHER ASSETS	12,315	12,087	16,353
GOODWILL	160,146	160,146	161,516
INDEFINITE-LIVED INTANGIBLE ASSETS	2,340	2,340	2,340
OTHER INTANGIBLE ASSETS, NET	6,871	7,241	6,914
PROPERTY, PLANT AND EQUIPMENT:			
Property, plant and equipment	599,852	578,702	568,011
Less accumulated depreciation and amortization	(352,399)	(341,292)	(334,238)
PROPERTY, PLANT AND EQUIPMENT, NET	247,453	237,410	233,773
TOTAL ASSETS	\$1,021,879	\$916,987	\$977,312
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Cash overdraft	\$13,659	\$1,079	\$3,407
Accounts payable	107,653	72,918	95,594
Accrued liabilities:			
Compensation and benefits	42,755	45,018	37,216
Income taxes	9,010	-	5,419
Other	31,321	20,084	23,111
TOTAL CURRENT LIABILITIES	204,398	139,099	164,747
LONG-TERM DEBT	95,094	84,700	142,473
DEFERRED INCOME TAXES	26,827	26,788	24,842
OTHER LIABILITIES	15,825	16,666	17,358
TOTAL LIABILITIES	342,144	267,253	349,420
SHAREHOLDERS' EQUITY:			

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Controlling interest shareholders' equity:

Preferred stock, no par value; shares authorized 1,000,000; issued and outstanding, none	\$-	\$-	\$-
Common stock, no par value; shares authorized 40,000,000; issued and outstanding, 20,071,026, 19,948,270, and 19,893,513.	20,071	19,948	19,894
Additional paid-in capital	160,189	156,129	153,254
Retained earnings	486,616	461,812	443,913
Accumulated other comprehensive income	3,317	3,466	3,331
Employee stock notes receivable	(530)	(732)	(759)
Total controlling interest shareholders' equity	669,663	640,623	619,633
Noncontrolling interest	10,072	9,111	8,259
TOTAL SHAREHOLDERS' EQUITY	679,735	649,734	627,892
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,021,879	\$916,987	\$977,312

See notes to consolidated condensed financial statements.

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UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
AND COMPREHENSIVE INCOME
(Unaudited)

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
NET SALES	\$772,752	\$738,436	\$1,326,751	\$1,292,930
COST OF GOODS SOLD	675,764	658,220	1,163,750	1,154,896
GROSS PROFIT	96,988	80,216	163,001	138,034
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	58,989	53,102	112,899	101,329
ANTI-DUMPING DUTY ASSESSMENT	1,600	-	1,600	639
NET GAIN ON DISPOSITION OF ASSETS	(324)	(3)	(848)	(109)
EARNINGS FROM OPERATIONS	36,723	27,117	49,350	36,175
INTEREST EXPENSE	1,103	1,180	2,169	2,425
INTEREST INCOME	(339)	(157)	(629)	(304)
EQUITY IN EARNINGS OF INVESTEE	(78)	(92)	(129)	(134)
	686	931	1,411	1,987
EARNINGS BEFORE INCOME TAXES	36,037	26,186	47,939	34,188
INCOME TAXES	13,588	9,813	17,824	12,058
NET EARNINGS	22,449	16,373	30,115	22,130
LESS NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(660)	(601)	(1,111)	(1,133)
NET EARNINGS ATTRIBUTABLE TO CONTROLLING INTEREST	\$21,789	\$15,772	\$29,004	\$20,997
EARNINGS PER SHARE - BASIC	\$1.08	\$0.79	\$1.44	\$1.05
EARNINGS PER SHARE - DILUTED	\$1.08	\$0.79	\$1.44	\$1.05
NET EARNINGS	22,449	16,373	30,115	22,130
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	511	(1,484)	(183)	(1,068)
COMPREHENSIVE INCOME	22,960	14,889	29,932	21,062

LESS COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	(719)	(164)	(1,077)	(992)
COMPREHENSIVE INCOME ATTRIBUTABLE TO CONTROLLING INTEREST	\$22,241	\$14,725	\$28,855	\$20,070

See notes to consolidated condensed financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(in thousands, except share and per share data)

