WILD OATS MARKETS INC
Form 10-Q
August 14, 2001
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR SECTION 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR SECTION 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM __________ TO __________

Commission file number

0-21577

WILD OATS MARKETS, INC.

(Exact name of registrant as specified in its charter)

Delaware	84-1100630
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3375 Mitchell Lane
Boulder, Colorado 80301-2244
(Address of principal executive offices, including zip code)

(303) 440-5220
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes (X) No ( )

As of August 9, 2001, there were 24,697,539 shares outstanding of the Registrant's Common Stock (par value $0.001 per share).

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WILD OATS MARKETS, INC.

Consolidated Balance Sheets

(in thousands, except share data)

	June 30,	December 30,
	2001	2000
	(Unaudited)	
Assets		
Current assets:		

Cash and cash equivalents	$ 14,393	$ 12,457
Inventories	55,530	55,258
Accounts receivable (less allowance for doubtful accounts of $1,157 and $355, respectively)	3,226	3,936
Income tax receivable	6,179	9,973
Prepaid expenses and other current assets	1,173	2,004
Deferred income taxes	9,293	1,989
Total current assets	89,794	85,617
Property and equipment, net	140,556	160,734
Intangible assets, net	118,347	122,262
Deposits and other assets	2,343	3,791
Long-term investment		228
Deferred income taxes	14,169	
	$ 365,209	$ 372,632
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 58,567	$ 56,556
Accrued liabilities	49,770	37,434
Current portion of debt and capital leases	121,186	124,215
Total current liabilities	229,523	218,205
Long-term debt and capital leases	279	353
Deferred income taxes		989
Other long-term obligations	22,359	1,521
	252,161	221,068

Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding		
Common stock, $0.001 par value; 60,000,000 shares authorized; 24,669,892 and 23,147,103 shares issued and outstanding	25	23
Additional paid-in capital	160,004	149,764
Note receivable, related party	(9,402)	
Retained earnings (loss)	(36,601)	1,635
Accumulated other comprehensive income	(978)	142
Total stockholders' equity	113,048	151,564
	$ 365,209	$ 372,632
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

WILD OATS MARKETS, INC.

Consolidated Statements of Operations

(in thousands, except per-share data) (unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2001	July 1, 2000	June 30, 2001	July 1, 2000
Sales	$ 229,383	$ 212,772	$ 448,882	$ 424,013
Cost of goods sold and occupancy costs	163,005	146,433	316,095	291,150
Gross profit	66,378	66,339	132,787	132,863
Operating expenses:				
Direct store expenses	54,996	47,652	106,612	94,198

Selling,general and admin expenses	13,376	8,352	24,459	16,197
Pre-opening expenses	85	544	1,515	1,898
Restructuring and asset Impairment charges	54,834	20,641	54,834	20,641
Loss from operations	(56,913)	(10,850)	(54,633)	(71)
Loss on investment	228	2,060	228	2,060
Interest expense, net	2,762	1,975	5,228	3,757
Loss before income taxes	(59,903)	(14,885)	(60,089)	(5,888)
Income tax benefit	(21,783)	(6,105)	(21,851)	(2,442)
Net loss	$ (38,120) ========	$ (8,780) =======	$ (38,238) =======	$ (3,446) =======
Net loss per common share:				
Basic	$ (1.55)	$ (0.38)	$ (1.58)	$ (0.15)
Diluted	$ (1.55)	$ (0.38)	$ (1.58)	$ (0.15)
Weighted average shares outstanding - basic and diluted	24,641	23,044	24,138	23,022

The accompanying notes are an integral part of the consolidated financial statements.

WILD OATS MARKETS, INC.

Consolidated Statements of Comprehensive Income (Loss)

(in thousands) (unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2001	July 1, 2000	July 30, 2001	July 1, 2000
Net loss	$ (38,120)	$ (8,780)	$ (38,238)	$ (3,446)
Other comprehensive income (loss):				
Foreign currency translation adjustments arising during the period	158	106	(106)	(67)
Cumulative effect of change in accounting principle (see Note 3), net of tax of $352 period			(586)	
Recognition of hedge results to interest expense during the period, net of tax of $98 and $136, respectively	164		228	
Change in market value of cash flow hedge during the period, net of tax of $84 and $392, respectively	(141)		(657)	
Other comprehensive income (loss)	181	106	(1,121)	(67)
Comprehensive loss	$ (37,939) ======	$ (8,674) ======	$ (39,359) ======	$ (3,513) ======

The accompanying notes are an integral part of the consolidated financial statements

WILD OATS MARKETS, INC.

Consolidated Statements of Cash Flows

(in thousands) (unaudited)

	Six Months Ended	
	June 30, 2001	July 1, 2000
Cash Flows from Operating Activities		
Net loss	$ (38,238)	$ (3,446)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	13,170	12,418
Loss on disposal of property and equipment	42	
Deferred tax benefit	(21,851)	(6,152)
Restructuring and asset impairment charges	54,834	20,641
Loss on investment	228	2,060
Other	57	
Change in assets and liabilities (net of acquisitions):		
Inventories	(307)	(4,010)
Receivables and other assets	4,903	(600)
Accounts payable	2,013	57
Accrued liabilities	5,202	(567)
Net cash provided by operating activities	20,053	20,401

Cash Flows from Investing Activities		
Capital expenditures	(15,954)	(34,704)
Payment for purchase of acquired entities, net of cash acquired		(16,791)
Proceeds from sale of property and equipment	643	
Long-term equity investment		(38)
Net cash used in investing activities	(15,311)	(51,533)
Cash Flows from Financing Activities		
Net borrowings (repayments) under line-of-credit agreement	(4,987)	22,060
Proceeds from notes payable and long-term debt	2,000	
Repayments on notes payable, long-term debt & capital leases	(116)	(341)
Proceeds from issuance of common stock, net	354	542
Net cash provided by (used in) financing activities	(2,749)	22,261
Effect of exchange rate changes on cash	(57)	154
Net increase (decrease) in cash and cash equivalents	1,936	(8,717)
Cash and cash equivalents at beginning of period	12,457	21,877
Cash and cash equivalents at end of period	$ 14,393	$ 13,160
	=====	=====

Non-Cash Investing and Financing Activities		
Stock issued in exchange for note receivable	$ 9,274 =======	
Stock received in exchange for services		$ 750 =======

The accompanying notes are an integral part of the consolidated financial statements.

WILD OATS MARKETS, INC.

Notes to Consolidated Financial Statements

(unaudited)

1

Nature of Operations and Basis of Presentation

Wild Oats Markets, Inc. ("Wild Oats" or the "Company"), headquartered in Boulder, Colorado, owns and operates natural foods supermarkets in the United States and Canada. The Company also operates bakeries, commissary kitchens, and warehouses that supply the retail stores. The Company's operations are concentrated in one market segment, grocery stores, and are geographically concentrated in the western and central parts of the United States of America.

The consolidated balance sheet as of June 30, 2001, the consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2001 and July 1, 2000, as well as the consolidated statements of cash flows for the six months ended June 30, 2001 and July 1, 2000 have been prepared without an audit. In the opinion of management, all adjustments, consisting only of normal, recurring adjustments necessary for a fair presentation thereof, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with financial statements and notes thereto included in the Company's 2000 Annual Report on Form 10-K and amendment on Form 10-K/A. The results of operations for interim periods presented are not necessarily indicative of the operating results for the full year.

Certain prior period information has been reclassified to conform to the current presentation.

2

Going Concern Matters

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The terms of the Company's

credit facility require, among other things, compliance with certain financial ratios, including a funded debt (i.e., debt/EBITDA) ratio and a fixed charge coverage ratio, on a quarterly basis. As a result of restructuring and asset impairment charges incurred during fiscal 2000, the Company was not in compliance with the fixed charge coverage ratio and minimum net income covenants under its credit facility as of and for the quarter ended December 30, 2000, and as a result, its lenders have issued a notice of default, although no acceleration of outstanding debt has been requested. All borrowings outstanding under the credit facility at June 30, 2001 are considered to be due on demand and accordingly are classified as a current liability at June 30, 2001 and December 30, 2000. The Company currently does not have sufficient funds to pay all outstanding indebtedness. These factors raise substantial doubt about the Company's ability to continue as a going concern. We believe we have reached agreement on most major issues of an amendment with our lending group, and are working towards finalizing the amendment in the next 60 days. The amendment as proposed will waive the defaults and modify certain of the covenants that will include an increase in our interest rate and agency fees, the granting of a security interest in our assets, and certain limitations on the execution of new leases, opening of new stores and other capital expenditures, as well as modification of other financial covenants. Our borrowings under the amended credit facility would be limited to $125.0 million and the maturity date of the credit facility would continue to be August 1, 2003. There is no assurance that a final amendment to the credit facility will be executed. In conjunction with the Company's negotiations to amend its credit facility and obtain less restrictive covenants and other terms and conditions therein, the Company also proposes to raise approximately $30.0 to $50.0 million or more in equity financings to be used to provide additional liquidity, though such equity financing is not a requirement of amending the credit facility.

A breach of any of the terms and conditions of the amended credit facility agreement could result in acceleration of the Company's indebtedness, in which case the debt would become immediately due and payable. Although no assurances can be given, management expects that it would be in compliance throughout the term of the amended credit facility with respect to the financial and other covenants, including those regarding funded debt ratio, fixed charge coverage ratio, minimum year-to-date net income, tangible net worth, capital expenditure limits, and new lease limits. If the lending group accepts the amendments described above, management believes that cash generated from operations will be sufficient to satisfy the Company's currently budgeted capital expenditure and debt service requirements through fiscal 2001 and that no additional funding will be necessary.

3

New Accounting Standards

Goodwill and Other Intangible Assets. Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," was issued in July 2001. This statement establishes new accounting and reporting standards that will, among other things, eliminate amortization of goodwill. Upon adoption of the new standard, goodwill will be evaluated for impairment using a fair-value based approach and, if there is impairment, the carrying amount of the goodwill will be written down to the implied fair value. This statement is effective for the Company's financial statements for the year beginning December 30, 2001. Management is reviewing the implementation guidance and evaluating the potential impact of the statement and the change in accounting method on the Company's financial position, therefore, a reliable estimate of the impact of this new accounting standard is not possible at this time.

Business Combinations

. Statement of Financial Accounting Standards No. 141, "Business Combinations," was issued in July 2001. This statement establishes new accounting and reporting standards that will, among other things, eliminate the pooling-of-interest method of accounting for business combinations and requires that the purchase method be used. Its provisions will be effective for the Company for all future business combinations. This statement is effective for the Company's financial statements for the year beginning December 30, 2001.

Derivatives and Hedging Activities.

In accordance with the Company's interest rate risk-management strategy and as required by the terms of the Company's credit facility, the Company has entered into a swap agreement to hedge the interest rate on $45.0 million of its borrowings. The swap agreement locks in an average LIBOR rate of 6.7% and expires in August 2003. The fair value of the swap at June 30, 2001 was ($1.6 million), which has been recorded in the accompanying balance sheet.

The Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133) on December 31, 2000. In accordance with the transition provisions of FAS 133, as of December 31, 2000 the Company recorded a net-of-tax cumulative loss adjustment to other comprehensive income totaling $586,000 which relates to the fair value of the previously described cash flow hedging relationship. Based upon current interest rates, approximately $1.3 million of the interest rate hedging loss currently in other comprehensive income is expected to flow through interest expense during the next twelve months.

