

UNIVERSAL FOREST PRODUCTS INC

Form 10-Q

October 20, 2010

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**UNIVERSAL FOREST PRODUCTS, INC.**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended September 25, 2010  
OR**

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

**Commission File Number 0-22684  
UNIVERSAL FOREST PRODUCTS, INC.  
(Exact name of registrant as specified in its charter)**

Michigan

38-1465835

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

2801 East Beltline NE, Grand Rapids, Michigan

49525

(Address of principal executive offices)

(Zip Code)

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

NONE

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

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

Class  
Common stock, no par value

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



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

(in thousands, except share data)

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

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DEFERRED INCOME TAXES	21,492	21,707	17,703
OTHER LIABILITIES	12,884	12,659	13,956
<b>TOTAL LIABILITIES</b>	<b>236,527</b>	<b>222,731</b>	<b>245,341</b>
<b>EQUITY:</b>			
Controlling interest shareholders equity:			
Preferred stock, no par value; shares authorized 1,000,000; issued and outstanding, none			
Common stock, no par value; shares authorized 40,000,000; issued and outstanding 19,291,486, 19,284,587 and 19,355,748	\$ 19,291	\$ 19,285	\$ 19,356
Additional paid-in capital	136,400	132,765	132,156
Retained earnings	417,842	409,278	416,853
Accumulated other comprehensive earnings	3,998	3,633	3,375
	577,531	564,961	571,740
Employee stock notes receivable	(1,721)	(1,743)	(1,780)
	575,810	563,218	569,960
Noncontrolling interest	6,279	5,728	5,754
<b>TOTAL EQUITY</b>	<b>582,089</b>	<b>568,946</b>	<b>575,714</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 818,616</b>	<b>\$ 791,677</b>	<b>\$ 821,055</b>

See notes to unaudited consolidated condensed financial statements.

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

(in thousands, except per share data)

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



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

See notes to unaudited consolidated condensed financial statements.

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

(in thousands, except share and per share data)

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

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

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

See notes to unaudited consolidated condensed financial statements.

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

(in thousands)

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

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

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

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

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**UNIVERSAL FOREST PRODUCTS, INC.**  
**NOTES TO UNAUDITED**  
**CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**A. BASIS OF PRESENTATION**

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

In our opinion, the Financial Statements contain all material adjustments necessary to present fairly our consolidated financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. These Financial Statements should be read in conjunction with the annual consolidated financial statements, and footnotes thereto, included in our Annual Report to Shareholders on Form 10-K for the fiscal year ended December 26, 2009.

**B. FAIR VALUE**

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

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



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

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

We have elected not to apply the fair value option under ASC 825, *Financial Instruments*, to any of our financial instruments except for those expressly required by U.S. GAAP.

**C. REVENUE RECOGNITION**

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

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

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

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

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

Income available to  
common stockholders and  
assumed options exercised

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

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

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

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

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

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**UNIVERSAL FOREST PRODUCTS, INC.**

**F. COMMITMENTS, CONTINGENCIES, AND GUARANTEES**

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

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

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

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

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

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

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

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**UNIVERSAL FOREST PRODUCTS, INC.**

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

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

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

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

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

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

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

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

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

**G. BUSINESS COMBINATIONS**

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

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

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

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

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

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

**H. SEGMENT REPORTING**

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

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

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

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



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**UNIVERSAL FOREST PRODUCTS, INC.**

**I. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES**

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

**J. SUBSEQUENT EVENTS**

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

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

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

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

**OVERVIEW**

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

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

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

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

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**UNIVERSAL FOREST PRODUCTS, INC.**

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

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

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

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

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

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

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

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

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

Third quarter percentage change from 2009 4.6%

Year-to-date percentage change from 2009 33.5%

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

	Random Lengths SYP Average \$/MBF	
	2010	2009
January	\$ 269	\$ 241
February	331	233
March	337	232
April	382	241
May	374	231
June	293	236
July	264	253
August	249	241
September	252	244
Third quarter average	\$ 255	\$ 246
Year-to-date average	\$ 306	\$ 239

Third quarter percentage change from 2009 3.7%

Year-to-date percentage change from 2009 28.0%

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**UNIVERSAL FOREST PRODUCTS, INC.**

**IMPACT OF THE LUMBER MARKET ON OUR OPERATING RESULTS**

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

Our gross margins are impacted by both (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 decking and fencing sold to DIY/retail customers, as well as trusses, wall panels and other components sold to the site-built 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 for these sales commitments with our suppliers. Also, the time period and quantity limitations generally allow us to re-price our products for changes in lumber costs from our suppliers.

