

UNIVERSAL FOREST PRODUCTS INC

Form 10-Q

October 31, 2008

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

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 27, 2008  
**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 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	Outstanding as of September 27, 2008
Common stock, no par value	19,075,475



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

(in thousands, except share data)

	September 27, 2008	December 29, 2007	September 29, 2007
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 31,459	\$ 43,605	\$ 46,747
Accounts receivable, net	230,106	142,562	191,023
Inventories:			
Raw materials	112,150	120,805	122,431
Finished goods	85,693	115,063	106,368
	197,843	235,868	228,799
Assets held for sale	11,950	33,624	25,411
Other current assets	46,247	44,866	31,669
<b>TOTAL CURRENT ASSETS</b>	<b>517,605</b>	<b>500,525</b>	<b>523,649</b>
<b>OTHER ASSETS</b>	<b>7,587</b>	<b>8,094</b>	<b>7,744</b>
<b>GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS</b>	<b>158,287</b>	<b>150,272</b>	<b>152,041</b>
<b>OTHER INTANGIBLE ASSETS, net</b>	<b>25,225</b>	<b>23,849</b>	<b>28,133</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Property, plant and equipment	505,296	513,003	524,118
Accumulated depreciation and amortization	(255,218)	(238,743)	(240,939)
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>250,078</b>	<b>274,260</b>	<b>283,179</b>
<b>TOTAL ASSETS</b>	<b>\$ 958,782</b>	<b>\$ 957,000</b>	<b>\$ 994,746</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 101,430	\$ 83,505	\$ 105,938
Accrued liabilities:			
Compensation and benefits	53,631	49,558	52,961
Other	38,827	28,717	33,036
Current portion of long-term debt and capital lease obligations	445	945	1,086
<b>TOTAL CURRENT LIABILITIES</b>	<b>194,333</b>	<b>162,725</b>	<b>193,021</b>
<b>LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion</b>	<b>166,713</b>	<b>205,126</b>	<b>197,435</b>
<b>DEFERRED INCOME TAXES</b>	<b>24,519</b>	<b>24,536</b>	<b>27,010</b>
<b>MINORITY INTEREST</b>	<b>9,875</b>	<b>10,376</b>	<b>10,343</b>

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OTHER LIABILITIES	17,952	17,569	15,815
TOTAL LIABILITIES	413,392	420,332	443,624
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, 19,075,475, 18,907,841 and 19,009,416	\$ 19,075	\$ 18,908	\$ 19,009
Additional paid-in capital	128,271	123,368	122,560
Retained earnings	395,250	391,253	406,761
Accumulated other comprehensive earnings	4,557	4,704	4,407
	547,153	538,233	552,737
Employee stock notes receivable	(1,763)	(1,565)	(1,615)
TOTAL SHAREHOLDERS EQUITY	545,390	536,668	551,122
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 958,782	\$ 957,000	\$ 994,746

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 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
NET SALES	\$ 610,744	\$ 678,398	\$ 1,808,741	\$ 2,000,541
COST OF GOODS SOLD	545,222	596,233	1,603,521	1,743,151
GROSS PROFIT	65,522	82,165	205,220	257,390
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	58,046	58,792	178,302	192,299
NET LOSS ON DISPOSITION OF ASSETS AND OTHER IMPAIRMENT AND EXIT CHARGES	6,211		7,426	
EARNINGS FROM OPERATIONS	1,265	23,373	19,492	65,091
INTEREST EXPENSE	2,705	4,367	9,589	13,457
INTEREST INCOME	(211)	(494)	(763)	(1,634)
	2,494	3,873	8,826	11,823
EARNINGS (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	(1,229)	19,500	10,666	53,268
INCOME TAXES	535	7,383	4,655	19,633
EARNINGS (LOSS) BEFORE MINORITY INTEREST	(1,764)	12,117	6,011	33,635
MINORITY INTEREST	(187)	(778)	(875)	(1,610)
NET EARNINGS (LOSS)	\$ (1,951)	\$ 11,339	\$ 5,136	\$ 32,025
EARNINGS (LOSS) PER SHARE BASIC	\$ (0.10)	\$ 0.59	\$ 0.27	\$ 1.68



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EARNINGS (LOSS) PER SHARE	DILUTED	\$	(0.10)	\$	0.59	\$	0.27	\$	1.65
WEIGHTED AVERAGE SHARES									
OUTSTANDING FOR BASIC EARNINGS									
(LOSS)			19,092		19,097		19,045		19,070
WEIGHTED AVERAGE SHARES									
OUTSTANDING FOR DILUTED EARNINGS									
(LOSS)			19,092		19,361		19,233		19,419
See notes to unaudited 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)

	Common Stock	Additional Paid- In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Employees Stock Notes Receivable	Total
<b>Balance at December 30, 2006</b>	\$ 18,859	\$ 113,754	\$ 380,931	\$ 2,451	\$ (1,253)	\$ 514,742
Comprehensive earnings:						
Net earnings			32,025			
Foreign currency translation adjustment				1,956		
Total comprehensive earnings						33,981
Cash dividends \$.055 per share			(1,047)			(1,047)
Issuance of 210,495 shares under employee stock plans	211	3,475				3,686
Issuance of 3,130 shares under stock grant programs	3	157				160
Issuance of 67,373 shares under deferred compensation plans	67	(67)				
Repurchase of 125,100 shares	(125)		(5,148)			(5,273)
Received 15,866 shares for the exercise of stock options	(16)	(766)				(782)
Tax benefits from non-qualified stock options exercised		1,537				1,537
Expense associated with share-based compensation arrangements		391				391
Accrued expense under deferred compensation plans		3,587				3,587
Issuance of 10,132 shares in exchange for employee stock notes receivable	10	492			(502)	
Payments received on employee stock notes receivable					140	140
<b>Balance at September 29, 2007</b>	\$ 19,009	\$ 122,560	\$ 406,761	\$ 4,407	\$ (1,615)	\$ 551,122

