

UNIVERSAL FOREST PRODUCTS INC

Form 10-Q

October 20, 2010

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UNIVERSAL FOREST PRODUCTS, INC.

**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 September 25, 2010
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

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

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

Class
Common stock, no par value

Outstanding as of September 25, 2010
19,291,486

**UNIVERSAL FOREST PRODUCTS, INC.
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UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

(in thousands, except share data)

| | September 25, 2010 | December 26, 2009 | September 26, 2009 |
|---|--------------------------|-------------------------|--------------------------|
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | \$ 58,072 | \$ 82,219 | \$ 79,976 |
| Accounts receivable, net | 166,369 | 107,383 | 162,875 |
| Inventories: | | | |
| Raw materials | 104,736 | 89,956 | 80,326 |
| Finished goods | 67,721 | 72,192 | 61,774 |
| | 172,457 | 162,148 | 142,100 |
| Assets held for sale | | | 3,057 |
| Refundable income taxes | | 10,391 | |
| Other current assets | 18,759 | 21,208 | 23,242 |
| TOTAL CURRENT ASSETS | 415,657 | 383,349 | 411,250 |
| OTHER ASSETS | 6,069 | 4,478 | 3,439 |
| GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS | 159,332 | 157,058 | 156,936 |
| OTHER INTANGIBLE ASSETS, net | 15,719 | 16,693 | 18,873 |
| PROPERTY, PLANT AND EQUIPMENT: | | | |
| Property, plant and equipment | 516,337 | 510,774 | 508,691 |
| Accumulated depreciation and amortization | (294,498) | (280,675) | (278,134) |
| PROPERTY, PLANT AND EQUIPMENT, NET | 221,839 | 230,099 | 230,557 |
| TOTAL ASSETS | \$ 818,616 | \$ 791,677 | \$ 821,055 |
| LIABILITIES AND EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | \$ 78,683 | \$ 64,473 | \$ 70,817 |
| Accrued liabilities: | | | |
| Compensation and benefits | 47,023 | 48,340 | 54,585 |
| Income taxes | 1,793 | | 1,673 |
| Other | 21,485 | 21,698 | 30,375 |
| Current portion of long-term debt and capital lease obligations | 702 | 673 | 3,064 |
| TOTAL CURRENT LIABILITIES | 149,686 | 135,184 | 160,514 |
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion | 52,465 | 53,181 | 53,168 |

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| | | | |
|--|-------------------|-------------------|-------------------|
| DEFERRED INCOME TAXES | 21,492 | 21,707 | 17,703 |
| OTHER LIABILITIES | 12,884 | 12,659 | 13,956 |
| TOTAL LIABILITIES | 236,527 | 222,731 | 245,341 |
| EQUITY: | | | |
| 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 19,291,486, 19,284,587 and 19,355,748 | \$ 19,291 | \$ 19,285 | \$ 19,356 |
| Additional paid-in capital | 136,400 | 132,765 | 132,156 |
| Retained earnings | 417,842 | 409,278 | 416,853 |
| Accumulated other comprehensive earnings | 3,998 | 3,633 | 3,375 |
| | 577,531 | 564,961 | 571,740 |
| Employee stock notes receivable | (1,721) | (1,743) | (1,780) |
| | 575,810 | 563,218 | 569,960 |
| Noncontrolling interest | 6,279 | 5,728 | 5,754 |
| TOTAL EQUITY | 582,089 | 568,946 | 575,714 |
| TOTAL LIABILITIES AND EQUITY | \$ 818,616 | \$ 791,677 | \$ 821,055 |

See notes to unaudited consolidated condensed financial statements.