Products with selling prices indexed to the reported Lumber Market with a fixed dollar adder to cover conversion costs and profits. These products primarily include treated lumber, remanufactured lumber, and trusses sold to the manufactured housing industry. For these products, we estimate the customers' needs and carry anticipated levels of inventory. Because lumber costs are incurred in advance of final sale prices, subsequent increases or decreases in the market price of lumber impact our gross margins. For these products, our margins are exposed to changes in the trend of lumber prices.

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

Products with significant inventory levels with low turnover rates, whose selling prices are indexed to the Lumber Market. In other words, the longer the period of time these products remain in inventory, the greater the exposure to changes in the price of lumber. This would include treated lumber, which comprises approximately 17% of our total sales. This exposure is less significant with remanufactured lumber, trusses sold to the manufactured housing market, and other similar products, due to the higher rate of inventory turnover. We attempt to mitigate the risk associated with treated lumber through vendor consignment inventory programs. *(Please refer to the Risk Factors section of our annual report on form 10-K, filed with the United States Securities and Exchange Commission.)*

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

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

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

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

**BUSINESS COMBINATIONS**

See Notes to Unaudited Consolidated Condensed Financial Statements, Note G, Business Combinations.

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**UNIVERSAL FOREST PRODUCTS, INC.**  
**RESULTS OF OPERATIONS**

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

	For the Three Months Ended		For the Nine Months Ended	
	September	September	September	September
	25,	26,	25,	26,
	2010	2009	2010	2009
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	88.7	84.9	87.8	85.1
Gross profit	11.3	15.1	12.2	14.9
Selling, general, and administrative expenses	9.8	11.2	9.9	11.7
Net loss (gain) on disposition of assets and other impairment and exit charges	0.2	0.1	0.1	(0.1)
Earnings from operations	1.2	3.8	2.2	3.3
Interest, net	0.2	0.2	0.2	0.2
Earnings before income taxes	1.1	3.6	2.0	3.0
Income taxes	0.4	1.4	0.7	1.1
Net earnings	0.7	2.2	1.3	1.9
Less net earnings attributable to non-controlling interest	(0.1)	(0.0)	(0.1)	(0.0)
Net earnings attributable to controlling interest	0.5%	2.2%	1.1%	1.9%

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

**GROSS SALES**

We market, manufacture and engineer wood and wood-alternative products for the DIY/retail market, structural lumber products for the manufactured housing market, engineered wood components for the site-built construction market, and specialty wood packaging for various markets. We also provide framing services for the site-built construction market and various forms for concrete construction. 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 forms market, increasing our sales of engineered wood components for custom home, multi-family and light commercial construction, and expanding our product lines in each of the markets we serve.

Expanding geographically in our core businesses.

Increasing sales of value-added products and framing services. Value-added product sales primarily consist of fencing, decking, lattice, and other specialty products sold to the DIY/retail market, specialty wood packaging, engineered wood components, and wood alternative products. Engineered wood components include roof trusses, wall panels, and floor systems. Wood alternative products consist primarily of composite wood and plastics. Although we consider the treatment of dimensional lumber with certain chemical preservatives a value-added process, treated lumber is not presently included in the value-added sales totals. Maximizing unit sales growth while achieving return on investment goals.



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

Market Classification	For the Three Months Ended			For the Nine Months Ended		
	September 25, 2010	September 26, 2009	% Change	September 25, 2010	September 26, 2009	% Change
DIY/Retail	\$ 197,855	\$ 214,299	(7.7)	\$ 678,096	\$ 673,063	0.8
Site-Built Construction	70,115	68,984	1.6	203,227	189,947	7.0
Industrial	158,091	132,532	19.3	463,318	368,951	25.6
Manufactured Housing	63,429	53,676	18.2	193,407	134,957	43.3
Total Gross Sales	489,490	469,491	4.3	1,538,048	1,366,918	12.5
Sales Allowances	(8,916)	(11,723)		(25,882)	(32,483)	
Total Net Sales	\$ 480,574	\$ 457,768	5.0	\$ 1,512,166	\$ 1,334,435	13.3

Note: In the first quarter of 2010, we reviewed the classification of our customers and made certain reclassifications.

Prior year information has been restated to reflect these reclassifications.

Gross sales in the third quarter of 2010 increased 4% compared to the same period of 2009. We estimate that our unit sales remained flat and overall selling prices increased by 4% comparing the two periods. Our overall selling prices increased as a result of the Lumber Market (see Historical Lumber Prices ).

