

UNIVERSAL FOREST PRODUCTS INC  
Form 10-Q  
October 29, 2014

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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 27, 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 September 27, 2014
Common stock, no par value	19,974,886

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CONSOLIDATED CONDENSED BALANCE SHEETS  
(Unaudited)

(in thousands, except share data)

	September 27, 2014	December 28, 2013	September 28, 2013
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$26,184	\$-	\$5,151
Restricted cash	720	720	720
Accounts receivable, net	257,235	180,452	241,990
Inventories:			
Raw materials	150,585	161,226	127,854
Finished goods	123,080	126,079	104,356
Total inventories	273,665	287,305	232,210
Refundable income taxes	-	2,235	-
Deferred income taxes	6,848	6,866	9,203
Other current assets	20,743	18,820	20,280
<b>TOTAL CURRENT ASSETS</b>	<b>585,395</b>	<b>496,398</b>	<b>509,554</b>
<b>DEFERRED INCOME TAXES</b>	<b>1,312</b>	<b>1,365</b>	<b>1,696</b>
<b>OTHER ASSETS</b>	<b>14,915</b>	<b>12,087</b>	<b>12,615</b>
<b>GOODWILL</b>	<b>160,146</b>	<b>160,146</b>	<b>160,146</b>
<b>INDEFINITE-LIVED INTANGIBLE ASSETS</b>	<b>2,340</b>	<b>2,340</b>	<b>2,340</b>
<b>OTHER INTANGIBLE ASSETS, NET</b>	<b>6,339</b>	<b>7,241</b>	<b>7,815</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Property, plant and equipment	599,584	578,702	578,429
Less accumulated depreciation and amortization	(354,548 )	(341,292)	(339,082)
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>245,036</b>	<b>237,410</b>	<b>239,347</b>
<b>TOTAL ASSETS</b>	<b>\$1,015,483</b>	<b>\$916,987</b>	<b>\$933,513</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Cash overdraft	\$-	\$1,079	\$-
Accounts payable	99,008	72,918	85,520
Accrued liabilities:			
Compensation and benefits	60,069	45,018	45,651
Income taxes	15	-	6,269
Other	33,849	20,084	26,900
<b>TOTAL CURRENT LIABILITIES</b>	<b>192,941</b>	<b>139,099</b>	<b>164,340</b>
<b>LONG-TERM DEBT</b>	<b>84,700</b>	<b>84,700</b>	<b>84,700</b>
<b>DEFERRED INCOME TAXES</b>	<b>26,896</b>	<b>26,788</b>	<b>24,861</b>
<b>OTHER LIABILITIES</b>	<b>15,862</b>	<b>16,666</b>	<b>16,211</b>
<b>TOTAL LIABILITIES</b>	<b>320,399</b>	<b>267,253</b>	<b>290,112</b>
<b>SHAREHOLDERS' EQUITY:</b>			

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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, 19,974,886, 19,948,270, and 19,893,513.	19,975	19,948	19,900
Additional paid-in capital	161,122	156,129	153,932
Retained earnings	501,181	461,812	458,005
Accumulated other comprehensive income	2,767	3,466	3,901
Employee stock notes receivable	(530 )	(732 )	(732 )
Total controlling interest shareholders' equity	684,515	640,623	635,006
Noncontrolling interest	10,569	9,111	8,395
TOTAL SHAREHOLDERS' EQUITY	695,084	649,734	643,401
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,015,483	\$916,987	\$933,513

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		Nine Months Ended	
	September	September	September	September
	27,	28,	27,	28,
	2014	2013	2014	2013
NET SALES	\$713,489	\$ 651,780	\$2,040,239	\$ 1,944,711
COST OF GOODS SOLD	623,903	573,491	1,787,652	1,729,027
GROSS PROFIT	89,586	78,289	252,587	215,684
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	59,936	53,020	172,835	154,348
ANTI-DUMPING DUTY ASSESSMENT	-	887	1,600	887
NET GAIN ON DISPOSITION AND IMPAIRMENT OF ASSETS	(2,570 )	(145 )	(3,418 )	(253 )
EARNINGS FROM OPERATIONS	32,220	24,527	81,570	60,702
INTEREST EXPENSE	1,016	1,159	3,184	3,584
INTEREST INCOME	(346 )	(159 )	(975 )	(463 )
EQUITY IN EARNINGS OF INVESTEE	(118 )	(18 )	(246 )	(152 )
	552	982	1,963	2,969
EARNINGS BEFORE INCOME TAXES	31,668	23,545	79,607	57,733
INCOME TAXES	11,176	8,530	29,000	20,589
NET EARNINGS	20,492	15,015	50,607	37,144
LESS NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(1,258 )	(924 )	(2,369 )	(2,057 )
NET EARNINGS ATTRIBUTABLE TO CONTROLLING INTEREST	\$19,234	\$ 14,091	\$48,238	\$35,087
EARNINGS PER SHARE - BASIC	\$0.96	\$0.71	\$2.40	\$1.76
EARNINGS PER SHARE - DILUTED	\$0.96	\$0.71	\$2.40	\$1.76
NET EARNINGS	20,492	15,015	50,607	37,144
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	(491 )	752	(885 )	(316 )
COMPREHENSIVE INCOME	20,001	15,767	49,722	36,828
	(1,317 )	(1,106 )	(2,183 )	(2,098 )

LESS COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST				
COMPREHENSIVE INCOME ATTRIBUTABLE TO CONTROLLING INTEREST	\$18,684	\$14,661	\$47,539	\$34,730