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

(in thousands, except per share data)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------------|--------------------------|--------------------------|-----------------------|
| | September 25, 2010 | September 26, 2009 | September 25, 2010 | September 26, 2009 |
| NET SALES | \$ 480,574 | \$ 457,768 | \$ 1,512,166 | \$ 1,334,435 |
| COST OF GOODS SOLD | 426,159 | 388,505 | 1,328,232 | 1,135,866 |
| GROSS PROFIT | 54,415 | 69,263 | 183,934 | 198,569 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 47,286 | 51,198 | 149,815 | 156,310 |
| NET LOSS (GAIN) ON DISPOSITION OF ASSETS AND OTHER IMPAIRMENT AND EXIT CHARGES | 1,137 | 606 | 1,521 | (1,246) |
| EARNINGS FROM OPERATIONS | 5,992 | 17,459 | 32,598 | 43,505 |
| INTEREST EXPENSE | 888 | 900 | 2,677 | 3,403 |
| INTEREST INCOME | (111) | (79) | (301) | (258) |
| | 777 | 821 | 2,376 | 3,145 |
| EARNINGS BEFORE INCOME TAXES | 5,215 | 16,638 | 30,222 | 40,360 |
| INCOME TAXES | 2,017 | 6,378 | 10,836 | 14,808 |
| NET EARNINGS | 3,198 | 10,260 | 19,386 | 25,552 |
| LESS NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTEREST | (614) | (206) | (2,099) | (617) |
| NET EARNINGS ATTRIBUTABLE TO CONTROLLING INTEREST | \$ 2,584 | \$ 10,054 | \$ 17,287 | \$ 24,935 |
| EARNINGS PER SHARE BASIC | \$ 0.13 | \$ 0.52 | \$ 0.90 | \$ 1.30 |

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| | | | | |
|---|---------|---------|---------|---------|
| EARNINGS PER SHARE DILUTED | \$ 0.13 | \$ 0.51 | \$ 0.89 | \$ 1.28 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 19,201 | 19,307 | 19,239 | 19,244 |
| WEIGHTED AVERAGE SHARES OUTSTANDING WITH COMMON STOCK EQUIVALENTS | 19,416 | 19,585 | 19,488 | 19,442 |

See notes to unaudited consolidated condensed financial statements.

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UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF EQUITY
(Unaudited)

(in thousands, except share and per share data)

| | Controlling Interest Shareholders | | Equity | | Employees Stock Notes | Noncontrolling Interest | Total |
|--|-----------------------------------|-----------------------------------|----------------------|---|-----------------------------|----------------------------|-------------------|
| | Common Stock | Additional Paid- In Capital | Retained Earnings | Accumulated Other Comprehensive Earnings | | | |
| Balance at December 27, 2008 | \$ 19,089 | \$ 128,830 | \$ 393,312 | \$ 2,353 | \$ (1,701) | \$ 6,343 | \$ 548,226 |
| Comprehensive income: | | | | | | | |
| Net earnings | | | 24,935 | | | 617 | |
| Foreign currency translation adjustment | | | | 1,022 | | (33) | |
| Total comprehensive earnings | | | | | | | 26,541 |
| Capital contribution from noncontrolling interest | | | | | | 14 | 14 |
| Purchase of additional noncontrolling interest | | (853) | | | | (917) | (1,770) |
| Distributions to noncontrolling interest | | | | | | (270) | (270) |
| Cash dividends \$0.060 per share | | | (1,158) | | | | (1,158) |
| Issuance of 118,267 shares under employee stock plans | 118 | 1,991 | | | | | 2,109 |
| Issuance of 79,084 shares under stock grant programs | 79 | 24 | | | | | 103 |
| Issuance of 73,611 shares under deferred compensation plans | 74 | (74) | | | | | |
| Repurchase of 6,213 shares | (6) | | (236) | | | | (242) |
| Received 1,602 shares for the exercise of stock options | (2) | (33) | | | | | (35) |
| Tax benefits from non-qualified stock options exercised | | 705 | | | | | 705 |
| Deferred income tax asset reversal for deferred compensation plans | | (518) | | | | | (518) |
| Expense associated with share-based compensation arrangements | | 1,417 | | | | | 1,417 |
| Accrued expense under deferred compensation plans | | 546 | | | | | 546 |