	Controlling Interest Shareholders' Equity						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehen-sive Earnings	Employees Stock Notes Receivable	Noncontrolling Interest	Total
Balance at December 29, 2012	\$ 19,800	\$ 149,805	\$ 426,887	\$ 4,258	\$ (982)	\$ 7,757	\$ 607,525
Net earnings			20,997			1,133	22,130
Foreign currency translation adjustment				(927)		(141)	(1,068)
Distributions to noncontrolling interest						(490)	(490)
Cash Dividends - \$0.200 per share			(3,977)				(3,977)
Issuance of 27,006 shares under employee stock plans	27	667					694
Issuance of 31,951 shares under stock grant programs	32	(28)	6				10
Issuance of 37,107 shares under deferred compensation plans	37	(37)					-
Tax benefits from non-qualified stock options exercised		107					107
Expense associated with share-based compensation arrangements		1,073					1,073
Accrued expense under deferred compensation plans		1,740					1,740
Notes receivable written off	(2)	(73)			77		2
Payments received on employee stock notes receivable					146		146
Balance at June 29, 2013	\$ 19,894	\$ 153,254	\$ 443,913	\$ 3,331	\$ (759)	\$ 8,259	\$ 627,892
Balance at December 28, 2013	\$ 19,948	\$ 156,129	\$ 461,812	\$ 3,466	\$ (732)	\$ 9,111	\$ 649,734
Net earnings			29,004			1,111	30,115
Foreign currency translation adjustment				(149)		(34)	(183)
Noncontrolling interest associated with business acquisitions						985	985
Distributions to noncontrolling interest						(1,101)	(1,101)
Cash Dividends - \$0.210 per share			(4,214)				(4,214)
	5	196	14				215

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Issuance of 4,671 shares under employee stock plans							
Issuance of 78,136 shares under stock grant programs	78	1,113					1,191
Issuance of 39,949 shares under deferred compensation plans	40	(40)					-
Expense associated with share-based compensation arrangements		932					932
Accrued expense under deferred compensation plans		1,859					1,859
Payments received on employee stock notes receivable					202		202
Balance at June 28, 2014	\$20,071	\$160,189	\$486,616	\$ 3,317	\$ (530)	\$ 10,072	\$679,735

See notes to consolidated condensed financial statements

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)

	Six Months Ended	
	June 28, 2014	June 29, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$30,115	\$22,130
Adjustments to reconcile net earnings attributable to controlling interest:		
Depreciation	15,644	14,459
Amortization of intangibles	1,194	1,324
Expense associated with share-based compensation arrangements	932	1,073
Excess tax benefits from share-based compensation arrangements	-	(6)
Expense associated with stock grant plans	58	36
Deferred income taxes (credit)	46	(79)
Equity in earnings of investee	(129)	(134)
Net gain on sale of property, plant and equipment	(931)	(141)
Changes in:		
Accounts receivable	(105,695)	(108,893)
Inventories	10,776	(10,223)
Accounts payable and cash overdraft	47,343	32,880
Accrued liabilities and other	23,451	22,064
NET CASH FROM OPERATING ACTIVITIES	22,804	(25,510)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(20,100)	(21,532)
Proceeds from sale of property, plant and equipment	1,754	453
Acquisitions, net of cash received	(7,135)	(9,296)
Advances of notes receivable	(3,287)	(1,358)
Collections on notes receivable	888	749
Cash restricted as to use	-	6,078
Other, net	(135)	(37)
NET CASH FROM INVESTING ACTIVITIES	(28,015)	(24,943)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facilities	190,301	208,840
Repayments under revolving credit facilities	(179,907)	(162,157)
Debt issuance costs	(9)	(11)
Proceeds from issuance of common stock	201	694
Distributions to noncontrolling interest	(1,101)	(490)
Dividends paid to shareholders	(4,214)	(3,977)
Excess tax benefits from share-based compensation arrangements	-	6
NET CASH FROM FINANCING ACTIVITIES	5,271	42,905
Effect of exchange rate changes on cash	(60)	(99)
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	(7,647)

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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-	7,647
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$-	\$-
SUPPLEMENTAL INFORMATION:		
Interest paid	\$2,155	\$2,434
Income taxes paid (refunded)	6,532	(910)
NON-CASH INVESTING ACTIVITIES		
Other receivables exchanged for notes receivable	2,768	-
NON-CASH FINANCING ACTIVITIES:		
Common stock issued under deferred compensation plans	2,122	1,490
See notes to consolidated condensed financial statements		

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UNIVERSAL FOREST PRODUCTS, INC.