<b>Balance at December 29, 2007</b>	<b>\$</b>	<b>18,908</b>	<b>\$</b>	<b>123,368</b>	<b>\$</b>	<b>391,253</b>	<b>\$</b>	<b>4,704</b>	<b>\$</b>	<b>(1,565)</b>	<b>\$</b>	<b>536,668</b>
Comprehensive earnings:												
Net earnings						5,136						
Foreign currency translation adjustment								(147)				
Total comprehensive earnings												4,989
Cash dividends \$0.060 per share								(1,139)				(1,139)
Issuance of 161,104 shares under employee stock plans		161		2,830								2,991
Issuance of 3,310 shares under stock grant programs		3		92								95
Issuance of 13,242 shares under deferred compensation plans		13		(13)								
Received 17,396 shares for the exercise of stock options		(17)		(563)								(580)
Tax benefits from non-qualified stock options exercised				841								841
Expense associated with share-based compensation arrangements				875								875
Accrued expense under deferred compensation plans				611								611
Issuance of 7,374 shares in exchange for employee stock notes receivable		7		230						(237)		
Payments received on employee stock notes receivable										39		39
<b>Balance at September 27, 2008</b>	<b>\$</b>	<b>19,075</b>	<b>\$</b>	<b>128,271</b>	<b>\$</b>	<b>395,250</b>	<b>\$</b>	<b>4,557</b>	<b>\$</b>	<b>(1,763)</b>	<b>\$</b>	<b>545,390</b>

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 27, 2008	September 29, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 5,136	\$ 32,025
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation	28,929	29,105
Amortization of intangibles	7,322	6,402
Expense associated with share-based compensation arrangements	875	391
Expense associated with stock grant plans	95	160
Deferred income taxes	(137)	(255)
Minority interest	875	1,610
Gain on sale of interest in subsidiary		(140)
Net loss on disposition of assets and other impairment and exit charges	6,165	32
Changes in:		
Accounts receivable	(85,884)	(30,298)
Inventories	40,113	34,736
Accounts payable	16,395	12,874
Accrued liabilities and other	13,592	(5,483)
Excess tax benefits from share-based compensation arrangements	(162)	(745)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>33,314</b>	<b>80,414</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(13,959)	(26,909)
Acquisitions, net of cash received	(23,338)	(57,087)
Proceeds from sale of interest in subsidiary		400
Proceeds from sale of property, plant and equipment	30,152	3,551
Advances on notes receivable	(997)	(122)
Collections of notes receivable	500	151
Other, net	(52)	(6)
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>(7,694)</b>	<b>(80,022)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings (repayments) under revolving credit facilities	(36,657)	27,204
Repayment of long-term debt	(2,332)	(28,200)
Proceeds from issuance of common stock	2,762	3,321
Distributions to minority shareholder	(961)	(1,225)
Investment received from minority shareholder	419	
Dividends paid to shareholders	(1,139)	(1,047)
Repurchase of common stock		(5,273)
Excess tax benefits from share-based compensation arrangements	162	745

Other, net	(20)	(278)
NET CASH FROM FINANCING ACTIVITIES	(37,766)	(4,753)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(12,146)	(4,361)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	43,605	51,108
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 31,459	\$ 46,747

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$ 7,572	\$ 11,357
Income taxes	805	9,875

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

	Nine Months Ended	
	September 27, 2008	September 29, 2007
<b>NON-CASH INVESTING ACTIVITIES:</b>		
Stock acquired through employees' stock notes receivable	\$ 237	\$ 502
<b>NON-CASH FINANCING ACTIVITIES:</b>		
Common stock issued under deferred compensation plans	\$ 262	\$ 3,588
Stock received for the exercise of stock options, net	352	418
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 significant 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 29, 2007.

Effective at the beginning of the fiscal year ending December 27, 2008, we adopted SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ). This new standard establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair market value. SFAS No. 157 also expands financial statement disclosure requirements about a company's use of fair value measurements, including the effect of such measures on earnings. The adoption has not had a material impact on our consolidated financial statements. SFAS No. 157 requires fair value measurements be classified and disclosed in one of three categories.

The following table summarizes the valuation of our financial instruments as of September 27, 2008. These instruments are classified as Level 1 which are financial instruments with unadjusted, quoted prices listed on active market exchanges.

(in millions)	Total	Quoted Prices in Active Markets (Level 1)
Assets:		
Cash and cash equivalents	\$ 31.5	\$ 31.5
Trading marketable securities	4.5	4.5
	\$ 36.0	\$ 36.0
Liabilities:		
Deferred compensation arrangements	\$ 4.5	\$ 4.5
	\$ 4.5	\$ 4.5

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

Effective at the beginning of the fiscal year ending December 27, 2008, we adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS No. 159 ). SFAS No. 159 allows companies to choose to measure certain financial instruments and certain other items at fair value. The statement requires that unrealized gains and losses are reported in earnings for items measured using the fair value option and establishes presentation and disclosure requirements. We have elected not to apply the fair value option to any of our financial instruments except for those expressly required by U.S. GAAP.