Gross sales in the first nine months of 2010 increased 13% compared to the same period of 2009. We estimate that our unit sales increased by 4% and overall selling prices increased by 9% comparing the two periods. We estimate that our unit sales increased 2% as a result of business acquisitions and new plants, increased 4% as a result of existing operations, and declined 2% due to operations we recently closed. Our overall selling prices increased as a result of the Lumber Market (see Historical Lumber Prices ).

Changes in our sales by market are discussed below.

**DIY/Retail:**

Gross sales to the DIY/retail market decreased 8% in the third quarter of 2010 compared to the same period of 2009 primarily due to an estimated 10% decrease in our overall unit sales, offset by an estimated 2% increase in our overall selling prices due to the Lumber Market. Unit sales declined due to a decrease in consumer spending which is evidenced by a drop in same store sales reported by our big box customers.

Gross sales to the DIY/retail market increased 1% in the first nine months of 2010 compared to the same period of 2009 primarily due to an estimated 7% increase in overall selling prices due to the Lumber Market, offset by an estimated 6% decrease in overall unit sales. Unit sales declined due to the factors mentioned in the paragraph above.

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**UNIVERSAL FOREST PRODUCTS, INC.**

**Site-Built Construction:**

Gross sales to the site-built construction market increased 2% in the third quarter of 2010 compared to the same period of 2009 due to an estimated 7% increase in unit sales out of existing plants and an estimated 6% increase in selling prices primarily due to the Lumber Market, offset by an 11% decrease in unit sales as a result of operations we have recently closed. National housing starts decreased approximately 6% in the period from June through August of 2010 (our sales trail housing starts by about a month), compared to the same period of 2009. We have taken several recent plant closure actions in order to achieve profitability and cash flow objectives, which may temporarily result in a loss of market share.

Gross sales to the site-built construction market increased 7% in the first nine months of 2010 compared to 2009 due to an estimated 10% increase in unit sales out of existing plants and an estimated 6% increase in selling prices primarily due to the Lumber Market, offset by a 9% decrease in unit sales as a result of operations we have recently closed. National single family and multi-family housing starts decreased approximately 14% and 9%, respectively, for the year-to-date through August of 2010.

**Industrial:**

Gross sales to the industrial market increased 19% in the third quarter of 2010 compared to the same period of 2009, due to an estimated 12% increase in unit sales and an estimated 7% increase in selling prices. The industrial market has improved as the U.S. economy continues to recover, but more significantly, we have been able to continue to gain market share due, in part, to adding many new customers and our continued penetration of the concrete forming market.

Gross sales to the industrial market increased 26% in the first nine months of 2010 compared to the same period of 2009, due to an estimated 17% increase in unit sales and an estimated 9% increase in selling prices. Unit sales increased due to the factors mentioned in the paragraph above.

**Manufactured Housing:**

Gross sales to the manufactured housing market increased 18% in the third quarter of 2010 compared to 2009, primarily due to an estimated 12% increase in unit sales resulting from new operations we acquired and an estimated 6% increase in selling prices due to the Lumber Market. Shipments of HUD code manufactured homes were up 3% in July and August of 2010, compared to the same period of 2009.

Gross sales to the manufactured housing market increased 43% in the first nine months of 2010 compared to 2009, primarily due to an estimated 12% increase in unit sales out of existing plants, a 10% increase in unit sales due to acquisitions, and an estimated 21% increase in selling prices due to the Lumber Market. Shipments of HUD code manufactured homes were up 7% for the year-to-date through August of 2010, compared to the same period of 2009.

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## 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 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Value-Added	59.0%	58.4%	58.6%	60.1%
Commodity-Based	41.0%	41.6%	41.4%	39.9%