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			35,087			2,057	37,144
Foreign currency translation adjustment				(357 )		41	(316 )
Distributions to noncontrolling interest						(1,460 )	(1,460 )
Cash Dividends - \$0.200 per share			(3,977 )				(3,977 )
Issuance of 31,341 shares under employee stock plans	31	808					839
Issuance of 30,650 shares under stock grant programs	31	10	8				49
Issuance of 41,019 shares under deferred compensation plans	41	(41 )					-
Tax benefits from non-qualified stock options exercised		109					109
Expense associated with share-based compensation arrangements		1,442					1,442
Accrued expense under deferred compensation plans		1,897					1,897
Notes receivable written off	(3 )	(98 )			105		4
Payments received on employee stock notes receivable					145		145
Balance at September 28, 2013	\$19,900	\$153,932	\$458,005	\$ 3,901	\$ (732 )	\$ 8,395	\$643,401
Balance at December 28, 2013	\$19,948	\$156,129	\$461,812	\$ 3,466	\$ (732 )	\$ 9,111	\$649,734
Net earnings			48,238			2,369	50,607
Foreign currency translation adjustment				(699 )		(186 )	(885 )
Noncontrolling interest associated with business acquisitions						985	985
Distributions to noncontrolling interest						(1,710 )	(1,710 )
Cash Dividends - \$0.210 per share			(4,214 )				(4,214 )
	9	297	14				320

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Issuance of 8,681 shares under employee stock plans							
Issuance of 77,736 shares under stock grant programs	78	1,108					1,186
Issuance of 43,210 shares under deferred compensation plans	43	(43 )					-
Repurchase of 103,011 shares	(103 )		(4,669 )				(4,772 )
Tax benefits from non-qualified stock options exercised							-
Expense associated with share-based compensation arrangements		1,445					1,445
Accrued expense under deferred compensation plans		2,186					2,186
Payments received on employee stock notes receivable					202		202
Balance at September 27, 2014	\$ 19,975	\$ 161,122	\$ 501,181	\$ 2,767	\$ (530 )	\$ 10,569	\$ 695,084

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

(in thousands)

	Nine Months Ended	
	September 27, 2014	September 28, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$50,607	\$37,144
Adjustments to reconcile net earnings attributable to controlling interest:		
Depreciation	24,241	22,333
Amortization of intangibles	1,743	1,880
Expense associated with share-based compensation arrangements	1,445	1,491
Excess tax benefits from share-based compensation arrangements	(2 )	(8 )
Expense associated with stock grant plans	81	-
Deferred income taxes (credit)	127	(83 )
Equity in earnings of investee	(246 )	(152 )
Net gain on disposition and impairment of assets	(3,418 )	(195 )
Changes in:		
Accounts receivable	(76,642 )	(79,849 )
Inventories	14,754	11,261
Accounts payable and cash overdraft	25,078	19,336
Accrued liabilities and other	32,760	34,580
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>70,528</b>	<b>47,738</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(31,676 )	(32,108 )
Proceeds from sale of property, plant and equipment	6,463	1,261
Acquisitions, net of cash received	(7,135 )	(9,296 )
Advances of notes receivable	(2,229 )	(1,990 )
Collections on notes receivable	983	1,441
Cash restricted as to use	-	6,111
Other, net	(95 )	28
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>(33,689 )</b>	<b>(34,553 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under revolving credit facilities	192,475	251,801
Repayments under revolving credit facilities	(192,475)	(262,891)
Debt issuance costs	(11 )	(15 )
Proceeds from issuance of common stock	297	839
Distributions to noncontrolling interest	(1,710 )	(1,460 )
Dividends paid to shareholders	(4,214 )	(3,977 )
Repurchase of common stock	(4,772 )	-
Excess tax benefits from share-based compensation arrangements	2	8
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>(10,408 )</b>	<b>(15,695 )</b>

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Effect of exchange rate changes on cash	(247	)	14
NET CHANGE IN CASH AND CASH EQUIVALENTS	26,184		(2,496 )
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	\$-		\$7,647
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$26,184		\$5,151
SUPPLEMENTAL INFORMATION:			
Interest paid	\$2,475		\$2,850
Income taxes paid	26,605		6,780
NON-CASH INVESTING ACTIVITIES			
Other receivables exchanged for notes receivable	2,768		1,635
Notes receivable exchanged for property	2,980		3,900
NON-CASH FINANCING ACTIVITIES:			
Common stock issued under deferred compensation plans	2,270		1,647

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 September 28, 2013 balances in the accompanying unaudited consolidated condensed balance sheets.

## 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 27, 2014	September 28, 2013
	Quoted Prices in Active Markets (Level 1)	Quoted Prices in Active Markets (Level 1)
(in thousands)		
Money market funds	\$ 651	\$ 62
Mutual funds:		
Domestic stock funds	658	725
International stock funds	218	535
Target funds	296	159
Bond funds	156	135
Total mutual funds	1,328	1,554
	1,979	1,616

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## UNIVERSAL FOREST PRODUCTS, INC.

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 September 27, 2014 or September 28, 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.

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 27, 2014	December 28, 2013	September 28, 2013
Cost and Earnings in Excess of Billings	\$ 6,883	\$ 6,903	\$ 9,640
Billings in Excess of Cost and Earnings	3,940	2,858	2,655

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UNIVERSAL FOREST PRODUCTS, INC.

## D. EARNINGS PER SHARE

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

	Three Months		Nine Months Ended	
	Ended September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Numerator:				
Net earnings attributable to controlling interest	\$ 19,234	\$ 14,091	\$ 48,238	\$ 35,087
Adjustment for earnings allocated to non-vested restricted common stock	(178 )	(134 )	(444 )	(338 )
Net earnings for calculating EPS	\$ 19,056	\$ 13,957	\$ 47,794	\$ 34,749
Denominator:				
Weighted average shares outstanding	20,100	19,965	20,095	19,916
Adjustment for non-vested restricted common stock	(186 )	(190 )	(186 )	(192 )
Shares for calculating basic EPS	19,914	19,775	19,909	19,724
Effect of dilutive stock options	18	25	24	39
Shares for calculating diluted EPS	19,932	19,800	19,933	19,763
Net earnings per share:				
Basic	\$0.96	\$ 0.71	\$2.40	\$ 1.76
Diluted	\$0.96	\$ 0.71	\$2.40	\$ 1.76

No options were excluded from the computation of diluted EPS for the quarters ended September 27, 2014 or September 28, 2013.

## E. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

We are self-insured for environmental impairment liability, including certain liabilities which are insured through a wholly owned subsidiary, Ardellis 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; and Medley, FL. 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. During 2009, a subsidiary entered into a consent order with the State of Florida to conduct additional testing at the Auburndale, FL facility. We admitted no liability and the costs are not expected to be material.