On the date that the Company entered into the derivative contract, it designated the derivative as a hedge of the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge). The Company does not enter into derivative contracts for trading or non-hedging purposes. Currently, the Company's swap agreement is designated as a cash flow hedge and is recognized in the balance sheet at its fair value. Changes in the fair value of the Company's cash flow hedge, to the extent that the hedge is highly effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction through interest expense. Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows being hedged) is recorded in current-period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow, or foreign currency hedges to (1) specific assets and liabilities on the balance sheet or (2) specific firm commitments or forecasted transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued due to the Company's determination that the derivative no longer qualifies as an effective fair value hedge, the Company will continue to carry the derivative on the balance sheet at its fair value but cease to adjust the hedged asset or liability for changes in fair value. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Company will continue to carry the derivative on the balance sheet at its fair value, removing from the balance sheet any asset or liability that was recorded to recognize the firm commitment and recording it as a gain or loss in current period earnings. When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding the Company will carry the derivative at its fair value on the balance sheet, recognizing changes

in the fair value in current-period earnings.

4

Earnings Per Share

Earnings per share are calculated in accordance with the provisions of FAS No. 128, *Earnings Per Share.* FAS No. 128 requires the Company to report both basic earnings per share, which is based on the weighted-average number of common shares outstanding, and diluted earnings per share, which is based on the weighted-average number of common shares outstanding and all dilutive potential common shares outstanding, except where the effect of their inclusion would be antidilutive (i.e., in a loss period). Antidilutive stock options of 1,840,007 and 1,567,567 for the six months ended June 30, 2001 and July 1, 2000, respectively, were not included in the earnings per share calculations.

5

Restructuring and Asset Impairment Charges

As a result of hiring a new chief executive officer just prior to the beginning of the second quarter of fiscal 2001 and a comprehensive review conducted by the new chief executive officer of the business and strategic repositioning efforts of the Company during the second quarter of fiscal 2001, management identified and committed to a restructuring plan during the second quarter of fiscal 2001 and has recorded a restructuring and asset impairment charge of $54.8 million. The significant components of the charge are as follows:

Change in estimate related to fixed and intangible asset impairments for previously identified sites for closure	$ 1.5 million
Change in estimate related to lease-related liabilities for previously identified sites for closure	15.9 million
Fixed and intangible asset impairments for three additional stores identified in the second quarter of fiscal 2001 to be abandoned, closed, or sold by the end of fiscal 2001*	1.8 million
Lease-related settlements for three additional stores identified in the second quarter of fiscal 2001 to be abandoned, closed, or sold by the end of fiscal 2001*	(0.4 million)
Fixed asset impairments for subleased properties identified during the second quarter of fiscal 2001	1.7 million
Lease-related liabilities for subleased properties identified during the second quarter of fiscal 2001	10.0 million

Fixed asset impairments for regional and departmental office closures and consolidations during the second quarter of fiscal 2001	3.0 million
Fixed asset impairments for store construction project discontinuation	2.3 million
Lease-related liabilities for store construction project discontinuation	0.6 million
Severance for employees notified and/or terminated during the second quarter of fiscal 2001	2.5 million
Total	$ 38.9 million
	==========

*

The locations include West Palm Beach, FL (abandoned in the second quarter of fiscal 2001).

Separate from the restructuring charges described above, management has also identified asset impairment charges of $15.9 million in accordance with the provisions of SFAS 121, *Accounting for the Impairment of Long-lived Assets and for Assets to be Disposed of,"* related to five stores that will continue in operation. In determining whether an impairment exists, the Company compares the store's future cash flows, discounted to present value using a risk-adjusted discount rate, to its current carrying value of the assets and records a provision for impairment as appropriate

. The Company believes the weak performance from the stores included in the asset impairment charge were caused by significant budget overruns in construction, poor site location or insufficient advertising in new regional markets.

The $15.9 million charge shown above for change in estimate as to lease-related liabilities results from the Company's determination that additional periods of time are necessary to dispose of certain lease obligations. This determination was driven by results of current disposition efforts by the Company, and is attributable to deteriorating real estate markets in certain regions, existing lease obligation at above-market rates, and unattractive site characteristics. The charge for exit costs assumes, based on the Company's current results of disposition efforts, that the Company will be successful in disposing of these long-term lease obligations within the next five years. Should facts and circumstances change in the future with respect to the above attributes affecting the ultimate resolution of these exit costs, the Company will make appropriate adjustments to the restructuring liabilities.

During the first quarter of 2001, one natural foods store was closed in Denver, Colorado as part of the fiscal 2000 restructuring plans. With regard to the current status of the Company's fiscal 2000 restructuring plans, as of June 30, 2001, eight of the stores identified in fiscal 2000 for closure or sale remained to be closed or sold with all but one of the closures or sales to be completed by the end of fiscal 2001; the remaining store is expected to be closed or sold during the first quarter of fiscal 2002.

During the second quarter of fiscal 2000, the Company's management made certain decisions relating to the strategic repositioning of the Company's operations which resulted in a restructuring and asset impairment charge of $20.6 million. These decisions included the closure of three natural foods stores during the second quarter of fiscal 2000 ($4.7 million); the planned sale or closure of seven stores during the remainder of fiscal 2000 ($9.9 million); exit costs of previously closed or abandoned sites ($5.6 million); and the discontinuance of e-commerce activities ($400,000). The $5.6 million charge related to changes in estimates for previously closed or abandoned sites. The significant components of the $5.6 million charge were (a) $3.6 million of additional lease-related liabilities, and (b) $2.0 million of fixed asset impairments for 15 previously closed stores. Components of the restructuring and asset impairment charge consist of impairment of fixed ($8.9 million) and intangible assets ($6.4 million); and noncancelable lease obligations and lease related liabilities ($5.3 million). Substantially all of the restructuring charges are non-cash expenses.

During the fourth quarter of fiscal 2000, the Company expanded its strategic repositioning and, as a part of such expansion, decided to close or sell twelve under performing stores. This decision resulted in an additional restructuring and asset impairment charge of $21.4 million. This restructuring charge consists primarily of costs associated with the abandonment of fixed ($13.6 million) and intangible assets ($1.7 million) and noncancelable lease obligations and lease related liabilities ($6.1 million). Substantially all of the restructuring charges are non-cash expenses.

The assets written off as part of the second and fourth quarter 2000 charges consist of the following:

Goodwill impairment	$ 8,041,000
Leasehold interest impairment	2,537,000
Fixed asset impairment	20,030,000
Total	$ 30,608,000
	========

The following table summarizes the accruals related to the Company's restructuring activities during the first six months of fiscal 2001:

(in thousands)	
Balance, December 30, 2000	$ 9,879
Cash paid - lease-related liabilities	(1,655)

Stock options issued for lease settlement	(43)
Balance, March 31, 2001	$ 8,181
New accruals:	
Severance	2,511
Lease-related liabilities	26,602
Cash paid - severance	(751)
Cash paid - lease-related liabilities	(1,940)
Cash received - lease-related liabilities	750
Balance, June 30, 2001	$ 35,353
	====

As of June 30, 2001, the components of the accruals related to the Company's restructuring activities are accrued liabilities ($15.9 million) and other long-term obligations ($19.5 million).

6.

Income Taxes

The Company has a $23.5 million net deferred tax asset, primarily as a result of the loss before taxes of $59.9 million recorded in the second quarter of fiscal 2001. Recoverability of the net deferred tax asset is dependent upon the Company generating sufficient taxable income in the future. Although realization of the net deferred tax asset is not assured, the Company believes it is more likely than not that the Company will generate sufficient taxable income in the future to realize the full amount of the deferred tax asset. The Company will continue to assess the recoverability of the net deferred tax asset and to the extent it is determined in the future that a valuation allowance is required, it will be recognized as a charge to earnings at that time.

7. Related Party Transaction

On May 14, 2001, Michael Gilliland, the Company's former Chief Executive Officer, resigned as an employee of the Company. Mr. Gilliland will receive, pursuant to his July 12, 1996 employment agreement with the Company, three years' salary, payable on a biweekly basis. Mr. Gilliland also received a cash payment equal to the difference between the closing price of the Company's common stock on the Nasdaq Market on a date selected by the former executive, and the exercise price of the executive's stock options vested on the date so selected.

During the first quarter of fiscal 2001, the Company borrowed $2.0 million from Elizabeth C. Cook and Michael C. Gilliland, directors of the Company. The loan has no maturity date, bears interest at 9%, and is classified as a current liability.

Effective July 20, 2001, Mary Beth Lewis, the Company's Chief Financial Officer and Vice President of Finance, resigned to pursue other opportunities. Under an agreement between the former executive and the Company, the former executive will receive one year's salary at her last salary level, as well as a cash payment equal to the difference between the closing price of the Company's common stock on the Nasdaq Market on July 20, 2001 and the former executive's exercise price for stock options vested as of July 20, 2001.

8. Change in Management

Effective July 20, 2001, Mary Beth Lewis resigned as the Company's Chief Financial Officer and Vice President of Finance to pursue other opportunities. The Company is currently interviewing candidates for the open position.

9. Employee Stock Purchase Plan

The Board suspended participation in the Employee Stock Purchase Plan effective January 29, 2001, when the available pool of shares was substantially exhausted. Shareholder approval was granted at the Company's annual meeting in May 2001 to increase the pool of stock by 500,000 shares, and participation in the Employee Stock Purchase Plan was resumed effective June 18, 2001.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

This report on Form 10-Q contains certain forward-looking statements regarding our future results of operations and performance. Important factors that could cause differences in results of operations include, but are not limited to, the Company's ability to negotiate a suitable amendment to its outstanding line of credit facility; the timing and success of the current comprehensive review of the Company's business operations and strategic plan; the successful transition of operating authority to our new Chief Executive Officer, Perry D. Odak; the successful hiring and transition of responsibility to a new Chief Financial Officer; the success of certain strategic initiatives proposed to be implemented by the Company; the timing and execution of new store openings, relocations, remodels, sales and closures; the timing and impact of promotional and advertising campaigns; the impact of competition; changes in product supply or suppliers; changes in management information needs; changes in customer needs and expectations; governmental and regulatory actions; general industry or business trends or events; changes in economic or business conditions in general or affecting the natural foods industry in particular; and competition for and the availability of sites for new stores and potential acquisition candidates. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations - Cautionary Statement Regarding Forward-Looking Statements."*

Overview

Store openings, closings, sales, remodels, relocations and acquisitions

. In the second quarter of fiscal 2001, we had no changes in our store count. We do not plan to open any new stores in the remainder of fiscal 2001. In the first quarter of fiscal 2001, we opened four new stores in Cleveland, Ohio; Irvine, California; Westport, Connecticut; and Omaha, Nebraska. We have postponed the opening of five additional stores originally planned to be opened in 2001 to allow for the redesign of the interiors of such stores to incorporate feedback received during extensive customer interviews and focus groups conducted in the second quarter of 2001, to improve the operating efficiency of certain departments and to shift the guests' focus to the meat, produce and grocery departments. The five postponed stores are currently planned to open in the first and second quarters of 2002.