**B. 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 becomes 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 27, 2008	September 29, 2007
Cost and Earnings in Excess of Billings	\$ 20,755	\$ 8,114
Billings in Excess of Cost and Earnings	13,752	6,910



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

**C. EARNINGS PER SHARE**

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 09/27/08			Three Months Ended 09/29/07		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
<b>Net Earnings</b>	\$ (1,951)			\$ 11,339		
<b>EPS Basic</b>						
Income available to common stockholders	(1,951)	19,092	\$ (0.10)	11,339	19,097	\$ 0.59
<b>Effect of dilutive securities</b>						
Options					264	
<b>EPS Diluted</b>						
Income available to common stockholders and assumed options exercised	\$ (1,951)	19,092	\$ (0.10)	\$ 11,339	19,361	\$ 0.59
	Nine Months Ended 09/27/08			Nine Months Ended 09/29/07		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
<b>Net Earnings</b>	\$ 5,136			\$ 32,025		
<b>EPS Basic</b>						
Income available to common stockholders	5,136	19,045	\$ 0.27	32,025	19,070	\$ 1.68
<b>Effect of dilutive securities</b>						
Options		188			349	
<b>EPS Diluted</b>						
Income available to common stockholders and assumed options exercised	\$ 5,136	19,233	\$ 0.27	\$ 32,025	19,419	\$ 1.65



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

Options to purchase shares and certain other shares of common stock were not included in the computation of diluted EPS because they were antidilutive given the net loss for the quarter ended September 27, 2008. Options to purchase 30,000 shares of common stock at exercise prices ranging from \$31.11 to \$36.01 were outstanding as of September 27, 2008, but were not included in the computation of diluted EPS for the nine months ended September 27, 2008 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 outstanding options were excluded from the computation of diluted EPS for the quarter and nine months ended September 29, 2007.

**D. SALE OF ACCOUNTS RECEIVABLE**

On March 8, 2006 we entered into an accounts receivable sale arrangement with a bank that was terminated on September 26, 2008. Under the terms of this arrangement:

We sold specific receivables to the bank at an agreed-upon price at terms ranging from one month to one year.

We serviced the receivables sold and outstanding on behalf of the bank at a rate of 0.50% per annum.

We received an incentive servicing fee, which we account for as a retained interest in the receivables sold.

Our retained interest is determined based on the fair market value of anticipated collections in excess of the Agreed Base Value of the receivables sold. Appropriate valuation allowances are recorded against the retained interest.

The maximum amount of receivables, net of retained interest, which may be sold and outstanding at any point in time under this arrangement is \$50 million.

No receivables were sold and outstanding as of September 27, 2008. On September 29, 2007, \$54.1 million of receivables were sold and outstanding, and we recorded \$4.1 million of retained interest in other current assets. A summary of the transactions we completed for the first nine months of 2008 and 2007 are presented below (in thousands).

	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007
Accounts receivable sold	\$ 369,242	\$ 495,247
Retained interest in receivables	(2,432)	(1,982)
Expense from sale	(882)	(2,182)
Servicing fee received	118	174
Net cash received from sale	\$ 366,046	\$ 491,257

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

**E. ASSETS HELD FOR SALE**

Included in assets held for sale is certain property, plant and equipment totaling \$11.9 million on September 27, 2008 and \$25.4 million on September 29, 2007. These and other idle assets were evaluated based on the requirements of SFAS No. 144, which resulted in an impairment charge totaling approximately \$6.2 million included in net loss on disposition of assets and other impairment and exit charges in our Eastern and Western operating segments for the nine months ended September 27, 2008. 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 and are included in our Eastern and Western operating segments. The changes in assets held for sale are as follows (in millions):

Description	Net Book Value	Date of Sale	Net Sales Price
Assets held for sale as of December 29, 2007	\$ 33.6		
Additions	8.0		
Sale of vacant land acquired as part of acquisition of Aljoma	(24.5)	Jan 24, 2008 Mar 18,	\$ 24.2
Sale of certain real estate in Thorndale, Ontario	(2.7)	2008	2.6
Sale of certain real estate in Fishersville, Virginia	(1.5)	Jul 23, 2008	1.9
Sale of certain real estate in Hohenwald, Tennessee	(1.0)	Aug 11, 2008	1.0
Assets held for sale as of September 27, 2008	\$ 11.9		

We incurred \$1.2 million of severance expense associated with idled facilities for the nine months ended September 27, 2008.