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UNIVERSAL FOREST PRODUCTS, INC.

On a consolidated basis, we have reserved approximately \$3.2 million on September 27, 2014 and \$3.5 million on September 28, 2013, representing the estimated costs to complete future remediation efforts. These amounts are included in Other Liabilities within the condensed balance sheet and have not been reduced by an insurance receivable.

As of September 27, 2014, we have an accrual balance of \$2.2 million related to anti-dumping duty assessments imposed on steel nails imported from China.

We are currently undergoing an unclaimed property audit with the state of Michigan covering the period July 1, 1994 to present. We anticipate that the audit will be completed during the fourth quarter of 2014 and do not expect it to result in a material loss.

In addition, on September 27, 2014, 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 27, 2014, we had outstanding purchase commitments on capital projects of approximately \$8.5 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.

In certain cases we supply building materials and labor to residential and multi-family 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 27, 2014 we had approximately \$8.7 million in outstanding payment and performance bonds, which expire during the next two years. In addition, approximately \$21.7 million in payment and performance bonds are outstanding for completed projects which are still under warranty.



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UNIVERSAL FOREST PRODUCTS, INC.

On September 27, 2014, we had outstanding letters of credit totaling \$26.9 million, primarily related to certain insurance contracts and industrial development revenue bonds described further 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 \$16.7 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 \$9.8 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 2012 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.

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 \$0.6 million. As a result, this amount is recorded in other long-term liabilities on September 27, 2014.

We did not enter into any new guarantee arrangements during the third quarter of 2014 which would require us to recognize a liability on our balance sheet.

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## UNIVERSAL FOREST PRODUCTS, INC.

## F. BUSINESS COMBINATIONS

We completed the following acquisitions in fiscal 2014 and 2013 which were accounted for using the purchase method (in thousands):

Company Name	Acquisition Date	Purchase Price	Intangible Assets	Net Tangible Assets	Operating Segment	Business Description
High Level Components, LLC ("High Level")	March 31, 2014	\$2,944 (asset purchase)	\$ -	\$ 3,232	Eastern Division	A building component manufacturer based in Locust, NC. High Level had annual sales of \$6.8 million.
Upshur Forest Products, LLC ("Upshur")	March 28, 2014	\$1,774 (50% asset purchase; 51% voting majority)	\$ 788	\$ 985	Western Division	A sawmill located in Gilmer, TX. Upshur had annual sales of \$8.9 million.
Container Systems, Inc. ("CSI")	March 14, 2014	\$2,417 (asset purchase)	\$ -	\$ 2,417	Eastern Division	A manufacturer of crates and containers for industrial applications and the moving-and-storage industry, located in Franklinton, NC. CSI had annual sales of \$3.0 million.
SE Panel and Lumber Supply, LLC ("SE Panel")	November 8, 2013	\$2,181 (asset purchase)	\$ -	\$ 2,181	Eastern Division	A distributor of Olympic Panel overlay concrete forming panels and commodity lumber products to the concrete forming and construction industries. Facility is located in South Daytona, FL. SE Panel had annual sales of \$5.4 million.
Premier Laminating Services, Inc. ("Premier Laminating")	May 31, 2013	\$696 (asset purchase)	\$ 250	\$ 446	Western Division	A business specialized in laminated wood products. Facility is located in Perris, CA. Premier Laminating had annual sales of \$6.2 million.
Millry Mill Company, Inc. ("Millry")	February 28, 2013	\$2,323 (asset purchase)	\$ 50	\$ 2,273	Eastern Division	A specialized export mill that produces rough dimension boards and lumber. Facility is located in Millry, AL. Millry had annual sales of \$4.7 million.
			\$ 2,000	\$ 4,278		

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Custom Caseworks, Inc. (“Custom Caseworks”)	December 31, 2012	\$6,278 (asset purchase)	Western Division	A high-precision business-to-business manufacturer of custom casework, cabinetry and other products used in many commercial markets. Facility is located in Sauk Rapids, MN. Custom Caseworks had annual sales of \$7 million.
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## UNIVERSAL FOREST PRODUCTS, INC.

The intangible assets for the acquisitions were finalized and allocated to their respective identifiable intangible asset and goodwill accounts during 2013 and 2014.

## G. 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.

Our operating segments consist of the Eastern, Western, Site-Built, Consumer Products, Pinelli Universal and Distribution divisions. In accordance with ASC 280, due to the similar economic characteristics, nature of products, distribution methods, and customers, we have aggregated our Eastern and Western operating segments into one reportable segment. The Site-Built division is considered a separate reportable segment. Our other divisions do not collectively form a reportable segment because they do not meet the applicable quantitative requirements. These operations have been included in the “All Other” column of the table below. The “Corporate” column includes unallocated administrative costs and certain incentive compensation expense.

## Three Months Ended September 27, 2014

	Eastern and Western	Site-Built	All Other	Corporate	Total
Net sales to outside customers	\$585,156	\$68,326	\$60,007	\$ -	\$713,489
Intersegment net sales	24,884	2,238	2,303	-	29,425
Segment operating profit	23,557	6,053	2,597	13	32,220

## Three Months Ended September 28, 2013

	Eastern and Western	Site-Built	All Other	Corporate	Total
Net sales to outside customers	\$523,364	\$70,579	\$57,837	\$ -	\$651,780
Intersegment net sales	21,246	4,406	2,968	-	28,620
Segment operating profit	18,628	3,993	630	1,276	24,527

## Nine Months Ended September 27, 2014

	Eastern and Western	Site-Built	All Other	Corporate	Total
Net sales to outside customers	\$1,675,609	\$187,968	\$176,662	\$ -	\$2,040,239
Intersegment net sales	73,261	8,966	11,446	-	93,673
Segment operating profit (loss)	67,441	13,557	3,753	(3,181 )	81,570

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## UNIVERSAL FOREST PRODUCTS, INC.