Our ability to open additional stores in fiscal 2001 and beyond may depend upon our ability to successfully negotiate an amendment to our existing credit facility and, as to stores proposed to be opened in 2002 and beyond, to raise additional equity financings. As of June 30, 2001, we were in non-monetary default as a result of the violation of certain financial covenants contained in our credit facility, although our lenders have not accelerated repayment on our outstanding debt. All borrowings outstanding under the credit facility at June 30, 2001 are considered to be due on demand and accordingly are classified as a current liability at June 30, 2001. We are currently negotiating an

amendment to the credit facility that, if agreed upon, will waive the outstanding defaults in exchange for limitations on our execution of new leases, opening of new stores and capital expenditures, as well as other financial covenants, and will include increased interest rates, increased agency fees and an amendment fee. The Company also will be required to grant a security interest in its assets to its lending group. If the Company is successful in raising additional equity financings, it will be allowed to increase the number of new leases it executes and new stores it opens based on the amount of equity financings raised. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources"* and *Consolidated Financial Statements - Footnote 2.*

As has been our past practice, we will continue to evaluate the profitability, strategic positioning, impact of potential competition on and sales growth potential of all of our stores on an ongoing basis. We may, from time to time, make decisions regarding closures, disposals, relocations or remodels in accordance with such evaluations. In 2000, as part of restructuring and asset impairment charges taken in the second and fourth quarters, we identified 22 stores for closure or sale, of which 14 have been closed or sold. Eight remain to be closed or sold, seven by the end of fiscal 2001 and one in the first quarter of fiscal 2002. In the second quarter of 2001 we identified an additional three stores slated for closure or sale, including one location in West Palm Beach, Florida where we terminated our leasehold interest in the second quarter of 2001.

Restructuring and asset impairment charges.

As a result of the March 2001 transition in our Chief Executive Officer and a new management philosophy, the Company has been and continues to conduct an extensive review of all components of our business, including our previously announced strategic repositioning initiatives, as well as current marketing, purchasing, merchandising and new store programs. This comprehensive review is intended to aggressively reexamine all aspects of our business for opportunities to improve, strengthen, streamline and reposition our business operations. As a result of this review, the Company has and continues to make significant changes to our current business strategy and methods of operations with the goal of increasing comparable store sales, average transaction size and customer count. Initiatives currently being considered for implementation include reductions in certain items' pricing, increases in advertising for, modifications of staffing at and remerchandising of selected stores, which changes may have a negative impact on the Company's financial results in certain regions for the remainder of fiscal 2001 by increasing expenses and reducing margins on certain items. The Company currently is evaluating whether to make nationwide modifications to certain elements of its operations, including advertising and pricing strategies.

During the second quarter of 2001, the Company's management made certain decisions relating to the Company's operations which identified three stores to be closed or abandoned by the end of fiscal 2001, reduced the Company's regional offices and certain staff, changed estimates of prior restructuring and asset impairment charges, and resulted in a restructuring and asset impairment charge of $54.8 million. See *"Notes to Consolidated Financials Statements - Footnote 5."* Also, as part of this comprehensive review of its business, the Company has decided to postpone any further new store openings planned for fiscal 2001. The five sites previously planned for opening in fiscal 2001 will be rescheduled to open in 2002 after being redesigned to place increased emphasis on certain departments and to streamline food service operations to increase operating efficiencies.

Results of Operations.

Our results of operations have been and will continue to be affected by, among other things, the number, timing and mix of store openings, acquisitions, relocations or closings. New stores build their sales volumes and refine their merchandise selection gradually and, as a result, generally have lower gross margins and higher operating expenses as a percentage of sales than more mature stores. We anticipate that the new stores opened in fiscal 2001 will experience operating losses for the first six to 12 months of operation, in accordance with historical trends. Further, acquired stores, while generally profitable as of the acquisition date, generate lower gross margins and store contribution margins than our company average due to their substantially lower volume purchasing discounts and the integration of the acquired stores into our operating systems. Over time, we expect that the gross margin and store contribution margin of acquired stores approach our company average.

Other factors that could cause acquired stores to perform at lower than expected levels include, among other things, turnover of regional and store management, disruption of advertising, changes in product mix and delays in the integration of purchasing programs.

We are actively upgrading, remodeling or relocating some of our older stores. We have completed the remodeling or remerchandizing of 11 of our older stores in the first half of fiscal 2001. We intend to upgrade the lighting and complete additional remodeling in additional stores in the remainder of 2001. We intend to remerchandise the majority of our stores in the remainder of 2001 and in 2002 to eliminate slower selling products, reduce excess SKU counts in certain categories of products, and give greater emphasis to produce, meat and grocery departments. Remodels and relocations typically cause short-term disruption in sales volume and related increases in certain expenses as a percentage of sales, such as payroll. Remodels on average take between 90 and 120 days to complete. Certain remodels in fiscal 2000 took longer to complete, resulting in greater than projected sales disruptions. We cannot predict whether sales disruptions and the related impact on earnings may be greater in time or volume than projected in certain remodeled or relocated stores.

The Company currently has an inventory of 18 vacant sites, comprising both closed store locations and excess unoccupied space acquired during acquisitions or other leasing transactions, for which it has rent obligations. The Company is actively seeking subtenants or assignees for the spaces, and in some cases has negotiated a lease termination with the landlord in exchange for a cash payment.

Store format and clustering strategy.

We operate two store formats: the natural foods market and farmers' market formats. The natural foods market format, operated under the Wild Oats Market® and other tradenames, is generally 20,000 to 35,000 gross square feet, and the farmers' markets, operated under the Henry's Marketplace® and Sun Harvest Farms™ tradenames, are generally 15,000 to 25,000 gross square feet. Our profitability has been and will continue to be affected by the mix of natural foods supermarkets and farmers' market stores opened, acquired or relocated and whether stores are being opened in markets where we have an existing presence. As part of the current comprehensive review of the Company's business operations and strategic plan, we are evaluating our current natural foods store format and design, and may make significant changes in the future. We also plan to expand the Henry's Marketplace farmers' market-style store format as our second, parallel store format. We believe this format, which is primarily located in metropolitan San Diego, California and Texas, appeals to a more value-conscious customer. We also intend to consolidate many of the banners under which we currently operate stores to the Wild Oats Market or Henry's Marketplace banner to gain advertising synergies and broaden our tradename recognition.

In the past, we have pursued a strategy of clustering stores in each of our markets to increase overall sales, reduce operating costs and increase customer awareness. In prior years, when we opened a store in a market where we had an existing presence, our sales and operating results declined at certain of our existing stores in that market. However, over time, the affected stores generally achieved store contribution margins comparable to prior levels on the lower base of sales. Certain new stores opened in the past two years have caused a greater degree of cannibalization than previously expected, and at this time it does not appear that the store contribution margins at the older, affected stores in these regions will rebound to their prior levels. In certain existing markets the sales and operating results trends for other stores may continue to experience temporary declines related to the clustering of stores. We are currently reevaluating our clustering strategy in response to greater than expected sales cannibalization in certain existing markets where we opened new stores.

Comparable store sales results.

Sales of a store are deemed to be comparable commencing in the thirteenth full month of operations for new, relocated and acquired stores. A variety of factors affect our comparable store sales results, including, among others:

- the opening of stores by us or by our competitors in markets where we have existing stores
- the relative proportion of new or relocated stores to mature stores
- the timing of advertising and promotional events
- store remodels
- store closures
- our ability to effectively execute our operating plans
- changes in consumer preferences for natural foods products
- availability of produce and other seasonal merchandise
- general economic conditions.

Past increases in comparable store sales may not be indicative of future performance.

Our comparable store sales results have been negatively affected in the past by, among other factors, planned cannibalization, which is the loss of sales at an existing store when we open a new store nearby, resulting from the implementation of our store clustering strategy. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations - Store format and clustering strategy."* Comparable store sales results in previous years were negatively affected by higher than expected cannibalization due to the openings of new or relocated stores in several of our existing markets. Certain stores, such as the Henry's Marketplace format stores, which depend heavily on produce sales, are more susceptible to sales fluctuations resulting from the availability and price of certain produce items. As a result of operational improvements in some recently acquired stores, new marketing programs in selected regions and store closures of certain weaker stores, comparable store sales results increased to approximately 4% in the second quarter of fiscal 2001 from 1% at the end of the first quarter of fiscal 2001. We expect comparable store sales results to increase slightly for the remainder of the year, although if the Company implements certain strategic initiatives, the Company projects that comparable store sales in those regions in which the initiatives are implemented may increase further as such initiatives increase total store sales. There can be no assurance that comparable store sales for any particular period will not decrease in the future.

Pre-opening expenses.

Pre-opening expenses include labor, rent, utilities, supplies and certain other costs incurred prior to a store's opening. Pre-opening expenses for natural foods market format stores have averaged approximately $250,000 to $350,000, and farmers' market format stores have averaged approximately $75,000 per store historically, although the amount per store may vary depending on the store format and whether the store is the first to be opened in a market, or is part of a cluster of stores in that market. As part of certain advertising initiatives being implemented by the Company in the second half of 2001, we expect that pre-opening expenses will increase to $400,000 per natural foods market store, and $150,000 per farmers' market store. Consolidation of store banners to be concluded in the second half of 2001 and early 2002 will improve advertising synergies in many regions of the country.

Results of Operations

The following table sets forth for the periods indicated, certain selected income statement data expressed as a percentage of sales.

	Three Months Ended		Six Months Ended	
	June 30, 2001	July 1, 2000	June 30, 2001	July 1, 2000
Sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold and occupancy costs	71.1	68.8	70.4	68.7
	-	-	-	-
Gross margin	28.9	31.2	29.6	31.3
Direct store expenses	24.0	22.4	23.8	22.2

Selling, general and admin expenses	5.8	3.9	5.4	3.8
Pre-opening expenses	0.0	0.3	0.3	0.4
Restructuring and asset impairment charges	23.9	9.7	12.2	4.9
	-	-	-	-
Income from operations	(24.8)	(5.1)	(12.1)	0.0
Loss on investment	0.1	1.0	0.1	0.5
Interest expense, net	1.2	0.9	1.2	0.9
	-	-	-	-
Loss before income taxes	(26.1)	(7.0)	(13.4)	(1.4)
Income tax benefit	9.5	2.9	4.9	0.6
	-	-	-	-
Net loss	(16.6)%	(4.1)%	(8.5)%	(0.8)%
	====	====	====	====

Sales.

Sales for the three months ended June 30, 2001, increased 7.8% to $229.4 million from $212.8 million in the same period in fiscal 2000. Sales for the six months ended June 30, 2001 increased 5.9% to $448.9 million from $424.0 in the same period in fiscal 2000. The increase was primarily due to the opening of 4 new stores, as well as the inclusion of the 16 stores opened or acquired in fiscal 2000, offset by 20 stores closed in fiscal 2000 and 1 store closed in fiscal 2001. Comparable store sales increased to 4% for the second quarter of fiscal 2001 from 1% at the end of the first quarter of fiscal 2001, as compared to a 2% decrease for the same period in fiscal 2000, due to operational improvements in a number of stores, new marketing programs in selected regions and store closures of certain weaker stores. The Company is currently evaluating a number of strategic initiatives which, if implemented in 2001 or 2002, are projected to increase overall sales gradually in those regions in which the initiatives are implemented, through increased advertising, more frequent advertised specials and modified pricing.

Gross Profit.

Gross profit for the three months ended June 30, 2001 of $66.4 million was relatively flat as compared to the same period in fiscal 2000, reflecting the growth from new store openings, offset by store closures. Gross profit for the six months ended June 30, 2001 of $132.8 million was relatively flat as compared to the same period in fiscal 2000. As a percentage of sales, gross profit decreased to 28.9% in the second quarter of fiscal 2001 from 31.2% in the same period in fiscal 2000 due primarily to increases in inventory reserves for slow-moving goods, lower margins on certain categories of products sold in the stores and higher utilities expenses. If the Company implements certain strategic initiatives which include revisions in pricing in our stores, or in selected regions, gross profit in the remainder of 2001 may be negatively affected by lower margins on certain items.

Direct Store Expenses.