| | | | | | | | | |
|---|------------------|-------------------|-------------------|-----------------|-------------------|-----------------|-------------------|--|
| Issuance of 3,721 shares in exchange for employee stock notes receivable | 4 | 121 | | | (125) | | | |
| Payments received on employee stock notes receivable | | | | | 46 | | 46 | |
| Balance at September 26, 2009 | \$ 19,356 | \$ 132,156 | \$ 416,853 | \$ 3,375 | \$ (1,780) | \$ 5,754 | \$ 575,714 | |
| Balance at December 26, 2009 | \$ 19,285 | \$ 132,765 | \$ 409,278 | \$ 3,633 | \$ (1,743) | \$ 5,728 | \$ 568,946 | |
| Comprehensive income: | | | | | | | | |
| Net earnings | | | 17,287 | | | 2,099 | | |
| Foreign currency translation adjustment | | | | 365 | | 78 | | |
| Total comprehensive earnings | | | | | | | 19,829 | |
| Capital contribution from noncontrolling interest | | | | | | 250 | 250 | |
| Purchase of additional noncontrolling interest | | (295) | | | | (932) | (1,227) | |
| Distributions to noncontrolling interest | | | | | | (944) | (944) | |
| Cash dividends \$0.200 per share | | | (3,869) | | | | (3,869) | |
| Issuance of 66,384 shares under employee stock plans | 66 | 1,373 | | | | | 1,439 | |
| Issuance of 76,710 shares under stock grant programs | 77 | 57 | | | | | 134 | |
| Issuance of 7,911 shares under deferred compensation plans | 8 | (8) | | | | | | |
| Repurchase of 144,900 shares | (145) | | (4,854) | | | | (4,999) | |
| Tax benefits from non-qualified stock options exercised | | 379 | | | | | 379 | |
| Expense associated with share-based compensation arrangements | | 1,495 | | | | | 1,495 | |
| Accrued expense under deferred compensation plans | | 627 | | | | | 627 | |
| Issuance of 1,298 shares in exchange for employees stock notes receivable | 1 | 49 | | | (50) | | | |
| Notes receivable adjustment | (1) | (42) | | | (9) | | (52) | |
| Payments received on employee stock notes receivable | | | | | 81 | | 81 | |

**Balance at September 25,
2010** **\$ 19,291** **\$ 136,400** **\$ 417,842** **\$ 3,998** **\$ (1,721)** **\$ 6,279** **\$ 582,089**

See notes to unaudited consolidated condensed financial statements.

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UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)

| | Nine Months Ended | |
|---|--------------------------|-----------------------|
| | September 25, 2010 | September 26, 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings attributable to controlling interest | \$ 17,287 | \$ 24,935 |
| Adjustments to reconcile net earnings attributable to controlling interest to net cash from operating activities: | | |
| Depreciation | 22,305 | 24,604 |
| Amortization of intangibles | 5,243 | 6,414 |
| Expense associated with share-based compensation arrangements | 1,495 | 1,417 |
| Excess tax benefits from share-based compensation arrangements | (265) | (302) |
| Expense associated with stock grant plans | 134 | 103 |
| Deferred income taxes (credit) | (228) | 151 |
| Net earnings attributable to noncontrolling interest | 2,099 | 617 |
| Net loss (gain) on sale or impairment of property, plant and equipment | 1,053 | (1,892) |
| Changes in: | | |
| Accounts receivable | (58,151) | (24,342) |
| Inventories | (7,103) | 51,488 |
| Accounts payable | 14,127 | 7,578 |
| Accrued liabilities and other | 14,740 | 21,160 |
| NET CASH FROM OPERATING ACTIVITIES | 12,736 | 111,931 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property, plant and equipment | (15,679) | (9,497) |
| Acquisitions, net of cash received | (6,529) | |
| Proceeds from sale of property, plant and equipment | 540 | 10,408 |
| Purchase of product technology and non-compete agreement | (4,589) | |
| Advances on notes receivable | (1,000) | (14) |
| Collections of notes receivable | 143 | 134 |
| Insurance proceeds | | 1,023 |
| Other, net | 17 | 16 |
| NET CASH FROM INVESTING ACTIVITIES | (27,097) | 2,070 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net borrowings (repayments) under revolving credit facilities | | (30,257) |
| Repayment of long-term debt | (719) | (16,830) |
| Borrowings of long-term debt | | 800 |
| Proceeds from issuance of common stock | 1,439 | 2,109 |
| Purchase of additional noncontrolling interest | (1,227) | (1,770) |
| Distributions to noncontrolling interest | (944) | (270) |
| Capital contribution from noncontrolling interest | 250 | 14 |

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| | | |
|--|------------------|------------------|
| Dividends paid to shareholders | (3,869) | (1,158) |
| Repurchase of common stock | (4,999) | (242) |
| Excess tax benefits from share-based compensation arrangements | 265 | 302 |
| Other, net | 18 | (60) |
| NET CASH FROM FINANCING ACTIVITIES | (9,786) | (47,362) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (24,147) | 66,639 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 82,219 | 13,337 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 58,072 | \$ 79,976 |
| SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION: | | |
| Cash paid (refunded) during the period for: | | |
| Interest | \$ 2,058 | \$ 3,074 |
| Income taxes | (1,488) | 5,964 |