Nine Months Ended September 28, 2013

	Eastern and Western	Site-Built	All Other	Corporate	Total
Net sales to outside customers	\$1,570,073	\$202,590	\$172,048	\$ -	\$1,944,711
Intersegment net sales	69,179	13,168	9,913	-	92,260
Segment operating profit	54,412	2,163	1,543	2,584	60,702

## H. INCOME TAXES

Effective tax rates differ from statutory federal income tax rates, primarily due to provisions for state and local income taxes and permanent tax differences. Our effective tax rate was 35.3% in the third quarter of 2014 compared to 36.2% for same period of 2013. Our effective tax rate was 36.4% in the first nine months of 2014 compared to 35.7% for the same period of 2013. The increase in our effective tax rate in the first nine months of 2014 was primarily due to research and development and certain other tax credits totaling approximately \$500,000 relating to 2012 that were recorded in 2013. These tax credits were enacted in the first quarter of 2013, retroactive to the beginning of 2012.

## I. NET GAIN ON SALE AND IMPAIRMENT OF ASSETS

During the third quarter of 2014, the net gain on disposition and impairment of assets totaled \$2.6 million. Included within the \$2.6 million net gain was a gain on the sale of certain real estate totaling \$2.7 million completed by a 50% owned subsidiary of the Company. After considering the \$1.35 million non-controlling interest and income taxes, net earnings attributable to controlling interests increased by approximately \$700,000 as a result of these transactions. In the first nine months of 2014, we recognized a net gain on the sale of assets of \$4.6 million, which was offset by a \$1.2 million impairment loss recorded to reduce the value of one of our vacant properties.

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UNIVERSAL FOREST PRODUCTS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Universal Forest Products, Inc. is a holding company that provides capital, management and administrative resources to subsidiaries that supply wood, wood composite and other products to three primary markets: retail, housing and construction, and industrial. Our retail market is comprised of building materials sold primarily to national home center retailers, retail-oriented regional lumber yards and contractor-oriented lumber yards. Our housing and construction market is comprised of three submarkets, manufactured housing customers, residential construction customers and commercial construction customers. Our industrial market is generally defined as industrial manufacturers and agricultural customers for packaging, material handling and other applications. Founded in 1955, the Company is headquartered in Grand Rapids, Mich., with affiliates throughout North America. For more about Universal Forest Products, go to [www.ufpi.com](http://www.ufpi.com).

This report contains 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 identify 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, events, or assumptions 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 economic conditions in the markets we serve; government regulations, particularly involving environmental and safety regulations; and our ability to make successful business acquisitions. Certain of these risk factors as well as other risk factors and additional information are included in the Company's reports on Form 10-K and 10-Q on file with the Securities and Exchange Commission. We are pleased to present this overview of 2014.

OVERVIEW

Our results for the third quarter of 2014 were impacted by the following:

Our overall sales increased by 9.5% compared to the third quarter of 2013, comprised of a 4% increase in unit sales and a 6% increase in our selling prices due to the commodity lumber market (See Historical Lumber Prices). Sales increased in each of our primary markets, relative to the comparative quarter of 2013.

National housing starts increased approximately 12.6% in the period from June through August 2014 (our sales trail housing starts by about a month), compared to the same period of 2013. Although national housing starts increased, our unit sales to the residential construction market decreased 10%, primarily due to being more selective in the business that we take, particularly in our framing operations within our Site-Built segment.

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## UNIVERSAL FOREST PRODUCTS, INC.

Production of HUD code manufactured homes increased 9% in the third quarter of 2014, compared to the same period of 2013, and production of modular homes was soft. By comparison, our unit sales increased by only 1% to these customers. Our growth in unit sales trails the overall market because one of our largest customers in this market recently employed a vertical integration strategy in which it manufactures certain wood components used in its homes.

One of our 50% owned subsidiaries, which we consolidate, sold certain idle real estate during the quarter and recorded a gain before non-controlling interests and income taxes totaling approximately \$2.7 million, resulting in a total net gain on the sale and impairment of assets totaling approximately \$2.6 million. After considering non-controlling interests and income taxes, these transactions contributed approximately \$700,000 to net earnings attributable to controlling interests this quarter.

## HISTORICAL LUMBER PRICES

We experience significant fluctuations in the cost of commodity lumber products from primary producers ("Lumber Market"). The following table presents the Random Lengths framing lumber composite price:

	Random Lengths Composite Average \$/MBF	
	2014	2013
January	\$395	\$393
February	394	409
March	387	436
April	367	429
May	377	367
June	375	329
July	381	343
August	401	353
September	398	368
Third quarter average	\$393	\$355
Year-to-date average	386	381
Third quarter percentage change	10.7%	
Year-to-date percentage change	1.3%	

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## UNIVERSAL FOREST PRODUCTS, INC.

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 approximately 50% of our sales volume.

	Random Lengths SYP Average \$/MBF	
	2014	2013
January	\$375	\$397
February	398	426
March	406	445
April	392	436
May	402	383
June	406	355
July	396	366
August	419	364
September	416	360
Third quarter average	\$410	\$363
Year-to-date average	401	392
Third quarter percentage change	13.0%	
Year-to-date percentage change	2.3%	

## IMPACT OF THE LUMBER MARKET ON OUR OPERATING RESULTS

We generally price our products to pass lumber costs through to our customers so that our profitability is based on the value-added manufacturing, distribution, engineering, and other services we provide. As a result, our sales levels (and working capital requirements) are impacted by the lumber costs of our products. Lumber costs are a significant percentage of our cost of goods sold.

Our gross margins are impacted by (1) the relative level of the Lumber Market (i.e. whether prices are higher or lower from comparative periods), and (2) the trend in the market price of lumber (i.e. whether the price of lumber is increasing or decreasing within a period or from period to period). Moreover, as explained below, our products are priced differently. Some of our products have fixed selling prices, while the selling prices of other products are indexed to the reported Lumber Market with a fixed dollar adder to cover conversion costs and profits. Consequently, the level and trend of the Lumber Market impact our products differently.



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UNIVERSAL FOREST PRODUCTS, INC.

Below is a general description of the primary ways in which our products are priced.

Products with fixed selling prices. These products include value-added products such as deck components and fencing sold to retail building materials customers, as well as trusses, wall panels and other components sold to the residential construction market, and most industrial packaging products. Prices for these products are generally fixed at the time of the sales quotation for a specified period of time or are based upon a specific quantity. In order to maintain margins and reduce any exposure to adverse trends in the price of component lumber products, we attempt to lock in costs with our suppliers for these sales commitments. Also, the time period and quantity limitations generally allow us to re-price our products for changes in lumber costs from our suppliers.