Direct store expenses for the three months ended June 30, 2001 increased 15.4% to $55.0 million from $47.7 million in the same period in fiscal 2000, and for the six months ended June 30, 2001 increased 13.2% to $106.6 million from $94.2 million in the same period in fiscal 2000. As a percentage of sales, direct store expenses increased to 24.0% in the second quarter of fiscal 2001 as compared to 22.4% in the second quarter of fiscal 2000. The increases are primarily due to higher employee benefits as a percentage of sales and an increase in reserves for self-insured losses. If we implement certain strategic initiatives in our stores, or in selected regions, direct store expenses may increase as a percentage of sales in 2001 as a result of increases in staffing levels.

Selling, General and Administrative Expenses.

Selling, general and administrative expenses for the three months ended June 30, 2001 increased 60.2% to $13.4 million from $8.4 million in the same period in fiscal 2000, and for the six months ended June 30, 2001 increased 51.0% to $24.5 million from $16.2 million in the same period in fiscal 2000. As a percentage of sales, selling, general and administrative expenses increased to 5.8% in the second quarter of fiscal 2001 from 3.9% in the same period in fiscal 2000. The increases are primarily attributable to increases in advertising expenses, as well as market research fees associated with an extensive review currently being conducted of all components of the Company's business, including marketing, purchasing, merchandising and new store programs. In addition, selling, general and administrative expenses increased over the prior quarter due to expenses associated with the evaluation of existing store operations, site inspections and repair and maintenance coordination.

Pre-Opening Expenses.

Pre-opening expenses for the three months ended June 30, 2001, decreased 84.4% to $85,000 compared to $544,000 during the same period in fiscal 2000, and for the six months ended June 30, 2001 decreased 20.2% to $1.5 million from $1.9 million in the same period in fiscal 2000. As a percentage of sales, pre-opening expenses decreased to 0.3% in the first half of fiscal 2001 compared to 0.4% in the same period in fiscal 2000, due to the opening of four new stores in the first six months of 2001 as compared to five new stores and three relocations in the first six months of fiscal 2000. As part of the Company's plan to increase certain marketing efforts, we anticipate that preopening expenses for new natural food market stores will increase from an estimated $250,000 historically to an estimated $400,000 per new store, and those of the farmers' market format will increase from $75,000 historically to an estimated $150,000 in the future.

Loss on Investment.

In the second quarter of fiscal 2001, the Company recorded a loss on investment of $228,000 related to the reduction in value of the Company's investment in an e-commerce nutrition company.

Interest Expense, Net.

Net interest expense for the three months ended June 30, 2001 increased 39.8% to $2.8 million, from $2.0 million in the same period in fiscal 2000, and for the six months ended June 30, 2001 increased 39.2% to $5.2 million from $3.8 million in the same period in fiscal 2000. As a percentage of sales, net interest expense increased to 1.2% from 0.9% in the second quarter of fiscal 2000. The increase is primarily attributable to the increased interest rate on our line of credit due to our default under certain nonmonetary covenants of our credit facility, which resulted in the imposition of an alternate base rate of interest under the facility. If we are successful in concluding an amendment to our existing credit facility to waive certain current defaults, interest expense will increase in the future as a result of an expected increase in the interest rate under our credit facility. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources"* below.

Restructuring and Asset Impairment Charges

During the three months ended June 30, 2001, the Company's management made certain decisions relating to the Company's operations which resulted in a restructuring and asset impairment charge of $54.8 million. These decisions include the closure or abandonment of three natural food stores by the end of fiscal 2001 ($1.4 million); exit costs of previously closed or abandoned sites ($17.4 million); impairment and lease-related liabilities of subleased properties ($11.7 million); abandonment of new store construction ($2.9 million); closure of certain regional offices ($3.0 million); severance for terminated employees ($2.5 million); and asset impairment related to five operating stores ($15.9 million). Components of the restructuring and asset impairment charge consist primarily of abandonment of fixed ($25.8 million) and intangible assets ($300,000); severance for terminated employees ($2.5 million); and noncancelable lease obligations and lease related liabilities ($26.2 million). Of the $17.4 million charge for exit costs of previously closed or abandoned sites, $15.9 million is due to a change in estimate related to lease-related liabilities. The change in estimate results from the Company's determination that additional periods of time are necessary to dispose of the lease obligations. This determination was driven by results of current disposition efforts by the Company, and is attributable to deteriorating real estate markets in certain regions, existing lease obligation at above-market rates, and unattractive site characteristics. The charge for exit costs assumes, based on the Company's current results of disposition efforts, that the Company will be successful in disposing of these long-term lease obligations within the next five years. Should facts and circumstances change in the future with respect to the above attributes affecting the ultimate resolution of these exit costs, the Company will make appropriate adjustments to the restructuring liabilities.

As part of the charge described above, the Company recorded an asset impairment charge of $15.9 million related to the long-lived assets of five operating stores. In determining whether an impairment exists, the Company compares the store's future cash flows, discounted to present value using a risk-adjusted discount rate, to its current carrying value and records a provision for impairment as appropriate. The Company believes the weak performance from the stores included in the asset impairment charge were caused by significant budget overruns in construction (one store), poor site location (two stores) or insufficient advertising in new regional markets (two stores). The Company continually reevaluates its stores' performance to monitor the carrying value of its long-lived assets in comparison to projected cash flows. Elements that could contribute to impairment of long-lived assets include new competitive impact, overruns in construction costs, or poor operating results caused by a variety of factors, including improper site selection, insufficient advertising or changes in local, regional or national economies. The Company is currently reevaluating its store format and construction procedures to reduce the likelihood of construction cost overruns, and has increased its projected preopening costs per new store to increase the level of new store advertising. Site selection criteria are also being reevaluated in light of the results of our comprehensive review of all operations and ideal customer demographics. There is no assurance that in the future, additional long-lived assets will not be deemed impaired.

During the second quarter of fiscal 2000, the Company's management made certain decisions relating to the strategic repositioning of the Company's operations which resulted in a restructuring and asset impairment charge of $20.6 million. These decisions included the closure of three natural foods stores during the second quarter of fiscal 2000 ($4.7 million); the planned sale or closure of seven stores during the remainder of fiscal 2000 ($9.9 million); exit costs of previously closed or abandoned sites ($5.6 million); and the discontinuance of e-commerce activities ($400,000). The $5.6 million charge related to changes in estimates for previously closed or abandoned sites. The significant components of the $5.6 million charge were (a) $3.6 million of additional lease-related liabilities, and (b) $2.0 million

of fixed asset impairments for 15 previously closed stores. Components of the restructuring and asset impairment charge consist of impairment of fixed ($8.9 million) and intangible assets ($6.4 million); and noncancelable lease obligations and lease related liabilities ($5.3 million). Substantially all of the restructuring charges are non-cash expenses.

During the fourth quarter of fiscal 2000, the Company expanded its strategic repositioning and, as a part of such expansion, decided to close or sell twelve under performing stores. This decision resulted in an additional restructuring and asset impairment charge of $21.4 million. This restructuring charge consists primarily of costs associated with the abandonder-left:1pt none #D9D9D9 ;border-bottom:1pt none #D9D9D9 ;border-right:1pt none #D9D9D9 ;padding:0pt;">

203,930

198,954

180,740

Finished goods

208,556

198,273

189,188

Total inventories

412,486

397,227

369,928

Refundable income taxes

763

11,459

7,407

Other current assets

22,438

20,662

21,636

TOTAL CURRENT ASSETS

888,600

756,438

790,787

DEFERRED INCOME TAXES

1,899

1,546

2,416

RESTRICTED INVESTMENTS

7,982

—

—

OTHER ASSETS

7,634

8,617

8,757

GOODWILL

212,029

198,535

207,832

INDEFINITE-LIVED INTANGIBLE ASSETS

7,580

2,340

2,340

OTHER INTANGIBLE ASSETS, NET

36,093

26,731

14,014

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment

754,175

699,462

717,287

Less accumulated depreciation and amortization

(429,066)

(401,611)

(432,796)

PROPERTY, PLANT AND EQUIPMENT, NET

325,109

297,851

284,491

TOTAL ASSETS

1,486,926

1,292,058

1,310,637

LIABILITIES AND SHAREHOLDERS’ EQUITY

CURRENT LIABILITIES:

Cash overdraft

$

26,617

$

19,761

$

13,940

Accounts payable

171,774

124,660

137,979

Accrued liabilities:

Compensation and benefits

88,185

92,441

99,549

Other

50,179

32,281

57,104

Current portion of long-term debt

2,197

2,634

1,584

TOTAL CURRENT LIABILITIES

338,952

271,777

310,156

LONG-TERM DEBT

145,884

109,059

110,362

DEFERRED INCOME TAXES

22,806

20,817

14,066

OTHER LIABILITIES

29,204

29,939

28,963

TOTAL LIABILITIES

536,846

431,592

463,547

SHAREHOLDERS' EQUITY:

Controlling interest shareholders' equity:

Preferred stock, no par value; shares authorized 1,000,000; issued and outstanding, none

$

—

$

—

$

—

Common stock, $1 par value; shares authorized 80,000,000; issued and outstanding, 20,391,399, 20,342,069 and 20,330,939

20,391

20,342

20,331

Additional paid-in capital

200,778

185,333

183,962

Retained earnings

715,497

649,135

637,536

Accumulated other comprehensive income

(871)

(5,630)

(4,854)

Total controlling interest shareholders' equity

935,795

849,180

836,975

Noncontrolling interest

14,285

11,286

10,115

TOTAL SHAREHOLDERS' EQUITY

950,080

860,466

847,090

TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY

$

1,486,926

$

1,292,058

$

1,310,637

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 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
NET SALES	$ 1,056,586	$ 826,665	$ 2,975,091	$ 2,380,909
COST OF GOODS SOLD	911,899	708,611	2,561,424	2,028,629
GROSS PROFIT	144,687	118,054	413,667	352,280
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	92,416	74,502	273,676	223,153
EARNINGS FROM OPERATIONS	52,271	43,552	139,991	129,127
INTEREST EXPENSE	1,481	1,096	4,825	3,274
INTEREST INCOME	(130)	(119)	(541)	(431)
EQUITY IN EARNINGS OF INVESTEE	1	(50)	(25)	(241)
	1,352	927	4,259	2,602
EARNINGS BEFORE INCOME TAXES	50,919	42,625	135,732	126,525
INCOME TAXES	16,250	13,861	44,855	43,268
NET EARNINGS	34,669	28,764	90,877	83,257
LESS NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(976)	(945)	(2,480)	(2,828)
NET EARNINGS ATTRIBUTABLE TO CONTROLLING INTEREST	$ 33,693	$ 27,819	$ 88,397	$ 80,429
EARNINGS PER SHARE - BASIC	$ 1.65	$ 1.36	$ 4.32	$ 3.95
EARNINGS PER SHARE - DILUTED	$ 1.64	$ 1.36	$ 4.31	$ 3.94
OTHER COMPREHENSIVE INCOME:				
NET EARNINGS	34,669	28,764	90,877	83,257
OTHER COMPREHENSIVE GAIN (LOSS)	1,719	(1,156)	6,141	(1,521)
COMPREHENSIVE INCOME	36,388	27,608	97,018	81,736
LESS COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	(975)	(495)	(3,862)	(1,576)
COMPREHENSIVE INCOME ATTRIBUTABLE TO CONTROLLING INTEREST	$ 35,413	$ 27,113	$ 93,156	$ 80,160

See notes to consolidated condensed financial statements.

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UNIVERSAL FOREST PRODUCTS, INC.