**F. GOODWILL AND OTHER INTANGIBLE ASSETS**

The following amounts were included in other intangible assets, net (in thousands):

	September 27, 2008		September 29, 2007	
	Assets	Accumulated Amortization	Assets	Accumulated Amortization
Non-compete agreements	\$ 26,899	\$ (12,120)	\$ 26,505	\$ (10,718)
Customer relationships	17,734	(9,319)	14,883	(5,006)
Patents	2,980	(949)	2,980	(511)
Total	\$ 47,613	\$ (22,388)	\$ 44,368	\$ (16,235)

The estimated amortization expense for intangible assets as of September 27, 2008 for each of the five succeeding fiscal years is as follows (in thousands):

2008	\$ 2,148
2009	8,265
2010	7,006
2011	4,753
2012	2,106
Thereafter	947



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

The changes in the net carrying amount of goodwill and indefinite-lived intangible assets for the nine months ended September 27, 2008 and September 29, 2007 are as follows (in thousands):

	Goodwill	Indefinite- Lived Intangible Assets
Balance as of December 29, 2007	\$ 147,932	\$ 2,340
Acquisitions	8,263	
Other, net	(248)	
Balance as of September 27, 2008	\$ 155,947	\$ 2,340
Balance as of December 30, 2006	\$ 152,837	\$ 2,340
Acquisitions	1,408	
Purchase price allocations	(5,422)	
Other, net	878	
Balance as of September 29, 2007	\$ 149,701	\$ 2,340

**G. STOCK-BASED COMPENSATION**

We provide compensation benefits to employees and non-employee directors under several share-based payment arrangements including various employee stock option plans, the Employee Stock Purchase Plan, the Directors Retainer Stock Plan, the Directors Stock Grant Plan, and the 1999 Long Term Stock Incentive Plan.

We account for share-based compensation using the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment*, ( SFAS 123(R) ), which we adopted using the modified-prospective-transition method effective January 1, 2006.

**H. 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.

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On a consolidated basis, we have reserved approximately \$4.4 million on September 27, 2008 and \$4.0 million on September 29, 2007, representing the estimated costs to complete future remediation efforts. These amounts have not been reduced by an insurance receivable.

The manufacturers of CCA preservative voluntarily discontinued the registration of CCA for certain residential applications as of December 31, 2003. Our wood preservation facilities have been converted to alternate preservatives, either ACQ, borates or ProWood<sup>®</sup> Micro.

In November 2003, the EPA published its report on the risks associated with the use of CCA in children's playsets. While the study observed that the range of potential exposure to CCA increased by the continuous use of playsets, the EPA concluded that the risks were not sufficient to require removal or replacement of any CCA treated structures. The results of the EPA study are consistent with a prior Consumer Products Safety Commission (CPSC) study which reached a similar conclusion. The EPA did refer a question on the use of sealants to a scientific advisory panel. The panel issued a report which provides guidance to the EPA on the use of various sealants but does not mandate their use. In its final report issued on April 30, 2008, the EPA does not require removal or replacement of CCA-treated structures, including decks and playground equipment, and is not recommending that surrounding soils be removed or replaced.

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 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 27, 2008, we were parties either as plaintiff or a 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.

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On September 27, 2008, we had outstanding purchase commitments on capital projects of approximately \$2.0 million. We provide a variety of warranties for products we manufacture. Historically, warranty claims have not been material. In certain cases we jointly bid on contracts with framing companies to supply building materials to site-built construction projects. In some of these instances we are required to post payment and performance bonds to insure the owner that the products and installation services are completed in accordance with our contractual obligations. We have agreed to indemnify the surety for claims made against the bonds. As of September 27, 2008, we had approximately \$39 million in outstanding payment and performance bonds, which expire during the next two years. In addition, approximately \$8 million in payment and performance bonds are outstanding for completed projects which are still under warranty.

We have entered into operating leases for certain 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 \$2.1 million.

Under our sale of accounts receivable agreement, we guarantee that a subsidiary, as accounts servicer, will remit collections on receivables sold to the bank. (See Note D, Sale of Accounts Receivable. )

On September 27, 2008, we had outstanding letters of credit totaling \$32.2 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 \$17.4 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 \$14.8 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.



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Certain wholly owned domestic subsidiaries have guaranteed the indebtedness of Universal Forest Products, Inc. in certain debt agreements, including the Series 1998-A Senior Notes, 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.

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 used to manage hazardous waste. Closure involves identification and disposal of contamination which requires removal from the wood treating operations. The ultimate cost of closure is dependent upon a number of factors including, but not limited to, identification and removal of contamination, 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 \$0.4 million. As a result, this amount is recorded in other long-term liabilities on September 27, 2008.

We did not enter into any new guarantee arrangements during the third quarter of 2008 which would require us to recognize a liability on our balance sheet.

**I. BUSINESS COMBINATIONS**

We completed the following business combinations in fiscal 2008 and fiscal 2007, which were accounted for using the purchase method.

Company Name	Acquisition Date	(in millions)	(in millions)	(in millions)	Business Description
		Purchase Price	Intangible Assets	Net Tangible Assets	
D-Stake Mill and Manufacturing Country	June 9, 2008	\$7.1 (asset purchase)	\$ 5.1	\$ 2.0	Manufactures kiln stickers, lath, stakes, decking, and pallets and pallet components for a variety of industries including manufacturing, retail and agriculture. Plants are located in McMinnville, OR and Independence, OR. Combined 2007 sales were \$18.5 million.
Shawnlee Construction, LLC ( Shawnlee )	April 1, 2008	\$1.8 (asset purchase)	\$ 1.0	\$ 0.8	Provides framing services for multi-family construction in the northeast. Located in Plainville, MA. Purchased an additional 5% membership interest. We currently own a 90% membership interest.
	April 2, 2007	\$1.4 (asset purchase)	\$ 0.9	\$ 0.5	Purchased an additional 5% membership interest.
International Wood Industries, Inc. ( IWI )	February 4, 2008	\$14.0 (stock purchase)	\$10.6	\$ 3.4	Manufactures and distributes industrial products, including specialty boxes, crates, pallets and skids. Headquartered in Turlock, CA with distribution