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**UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS -
(CONTINUED)**

| | Nine Months Ended | |
|--|--------------------------|-----------------------|
| | September 25, 2010 | September 26, 2009 |
| NON-CASH INVESTING ACTIVITIES: | | |
| Stock acquired through employees' stock notes receivable | \$ 50 | \$ 125 |
| NON-CASH FINANCING ACTIVITIES: | | |
| Common stock issued under deferred compensation plans | \$ 337 | \$ 2,461 |
| Stock received for the exercise of stock options, net | | 35 |
| See notes to unaudited 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 26, 2009.

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:

| | September 25, 2010 | | | September 26, 2009 | | |
|-------------------------------|---|--|----------|---|---|----------|
| | Quoted Prices in Active Markets (Level 1) | Prices with Other Observable Inputs (Level 2) | Total | Quoted Prices in Active Markets (Level 1) | Prices with Other Observable Inputs (Level 2) | Total |
| (in thousands) | | | | | | |
| Recurring: | | | | | | |
| Money market funds | \$ 66 | | \$ 66 | | | |
| Mutual funds: | | | | \$ 813 | | \$ 813 |
| Domestic stock funds | 397 | | 397 | | | |
| International stock funds | 353 | | 353 | | | |
| Target funds | 105 | | 105 | | | |
| Bond funds | 51 | | 51 | | | |
| Total mutual funds | 972 | | 972 | 813 | | 813 |
| Non-Recurring: | | | | | | |
| Property, plant and equipment | | \$ 165 | 165 | | \$ 1,350 | 1,350 |
| | \$ 972 | \$ 165 | \$ 1,137 | \$ 813 | \$ 1,350 | \$ 2,163 |

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Mutual funds are valued at prices quoted in an active exchange market.

Property, plant and equipment are valued based on active market prices and other relevant information for sales of similar 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.

C. REVENUE RECOGNITION

Earnings on construction contracts are reflected in operations using either percentage-of-completion accounting, which includes the cost to cost and units of delivery methods, or completed contract accounting, 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. Under the completed contract method, revenues and related earnings are recorded when the contracted work is complete and losses are charged to operations in their entirety when such losses become apparent.

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):

| | September 25, 2010 | December 26, 2009 | September 26, 2009 |
|---|--------------------------|-------------------------|--------------------------|
| Cost and Earnings in Excess of Billings | \$ 4,602 | \$ 9,998 | \$ 11,117 |
| Billings in Excess of Cost and Earnings | 3,275 | 8,954 | 11,185 |

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A reconciliation of the changes in the numerator and the denominator from the calculation of basic EPS to the calculation of diluted EPS follows (in thousands, except per share data):

| | Three Months Ended September 25, 2010 | | | Three Months Ended September 26, 2009 | | |
|---|--|-------------------------|------------------------|--|-------------------------|------------------------|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Net Earnings Attributable to Controlling Interest | \$ 2,584 | | | \$ 10,054 | | |
| EPS Basic | | | | | | |
| Income available to common stockholders | 2,584 | 19,201 | \$ 0.13 | 10,054 | 19,307 | \$ 0.52 |
| Effect of dilutive securities | | | | | | |
| Options | | 215 | | | 278 | |
| EPS Diluted | | | | | | |
| Income available to common stockholders and assumed options exercised | \$ 2,584 | 19,416 | \$ 0.13 | \$ 10,054 | 19,585 | \$ 0.51 |
| | | | | | | |
| | Nine Months Ended September 25, 2010 | | | Nine Months Ended September 26, 2009 | | |
| | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Net Earnings Attributable to Controlling Interest | \$ 17,287 | | | \$ 24,935 | | |
| EPS Basic | | | | | | |
| Income available to common stockholders | 17,287 | 19,239 | \$ 0.90 | 24,935 | 19,244 | \$ 1.30 |
| Effect of dilutive securities | | | | | | |
| Options | | 249 | | | 198 | |
| EPS Diluted | | | | | | |
| | \$ 17,287 | 19,488 | \$ 0.89 | \$ 24,935 | 19,442 | \$ 1.28 |

Income available to
common stockholders and
assumed options exercised

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Options to purchase 130,000 and 10,000 shares of common stock were not included in the computation of diluted EPS for the quarter and nine months ended September 25, 2010, respectively, because the options' exercise price was greater than the average market price of the common stock during the period and, therefore would be antidilutive.