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 Comprehensive Earnings	Noncontrolling Interest	Total
Balance at December 26, 2015	$ 20,142	$ 171,562	$ 565,636	$ (4,585)	$ 13,654	$ 766,409
Net earnings			80,429		2,828	83,257
Foreign currency translation adjustment				(620)	(1,252)	(1,872)
Unrealized gain (loss) on investment & foreign currency				351		351
Distributions to noncontrolling interest					(3,160)	(3,160)
Purchases of noncontrolling interest		855			(1,955)	(1,100)
Cash dividends $0.420 per share			(8,529)			(8,529)
Issuance of 5,195 shares under employee stock plans	5	390				395
Issuance of 133,293 shares under stock grant programs	133	5,143				5,276
Issuance of 50,742 shares under deferred compensation plans	51	(51)				—
Expense associated with share-based compensation arrangements		1,568				1,568
Accrued expense under deferred compensation plans		4,495				4,495
Balance at September 24, 2016	$ 20,331	$ 183,962	$ 637,536	$ (4,854)	$ 10,115	$ 847,090
Balance at December 31, 2016	20,342	185,333	649,135	(5,630)	11,286	860,466
Net earnings			88,397		2,480	90,877
Foreign currency translation adjustment				4,325	1,382	5,707
Unrealized gain (loss) on investment & foreign currency				434		434
Distributions to noncontrolling interest					(3,272)	(3,272)
Additional purchases of noncontrolling interest					2,409	2,409
Cash dividends - $0.450 per share			(9,208)			(9,208)
Issuance of 5,975 shares under employee stock plans	6	470				476
Issuance of 142,775 shares under stock grant programs	143	7,037				7,180
Issuance of 49,160 shares under deferred compensation plans	49	(49)				—
Repurchase of 148,580 shares	(149)		(12,827)			(12,976)

Expense associated with share-based compensation arrangements		1,978				1,978
Accrued expense under deferred compensation plans		6,009				6,009
Balance at September 30, 2017	$ 20,391	$ 200,778	$ 715,497	$ (871)	$ 14,285	$ 950,080

See notes to 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 30, 2017	September 24, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 90,877	$ 83,257
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation	36,010	29,014
Amortization of intangibles	3,549	1,868
Expense associated with share-based compensation arrangements	1,978	1,568
Expense associated with stock grant plans	144	105
Deferred income taxes (credits)	117	(53)
Equity in earnings of investee	(25)	(241)
Net (gain) loss on disposition and impairment of assets	(437)	94
Changes in:		
Accounts receivable	(121,688)	(69,357)
Inventories	(820)	21,683
Accounts payable and cash overdraft	53,424	35,026
Accrued liabilities and other	34,221	33,413
NET CASH FROM OPERATING ACTIVITIES	97,350	136,377
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(57,189)	(35,723)
Proceeds from sale of property, plant and equipment	2,121	516
Acquisitions, net of cash received	(59,859)	(66,615)
Repayments of debt of acquiree	—	(92,830)
Purchase of remaining noncontrolling interest, net of cash received	—	(1,100)
Cash contributed from noncontrolling interest	464	—
Advances of notes receivable	(234)	(5,400)
Collections on notes receivable	1,334	5,819
Purchases of investments	(12,155)	(4,468)
Proceeds from sale of investments	4,227	1,395
Other	(84)	(1,733)
NET CASH USED IN INVESTING ACTIVITIES	(121,375)	(200,139)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facilities	610,038	52,479
Repayments under revolving credit facilities	(573,829)	(27,177)
Proceeds from issuance of common stock	476	396
Dividends paid to shareholders	(9,207)	(8,529)
Distributions to noncontrolling interest	(3,272)	(3,160)
Repurchase of common stock	(12,976)	—
Other	—	(28)

NET CASH FROM (USED IN) FINANCING ACTIVITIES	11,230	13,981
Effect of exchange rate changes on cash	1,255	(969)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,540)	(50,750)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	34,489	88,342
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD	$ 22,949	$ 37,592
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:		
Cash and cash equivalents, beginning of period	$ 34,091	$ 87,756
Restricted cash, beginning of period	398	586
Cash, cash equivalents, and restricted cash, beginning of period	$ 34,489	$ 88,342
Cash and cash equivalents, end of period	$ 22,044	$ 36,683
Restricted cash, end of period	905	909
Cash, cash equivalents, and restricted cash, end of period	$ 22,949	$ 37,592
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 3,910	$ 2,587
Income taxes paid	34,108	43,384
NON-CASH FINANCING ACTIVITIES:		
Common stock issued under deferred compensation plans	4,673	3,657

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 31, 2016.

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 24, 2016 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 30, 2017			September 24, 2016		
(in thousands)	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
Money market funds	$ 64	$ 413	$ 477	$ 64	$ 132	$ 196
Fixed income funds	1,299	6,905	8,204	2,049	2,335	4,384
Equity securities	10,194	—	10,194	5,592	—	5,592
Mutual funds:						

Domestic stock funds	335	—	335	760	—	760
International stock funds	87	—	87	70	—	70
Target funds	260	—	260	234	—	234
Bond funds	208	—	208	203	—	203
Total mutual funds	890	—	890	1,267	—	1,267
Total	$ 12,447	$ 7,318	$ 19,765	$ 8,972	$ 2,467	$ 11,439
Assets at fair value	$ 12,447	$ 7,318	$ 19,765	$ 8,972	$ 2,467	$ 11,439

We maintain money market, mutual funds, bonds, and/or stocks in our non-qualified deferred compensation plan and our wholly owned licensed captive insurance company. These funds are valued at prices quoted in an active

exchange market and are included in “Cash and Cash Equivalents”, “Investments”, “Restricted Cash”, and “Restricted Investments”. 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 3 assets or liabilities at September 30, 2017 or September 24, 2016.

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-18, “Statement of Cash Flows (Topic 230)” (ASU 2016-18). Under ASU 2016-18, an entity will be required to explain changes in the statement of cash flows during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update should be applied using retrospective transition method to each period presented. Companies are required to adopt the new standard for fiscal years beginning after December 15, 2017. Early adoption of ASU 2016-18 is permitted, including adoption in an interim period. The Company has early adopted this standard during the first quarter of 2017.

In the first nine months of 2017, our wholly-owned captive, Ardellis Insurance Ltd. (“Ardellis”) transferred $4.1 million in fixed income securities from its Investment Account and purchased an additional $3.8 million in fixed income securities which are held in a newly formed collateral trust account in line with regulatory requirements in the State of Michigan to allow Ardellis to act as an admitted carrier in the State. These funds are intended to safeguard the insureds of the Michigan Branch of Ardellis. The funds are classified as “Restricted Investments”.

In accordance with our investment policy, our wholly-owned captive, Ardellis Insurance Ltd. (“Ardellis”), maintains an investment portfolio, totaling $18.4 million as of September 30, 2017, consisting of domestic and international stocks, and fixed income bonds.

Ardellis’ available for sale investment portfolio, including funds held with the State of Michigan, consists of the following:

	Cost	Unrealized Gain/(Loss)	Fair Value
Fixed Income	$ 8,170	$ 34	$ 8,204
Equity	9,123	1,071	10,194
Total	$ 17,293	$ 1,105	$ 18,398

Our Fixed Income investments consist of short, intermediate, and long term bonds, as well as fixed blend bonds. Within the fixed income investments, we maintain a specific mixture of US treasury notes, US agency mortgage backed securities, private label mortgage backed securities, and various corporate securities. Our equity investments consist of small, mid, and large cap growth and value funds, as well as international equity. The net pre-tax effected unrealized gain was $1.1 million. Carrying amounts above are recorded in the investments and restricted investments

line items within the balance sheet as of September 30, 2017. During the first nine months of 2017, Ardellis investments reported a net realized gain of $185 thousand, which was recorded in interest income on the statement of earnings.

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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.

On May 28, 2014, the FASB issued ASU No. 2014-09 (Accounting Standard Codification 606), Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The Company plans to adopt the guidance in the first quarter of fiscal 2018 and apply the modified retrospective method. The Company is in the process of finalizing contract reviews and the completion of the new standard’s impact on its Consolidated Financial Statements.

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. Construction contract revenue increased to approximately $36.6 million, during the third quarter of 2017, from $31.9 million during the same period of 2016. Construction contract revenue was approximately $99.6 million and $95.2 million through the first nine months of 2017 and 2016, respectively.

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 30, 2017	December 31, 2016	September 24, 2016
Cost and Earnings in Excess of Billings	$ 2,594	$ 2,573	$ 2,788
Billings in Excess of Cost and Earnings	4,802	4,748	6,222

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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 Ended		Nine Months Ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Numerator:				
Net earnings attributable to controlling interest	$ 33,693	$ 27,819	$ 88,397	$ 80,429
Adjustment for earnings allocated to non-vested restricted common stock	(656)	(463)	(1,633)	(1,281)
Net earnings for calculating EPS	$ 33,037	$ 27,356	$ 86,764	$ 79,148
Denominator:				
Weighted average shares outstanding	20,474	20,402	20,481	20,360
Adjustment for non-vested restricted common stock	(399)	(340)	(378)	(324)
Shares for calculating basic EPS	20,075	20,062	20,103	20,036
Effect of dilutive stock options	41	33	37	32
Shares for calculating diluted EPS	20,116	20,095	20,140	20,068
Net earnings per share:				
Basic	$ 1.65	$ 1.36	$ 4.32	$ 3.95
Diluted	$ 1.64	$ 1.36	$ 4.31	$ 3.94

No options were excluded from the computation of diluted EPS for the quarters ended September 30, 2017 or September 24, 2016.

On October 17, 2017, our Board of Directors declared a three-for-one stock split effected in the form of a stock dividend. The record date of the stock split will be October 31, 2017, and the eventual stock distribution to shareholders will occur November 14, 2017. All references made to share or earnings per share amounts in the accompanying unaudited consolidated financial statements and applicable disclosures are presented on a pre-split basis. As a result of the stock split, all historical per share data and number of shares outstanding presented in future financial statements will be retroactively adjusted.

The following table provides pro forma earnings per share, giving retroactive effect to the stock split:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Shares for calculating basic EPS - Post stock split basis	60,225	60,186	60,309	60,108
Shares for calculating diluted EPS - Post stock split basis	60,348	60,285	60,420	60,204

Net earnings per share (post stock split):				
Basic	$ 0.55	$ 0.45	$ 1.44	$ 1.32
Diluted	$ 0.55	$ 0.45	$ 1.44	$ 1.31

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.

UNIVERSAL FOREST PRODUCTS, INC.

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 wood preservation facilities in Stockertown, PA; Elizabeth City, NC; Auburndale, FL; and Medley, FL. In addition, a reserve was established for our 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 $3.6 million and $3.4 million on September 30, 2017, and September 24, 2016, respectively, representing the estimated costs to complete future remediation efforts. These amounts have not been reduced by an insurance receivable.

Many of our wood treating operations utilize "Subpart W" drip pads, defined as hazardous waste management units by the Environmental Protection Agency. The rules regulating drip pads require that a 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 $0.2 million. As a result, this amount is recorded in other long-term liabilities on September 30, 2017.