**COST OF GOODS SOLD AND GROSS PROFIT**

Our gross profit percentage decreased to 11.3% from 15.1% comparing the third quarter of 2010 with the same period of 2009. In addition, our gross profit dollars decreased by 21% comparing the third quarter of 2010 with the same period of 2009, which compares unfavorably to our trend in unit sales, which were flat. After unusual volatility in the second quarter, the Lumber Market stabilized in the third quarter of 2010 and was approximately 5% higher, on average, than the same period of 2009. While lumber prices stabilized, inventories were built earlier in the year when lumber prices were up as much as 52% over the previous year in preparation for a solid selling season, which did not materialize. At the end of June, our inventory consisted primarily of higher-cost lumber, which adversely affected profits in the third quarter when this product was shipped. Conversely, Lumber Market conditions in the third quarter of 2009 were more favorable and we were able to take advantage of opportunities in the market to buy at lower costs. As a result of these factors, our material costs as a percentage of sales increased by approximately 4.6 percentage points comparing the third quarter of 2010 with the same period of 2009. We have since sold through this higher cost product and, by the end of the third quarter, our inventories comprised lumber purchased at a much lower cost. At the end of September of 2010, our average cost of lumber inventory was approximately 7% higher than our average cost at the end of September of 2009, which approximates the year over year increase in the Lumber Market. (See [Impact of the Lumber Market on Our Operating Results](#).) Additionally, we achieved lower labor and overhead costs as a percentage of sales this quarter due to efficiency gains, which offset some the decline in gross margin discussed above.

Our gross profit percentage decreased to 12.2% from 14.9% comparing the first nine months of 2010 with the same period of 2009. In addition, our gross profit dollars decreased by 4% comparing the first nine months of 2010 with the same period of 2009, which compares unfavorably with our 4% increase in unit sales. Our decline in gross margin was primarily due to the factors mentioned in the paragraph above.

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**UNIVERSAL FOREST PRODUCTS, INC.**

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative ( SG&A ) expenses decreased by approximately \$3.9 million, or 7.6%, in the third quarter of 2010 compared to the same period of 2009, while we reported flat unit sales. New operations added \$1.5 million of expenses, operations we closed decreased expenses by \$3.4 million, and existing operations decreased expenses by \$2.0 million. The decrease in SG&A expenses at our existing operations was primarily due to decreases in bad debt expense and accrued bonus, offset somewhat by an increase in wages and an accrued expense associated with an officer retirement plan approved by our Board of Directors. Our SG&A expenses decreased as a percentage of sales primarily due to the factors above.

Selling, general and administrative ( SG&A ) expenses decreased by approximately \$6.5 million, or 4.2%, in the first nine months of 2010 compared to the same period of 2009, while we reported a 4% increase in unit sales. New operations added \$2.7 million of expenses, operations we closed decreased expenses by \$11.1 million, and existing operations increased expenses by \$1.9 million. The increase in SG&A expenses at our existing operations was primarily due to increases in wages, in-store merchandising costs, and accrued expense associated with an officer retirement plan, partially offset by decreases in bad debt expense and accrued bonus. Our SG&A expenses decreased as a percentage of sales primarily due to the factors above plus efficiency gains from our continuing efforts to control costs. The higher level of the Lumber Market also contributed to the improvement in this ratio.

**NET LOSS (GAIN) ON DISPOSITION OF ASSETS AND OTHER IMPAIRMENT AND EXIT CHARGES**

We incurred \$1.1 million of charges in the third quarter of 2010 and \$0.6 million in the third quarter of 2009 relating to asset impairments and other costs associated with idled facilities and down-sizing efforts.

We incurred \$1.5 million of charges in the first nine months of 2010 and \$2.3 million in the first nine months of 2009 relating to asset impairments and other costs associated with idled facilities and down-sizing efforts. In 2009, these costs were offset by a \$3.5 million gain on the sale of certain real estate.

We regularly review the performance of each our operations and make decisions to permanently or temporarily close operations based on a variety of factors including:

- Current and projected earnings, cash flow and return on investment
- Current and projected market demand
- Market share
- Competitive factors
- Future growth opportunities
- Personnel and management

We currently have 8 operations which are experiencing operating losses and negative cash flow for the first nine months of 2010. The net book value of the long-lived assets of these operations, which could be subject to an impairment charge in the future, was \$3.9 million at the end of September of 2010. In addition, these operations had future fixed operating lease payments totaling \$0.7 million at the end of September of 2010.

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

Net interest costs were generally flat in the third quarter and first nine months of 2010 compared to the same periods of 2009 primarily due to comparable debt balances throughout 2010.

**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 38.7% for the third quarter of 2010 and 38.3% in the same period of 2009. Our effective tax rate was 35.9% in the first nine months of 2010 and 36.7% in the same period of 2009.

**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 25, 2010	September 26, 2009
Cash from operating activities	\$ 12,736	\$ 111,931
Cash from investing activities	(27,097)	2,070
Cash from financing activities	(9,786)	(47,362)
Net change in cash and cash equivalents	(24,147)	66,639
Cash and cash equivalents, beginning of period	82,219	13,337
Cash and cash equivalents, end of period	\$ 58,072	\$ 79,976

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

Seasonality has a significant impact on our working capital from March to August which historically resulted 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 26, 2009 balances in the accompanying unaudited consolidated condensed balance sheets.