Deck Images	July 10, 2007	\$0.9 (asset purchase)	\$ 0.6	\$ 0.3	sites in Hawaii and Alaska. 2007 sales were \$40.0 million. Manufactures and distributes aluminum railing systems. Located in Hastings, MN. 2006 sales were \$1.9 million.
Perfection Trusses, Inc. ( Perfection )	March 5, 2007	\$1.3 (asset purchase)	\$ 0.8	\$ 0.5	Manufactures and distributes roof and floor trusses to the Eastern Florida market. The company is located in Vero Beach, FL. 2006 sales were \$3.9 million.
Aljoma Lumber Company ( Aljoma )	February 12, 2007	\$53.5 (stock purchase)	\$ 0.4	\$53.1	Manufactures, treats and distributes various wood products, building materials and specialty hardwoods. The company is located in Medley, FL. They serve Florida, the Eastern United States and the Caribbean islands. Aljoma has one of the largest treating facilities in the country. 2006 sales were \$225.0 million.

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

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**J. SEGMENT REPORTING**

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ( SFAS 131 ) 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. Under the definition of a segment, our Eastern, Western and Consumer Products Divisions may be considered an operating segment of our business. Under SFAS 131, 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 this criteria, we have aggregated our Eastern and Western Divisions into one reporting segment. 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 for the first nine months of 2008 and 2007 are presented below (in thousands).

	Nine Months Ended 09/27/08			Nine Months Ended 09/29/07		
	Eastern and Western Divisions	All Other	Total	Eastern and Western Divisions	All Other	Total
Net sales to outside customers	\$ 1,740,037	\$ 68,704	\$ 1,808,741	\$ 1,905,482	\$ 95,059	\$ 2,000,541
Intersegment net sales	0	24,510	24,510	0	21,308	21,308
Segment operating profit	17,980	1,512	19,492	57,016	8,075	65,091

**K. INCOME TAXES**

Our effective tax rate is almost 44% for the year to date, which resulted in tax expense for the quarter despite reporting a book loss. This is primarily due to the impact of non-deductible permanent tax differences and the fact that the federal research and development tax credit was not granted legislative approval until October of 2008.

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Included in this report are certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements are based on the beliefs and assumptions of management, together with information available to us when the statements were made. Future results could differ materially from those included in such forward-looking statements as a result of, among other things, the factors set forth below and certain economic and business factors which may be beyond our control. Investors are cautioned that all forward-looking statements involve risks and uncertainty.

**OVERVIEW**

Our results for the third quarter of 2008 were impacted by the following:

Our overall unit sales decreased 8%, as sales out of existing facilities and operations we closed decreased by 11% this quarter and we experienced a 3% increase in unit sales as a result of acquisitions.

We experienced sales decreases in our site-built, manufactured housing, and DIY/retail markets, while we continued to grow sales to the industrial market. We believe we have gained additional share in each of the markets we serve except manufactured housing. We have been able to maintain our significant market share of manufactured housing business.

Single-family housing starts decreased approximately 39% in the third quarter of 2008 compared to 2007 as a result of an excess supply of homes, tighter credit conditions, and an increase in foreclosures. In addition, tight credit conditions have recently resulted in a decline in multi-family and light commercial construction activity. Consumer spending for large repair/remodel projects has decreased as many homeowners have lost equity in devalued homes and have less disposable income as a result of higher costs for necessities such as food, fuel and utilities. The Consumer Confidence Index has fallen from 87.3 at the beginning of the year to 38.0 at the end of October.

Shipments of HUD code manufactured homes were down 17% in July and August and industry sales of modular homes have also continued to decline due, in part, to an excess supply of site-built homes and tight credit conditions.

The industrial market is declining due to the general weakening of the U.S. economy. We gained additional share and increased sales to this market due, in part, to acquisitions and adding new concrete forming business.

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Our gross profits decreased more than 20% compared to the same period of 2007 due to a combination of lower unit sales out of existing facilities and fixed manufacturing costs; intense pricing pressure, particularly in the site-built market; and higher transportation costs primarily due to an increase in diesel fuel prices and a decline in the number of available carriers.

We recorded a \$6.2 million expense for asset impairments and other exit costs associated with facilities and equipment we made a decision to idle in the third quarter of 2008. The plants we closed had annual sales of approximately \$45 million and annual incremental operating losses of over \$6 million.

Since the beginning of this difficult economic cycle, we have focused on cash flow and working capital management. We are pleased to have reduced our debt by approximately \$39 million and our sale of receivables program by almost \$27 million for the first nine months of 2008.

**Outlook**

Due to unprecedented and prevailing uncertainties throughout the capital markets, which have a direct and material impact on the markets Universal serves, we do not believe our previous sales and net earnings targets for 2008, disclosed in our second quarter 10-Q, are achievable. In addition, we believe that current economic conditions limit our ability to provide meaningful guidance for the ranges of likely financial performance; therefore, we will not provide guidance for the foreseeable future.