In February 2014, one of our operations was served with a federal grand jury subpoena from the Southern District of New York. The subpoena was issued in connection with an investigation being conducted by the US Attorney's Office for the Southern District of New York. The subpoena requested documents relating to a developer and construction projects for which our operation had provided materials and labor. Following receipt of the subpoena, the Audit Committee of the Company's Board of Directors retained outside counsel to conduct an internal investigation and respond to the subpoena. The Company cooperated in all respects with the US Attorney's Office, complied with this subpoena and voluntarily provided additional information. As a result of the internal investigation, in 2014, two Company employees were terminated for violating the Company's Code of Business Conduct and Ethics. In May 2015, those ex-employees were indicted by the grand jury. In April 2016, one of the two former employees pled guilty to four of the charges included in the indictment. In May 2016, the other former employee was found guilty by a jury on four of the charges included in the indictment. The Company has not been named as a target and continues to cooperate with the US Attorney's Office in this matter. Based upon prior communications with the US Attorney's Office, we do not believe that the resolution of this matter will have a material adverse impact on our financial condition or the results of our operations.

In addition, on September 30, 2017, 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 30, 2017, we had outstanding purchase commitments on commenced capital projects of approximately $26.1 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 effect on our consolidated financial statements.

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UNIVERSAL FOREST PRODUCTS, INC.

As part of our operations, 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 project 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 30, 2017 we had approximately $8.8 million outstanding payment and performance bonds for open projects. We had approximately $1.7 million in payment and performance bonds outstanding for completed projects which are still under warranty.

On September 30, 2017, we had outstanding letters of credit totaling $26.5 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 industrial development revenue bonds that have been 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.

We did not enter into any new guarantee arrangements during the third quarter of 2017 which would require us to recognize a liability on our balance sheet.

F. BUSINESS COMBINATIONS

We completed the following acquisitions in nine months ended 2017 and 2016 which were accounted for using the purchase method in thousands unless otherwise noted:

Company Name	Acquisition Date	Purchase Price	Intangible Assets	Net Tangible Assets	Operating Segment
	May 26, 2017	$5,042 cash paid for 100% asset purchase	$ 4,880	$ 162	South
Go Boy Pallets, LLC ("Go Boy")	A manufacturer and distributor of industrial pallets and packaging in Georgia and North Carolina. Go Boy has annual sales of approximately $8 million. The acquisition of Go Boy enabled us to expand our industrial packaging product				

	offering and lumber sourcing in this region.				
	March 6, 2017	$31,818 cash paid for 100% asset purchase	$ 7,533	$ 24,285	South
Robbins Manufacturing Co. ("Robbins")	A manufacturer of treated wood products with facilities in Florida, Georgia, and North Carolina. Robbins has annual sales of approximately $86 million. The acquisition of Robbins allowed us to expand our presence in this region and serve customers more cost effectively.				
	March 6, 2017	$22,789 cash paid for 100% asset purchase	$ 14,266	$ 8,523	North

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UNIVERSAL FOREST PRODUCTS, INC.

Quality Hardwood Sales, LLC ("Quality")	A manufacturer and supplier of hardwood products, including components of cabinets used in homes and recreational vehicles. Quality has annual sales of approximately $30 million. The acquisition of Quality enabled us to expand our product offering to include hardwood-based products.				
	November 29, 2016	$9,455 cash paid for 100% stock purchase	$ 7,314	$ 2,141	All Other
The UBEECO Group Pty. Ltd. ("Ubeeco")	A manufacturer and distributor of a variety of wood packaging and alternative material products, including boxes, crates, pallets, skids, protective packaging, packaging accessories and loose lumber. Ubeeco has annual sales of approximately $20 million. The acquisition of Ubeeco allows us to make progress on our goal of becoming a global provider of packaging solutions.				
	September 16, 2016	$66,691 cash paid for 100% stock purchase which includes $11,337 in net cash received. Also, paid $86,294 to retire outstanding debt and $6,536 of certain other obligations.	$ 17,455	$ 49,236	All Other
idX Holdings, Inc. ("idX")	A designer, producer, and installer of customized interior fixtures and related products used in a variety of commercial structures. idX has annual sales of $300 million. The acquisition of idX enables us to enhance our design, product and service offering to become a tier 1 supplier of interior fixtures to retail customers, and continue to use idX's capabilities to continue to develop new markets for growth. Our goal is to achieve long-term synergies, including: a. Eliminating redundant administrative support costs. b. Using the scale advantage of the Company to reduce material costs of common raw materials. c. Utilizing manufacturing capacity of certain existing locations to supply idX. d. Utilizing idX's international footprint to identify sourcing opportunities for certain products. e. Cross selling one another's products and services with our respective customers. f. Collaborating on new product development.				
	July 29, 2016	$1,246 cash paid for asset purchase	$ 405	$ 841	North
Seven D Truss, L.P.	A manufacturer and distributor of roof and floor trusses. 7D had annual sales of approximately $4.0 million. The acquisition of 7D gave us the opportunity to consolidate operations with our Gordon, Pennsylvania location.				

The intangible assets for each acquisition were finalized and allocated to their respective identifiable intangible asset and goodwill accounts during 2017, excluding Go Boy. In aggregate, acquisitions completed since September of 2016 contributed approximately $292.1 million in revenue and $5.3 million in operating profit during 2017.

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.

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UNIVERSAL FOREST PRODUCTS, INC.

The Company operates manufacturing, treating and distribution facilities throughout North America, but primarily in the United States. The Company manages the operations of its individual locations primarily through a geographic reporting structure under which each location is included in a region and regions are included in our North, South, and West divisions. The exceptions to this geographic reporting and management structure are (a) the Company's Alternative Materials Division, which offers a portfolio of non-wood products and distributes those products nation-wide (b) the Company's distribution unit (referred to as UFPD) which distributes a variety of products to the manufactured housing industry nation-wide and is accounted for as a reporting unit within the North segment, and (c) the idX division, which designs, produces, and installs customized in-store environments, for customers world-wide.

With respect to the facilities in the north, south, and west segments, these facilities generally supply the three markets the Company serves nationally - Retail, Industrial, and Construction. Also, substantially all of our facilities support customers in the immediate geographical region surrounding the facility.

Our Alternative Materials, International and idX division 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 30, 2017					
	North	South	West	All Other	Corporate	Total
Net sales to outside customers	$ 310,384	$ 206,050	$ 378,714	$ 161,438	$ —	$ 1,056,586
Intersegment net sales	18,897	18,817	21,384	47,539	—	106,637
Segment operating profit	16,697	10,234	22,538	6,882	(4,080)	52,271

	Three Months Ended September 24, 2016					
	North	South	West	All Other	Corporate	Total
Net sales to outside customers	$ 267,156	$ 173,715	$ 335,981	$ 49,813	$ —	$ 826,665
Intersegment net sales	14,318	9,642	22,054	4,574	—	50,588
Segment operating profit	14,630	9,900	19,962	2,959	(3,899)	43,552

	Nine Months Ended September 30, 2017					
	North	South	West	All Other	Corporate	Total
Net sales to outside customers	$ 857,858	$ 616,376	$ 1,088,744	$ 412,113	$ —	$ 2,975,091

Intersegment net sales	51,859	55,472	65,466	116,743	—	289,540
Segment operating profit (loss)	42,921	31,152	65,547	13,285	(12,914)	139,991

	Nine Months Ended September 24, 2016					
	North	South	West	All Other	Corporate	Total
Net sales to outside customers	$ 758,066	$ 533,239	$ 940,188	$ 149,416	$ —	$ 2,380,909
Intersegment net sales	42,071	28,693	65,325	16,559	—	152,648
Segment operating profit	43,054	35,830	58,434	11,542	(19,733)	129,127

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 31.9% in the third quarter of 2017 compared to 32.5% for same period in 2016. Our effective tax rate was 33.0% in the first nine months of 2017 compared to 34.2% in 2016, primarily due to recording a tax deduction for certain share-based compensation and fees at fair market value.

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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 with subsidiaries throughout North America, Europe, Asia, and in Australia that supply wood, wood composite and other products to three robust markets: retail, industrial, and construction. The Company is headquartered in Grand Rapids, Mich. For more information about Universal Forest Products, Inc., or its affiliated operations, go to 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 2017.

OVERVIEW

Our results for the third quarter of 2017 were impacted by the following:

- Our gross sales increased by 28% compared to the third quarter of 2016, which was comprised of a 22% increase in unit sales and a 6% increase in selling prices primarily due to the commodity lumber market (see Historical Lumber Prices below). Acquired operations contributed 15% to our unit sales growth. Our 7% organic growth rate was primarily driven by our sales to industrial, retail, residential construction, and manufactured housing customers. Unit sales to commercial construction customers decreased.
- Our operating profits increased by 20.0%, which is comparable with our 22% increase in unit sales. The shortfall in our profit growth was primarily due to the impact of volatile lumber prices on gross profits and the impact of acquired operations which contributed unit sales growth without a proportionate increase in operating profits.

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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	
	2017	2016
January	$ 356	$ 316
February	393	310
March	401	321
April	424	345
May	416	356
June	399	353
July	411	351
August	417	367
September	416	354
Third quarter average	$ 415	$ 357
Year-to-date average	$ 404	$ 341
Third quarter percentage change	16.2 %	
Year-to-date percentage change	18.5 %	

In addition, a Southern Yellow Pine ("SYP") composite price, which we prepare and use, is presented below. Our purchases of this species comprised approximately 44% and 42% of total lumber purchases through the first nine months of 2017 and 2016, respectively.

	Random Lengths SYP Average $/MBF	
	2017	2016
January	$ 397	$ 358
February	420	357
March	433	366
April	438	389
May	416	397
June	399	382
July	381	380
August	383	391
September	387	375
Third quarter average	$ 384	$ 382

Year-to-date average	$ 406	$ 377
Third quarter percentage change	0.5 %	
Year-to-date percentage change	7.7 %	

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UNIVERSAL FOREST PRODUCTS, INC.

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 were 48.2% and 48.4% of our sales in the first nine months of 2017 and 2016, respectively.

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.

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 customers, as well as trusses, wall panels and other components sold to the 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 eventually 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 each of the product pricing categories above, our margins are exposed to changes in the trend of lumber prices.

The greatest risk associated with changes in the trend of lumber prices is 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 19% 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.

During the first nine months of 2017, volatility in the lumber market has impacted our gross profits on products sold under each of the general pricing methods described above. For example, the dramatic rise in lumber prices, which peaked in April, resulted in a decline in gross profit per unit on products sold with fixed prices primarily in the second

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quarter. Additionally, the subsequent decline in lumber prices in May, June, and July resulted in a decline in gross profit per unit on products sold with a variable price indexed to the lumber market. We anticipate these trends may continue to impact our results into the fourth quarter until we reach a point of re-pricing products sold via a fixed price with our customers and selling through higher cost material sold on a variable price which is mitigated to some degree by stability of the SYP market.

Finally, hurricane Harvey and Irma as well as recent wildfires in British Columbia have resulted in sharp increases in lumber prices in the third quarter of 2017.

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.

	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. In order to more effectively evaluate our profitability in such periods, we believe it is useful to compare our change in units shipped with our changes in costs and profits.

BUSINESS COMBINATIONS

We completed three business acquisitions during the first nine months of 2017 and six during all of 2016. The annual historical sales attributable to acquisitions completed in 2017 and 2016 was approximately $124 million and $324 million, respectively. These business combinations were not significant to our quarterly or year-to-date operating results individually or in aggregate and thus pro forma results for 2017 or 2016 are not presented.

See Notes to the Unaudited Condensed Consolidated Financial Statements, Note F, “Business Combinations” for additional information.