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**UNIVERSAL FOREST PRODUCTS, INC.**

Due to the seasonality of our business and the effects of the Lumber Market, we believe our cash cycle (days of sales outstanding plus days supply of inventory less days payables outstanding) is a good indicator of our working capital management. Our cash cycle decreased to 43 days in the first nine months of 2010 from 45 days in the first nine months of 2009, due to a 1 day decrease in our receivables cycle combined with a 1 day decrease in our days supply of inventory, due to several initiatives to improve our management of receivables and inventory. However, customer demand softened during the third quarter which resulted in an increase in our inventory levels at the end of September of 2010 compared to the end of September 2009.

Cash provided by operating activities was \$12.7 million in the first nine months of 2010, which was comprised of net earnings of \$17.3 million and \$31.8 million of non-cash expenses, offset by a \$36.4 million increase in working capital since the end of 2009. Working capital increased primarily due to higher inventory levels at the end of September resulting from a softening of customer demand in the third quarter. We anticipate strong cash flows for the balance of the year due to our typical seasonal trend and as we reduce inventories to a level needed to support current demand.

Capital expenditures were \$15.7 million in the first nine months of 2010. We currently plan to spend up to \$28 million in 2010, which includes outstanding purchase commitments on existing capital projects totaling approximately \$2.6 million on September 25, 2010. We intend to fund capital expenditures and purchase commitments through our operating cash flows for the balance of the year.

Cash flows used in investing activities included \$6.5 million spent to acquire assets of certain operations that distribute a wide range of products to the manufactured housing industry. See Notes to Unaudited Consolidated Condensed Financial Statements, Note G Business Combinations . In addition, we purchased certain technology and certain intangibles to produce a new product for approximately \$4.6 million.

Cash flows used in financing activities included \$3.9 million for dividends. Our Board of Directors approved a dividend of \$0.20 per share, which was paid in June of 2010. In addition, we spent approximately \$5.0 million for repurchases of our common stock. On October 14, 2010, our Board authorized an additional 2 million shares to be repurchased under our share repurchase program. The total number of shares that may be repurchased under the program is almost 3 million shares. Our practice has been to repurchase an appropriate number of shares each year to offset share issuances occurring under certain of our employee benefit plans.

On September 25, 2010, we had no outstanding balance on our \$300 million revolving credit facility, which matures in February of 2012. The revolving credit facility also supports letters of credit totaling approximately \$31.9 million on September 25, 2010. Financial covenants on the unsecured revolving credit facility and unsecured notes include a minimum net worth requirement, minimum interest and fixed charge coverage 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 within all of our lending requirements on September 25, 2010.

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**UNIVERSAL FOREST PRODUCTS, INC.  
ENVIRONMENTAL CONSIDERATIONS AND REGULATIONS**

See Notes to Unaudited Consolidated Condensed Financial Statements, Note F, 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 26, 2009.

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**UNIVERSAL FOREST PRODUCTS, INC.**

**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.

**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 25, 2010 (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 25, 2010, 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 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)
June 27, 2010 – July 31, 2010 <sup>(1)</sup>	32,000	\$ 30.40	32,000	1,000,829
August 1 – 28, 2010	12,600	\$ 29.94	12,600	988,229
August 29 – September 25, 2010				988,229

- (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.
- (1) 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,  
2010, our Board  
authorized an  
additional  
2 million shares  
to be  
repurchased  
under our share  
repurchase  
program. The  
total number of  
shares that may  
be repurchased  
under the  
program is  
almost 3 million  
shares.

Item 5. Other Information.

In the third quarter of 2010, the Audit Committee approved \$120,000 for non-audit services to be provided by our independent auditors, Ernst & Young LLP, for 2010.

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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).

\* Indicates a compensatory arrangement.

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**UNIVERSAL FOREST PRODUCTS, INC.  
SIGNATURES**

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

**UNIVERSAL FOREST PRODUCTS, INC.**

Date: October 20, 2010

By: /s/ Michael B. Glenn  
Michael B. Glenn,  
Chief Executive Officer and  
Principal Executive Officer

Date: October 20, 2010

By: /s/ Michael R. Cole  
Michael R. Cole,  
Chief Financial Officer,  
Principal Financial Officer and  
Principal Accounting Officer

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EXHIBIT INDEX

Exhibit No.	Description
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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).

\* Indicates a compensatory arrangement.