Products with selling prices indexed to the reported Lumber Market with a fixed dollar "adder" to cover conversion costs and profits. These products primarily include treated lumber, remanufactured lumber, and trusses sold to the manufactured housing industry. For these products, we estimate the customers' needs and we carry anticipated levels of inventory. Because lumber costs are incurred in advance of final sale prices, subsequent increases or decreases in the market price of lumber impact our gross margins. For these products, our margins are exposed to changes in the trend of lumber prices. As a result of the decline in the housing market and our sales to residential and commercial builders, a greater percentage of our sales fall into this general pricing category. Consequently, we believe our profitability may be impacted to a much greater extent to changes in the trend of lumber prices.

Changes in the trend of lumber prices have their greatest impact on the following products:

Products with significant inventory levels with low turnover rates, whose selling prices are indexed to the Lumber Market. In other words, the longer the period of time these products remain in inventory, the greater the exposure to changes in the price of lumber. This would include treated lumber, which comprises approximately 15% of our total sales. This exposure is less significant with remanufactured lumber, trusses sold to the manufactured housing market, and other similar products, due to the higher rate of inventory turnover. We attempt to mitigate the risk associated with treated lumber through vendor consignment inventory programs. (Please refer to the "Risk Factors" section of our annual report on form 10-K, filed with the United States Securities and Exchange Commission.)

Products with fixed selling prices sold under long-term supply arrangements, particularly those involving multi-family construction projects. We attempt to mitigate this risk through our purchasing practices by locking in costs.

In addition to the impact of the Lumber Market trends on gross margins, changes in the level of the market cause fluctuations in gross margins when comparing operating results from period to period. This is explained in the following example, which assumes the price of lumber has increased from period one to period two, with no changes in the trend within each period.

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## UNIVERSAL FOREST PRODUCTS, INC.

	Period 1	Period 2
Lumber cost	\$ 300	\$ 400
Conversion cost	50	50
= Product cost	350	450
Adder	50	50
= Sell price	\$ 400	\$ 500
Gross margin	12.5 %	10.0 %

As is apparent from the preceding example, the level of lumber prices does not impact our overall profits, but does impact our margins. Gross margins are negatively impacted during periods of high lumber prices; conversely, we experience margin improvement when lumber prices are relatively low.

**BUSINESS COMBINATIONS**

We've completed three acquisitions through September 2014, and four during all of 2013. Each of the acquisitions was accounted for using the purchase method. The annual revenue of acquisitions completed in 2014 and 2013 totaled \$19 million and \$23 million, respectively. These business combinations were not significant to our operating results individually or in aggregate, and thus pro forma results for 2014 and 2013 are not presented.

See Notes to the Unaudited Condensed Consolidated Financial Statements, Note C, "Business Combinations" for additional information.

**RESULTS OF OPERATIONS**

The following table presents, for the periods indicated, the components of our Unaudited Condensed Consolidated Statements of Earnings as a percentage of net sales.

	Three Months		Nine months Ended	
	Ended September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales	100.0%	100.0 %	100.0%	100.0 %
Cost of goods sold	87.4	88.0	87.6	88.9
Gross profit	12.6	12.0	12.4	11.1
Selling, general, and administrative expenses	8.4	8.1	8.5	7.9
Anti-dumping duty assessments	-	0.1	0.1	0.1
Net gain on disposition and impairment of assets	(0.4 )	-	(0.2 )	-
Earnings from operations	4.5	3.8	4.0	3.1
Other expense (income), net	0.1	0.1	0.1	0.1
Earnings before income taxes	4.4	3.6	3.9	3.0
Income taxes	1.6	1.3	1.4	1.1
Net earnings	2.9	2.3	2.5	1.9
Less net earnings attributable to noncontrolling interest	(0.2 )	(0.1 )	(0.1 )	(0.1 )
Net earnings attributable to controlling interest	2.7 %	2.2 %	2.4 %	1.8 %

Note: Actual percentages are calculated and may not sum to total due to rounding.

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UNIVERSAL FOREST PRODUCTS, INC.

GROSS SALES

We design, manufacture and market wood and wood-alternative products for national home centers and other retailers, structural lumber and other products for the manufactured housing industry, engineered wood components for residential and commercial construction, and specialty wood packaging, components and packing materials for various industries. Our strategic long-term sales objectives include:

Diversifying our end market sales mix by increasing sales of specialty wood packaging to industrial users, increasing our penetration of the commercial market, increasing our sales of engineered wood components for custom home, multi-family, military and light commercial construction, and increasing our market share with independent retailers.

Expanding geographically in our core businesses, domestically and internationally.

Increasing sales of “value-added” products, which primarily consist of fencing, decking, lattice, and other specialty products sold to the retail building materials market, specialty wood packaging, engineered wood components, and “wood alternative” products. Engineered wood components include roof trusses, wall panels, and floor systems. Wood alternative products consist primarily of composite wood and plastics. Although we consider the treatment of dimensional lumber with certain chemical preservatives a value-added process, treated lumber is not presently included in the value-added sales totals.

Developing new products and expanding our product offering for existing customers. New product sales were \$36.1 million in the third quarter of 2014 compared to \$25.9 million during the third quarter of 2013. New product sales year-to-date for 2014 and 2013 were \$110.2 and \$74.1 million, respectively.

Maximizing unit sales growth while achieving return on investment goals.

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## UNIVERSAL FOREST PRODUCTS, INC.

The following table presents, for the periods indicated, our gross sales and percentage change in gross sales by market classification.