No options were excluded from the computation of diluted EPS for the quarter ended September 26, 2009. Options to purchase 10,000 shares of common stock were not included in the computation of diluted EPS for the nine months ended September 26, 2009 because the options' exercise price was greater than the average market price of the common stock during the period and, therefore would be antidilutive.

E. ASSETS HELD FOR SALE AND NET LOSS (GAIN) ON DISPOSITION OF ASSETS AND OTHER IMPAIRMENTS AND EXIT CHARGES

Included in Assets held for sale on our Consolidated Condensed Balance Sheets are certain property, plant and equipment totaling \$3.1 million on September 26, 2009. The assets held for sale consist of certain vacant land and several facilities we closed to better align manufacturing capacity with the current business environment. The fair values were determined based on appraisals or recent offers to acquire the assets. These and other idle assets were evaluated based on the requirements of ASC 360, *Property, Plant and Equipment*, which resulted in certain impairment and other exit charges. Net loss (gain) on disposition of assets and other impairment and exit charges consists of the following amounts, separated by reporting segment, for the periods presented below (in millions):

| | Three Months Ended September 25, 2010 | | Three Months Ended September 26, 2009 | |
|-------------------------------|--|--------------|---|--------------|
| | Northern, Southern and Western Divisions | All Other | Northern, Southern and Western Divisions | All Other |
| Severances | \$ 0.2 | | | |
| Property, plant and equipment | 0.2 | | \$ 0.6 | |
| Other intangibles | 0.6 | | | |
| Lease termination | 0.1 | | | |
| | Nine Months Ended September 25, 2010 | | Nine Months Ended September 26, 2009 | |
| | Northern, Southern and Western Divisions | All Other | Northern, Southern and Western Divisions | All Other |
| Severances | \$ 0.5 | | \$ 0.6 | |
| Property, plant and equipment | 0.3 | | 1.7 | |
| Other intangibles | 0.6 | | | |
| Lease termination | 0.1 | | | |
| Gain on sale of real estate | | | (3.5) | |

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UNIVERSAL FOREST PRODUCTS, INC.

F. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

We are self-insured for environmental impairment liability, including certain liabilities which are insured through a wholly owned subsidiary, UFP Insurance Ltd., a licensed captive insurance company.

We own and operate a number of facilities throughout the United States that chemically treat lumber products. In connection with the ownership and operation of these and other real properties, and the disposal or treatment of hazardous or toxic substances, we may, under various federal, state, and local environmental laws, ordinances, and regulations, be potentially liable for removal and remediation costs, as well as other potential costs, damages, and expenses. Environmental reserves, calculated with no discount rate, have been established to cover remediation activities at our affiliates' wood preservation facilities in Stockertown, PA; Elizabeth City, NC; Auburndale, FL; Gordon, PA; Janesville, WI; Medley, FL; and Ponce, PR. In addition, a reserve was established for our affiliate's facility in Thornton, CA to remove certain lead containing materials which existed on the property at the time of purchase.

On a consolidated basis, we have reserved approximately \$4.2 million on September 25, 2010 and \$4.4 million on September 26, 2009, representing the estimated costs to complete future remediation efforts. These amounts have not been reduced by an insurance receivable.

From time to time, various special interest environmental groups have petitioned certain states requesting restrictions on the use or disposal of CCA treated products. The wood preservation industry trade groups are working with the individual states and their regulatory agencies to provide an accurate, factual background which demonstrates that the present method of uses and disposal is scientifically supported. We market a modest amount of CCA treated products for permitted, non-residential applications.

We have not accrued for any potential loss related to the contingencies above. However, potential liabilities of this nature are not conducive to precise estimates and are subject to change.

In addition, on September 25, 2010, we were parties either as plaintiff or defendant to a number of lawsuits and claims arising through the normal course of our business. In the opinion of management, our consolidated financial statements will not be materially affected by the outcome of these contingencies and claims.