**Growth & Opportunity 2010 Goals**

Since we announced our Growth & Opportunity 2010 Goals in our annual report on form 10-K for the period ended December 30, 2006, industry and general economic conditions have significantly deteriorated. We experience significant fluctuations in the cost of commodity lumber products from primary producers ( Lumber Market ). The Lumber Market has declined from an average of \$388/mbf in 2005 to an average of \$262/mbf in 2008; a 32% decline from when we first announced our goals, which has adversely impacted our sales. We are currently reviewing these long-term goals and expect to modify them when market conditions stabilize so new targets can be set using more current data and assumptions.

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HISTORICAL LUMBER PRICES**

The following table presents the Random Lengths framing lumber composite price for the nine months ended September 27, 2008 and September 29, 2007:

	Random Lengths Composite Average \$/MBF	
	2008	2007
January	\$ 249	\$ 292
February	244	289
March	240	280
April	255	286
May	281	288
June	268	306
July	267	299
August	282	290
September	272	276
Third quarter average	\$ 274	\$ 288
Year-to-date average	\$ 262	\$ 290

Third quarter percentage change from 2007 (4.9%)

Year-to-date percentage change from 2007 (9.7%)

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	
	2008	2007
January	\$ 337	\$ 414
February	330	405
March	331	396
April	345	397
May	421	390
June	427	410
July	406	412
August	401	374
September	388	347
Third quarter average	\$ 398	\$ 378
Year-to-date average	\$ 376	\$ 394

Third quarter percentage change from 2007 5.3%

Year-to-date percentage change from 2007 (4.6%)



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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 12% 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 Consolidated Condensed Financial Statements, Note I, Business Combinations.

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**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 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	89.3	87.9	88.7	87.1
Gross profit	10.7	12.1	11.3	12.9
Selling, general, and administrative expenses	9.5	8.7	9.9	9.6
Net loss on disposition of assets and other impairment and exit charges	1.0		0.4	
Earnings from operations	0.2	3.4	1.0	3.3
Interest, net	0.4	0.5	0.4	0.6
Earnings (loss) before income taxes and minority interest	(0.2)	2.9	0.6	2.7
Income taxes	0.1	1.1	0.3	1.0
Earnings before minority interest	(0.3)	1.8	0.3	1.7
Minority interest	(0.0)	(0.1)	(0.0)	(0.1)
Net earnings (loss)	(0.3)%	1.7%	0.3%	1.6%

**GROSS SALES**

We engineer, manufacture, treat, distribute and install lumber, composite wood, plastic, and other building products for the DIY/retail, site-built construction, industrial, and manufactured housing markets. Our strategic long-term sales objectives include:

Diversifying our end market sales mix by increasing sales of specialty wood packaging to industrial users, penetrating the concrete forms market, and increasing our sales of engineered wood components for custom homes, multi-family and light commercial construction.

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		
	Sept. 27, 2008	% Change	Sept. 29, 2007	Sept. 27, 2008	% Change	Sept. 29, 2007
DIY/Retail	\$ 251,559	(5.9)	\$ 267,291	\$ 758,898	(7.8)	\$ 823,173
Site-Built Construction	119,772	(24.2)	158,035	361,430	(21.0)	457,663
Industrial	166,327	5.4	157,836	480,947	5.7	455,129
Manufactured Housing	85,215	(22.5)	110,006	245,713	(19.3)	304,426
Total Gross Sales	622,873	(10.1)	693,168	1,846,988	(9.5)	2,040,391
Sales Allowances	(12,129)		(14,770)	(38,247)		(39,850)
Total Net Sales	\$ 610,744	(10.0)	\$ 678,398	\$ 1,808,741	(9.6)	\$ 2,000,541

Note: In the first quarter of 2008, 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 2008 decreased 10% compared to the third quarter of 2007. We estimate that our unit sales decreased by 8% and overall selling prices decreased by 2% comparing the two periods. We estimate that our unit sales increased 3% as a result of business acquisitions, while unit sales from existing and closed facilities decreased 11%. Our overall selling prices fluctuate as a result of the Lumber Market (see Historical Lumber Prices ) and were negatively impacted by pricing pressure primarily in the site-built market.

Gross sales in the first nine months of 2008 decreased 9% compared to the first nine months of 2007 resulting from an estimated decrease in units shipped of approximately 7%, while overall selling prices decreased by 2%. We estimate that our unit sales increased 3% as a result of business acquisitions and new plants, while our unit sales from existing and closed facilities decreased by 10%.

Changes in our sales by market are discussed below.

**DIY/Retail:**

Gross sales to the DIY/retail market decreased 6% in the third quarter of 2008 compared to 2007 primarily due to an estimated 4% decrease in overall unit sales and an estimated 2% decrease in overall selling prices. We estimate that our unit sales increased 2% as a result of acquisitions, while unit sales from existing and closed facilities decreased 6%. Unit sales declined due to the impact of the housing market on our retail customers whose business is closely correlated with single-family housing starts and a decline in consumer spending as evidenced by a decline in same store sales of our big box customers.

Gross sales to the DIY/retail market decreased 8% in the first nine months of 2008 compared to 2007 primarily due to an estimated 7% decrease in overall units shipped and an estimated 1% decrease in overall selling prices. We estimate that our unit sales increased 2% as a result of acquisitions, while unit sales from existing and closed facilities decreased 9%. The decrease in unit sales is primarily due to the same factors mentioned in the paragraph above.