(in thousands)	Three Months Ended			Nine Months Ended		
	September 27, 2014	September 28, 2013	% Change	September 27, 2014	September 28, 2013	% Change
<u>Market Classification</u>						
Retail Building Materials	\$272,469	\$247,182	10.2	\$823,861	\$768,174	7.2
Industrial	211,344	186,385	13.4	585,211	539,213	8.5
Housing and Construction:						
Manufactured Housing	104,091	100,502	3.6	287,730	301,052	(4.4 )
Residential	92,829	94,893	(2.2 )	264,370	276,335	(4.3 )
Commercial	42,892	31,698	35.3	108,862	86,408	26.0
Subtotal	239,812	227,093	5.6	660,962	663,795	(0.4 )
Total Gross Sales	723,625	660,660	9.5	2,070,034	1,971,182	5.0
Sales Allowances	(10,136 )	(8,880 )		(29,795 )	(26,471 )	
Total Net Sales	\$713,489	\$651,780	9.5	\$2,040,239	\$1,944,711	4.9

Note: During 2014, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Gross sales in the third quarter of 2014 increased 9.5% compared to the same period of 2013, due to a 4% increase in unit sales and a 6% increase in selling prices.

Gross sales in the first nine months of 2014 increased 5.0% compared to the same period of 2013, due to a 5% increase in unit sales.

Changes in our gross sales by market are discussed below.

**Retail Building Materials:**

Gross sales to the retail building materials market increased approximately 10% in the third quarter of 2014 compared to the same period of 2013, due to a 5% increase in overall unit sales and a 5% increase in our selling prices due to the Lumber Market. Within this market, sales to our big box customers increased nearly 8% while our sales to other retailers increased approximately 14%, primarily due to an improvement in consumer demand. Our big box customers have also reported year over year increases in their same store sales.

Gross sales to the retail building materials market increased 7% in the first nine months of 2014 compared to the same period of 2013, due to an 8% increase in unit sales, offset by a 1% decrease in selling prices. Within this market, sales to our big box customers increased 10% while our sales to other retailers increased by 4%.

**Industrial:**

Gross sales to the industrial market increased approximately 13% in the third quarter of 2014 compared to the same period of 2013, resulting from a 7% increase in unit sales and a 6% increase in selling prices due to the Lumber Market. Our growth was due to a combination of new customers and an increase in demand from existing customers.

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UNIVERSAL FOREST PRODUCTS, INC.

Gross sales to the industrial market increased 9% in the first nine months of 2014 compared to the same period of 2013, due to a 9% increase in unit sales.

Housing and Construction:

**Manufactured Housing:** Gross sales to the manufactured housing market increased approximately 4% in the third quarter of 2014 compared to 2013. The increase was due to a 1% increase in unit sales along with a 3% increase in selling prices. By comparison, production of HUD-code homes in July and August 2014 were up 9% compared to 2013 but modular home production continued to be soft. Our unit sales growth continues to trail industry production growth because one of our largest customers in this market recently employed a vertical integration strategy in which it manufactures certain wood components used in its homes.

Gross sales to the manufactured housing market decreased over 4% in the first nine months of 2014 compared to 2013, primarily due to a decrease in selling prices for the first nine months of 2014, while our unit sales remained flat due to the reasons noted above.

**Residential Construction:** Gross sales to the residential construction market decreased approximately 2% in the third quarter of 2014 compared to the same period of 2013, due to a 10% decrease in our unit sales, offset by an 8% increase in selling prices. By comparison, national housing starts increased approximately 12.6% in the period from June through August 2014 (our sales trail housing starts by about a month), compared to the same period of 2013. The decrease in our unit sales and increase in our selling prices reflects efforts to be more selective in the business that we take, particularly in our framing operations within our Site-Built segment.

Gross sales to the residential construction market decreased over 4% in the first nine months of 2014 compared to the same period of 2013, primarily due to the same factors discussed above. Our unit sales decreased 10% for the first nine months of 2014.

**Commercial Construction:** Gross sales to the commercial construction and concrete forming market increased approximately 35% in the third quarter of 2014 compared to the same period of 2013, due to a 25% increase in unit sales combined with a 10% increase in selling prices. Our unit sales increase is due to an increase in commercial construction activity and our efforts to capture additional share of certain segments of this market.

Gross sales to the commercial construction market increased 26% in the first nine months of 2014 compared to the same period of 2013, primarily due to an increase in unit sales, as selling prices remained stable in the first nine months of 2014.

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## UNIVERSAL FOREST PRODUCTS, INC.

## Value-Added and Commodity-Based Sales:

The following table presents, for the periods indicated, our percentage of value-added and commodity-based sales to total sales. Value-added products generally carry higher gross margins than our commodity-based products.

	Three Months Ended		Nine Months Ended		
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013	
Value-Added	58.3%	59.1%	58.5%	58.1%	%
Commodity-Based	41.7%	40.9%	41.5%	41.9%	%

## COST OF GOODS SOLD AND GROSS PROFIT

Our gross profit percentage increased to 12.6% from 12.0% comparing the third quarter of 2014 to the same period of 2013. Our gross profit dollars increased by 14.4%, which compares favorably with our 4% increase in unit sales. The improvement in our profitability in the third quarter of 2014 is attributable to the following factors:

- Over \$4.5 million of our improvement reflects our efforts to be more selective in the business that we take on sales to the residential construction market, particularly in our framing operations, as well as operational improvements.
- \$3.5 million of our gross profit increase is attributable to our growth in sales to the Retail Building Materials market along with a slight margin improvement due to a more favorable trend in commodity lumber prices.
- Our growth in sales to the industrial market contributed \$2.7 million to our gross profit increase.
- Our growth in sales to the commercial market added approximately \$2.0 million to our gross profits.

Our gross profit percentage increased to 12.4% from 11.1% comparing the first nine months of 2014 to the same period of 2013. Our gross profit dollars increased by 17.1%, which compares favorably to our 5% increase in unit sales. This improvement is primarily due to the same factors discussed above. These improvements were offset to some extent by adverse cost variances resulting from a decline in productivity due to inclement weather during the first quarter of 2014.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses increased by approximately \$6.9 million, or 13%, in the third quarter of 2014 compared to the same period of 2013, while we reported a 4% increase in unit sales. The increase in SG&A was primarily due to a \$2.9 million increase in compensation and benefit costs as a result of having more personnel and a \$3.2 million increase in incentive compensation resulting from an improvement in our profitability.

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## UNIVERSAL FOREST PRODUCTS, INC.

Selling, general and administrative ("SG&A") expenses increased by approximately \$18.5 million, or 12.0%, in the first nine months of 2014 compared to the same period of 2013, while we reported a 5% increase in unit sales. SG&A expenses were impacted in the first nine months of 2014 by the same factors discussed above.