On September 25, 2010, we had outstanding purchase commitments on capital projects of approximately \$2.6 million. We provide a variety of warranties for products we manufacture. Historically, warranty claims have not been material. We distribute products manufactured by other companies, some of which are no longer in business. While we do not warrant these products, we have received claims as a distributor of these products when the manufacturer no longer exists or has the ability to pay. Historically these costs have not had a material affect on our consolidated financial statements.

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UNIVERSAL FOREST PRODUCTS, INC.

In certain cases we supply building materials and labor to site-built construction projects or we jointly bid on contracts with framing companies for such projects. In some instances we are required to post payment and performance bonds to insure the owner that the products and installation services are completed in accordance with our contractual obligations. We have agreed to indemnify the surety for claims made against the bonds. As of September 25, 2010, we had approximately \$21.5 million in outstanding payment and performance bonds for projects in progress, which expire during the next two years. In addition, approximately \$21.4 million in payment and performance bonds are outstanding for completed projects which are still under warranty.

We have entered into operating leases for certain personal property assets that include a guarantee of a portion of the residual value of the leased assets. If at the expiration of the initial lease term we do not exercise our option to purchase the leased assets and these assets are sold by the lessor for a price below a predetermined amount, we will reimburse the lessor for a certain portion of the shortfall. These operating leases will expire periodically over the next five years. The estimated maximum aggregate exposure of these guarantees is approximately \$1.3 million.

On September 25, 2010, we had outstanding letters of credit totaling \$31.9 million, primarily related to certain insurance contracts and industrial development revenue bonds as further described below.

In lieu of cash deposits, we provide irrevocable letters of credit in favor of our insurers to guarantee our performance under certain insurance contracts. We currently have irrevocable letters of credit outstanding totaling approximately \$19.0 million for these types of insurance arrangements. We have reserves recorded on our balance sheet, in accrued liabilities, that reflect our expected future liabilities under these insurance arrangements.

We are required to provide irrevocable letters of credit in favor of the bond trustees for all of the industrial development revenue bonds that we have issued. These letters of credit guarantee principal and interest payments to the bondholders. We currently have irrevocable letters of credit outstanding totaling approximately \$12.4 million related to our outstanding industrial development revenue bonds. These letters of credit have varying terms but may be renewed at the option of the issuing banks.

Certain wholly owned domestic subsidiaries have guaranteed the indebtedness of Universal Forest Products, Inc. in certain debt agreements, including the Series 2002-A Senior Notes and our revolving credit facility. The maximum exposure of these guarantees is limited to the indebtedness outstanding under these debt arrangements and this exposure will expire concurrent with the expiration of the debt agreements.

Table of Contents**UNIVERSAL FOREST PRODUCTS, INC.**

Many of our wood treating operations utilize Subpart W drip pads, defined as hazardous waste management units by the EPA. The rules regulating drip pads require that the pad be closed at the point that it is no longer intended to be used for wood treating operations or to manage hazardous waste. Closure involves identification and disposal of contaminants which are required to be removed from the facility. The cost of closure is dependent upon a number of factors including, but not limited to, identification and removal of contaminants, cleanup standards that vary from state to state, and the time period over which the cleanup would be completed. Based on our present knowledge of existing circumstances, it is considered probable that these costs will approximate \$0.3 million. As a result, this amount is recorded in other long-term liabilities on September 25, 2010.

We did not enter into any new guarantee arrangements during the second quarter of 2010 which would require us to recognize a liability on our balance sheet.

G. BUSINESS COMBINATIONS

No business combinations were completed in fiscal 2009. We completed the following business combinations in fiscal 2010 which were accounted for using the purchase method (in millions):

| Company Name | Acquisition Date | Purchase Price | Intangible Assets | Net Tangible Assets | Operating Segment | Business Description |
|--|-------------------------|------------------------|--------------------------|----------------------------|--------------------------|--|
| Shepherd Distribution Co.(Shepherd) | April 29, 2010 | \$5.9 (asset purchase) | \$ 2.6 | \$ 3.3 | Northern Division | Distributes shingle underlayment, bottom board, house wrap, siding, poly film and other products to manufactured housing and RV customers. Headquartered in Elkhart, Indiana, it has distribution capabilities throughout the United States. |
| Service Supply Distribution, Inc. (Service Supply) | March 8, 2010 | \$0.6 (asset purchase) | \$ 0.0 | \$ 0.6 | Southern Division | Distributes certain plumbing, electrical, adhesives, flooring, paint and other products to manufactured housing and RV customers. Headquartered in Cordele, Georgia, it has distribution capabilities throughout the United States. |

The business combinations mentioned above were not significant to our operating results individually or in aggregate, and thus pro forma results are not presented.