NOTES TO UNAUDITED
CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

A. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated condensed financial statements (the "Financial Statements") include our accounts and those of our wholly-owned and majority-owned subsidiaries and partnerships, and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, the Financial Statements do not include all of the information and footnotes normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States. All intercompany transactions and balances have been eliminated.

In our opinion, the Financial Statements contain all material adjustments necessary to present fairly our consolidated financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. These Financial Statements should be read in conjunction with the annual consolidated financial statements, and footnotes thereto, included in our Annual Report to Shareholders on Form 10-K for the fiscal year ended December 28, 2013.

Seasonality has a significant impact on our working capital from March to August which historically results in negative or modest cash flows from operations in our first and second quarters. Conversely, we experience a substantial decrease in working capital from September to February which typically results in significant cash flow from operations in our third and fourth quarters. For comparative purposes, we have included the June 29, 2013 balances in the accompanying unaudited consolidated condensed balance sheets.

During the second quarter of 2014, we changed the presentation of the Statements of Cash Flows to record cash overdraft activities as an operating activity for the period ending June 28, 2014, and June 29, 2013.

B. FAIR VALUE

We apply the provisions of ASC 820, Fair Value Measurements and Disclosures, to assets and liabilities measured at fair value. Assets measured at fair value are as follows:

	June 28, 2014	June 29, 2013
	Quoted Prices in Active Markets (Level 1)	Quoted Prices in Active Markets (Level 1)
(in thousands)		
Money market funds	\$ 162	\$ 62
Mutual funds:		
Domestic stock funds	629	706
International stock funds	215	541
Target funds	778	158
Bond funds	155	140
Total mutual funds	1,939	1,607

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We maintain money market and mutual funds in our non-qualified deferred compensation plan. These funds are valued at prices quoted in an active exchange market and are included in "Other Assets". We have elected not to apply the fair value option under ASC 825, Financial Instruments, to any of our financial instruments except for those expressly required by U.S. GAAP.

We did not maintain any Level 2 or 3 assets or liabilities at June 28, 2014 or June 29, 2013.

C. REVENUE RECOGNITION

Revenue is recognized at the time the product is shipped to the customer. Generally, title passes at the time of shipment. In certain circumstances, the customer takes title when the shipment arrives at the destination. However, our shipping process is typically completed the same day.

Earnings on construction contracts are reflected in operations using percentage-of-completion accounting, under either cost to cost or units of delivery methods, depending on the nature of the business at individual operations. Under percentage-of-completion using the cost to cost method, revenues and related earnings on construction contracts are measured by the relationships of actual costs incurred related to the total estimated costs. Under percentage-of-completion using the units of delivery method, revenues and related earnings on construction contracts are measured by the relationships of actual units produced related to the total number of units. Revisions in earnings estimates on the construction contracts are recorded in the accounting period in which the basis for such revisions becomes known. Projected losses on individual contracts are charged to operations in their entirety when such losses become apparent.

Our construction contracts are generally entered into with a fixed price and completion of the projects can range from 6 to 18 months in duration. Therefore, our operating results are impacted by, among many other things, labor rates and commodity costs. During the year, we update our estimated costs to complete our projects using current labor and commodity costs and recognize losses to the extent that they exist.

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The following table presents the balances of percentage-of-completion accounts which are included in “Other current assets” and “Accrued liabilities: Other”, respectively (in thousands):

	June 28, 2014	December 28, 2013	June 29, 2013
Cost and Earnings in Excess of Billings	\$6,380	\$ 6,903	\$11,014
Billings in Excess of Cost and Earnings	2,543	2,858	3,757

D. EARNINGS PER SHARE

The computation of earnings per share (“EPS”) is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Numerator:				
Net earnings attributable to controlling interest	\$21,789	\$15,772	\$29,004	\$20,997
Adjustment for earnings allocated to non-vested restricted common stock	(209)	(157)	(266)	(202)
Net earnings for calculating EPS	\$21,580	\$15,615	\$28,738	\$20,795
Denominator:				
Weighted average shares outstanding	20,137	19,951	20,097	19,919
Adjustment for non-vested restricted common stock	(193)	(199)	(184)	(192)
Shares for calculating basic EPS	19,944	19,752	19,913	19,727
Effect of dilutive stock options	20	34	21	36
Shares for calculating diluted EPS	19,964	19,786	19,934	19,763
Net earnings per share:				
Basic	\$1.08	\$0.79	\$1.44	\$1.05
Diluted	\$1.08	\$0.79	\$1.44	\$