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**Site-Built Construction:**

Gross sales to the site-built construction market decreased 24% in the third quarter of 2008 compared to 2007 due to an estimated 18% decrease in unit sales out of existing plants and an estimated 6% decrease in our average selling prices primarily due to intense pricing pressure and a soft Lumber Market. National single-family housing starts were off a reported 39% from July through September of 2008 compared to the same period of 2007. We were able to mitigate some of the decrease in the single-family market by pursuing multi-family and light commercial business and increasing our turn-key framing activities. However, these markets are currently being impacted by tight credit conditions.

Gross sales to the site-built construction market decreased 21% in the first nine months of 2008 compared to 2007, due to an estimated 13% decrease in unit sales and an estimated 8% decrease in selling prices. Single-family housing starts have fallen approximately 40% in 2008 compared to 2007.

**Industrial:**

Gross sales to the industrial market increased 5% in the third quarter of 2008 compared to the same period of 2007, due to an estimated 3% increase in unit sales and an estimated 2% increase in selling prices. Acquisitions and our continued focus on adding new customers, including concrete forming, helped us mitigate the effect of a decline in sales to certain of our customers that supply the housing market or have been impacted by the weakening U.S. economy.

Gross sales to the industrial market increased 6% in the first nine months of 2008 compared to the same period of 2007, due to an estimated 8% increase in units shipped offset by an estimated 2% decrease in selling prices. Unit sales increased for the reasons mentioned in the paragraph above.

**Manufactured Housing:**

Gross sales to the manufactured housing market decreased 23% in the third quarter of 2008 compared to the same period of 2007, primarily due to an estimated 21% decrease in unit sales combined with an estimated 2% decrease in selling prices due to the Lumber Market. Our decline in unit sales from existing facilities was the result of an overall decline in industry production. The industry most recently reported a 17% decrease in HUD code production in July and August, and industry production of modular homes was down 34% in the second quarter of 2008. We believe these trends continued through the third quarter of 2008.

Gross sales to the manufactured housing market decreased 19% in the first nine months of 2008 compared to the same period of 2007. This decrease resulted from an estimated 17% decrease in unit sales combined with an estimated 2% decrease in selling prices. The industry most recently reported a 10% decrease in HUD code production in the first eight months of 2008 compared to the same period in 2007.

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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.

	Three Months Ended		Nine Months Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Value-Added	59.6%	59.4%	60.7%	60.8%
Commodity-Based	40.4%	40.6%	39.3%	39.2%

Note: In the third quarter of 2007, we reviewed the classification of our product codes and made certain reclassifications. Prior year information has been restated to reflect these reclassifications.

Value-added sales decreased 10% in the third quarter of 2008 compared to 2007, primarily due to decreased sales of trusses, engineered wood products, and wall panels, offset partially by increases in industrial packaging and related components. Commodity-based sales decreased 11% comparing the third quarter of 2008 with the same period of 2007, primarily due to decreased sales of non-manufactured brite and other lumber and non-manufactured treated lumber.

Value-added sales decreased 10% in the first nine months of 2008 compared to 2007, primarily due to decreased sales of trusses, wall panels, engineered wood products and fencing, offset partially by increases in industrial packaging and related components and turn-key framing and installed sales to site-built customers. Commodity-based sales decreased 9% comparing the first nine months of 2008 with the same period of 2007, primarily due to decreased sales of non-manufactured brite and other lumber and non-manufactured treated lumber.

**COST OF GOODS SOLD AND GROSS PROFIT**

Our gross profit percentage decreased to 10.7% from 12.1% and gross profit dollars decreased more than 20% comparing the third quarter of 2008 with the same period of 2007. The decline in our profitability was primarily due to a combination of:

Price pressure in all of our markets but particularly in our site-built market, which reported a significant decline in gross margin.

A significant increase in fuel and other transportation costs.

Missed buying opportunities as a result of stocking lower levels of lumber inventory.

Lower volumes combined with fixed manufacturing costs.

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

Our gross profit percentage decreased to 11.3% from 12.9% and gross profit dollars decreased more than 20% comparing the first nine months of 2008 with the same period of 2007. Our decline in profitability comparing these two periods was primarily due to the factors mentioned in the paragraph above.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative ( SG&A ) expenses decreased by over \$0.7 million, or 1.3%, in the third quarter of 2008 compared to the same period of 2007, while we reported an 8% decrease in unit sales. Existing operations increased \$2.3 million, operations we closed decreased \$4.6 million, and business acquisitions added \$1.6 million in SG&A expenses. The increase in SG&A expenses at our existing operations was primarily due to an increase in bad debt expense and bonus expense, partially offset by a decline in wages and related costs due to a reduction in headcount. Approximately \$1 million of the increase in bad debt expense was due to an adjustment we recorded in the third quarter of 2007 as a result of a favorable ruling we received on a preference claim. The increase in bonus expense was due to an adjustment we recorded in the third quarter of 2007 to reduce our year to date bonus accrual when we felt several of our profit centers would not achieve our minimum return on investment hurdle to be eligible for bonus.