Table of Contents**UNIVERSAL FOREST PRODUCTS, INC.**

The purchase price allocation for D-Stake Mill and Manufacturing Company (D-Stake) was adjusted as follows (in millions) during the first quarter of fiscal 2010 as a result of a change in the valuation of the intangible assets acquired. The impact of the adjustment on earnings was negligible.

| | Non-compete agreements | Customer Relationships | Goodwill - Total | Goodwill - Tax Deductible |
|---|---------------------------|---------------------------|---------------------|---------------------------------|
| D-Stake initial purchase price allocation | \$ 2.6 | | \$ 2.5 | \$ 2.5 |
| Adjustments | (1.6) | 1.9 | (0.3) | (0.3) |
| D-Stake final purchase price allocation | 1.0 | 1.9 | 2.2 | 2.2 |

H. SEGMENT REPORTING

ASC 280, *Segment Reporting* (ASC 280), defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Beginning January 1, 2010, our Eastern Division was divided into two divisions: a Northern Division and a Southern Division. This change was primarily made in order to drive faster growth by allowing field leadership to concentrate on a smaller entity, thereby having a bigger impact on growth. The presentation of the reportable segment amounts was not impacted.

Under the definition of a segment, our Northern, Southern, Western and Consumer Products Divisions may be considered operating segments of our business. Under ASC 280, segments may be aggregated if the segments have similar economic characteristics and if the nature of the products, distribution methods, customers and regulatory environments are similar. Based on these criteria, we have aggregated our Northern, Southern and Western Divisions into one reporting segment, which have the same totals as our former Eastern and Western Divisions. Our Consumer Products Division is included in the All Other column in the table below. Our divisions operate manufacturing and treating facilities throughout North America. A summary of results are presented below (in thousands).

| | Nine Months Ended September 25, 2010 | | | Nine Months Ended September 26, 2009 | | |
|--------------------------------|--|--------------|--------------|--|--------------|--------------|
| | Northern, Southern and Western Divisions | All Other | Total | Northern, Southern and Western Divisions | All Other | Total |
| Net sales to outside customers | \$ 1,401,600 | \$ 110,566 | \$ 1,512,166 | \$ 1,242,119 | \$ 92,316 | \$ 1,334,435 |
| Intersegment net sales | 0 | 41,716 | 41,716 | 0 | 29,239 | 29,239 |
| Segment operating profit | 31,284 | 1,314 | 32,598 | 36,845 | 6,660 | 43,505 |

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UNIVERSAL FOREST PRODUCTS, INC.

I. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

During the quarter, the Internal Revenue Service completed its examinations of our federal returns through 2008. As a result of the completed examinations, our gross unrecognized tax benefits decreased to \$1.3 million at September 25, 2010 compared to \$10.3 million at December 26, 2009. This decrease did not result in an adjustment to our income tax provision, therefore, our effective tax rate was not impacted by the examinations.

J. SUBSEQUENT EVENTS

On October 14, 2010, our Board approved a semi-annual dividend of \$0.20 per share, payable on December 15, 2010 to shareholders of record on December 1, 2010.

On October 14, 2010, our board authorized an additional 2 million shares to be repurchased under our share repurchase program. The total number of shares that may be repurchased under the program is almost 3 million shares.

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**UNIVERSAL FOREST PRODUCTS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This report contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act, as amended, that are based on management's beliefs, assumptions, current expectations, estimates, and projections about the markets we serve, the economy, and the company itself. Words like anticipates, believes, confident, estimates, expects, forecasts, likely, plans, projects, should, variations of such words, and similar expressions are used in such forward-looking statements. These statements do not guarantee future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict with regard to timing, extent, likelihood, and degree of occurrence. The Company does not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. Actual results could differ materially from those included in such forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty. Among the factors that could cause actual results to differ materially from forward-looking statements are the following: Fluctuations in the price of lumber; adverse or unusual weather conditions; adverse conditions in the markets we serve; government regulations, particularly involving environmental and safety regulations; and our ability to make successful business acquisitions. We also encourage you to read our Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission. That report includes Risk Factors that you should consider in connection with any decision to buy or sell our securities. We are pleased to present this overview of 2010.