## NET GAIN ON DISPOSITION AND IMPAIRMENT OF ASSETS

During the third quarter of 2014, the net gain on disposition and impairment of assets totaled \$2.6 million. Included within the \$2.6 million net gain was a gain on the sale of certain real estate totaling \$2.7 million completed by a 50% owned subsidiary of the Company. After considering the \$1.35 million non-controlling interest and income taxes, net earnings attributable to controlling interests increased by approximately \$700,000 as a result of these transactions. In the first nine months of 2014, we recognized a net gain on the sale of assets of \$4.6 million, which was offset by a \$1.2 million impairment loss recorded to reduce the value of one of our vacant properties.

## INTEREST, NET

Net interest costs were lower in the third quarter and first nine months of 2014 compared to the same period of 2013, due to lower interest expense resulting from lower debt levels in 2014, as well as an increase in interest income resulting from certain notes receivables.

## INCOME TAXES

Effective tax rates differ from statutory federal income tax rates, primarily due to provisions for state and local income taxes and permanent tax differences. Our effective tax rate was 35.3% in the third quarter of 2014 compared to 36.2% for same period of 2013. Our effective tax rate was 36.4% in the first nine months of 2014 compared to 35.7% for the same period of 2013. The increase in our effective tax rate in the first nine months of 2014 was primarily due to research and development and certain other tax credits totaling approximately \$500,000 relating to 2012 that were recorded in 2013. These tax credits were enacted in the first quarter of 2013, retroactive to the beginning of 2012.

## SEGMENT REPORTING

The following table presents, for the periods indicated, our net sales and earnings from operations by reportable segment.

(in thousands)	Net Sales Three Months Ended				Segment Operating Profit Three Months Ended			
	September 27, 2014	September 28, 2013	\$ Change	% Change	September 27, 2014	September, 28, 2013	\$ Change	% Change
Eastern and Western	\$ 585,156	\$ 523,364	\$ 61,792	11.8 %	\$ 23,557	\$ 18,628	\$ 4,929	26.5 %
Site-Built	68,326	70,579	(2,253 )	(3.2 )	6,053	3,993	2,060	51.6
All Other	60,007	57,837	2,170	3.8	2,597	630	1,967	312.2
Corporate <sup>1</sup>	-	-	-	-	13	1,276	(1,263 )	(99.0 )
Total	\$ 713,489	\$ 651,780	\$ 61,709	9.5 %	\$ 32,220	\$ 24,527	\$ 7,693	31.4 %



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## UNIVERSAL FOREST PRODUCTS, INC.

(in thousands)	Net Sales Nine Months Ended				Segment Operating Profit Nine Months Ended			
	September 27, 2014	September 28, 2013	\$ Change	% Change	September 27, 2014	September 28, 2013	\$ Change	% Change
Eastern and Western	\$1,675,609	\$1,570,073	\$105,536	6.7	\$67,441	\$54,412	\$13,029	24.0
Site-Built	187,968	202,590	(14,622)	(7.2)	13,557	2,163	11,394	526.8
All Other	176,662	172,048	4,614	2.7	3,753	1,543	2,210	143.2
Corporate <sup>1</sup>	-	-	-	-	(3,181)	2,584	(5,765)	(223.1)
Total	\$2,040,239	\$1,944,711	\$95,528	4.9	\$81,570	\$60,702	\$20,868	34.4

<sup>1</sup>Corporate primarily represents over (under) allocated administrative costs.

Eastern and Western

Net sales for the Eastern and Western reportable segment increased in the third quarter and first nine months of 2014 compared to 2013 primarily due to an increase in sales to retail, industrial, and commercial customers.

Earnings from operations for the Eastern and Western reportable segment increased in the third quarter and first nine months of 2014 compared to 2013, primarily due to an increase in overall unit sales and improvement in product mix. Unfavorable cost variances in the first quarter of 2014 offset the impact these positive factors had on year to date results.

Site-Built

Net sales for the Site-Built reportable segment decreased in the third quarter and first nine months of 2014 compared to 2013, primarily due to being more selective in the business that we pursued, particularly in our framing operations. This strategy also contributed to the increase in our profitability in the third quarter and first nine months of 2014.

All Other

Net sales for all other segments increased in the third quarter and first nine months of 2014 compared to 2013, primarily due to modest sales increases by our Universal Consumer Products and Distribution operations.

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## UNIVERSAL FOREST PRODUCTS, INC.

Earnings from operations for all other segments increased in the third quarter and first nine months of 2014 compared to 2013, primarily due to our Pinelli Universal operations which improved primarily due to increases in demand and selling prices relative to commodity lumber costs.

## OFF-BALANCE SHEET TRANSACTIONS

We have no significant off-balance sheet transactions other than operating leases.

## LIQUIDITY AND CAPITAL RESOURCES

The table below presents, for the periods indicated, a summary of our cash flow statement (in thousands):

	Nine Months Ended	
	September	September
	27, 2014	28, 2013
Cash from operating activities	\$70,528	\$47,738
Cash from investing activities	(33,689)	(34,553 )
Cash from financing activities	(10,408)	(15,695 )
Effect of exchange rate changes on cash	(247 )	14
Net change in cash and cash equivalents	26,184	(2,496 )
Cash and cash equivalents, beginning of period	-	7,647
Cash and cash equivalents, end of period	\$26,184	\$5,151

In general, we financed our growth in the past through a combination of operating cash flows, our revolving credit facility, industrial development bonds (when circumstances permit), and issuance of long-term notes payable at times when interest rates are favorable. We have not issued equity to finance growth except in the case of a large acquisition. We manage our capital structure by attempting to maintain a targeted ratio of debt to equity and debt to earnings before interest, taxes, depreciation and amortization. We believe this is one of many important factors to maintaining a strong credit profile, which in turn helps ensure timely access to capital when needed.

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.

Due to the seasonality of our business and the effects of the Lumber Market, we believe our cash cycle (days of sales outstanding plus days supply of inventory less days payables outstanding) is a good indicator of our working capital management. Our cash cycle remained consistent in the first nine months of 2014 compared to 2013, which increased slightly to 49 days from 48 days. During the first quarter of 2014, inclement weather resulted in weaker than expected unit sales and lower inventory turnover. In addition, we carried higher levels of safety stock inventory in 2014 due to industry transportation challenges.