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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 Ended				Nine Months Ended			
	September 30, 2017		September 24, 2016		September 30, 2017		September 24, 2016	
Net sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of goods sold	86.3		85.7		86.1		85.2	
Gross profit	13.7		14.3		13.9		14.8	
Selling, general, and administrative expenses	8.8		9.1		9.2		9.3	
Earnings from operations	4.9		5.3		4.7		5.4	
Other expense (income), net	0.1		0.1		0.1		0.1	
Earnings before income taxes	4.8		5.2		4.6		5.3	
Income taxes	1.5		1.7		1.5		1.8	
Net earnings	3.3		3.5		3.1		3.5	
Less net earnings attributable to noncontrolling interest	(0.1)		(0.1)		(0.1)		(0.1)	
Net earnings attributable to controlling interest	3.2	%	3.4	%	3.0	%	3.4	%

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

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, specialty wood packaging, components and packing materials for various industries, and customized interior fixtures used in a variety of retail stores, commercial and other structures. 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 concrete forming market, increasing our sales of engineered wood components for custom home, multi-family, military and light commercial construction, increasing our market share with independent retailers, and increasing our sales of customized interior fixtures used in a variety of markets.
- 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 market, specialty wood packaging, engineered wood components, customized interior fixtures, 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.
- Maximizing unit sales growth while achieving return on investment goals.

- Developing new products and expanding our product offering for existing customers. New product sales were $107.7 million in the third quarter of 2017 compared to $88.5 million during the third quarter of 2016. New product sales year-to-date for 2017 and 2016 were $313.6 million and $255.3 million, respectively.

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(in thousands) Market Classification	New Product Sales by Market Three Months Ended September 30, 2017	September 24, 2016	% Change	New Product Sales by Market Nine Months Ended September 30, 2017	September 24, 2016	% Change
Retail	$ 65,383	53,252	22.78%	$ 192,194	$ 153,966	24.83%
Industrial	26,738	23,374	14.39%	76,125	65,642	15.97%
Construction	15,577	11,911	30.78%	45,321	35,717	26.89%
Total New Product Sales	107,698	88,537	21.64%	313,640	255,325	22.84%

Note: Certain prior year product reclassifications and the change in designation of certain products as “new” resulted in a change in prior year’s sales.

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

(in thousands) Market Classification	Three Months Ended September 30, 2017	September 24, 2016	% Change	Nine Months Ended September 30, 2017	September 24, 2016	% Change
Retail	$ 391,895	$ 339,275	15.5 %	$ 1,162,785	$ 1,018,203	14.2 %
Industrial	369,506	232,017	59.3 %	982,675	661,718	48.5 %
Construction	310,026	267,772	15.8 %	872,997	740,393	17.9 %
Total Gross Sales	1,071,427	839,064	27.7 %	3,018,457	2,420,314	24.7 %
Sales Allowances	(14,841)	(12,399)	19.7 %	(43,366)	(39,405)	10.1 %
Total Net Sales	$ 1,056,586	$ 826,665	27.8 %	$ 2,975,091	$ 2,380,909	25.0 %

Note: During 2017, 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 2017 increased 28% compared to the same period of 2016, due to a 22% increase in unit sales and a 6% increase in selling prices primarily due to the Lumber Market. Acquired operations contributed 15% to our unit sales growth, and our organic unit sales growth was 7%.

Changes in our gross sales by market are discussed below.

Retail:

Gross sales to the retail market increased almost 16% in the third quarter of 2017 compared to the same period of 2016, due to a 12% increase in unit sales and a 4% increase in selling prices. Within this market, sales to our big box customers increased almost 13%, and sales to other independent retailers increased over 20%. Businesses we acquired contributed 7% to our growth in unit sales, primarily to independent retail customers. Our organic unit growth was 5% for the quarter. By comparison, “big box” same store sales growth during the third quarter has been reported at approximately 6.3%.

Gross sales to the retail market increased over 14% in the first nine months of 2017 compared to the same period of 2016, due to a 9% increase in unit sales and a 5% increase in selling prices. Within this market, sales to our big box customers increased almost 15%, and sales to other independent retailers increased almost 14%. Businesses we acquired contributed 6% to our growth in unit sales, primarily to independent retail customers. Our organic unit growth was 3% in the first nine months of 2017. By comparison, “big box” same store sales growth in the first nine months of 2017 has been reported at approximately 6.0%.

Industrial:

Gross sales to the industrial market increased over 59% in the third quarter of 2017 compared to the same period of 2016, resulting from a 54% increase in unit sales and a 5% increase in selling prices. Businesses we acquired contributed

43% to our growth in unit sales. Our organic growth in unit sales of 11% was primarily due to new operations, adding 578 new customers, and share gains with several existing customers.

Gross sales to the industrial market increased almost 49% in the first nine months of 2017 compared to the same period of 2016, resulting from a 43% increase in unit sales and a 6% increase in selling prices. Businesses we acquired contributed 34% to our growth in unit sales. Our organic growth in unit sales of 9% was primarily due to same factors discussed above.

Construction:

Gross sales to the construction market increased almost 16% in the third quarter of 2017 compared to 2016. The increase was due to an 8% increase in unit sales and an 8% increase in our selling prices. Our increase in unit sales was driven by a 12% increase to manufactured housing customers, and an 8% increase to residential construction customers, offset by a 5% decrease to commercial construction customers.

By comparison (and based upon various industry publications):

- Production of HUD-code manufactured homes in June, July, August 2017, the most recent period reported, was up 12.0% compared to the same period of 2016.
- Non-residential construction activity in July and August increased approximately 10.2% compared to the same period of 2016.
- National housing starts increased approximately 0.9% in the period from June through August 2017 (our sales trail housing starts by about a month) compared to the same period of 2016. Our sales growth exceeds national industry growth due to certain market share gains and organic sales growth in our eastern regions.

Gross sales to the construction market increased almost 18% in the first nine months of 2017 compared to 2016. The increase was due to a 9% increase in unit sales and a 9% increase in our selling prices. Our increase in unit sales was driven by an 11% increase to manufactured housing customers, an 11% increase to residential construction customers, and a 1% increase to commercial construction customers due to the same factors discussed above.

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 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Value-Added	63.9 %	61.1 %	62.9 %	61.5 %
Commodity-Based	36.1 %	38.9 %	37.1 %	38.5 %

COST OF GOODS SOLD AND GROSS PROFIT

Our gross margin decreased to 13.7% from 14.3% comparing the third quarter of 2017 to the same period of 2016 due to the higher level of lumber prices. Our 22.6% increase in gross profit dollars compares favorably with our 22% increase in unit sales during the same period. Acquired operations contributed $19.9 million of gross profit in the

third quarter of 2017. Excluding acquisitions, our gross profits increased by $6.7 million, or 5.7%, over the same period last year as follows:

- Our gross profit on sales to the retail market increased by approximately $1 million.
- Our gross profit on sales to the industrial market increased by approximately $1 million.

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- Our gross profit on sales to the construction market increased by over $3 million.

Our gross margin decreased to 13.9% from 14.8% comparing the first nine months of 2017 to the same period of 2016. Our 17.4% increase in gross profit dollars compares unfavorably with our 19% increase in unit sales in the first nine months of 2017 compared to the same period last year. The increase in our gross profit dollars was primarily due to acquired operations which contributed $45.6 million of gross profit in the first nine months of 2017. Excluding acquisitions, our gross profits increased by $15.8 million over the same period last year as follows:

- Our gross profit on sales to the retail market increased by over $3 million.
- Our gross profit on sales to the industrial market decreased by over $5 million.
- Our gross profit on sales to the construction market increased by over $12 million.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (“SG&A”) expenses increased by approximately $17.9 million, or 24.0%, in the third quarter of 2017 compared to the same period of 2016, while we reported a 22% increase in unit sales. Accrued bonus expense, which varies with our overall profitability and return on investment, totaled $12.4 million in the third quarter of 2017 compared to $12.0 million in 2016. Acquired operations contributed approximately $15 million to our year over year increase. The remaining increase was primarily due to an increase in compensation and benefit costs.

Selling, general and administrative (“SG&A”) expenses increased by approximately $50.5 million, or 22.6%, in the first nine months of 2017 compared to the same period of 2016, while we reported a 19% increase in unit sales. Accrued bonus expense totaled $32.6 million in the nine months of 2017 compared to $33.9 million in 2016. Acquired operations contributed approximately $41 million to our year over year increase. The remaining increase was primarily due to an increase in compensation and benefit costs and foreign currency exchange losses.

INTEREST, NET

Net interest costs were higher in the third quarter of 2017 compared to the same period of 2016 due to carrying a higher amount of debt and a slight increase in short-term borrowing rates.

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 31.9% in the third quarter of 2017 compared to 32.5% for same period in 2016. Our effective tax rate was 33.0% in the first nine months of 2017 compared to 34.2% in 2016. The decrease in our effective tax rate is primarily due to recording a tax deduction for certain share-based compensation at fair market value.

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SEGMENT REPORTING

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

	Net Sales				Earnings from Operations			
	Three Months Ended				Three Months Ended			
	September 30,	September 24,	$	%	September 30,	September 24,	$	%
(in thousands)	2017	2016	Change	Change	2017	2016	Change	Change
North	$ 310,384	$ 267,156	$ 43,228	16.2 %	$ 16,697	$ 14,630	$ 2,067	14.1 %
South	206,050	173,715	32,335	18.6 %	10,234	9,900	334	3.4 %
West	378,714	335,981	42,733	12.7 %	22,538	19,962	2,576	12.9 %
All Other	161,438	49,813	111,625	224.1 %	6,882	2,959	3,923	132.6 %
Corporate	—	—	—	—	(4,080)	(3,899)	(181)	4.6 %
Total	$ 1,056,586	$ 826,665	$ 229,921	27.8 %	$ 52,271	$ 43,552	$ 8,719	20.0 %

	Net Sales				Earnings from Operations			
	Nine Months Ended				Nine Months Ended			
	September 30,	September 24,	$	%	September 30,	September 24,	$	%
(in thousands)	2017	2016	Change	Change	2017	2016	Change	Change
North	$ 857,858	$ 758,066	$ 99,792	13.2 %	$ 42,921	$ 43,054	$ (133)	(0.3) %
South	616,376	533,239	83,137	15.6 %	31,152	35,830	(4,678)	(13.1) %
West	1,088,744	940,188	148,556	15.8 %	65,547	58,434	7,113	12.2 %
All Other	412,113	149,416	262,697	175.8 %	13,285	11,542	1,743	15.1 %
Corporate	—	—	—	—	(12,914)	(19,733)	6,819	34.6 %
Total	$ 2,975,091	$ 2,380,909	$ 594,182	25.0 %	$ 139,991	$ 129,127	$ 10,864	8.4 %

(1) Corporate primarily represents over (under) allocated administrative costs and accrued bonus expense.

North

	Net Sales			Net Sales		
	North Segment by Market			North Segment by Market		
	Three Months Ended			Nine Months Ended		
(in thousands)	September 30,	September 24,		September 30,	September 24,	
Market Classification	2017	2016	% Change	2017	2016	% Change
Retail	$ 139,284	$ 131,333	6.1 %	$ 387,925	$ 369,699	4.9 %
Industrial	40,192	27,524	46.0 %	114,533	87,287	31.2 %
Construction	137,616	113,897	20.8 %	373,838	316,204	18.2 %

Total Gross Sales	317,092	272,754	16.3 %	876,296	773,190	13.3 %
Sales Allowances	(6,708)	(5,598)	19.8 %	(18,438)	(15,124)	21.9 %
Total Net Sales	$ 310,384	$ 267,156	16.2 %	$ 857,858	$ 758,066	13.2 %

Note: During 2017, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Net sales attributable to the North reportable segment increased in the third quarter of 2017 compared to 2016 as a result of increased sales to each of our markets primarily due to the same factors previously discussed. Acquired operations contributed $8.7 million to our industrial sales increase.