Selling, general and administrative ( SG&A ) expenses decreased by approximately \$14.0 million, or 7.3%, in the first nine months of 2008 compared to the same period of 2007, and we reported a 7% decrease in unit sales. Existing operations decreased SG&A expenses by approximately \$2.3 million, operations we closed decreased SG&A expenses \$14.9 million, and business acquisitions added \$3.2 million in SG&A expenses. The decrease in SG&A expenses at existing operations was primarily due to a decline in wages and related benefits due to a reduction in headcount and a reduction in bonus and other performance related compensation. These decreases were partially offset by an increase in bad debt expense.

We believe our cost reduction efforts will continue to drive down our costs and will have a more significant impact in future reporting periods.

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

We incurred \$6.2 million and \$7.4 million of asset impairments and other costs associated with idled facilities and down-sizing efforts in the third quarter and first nine months of 2008, respectively. The plants we closed had annual sales of approximately \$45 million and annual incremental operating losses of over \$6 million.

**INTEREST, NET**

Net interest costs were lower in the third quarter and first nine months of 2008 compared to the same period of 2007 due to lower debt balances combined with a decrease in short-term interest rates.

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

**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 increased to 43.6% in the first nine months of 2008, compared to 36.9% in the first nine months of 2007. This year's tax rate was negatively impacted by the research & development tax credit for fiscal 2008 which was not granted legislative approval until October 2008, an increase in non-deductible amortization expense associated with recent acquisitions, and the effect of permanent tax differences on lower pre-tax income.

We recorded tax expense of \$0.5 million in the third quarter of 2008 on a pre-tax loss of \$1.2 million due to the factors discussed above.

**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	
	Sept. 27, 2008	Sept. 29, 2007
Cash from operating activities	\$ 33,314	\$ 80,414
Cash from investing activities	(7,694)	(80,022)
Cash from financing activities	(37,766)	(4,753)
Net change in cash and cash equivalents	(12,146)	(4,361)
Cash and cash equivalents, beginning of period	43,605	51,108
Cash and cash equivalents, end of period	\$ 31,459	\$ 46,747

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.



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**UNIVERSAL FOREST PRODUCTS, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
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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 results in significant cash flow from operations in our third and fourth quarters. For comparative purposes, we have included the September 27, 2007 balances in the accompanying unaudited consolidated condensed balance sheets.

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 (excluding the impact of our sale of receivables program) increased to 44 days in the first nine months of 2008 from 43 days in the first nine months of 2007, due to a one day increase in our days of sales outstanding as a one day decrease in our days of inventory outstanding was offset by a one day decrease in our days of payables outstanding. The increase in our days of sales outstanding was primarily due to slower payments with certain site-built customers and a change in sales mix whereby the industrial market, which has a comparatively longer receivables cycle, comprises a higher percentage of our sales.

Cash from operating activities was approximately \$33 million in the first nine months of 2008. Our net earnings of \$5.1 million included \$44.1 million of non-cash expenses, which were offset by a \$15.9 million increase in working capital. Working capital increased primarily due to an increase in accounts receivable due to the termination of our sales of receivables program at the end of September 2008. Terminating this program resulted in \$27 million more in accounts receivable at the end of the third quarter 2008 compared to year-end 2007 and \$50 million more in accounts receivable at the end of the third quarter 2008 compared to the same period of the prior year.

Our sale of receivables program was terminated on September 26, 2008, due to the downgrade of the credit rating of certain customers whose receivables were part of this program. This downgrade triggered a re-pricing of the program under the terms of the agreement which made this program a less favorable source of liquidity.

We have curtailed our capital expenditures and currently plan to spend approximately \$20 million in 2008, which includes outstanding purchase commitments on existing capital projects totaling approximately \$2 million on September 27, 2008. We intend to fund capital expenditures and purchase commitments through our operating cash flows.

On September 27, 2008, we had approximately \$18 million outstanding on our \$300 million revolving credit facility. The revolving credit facility also supports letters of credit totaling approximately \$30 million on September 27, 2008. 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 27, 2008. Continued losses may adversely impact our ability to meet certain of these loan covenants in the future without further action on our part. Management will evaluate what, if any, action or actions may be available to resolve any future non-compliance. A possible consequence of non-compliance may include an adjustment to increase our interest rates to reflect current market conditions.

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

Our Series 1998-A Senior Notes totaling \$78.5 million are due on December 21, 2008 and we intend to re-pay them utilizing available cash flow and our revolving credit facility.

**ENVIRONMENTAL CONSIDERATIONS AND REGULATIONS**

See Notes to Consolidated Condensed Financial Statements, Note H, 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 29, 2007.

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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 27, 2008 (the Evaluation Date ), have concluded that, as of such date, our disclosure controls and procedures were effective.
- (b) **Changes in Internal Controls.** During the third quarter ended September 27, 2008, 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 29, 2008 – August 2, 2008 <sup>1)</sup>				1,227,314
August 3 – 30, 2008				1,227,314
August 31 – September 27, 2008				1,227,314

(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.  
As of  
September 27,  
2008,  
cumulative total  
authorized  
shares available  
for repurchase is  
1.2 million  
shares.

**Item 5. Other Information.**

In the third quarter of 2008, the Audit Committee did not approve any non-audit services to be provided by our independent auditors, Ernst & Young LLP, for 2008.

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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).

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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 31, 2008

By: /s/ Michael B. Glenn  
Michael B. Glenn  
Its: Chief Executive Officer

Date: October 31, 2008

By: /s/ Michael R. Cole  
Michael R. Cole  
Its: Chief Financial Officer

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EXHIBIT INDEX

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