OVERVIEW

Our results for the third quarter of 2010 were impacted by the following:

Our overall unit sales were flat compared to the third quarter of 2009 as increased unit sales to our industrial and manufactured housing customers was substantially offset by a decline in unit sales to our DIY/retail customers.

We believe we have gained additional share of the industrial and manufactured housing markets we serve. Share gains in our industrial market have been achieved by adding many new customers while share gains in manufactured housing have been achieved by acquiring distribution operations. We believe we have maintained our share of the DIY/retail market. Finally, we recently closed several plants that supply the site-built housing market in order to achieve profitability and cash flow goals; consequently, we believe that these actions may temporarily cause us to lose some market share.

After unusual volatility in the second quarter, the Lumber Market stabilized and was approximately 5% higher, on average, in the third quarter of 2010 compared to the same period of 2009. Consequently, the Lumber Market had the effect of slightly increasing our overall selling prices for the quarter.

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UNIVERSAL FOREST PRODUCTS, INC.

The Leading Indicator for Remodeling Activity, released by Harvard's Joint Center for Housing Studies, estimated in its most recent report that spending in the third quarter of 2010 on homeowner remodeling improvements declined 4.1% for the period, which impacts our DIY/retail market. Consumer spending for large repair/remodel projects has decreased due to general economic conditions, among other factors, including weak home prices and high unemployment levels. Consequently, the same store sales of our big box home improvement retailers have declined. The Consumer Confidence Index recently decreased in September causing concern about the level of consumer spending in future months.

National housing starts decreased approximately 6% in the period from June through August of 2010 (our sales trail housing starts by about a month), compared to the same period of 2009, likely due to the expiration of certain government tax credits which shifted customer demand to earlier in the year.

Shipments of HUD code manufactured homes were up 3% in July and August of 2010, compared to the same period of 2009. Shipments of manufactured homes were also positively impacted by certain tax credits that have now expired.

The industrial market has improved as the U.S. economy slowly recovers. More significantly, we gained additional share of this market due, in part, to adding many new customers and continuing to penetrate the concrete forming business.

Our gross margin decreased by 3.8% this quarter compared to the third quarter of 2009. While lumber prices stabilized during the third quarter of 2010, inventories were built earlier in the year when lumber prices were up as much as 52% over the previous year in preparation for a solid selling season, which didn't materialize. At the end of June, our inventory consisted primarily of higher-cost lumber, which adversely affected profits in the third quarter. We have since sold through this higher cost product and, by the end of the third quarter, our inventories comprised lumber purchased at a much lower cost. At the end of September of 2010, our average cost of lumber inventory was approximately 7% higher than our average cost at the end of September of 2009, which approximates the year over year increase in the Lumber Market.

Our cash flow from operating activities was only \$13 million, reflecting higher inventory levels due to softening demand. We anticipate strong cash flows for the balance of the year as we reduce inventories to a level needed to support current demand.

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**UNIVERSAL FOREST PRODUCTS, INC.
HISTORICAL LUMBER PRICES**

The following table presents the Random Lengths framing lumber composite price:

| | Random Lengths Composite Average \$/MBF | |
|-----------------------|--|--------|
| | 2010 | 2009 |
| January | \$ 264 | \$ 198 |
| February | 312 | 199 |
| March | 310 | 195 |
| April | 351 | 208 |
| May | 333 | 198 |
| June | 267 | 222 |
| July | 251 | 238 |
| August | 245 | 239 |
| September | 250 | 236 |
| Third quarter average | \$ 249 | \$ 238 |
| Year-to-date average | \$ 287 | \$ 215 |

Third quarter percentage change from 2009 4.6%

Year-to-date percentage change from 2009 33.5%

In addition, a Southern Yellow Pine (SYP) composite price, which we prepare and use, is presented below. Sales of products produced using this species, which primarily consists of our preservative-treated products, may comprise up to 50% of our sales volume.

| | Random Lengths SYP Average \$/MBF | |
|-----------|--------------------------------------|--------|
| | 2010 | 2009 |
| January | \$ 269 | \$ 241 |
| February | 331 | 233 |
| March | 337 | 232 |
| April | 382 | 241 |
| May | 374 | 231 |
| June | 293 | 236 |
| July | 264 | 253 |
| August | 249 | 241 |
| September | 252 | 244 |

Third quarter average