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UNIVERSAL FOREST PRODUCTS, INC.

Cash from operating activities was \$70.5 million in the first nine months of 2014, which was comprised of net earnings of \$50.6 million and \$24.0 million of non-cash expenses, offset by a \$4 million increase in working capital since the end of 2013 due to the seasonality of our business.

Purchases of property, plants, and equipment comprised most of our cash used in investing activities during the first nine months of 2014 and totaled \$31.7 million. We currently plan to spend up to \$40 million in 2014. Outstanding purchase commitments on existing capital projects totaled approximately \$8.5 million on September 27, 2014. We intend to fund capital expenditures and purchase commitments through our operating cash flows for the balance of the year. Cash flows used in investing activities also included \$7.1 million used for acquisitions in the first nine months of 2014. See Notes to Unaudited Consolidated Condensed Financial Statements, Note F "Business Combinations". Finally, we sold certain property, plants, and equipment during the first nine months of 2014 and collected cash proceeds totaling \$6.5 million. We recognized a net gain on the sale of these assets totaling \$3.4 million.

Cash flows from financing activities primarily consisted of dividends paid in June totaling \$0.21 per share, and repurchases of our common stock completed in the third quarter of 2014 totaling almost \$4.8 million. We purchased approximately 103,000 shares and have remaining authorization under our share repurchase program for approximately 2.9 million shares.

On September 27, 2014, we had no outstanding balance on our \$265 million revolving credit facility. The revolving credit facility also supports letters of credit totaling approximately \$9.8 million on September 27, 2014. Financial covenants on the unsecured revolving credit facility and unsecured notes include minimum interest tests and a maximum leverage ratio. The agreements also restrict the amount of additional indebtedness we may incur and the amount of assets which may be sold. We were in compliance with all our covenant requirements on September 27, 2014.

ENVIRONMENTAL CONSIDERATIONS AND REGULATIONS

See Notes to Unaudited Consolidated Condensed Financial Statements, Note E, "Commitments, Contingencies, and Guarantees."

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UNIVERSAL FOREST PRODUCTS, INC.

CRITICAL ACCOUNTING POLICIES

In preparing our consolidated financial statements, we follow accounting principles generally accepted in the United States. These principles require us to make certain estimates and apply judgments that affect our financial position and results of operations. We continually review our accounting policies and financial information disclosures. There have been no material changes in our policies or estimates since December 28, 2013.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to market risks related to fluctuations in interest rates on our variable rate debt, which consists of a revolving credit facility and industrial development revenue bonds. We do not currently use interest rate swaps, futures contracts or options on futures, or other types of derivative financial instruments to mitigate this risk.

For fixed rate debt, changes in interest rates generally affect the fair market value, but not earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not influence fair market value, but do affect future earnings and cash flows. We do not have an obligation to prepay fixed rate debt prior to maturity, and as a result, interest rate risk and changes in fair market value should not have a significant impact on such debt until we would be required to refinance it.

We are subject to fluctuations in the price of lumber. We experience significant fluctuations in the cost of commodity lumber products from primary producers (the "Lumber Market"). A variety of factors over which we have no control, including government regulations, transportation, environmental regulations, weather conditions, economic conditions, and natural disasters, impact the cost of lumber products and our selling prices. While we attempt to minimize our risk from severe price fluctuations, substantial, prolonged trends in lumber prices can affect our sales volume, our gross margins, and our profitability. We anticipate that these fluctuations will continue in the future. (See "Impact of the Lumber Market on Our Operating Results.")

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. With the participation of management, our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as (a) defined in Exchange Act Rules 13a – 15e and 15d – 15e) as of the quarter ended September 27, 2014 (the "Evaluation Date"), have concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Controls. During the quarter ended September 27, 2014, there were no changes in our internal (b) control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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UNIVERSAL FOREST PRODUCTS, INC.

PART II. OTHER INFORMATION

Item 1A. Risk Factors.

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) None.

(b) None.

(c) Issuer purchases of equity securities.

<u>Fiscal Month</u>	(a)	(b)	(c)	(d)
June 29 – August 2, 2014 <sup>(1)</sup>	7,579	\$44.97	7,579	2,980,650
August 3 – August 30, 2014	30,939	\$45.85	30,939	2,949,711
August 31 – September 27, 2014	64,493	\$46.81	64,493	2,885,218

(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 of shares that may yet be purchased under the plans or programs.

On November 14, 2001, the Board of Directors approved a share repurchase program (which succeeded a previous program) allowing us to repurchase up to 2.5 million shares of our common stock. On October 14, 2011, 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 approximately 3 million shares.

Item 5. Other Information.

None.

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UNIVERSAL FOREST PRODUCTS, INC.

PART II. OTHER INFORMATION

Item 6. Exhibits.

The following exhibits (listed by number corresponding to the Exhibit Table as Item 601 in Regulation S-K) are filed with this report:

31 Certifications.

- (a) Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- (b) Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

32 Certifications.

- (a) Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- (b) Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

101 Interactive Data File.

(INS) XBRL Instance Document.

(SCH) XBRL Schema Document.

(CAL) XBRL Taxonomy Extension Calculation Linkbase Document.

(LAB) XBRL Taxonomy Extension Label Linkbase Document.

(PRE) XBRL Taxonomy Extension Presentation Linkbase Document.

(DEF) XBRL Taxonomy Extension Definition Linkbase Document.

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\*Indicates a compensatory arrangement.

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UNIVERSAL FOREST PRODUCTS, INC.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNIVERSAL FOREST  
PRODUCTS, INC.

Date: October 29, 2014 By: /s/ Matthew J. Missad  
Matthew J. Missad,  
Chief Executive Officer  
and Principal Executive  
Officer

Date: October 29, 2014 By: /s/ Michael R. Cole  
Michael R. Cole,  
Chief Financial Officer,  
Principal Financial  
Officer and  
Principal Accounting  
Officer

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EXHIBIT INDEX

Exhibit  
No. Description

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