Earnings from operations for the North reportable segment increased in the third quarter of 2017 by $2.1 million, or 14.1%, due to an increase in gross profit of $2.7 million, offset by a $0.6 million increase in SG&A expenses compared to last year. Acquired operations contributed $0.4 million to our operating profits in the third quarter.

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Net sales attributable to the North reportable segment increased in the first nine months of 2017 compared to 2016 due to an increase in sales to each of our markets primarily due to the same factors previously discussed. Acquired operations contributed $21.0 million to our industrial sales increase.

Earnings from operations for the North reportable segment decreased in the first nine months of 2017 by $0.1 million, or 0.3%, due to an increase in gross profit of $4.5 million offset by a $4.6 million increase in SG&A expenses compared to last year. Acquired operations contributed $1.4 million to our operating profits in the first nine months of 2017.

South

	Net Sales South Segment by Market Three Months Ended			Net Sales South Segment by Market Nine Months Ended		
(in thousands) Market Classification	September 30, 2017	September 24, 2016	% Change	September 30, 2017	September 24, 2016	% Change
Retail	$ 92,146	$ 75,130	22.6 %	$ 282,809	$ 240,175	17.8 %
Industrial	69,390	61,749	12.4 %	201,928	185,529	8.8 %
Construction	49,054	40,385	21.5 %	145,387	118,223	23.0 %
Total Gross Sales	210,590	177,264	18.8 %	630,124	543,927	15.8 %
Sales Allowances	(4,540)	(3,549)	27.9 %	(13,748)	(10,688)	28.6 %
Total Net Sales	$ 206,050	$ 173,715	18.6 %	$ 616,376	$ 533,239	15.6 %

Note: During 2017, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Net sales attributable to the South reportable segment increased in the third quarter of 2017 compared to 2016 due to increased sales to all markets primarily due to the same factors previously discussed. Acquired operations contributed $24.4 million and $1.8 million to our growth in sales to the retail and industrial market, respectively.

Earnings from operations for the South reportable segment increased in the third quarter of 2017 by $0.3 million, or 3.4%, due to a increase in gross profit of $0.7 million offset by a $0.4 million increase in SG&A expenses. Acquired operations contributed $0.6 million to our operating profits in the third quarter.

Net sales attributable to the South reportable segment increased in the first nine months of 2017 compared to 2016 due to increased sales to all markets primarily due to the factors previously discussed. Acquired operations contributed $59.9 million of sales growth to our retail market.

Earnings from operations for the South reportable segment decreased in the first nine months of 2017 by $4.7 million, or 13.1%, due to a decrease in gross profit of $3.1 million and an increase of $1.6 million in SG&A expenses. The decrease in gross profit was primarily due to the impact of the volatility in lumber prices. Acquired operations contributed $2.0 million to our operating profits in the first nine months of 2017.

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West

(in thousands)	Net Sales West Segment by Market Three Months Ended			Net Sales West Segment by Market Nine Months Ended		
	September 30,	September 24,		September 30,	September 24,	
Market Classification	2017	2016	% Change	2017	2016	% Change
Retail	$ 115,069	$ 99,762	15.3 %	$ 347,270	$ 298,723	16.3 %
Industrial	145,132	126,836	14.4 %	401,850	347,902	15.5 %
Construction	123,026	113,488	8.4 %	353,238	305,962	15.5 %
Total Gross Sales	383,227	340,086	12.7 %	1,102,358	952,587	15.7 %
Sales Allowances	(4,513)	(4,105)	9.9 %	(13,614)	(12,399)	9.8 %
Total Net Sales	$ 378,714	$ 335,981	12.7 %	$ 1,088,744	$ 940,188	15.8 %

Note: During 2017, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Net sales attributable to the West reportable segment increased in the third quarter of 2017 compared to 2016 due to increases in sales to all markets primarily due to factors previously discussed.

Earnings from operations for the West reportable segment increased in the third quarter of 2017 by $2.6 million, or 12.9%, compared to the same period in 2016 due to a $2.5 million increase in gross profit combined with a $0.1 million decrease in SG&A expenses.

Net sales attributable to the West reportable segment increased in the first nine months of 2017 compared to 2016 due to an increase in sales to all markets due to the same factors previously discussed.

Earnings from operations for the West reportable segment increased in the first nine months of 2017 by $7.1 million, or 12.2%, compared to the same period in 2016 due to a $10.8 million increase in gross profit, offset by a $3.7 million increase in SG&A expenses.

All Other

(in thousands)	Net Sales All Other Segment by Market Three Months Ended			Net Sales All Other Segment by Market Nine Months Ended		
	September 30,	September 24,		September 30,	September 24,	
Market Classification	2017	2016	% Change	2017	2016	% Change
Retail	$ 45,396	$ 33,049	37.4 %	$ 144,782	$ 109,606	32.1 %
Industrial	114,792	15,907	621.6 %	264,364	41,000	544.8 %
Construction	331	4	8,175.0 %	533	4	13,225.0 %
Total Gross Sales	160,519	48,960	227.9 %	409,679	150,610	172.0 %

Sales Allowances & Other	919	853	7.7	%	2,434	(1,194)	(303.9)	%
Total Net Sales	$ 161,438	$ 49,813	224.1	%	$ 412,113	$ 149,416	175.8	%

Our All Other reportable segment consists of our Alternative Materials, International, idX, and certain other segments which are not significant.

Net sales attributable to All Other reportable segments increased in the third quarter of 2017 compared to 2016 due to increases in sales to the retail and industrial markets. Our increase in sales to the industrial market was primarily due to an $89.3 million increase from businesses we acquired since September of 2016.

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Earnings from operations for All Other reportable segments increased during the third quarter of 2017 by $3.9 million, or 132.6%, compared to the same period of 2016. During the third quarter of 2017, gross profit dollars increased $20.6 million, offset by an increase in SG&A expenses of $16.1 million compared to the same period of 2016. Businesses we acquired contributed $3.7 million to our earnings from operations during the third quarter of 2017.

Net sales attributable to All Other reportable segments increased in the first nine months of 2017 compared to 2016 due to increases in sales to the retail and industrial markets. Our increase in sales to the industrial market was primarily due to a $203.1 million increase from businesses we acquired since September of 2016.

Earnings from operations for All Other reportable segments increased during the first nine months of 2017 by $1.7 million, or 15.1%, compared to the same period of 2016. During the first nine months of 2017, gross profit dollars increased $48.4 million, offset by an increase in SG&A expenses of $46.7 million compared to the same period of 2016. Businesses we acquired since September of 2016 contributed $1.1 million to the earnings from operations increase in the first nine months of 2017.

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 30, 2017	September 24, 2016
Cash from operating activities	$ 97,350	$ 136,377
Cash used in investing activities	(121,375)	(200,139)
Cash from (used in) financing activities	11,230	13,981
Effect of exchange rate changes on cash	1,255	(969)
Net change in all cash and cash equivalents	(11,540)	(50,750)
Cash, cash equivalents, and restricted cash, beginning of period	34,489	88,342
Cash, cash equivalents, and restricted cash, end of period	$ 22,949	$ 37,592

In general, we funded 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 due to our primary selling season which occurs during the period from March to August. Consequently, our working capital increases during our first and second quarters resulting in negative or modest cash flows from operations during those periods. Conversely, we experience a

substantial decrease in working capital once we move beyond our peak selling season which typically results in significant cash flows 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. As indicated in the table below, our cash cycle increased to 49 days from 44 days during the third quarter and increased to 52 days from 47 in the first nine months of 2017 compared to the prior periods, due to the impact of

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acquired operations which carry comparatively higher investments in inventory than our other operations. Excluding acquired operations our cash cycle was 44 days in the third quarter of 2017 and 47 days in the first nine months of 2017.

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Days of sales outstanding	31	31	31	31
Days supply of inventory	38	34	41	37
Days payables outstanding	(20)	(21)	(20)	(21)
Days in cash cycle	49	44	52	47

In the first nine months of 2017, our cash from operating activities was $97.3 million, which was comprised of net earnings of $90.9 million and $41.3 million of non-cash expenses, offset by a $34.9 million increase in cash invested in working capital since the end of December 2016 due to the strong sales growth and higher lumber prices. Comparatively, cash from operating activities was $136.4 million in the first nine months of 2016, which was comprised of net earnings of $83.3 million and $32.3 million of non-cash expenses, offset by a $20.8 million seasonal decrease in working capital since the end of 2015. The increase in working capital compared to the same period last year was primarily due to significant increases in inventory and accounts receivable offset by increases in accounts payable which can be attributed to sales growth and higher lumber prices.

Acquisitions and purchases of property, plant, and equipment comprised most of our cash used in investing activities during the first nine months of 2017 and totaled $59.9 million and $57.2 million, respectively. Outstanding purchase commitments on existing capital projects totaled approximately $26.1 million on September 30, 2017. We currently plan to spend $70 million for the year in 2017 on capital expenditures. We intend to fund capital expenditures and purchase commitments through our operating cash flows for the balance of the year. Comparatively, capital expenditures were $35.7 million during the first nine months of 2016. The increase in our capital expenditures in 2017 is primarily due to the additional requirements of our recently acquired operations and an increase in our "expansionary and efficiency" capital expenditures tied to initiatives including new products, value-added product capacity expansion, and automation. The sale and purchase of investments totaling $12.2 million and $4.2 million, respectively, are due to investment activity in our captive insurance subsidiary.

Cash flows from financing activities primarily consisted of net borrowings under our revolving credit facility of approximately $36.2 million, primarily to finance the $59.9 million of acquisitions we completed in the first nine months of 2017. Additionally, we had $9.2 million in dividend payments and $13.0 million in payments for stock repurchases.

On September 30, 2017, we had $70.8 million outstanding on our $295 million revolving credit facility. The outstanding revolving credit facility also includes letters of credit totaling approximately $9.8 million on September 30, 2017; as a result, we have approximately $224.2 million in remaining availability on our revolver after considering letters of credit. Additionally, we have $150 million in availability under a "shelf agreement" for long term debt with a current lender. 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 30, 2017.

ENVIRONMENTAL CONSIDERATIONS AND REGULATIONS

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

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 31, 2016.

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.”)

Our international operations have exposure to foreign currency rate risks, primarily due to fluctuations in their local currency, which is their functional currency, compared to the U.S. dollar. Additionally, certain of our operations enter into transactions that will be settled in a currency other than the U.S. Dollar. We have entered into forward foreign exchange rate contracts in 2017 and may enter into further forward contracts in the future associated with mitigating the foreign currency exchange risk. Historically, our hedge contracts are deemed immaterial to the financial statements, however any material hedge contract in the future will be disclosed.

Item 4. Controls and Procedures.

(a) 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 defined in Exchange Act Rules 13a – 15e and 15d – 15e) as of the quarter ended September 30, 2017 (the “Evaluation Date”), have concluded that, as of such date, our disclosure controls and procedures were effective.
(b) Changes in Internal Controls. During the quarter ended September 30, 2017, there were no changes in our internal 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.

Fiscal Month	(a)	(b)	(c)	(d)
July 2 - August 5, 2017	2,800	84.01	—	2,755,923
August 6 - September 2, 2017	34,900	80.40	—	2,721,023
September 3 - September 30, 2017	—	—	—	2,721,023

(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 remaining shares that may be repurchased under the program is approximately 2.8 million.

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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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: November 1, 2017	By: /s/ Matthew J. Missad Matthew J. Missad, Chief Executive Officer and Principal Executive Officer
Date: November 1, 2017	By: /s/ Michael R. Cole Michael R. Cole, Chief Financial Officer, Principal Financial Officer and Principal Accounting Officer