

UNIVERSAL FOREST PRODUCTS INC  
Form 10-Q  
August 01, 2013

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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 June 29, 2013

OR

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

Commission File Number 0-22684

UNIVERSAL FOREST PRODUCTS, INC.  
(Exact name of registrant as specified in its charter)

Michigan 38-1465835  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

2801 East Beltline NE, Grand Rapids, Michigan 49525  
(Address of principal executive offices) (Zip Code)

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

NONE  
(Former name or former address, if changed since last report.)

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

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

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

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

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

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

<u>Class</u>	<u>Outstanding as of June 29, 2013</u>
Common stock, no par value	19,893,513

UNIVERSAL FOREST PRODUCTS, INC.

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CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(in thousands, except share data)

	June 29, 2013	December 29, 2012	June 30, 2012
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$-	\$ 7,647	\$4,764
Restricted cash	753	6,831	553
Accounts receivable, net	270,949	163,225	212,038
Inventories:			
Raw materials	140,731	136,201	116,895
Finished goods	112,823	106,979	90,661
Total inventories	253,554	243,180	207,556
Refundable income taxes		7,521	-
Deferred income taxes	9,188	9,212	9,694
Other current assets	20,302	15,557	14,411
<b>TOTAL CURRENT ASSETS</b>	<b>554,746</b>	<b>453,173</b>	<b>449,016</b>
<b>DEFERRED INCOME TAXES</b>	<b>1,670</b>	<b>1,759</b>	<b>-</b>
<b>OTHER ASSETS</b>	<b>16,353</b>	<b>14,583</b>	<b>16,176</b>
<b>GOODWILL</b>	<b>161,516</b>	<b>159,316</b>	<b>157,836</b>
<b>INDEFINITE-LIVED INTANGIBLE ASSETS</b>	<b>2,340</b>	<b>2,340</b>	<b>2,340</b>
<b>OTHER INTANGIBLE ASSETS, NET</b>	<b>6,914</b>	<b>8,101</b>	<b>9,491</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Property, plant and equipment	568,011	543,595	537,273
Less accumulated depreciation and amortization	(334,238)	(322,327)	(319,495)
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>233,773</b>	<b>221,268</b>	<b>217,778</b>
<b>TOTAL ASSETS</b>	<b>\$977,312</b>	<b>\$ 860,540</b>	<b>\$852,637</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Cash overdraft	\$3,407	\$ -	\$-
Accounts payable	95,594	66,054	81,117
Accrued liabilities:			
Compensation and benefits	37,216	34,728	35,592
Income taxes	5,419	-	5,401
Other	23,111	14,002	16,911
Current portion of long-term debt	-	-	40,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>164,747</b>	<b>114,784</b>	<b>179,021</b>
<b>LONG-TERM DEBT, less current portion</b>	<b>142,473</b>	<b>95,790</b>	<b>32,854</b>
<b>DEFERRED INCOME TAXES</b>	<b>24,842</b>	<b>24,930</b>	<b>20,034</b>
<b>OTHER LIABILITIES</b>	<b>17,358</b>	<b>17,511</b>	<b>16,654</b>
<b>TOTAL LIABILITIES</b>	<b>349,420</b>	<b>253,015</b>	<b>248,563</b>
<b>SHAREHOLDERS' EQUITY:</b>			

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Controlling interest shareholders' equity:

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

Common stock, no par value; shares authorized 40,000,000; issued and outstanding, 19,893,513, 19,799,606, and 19,735,289

Additional paid-in capital

Retained earnings

Accumulated other comprehensive earnings

Employee stock notes receivable

Total controlling interest shareholders' equity

Noncontrolling interest

TOTAL SHAREHOLDERS' EQUITY

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

	\$ 19,894	\$ 19,800	\$ 19,735
	153,254	149,805	147,260
	443,913	426,887	428,573
	3,331	4,258	3,439
	(759 )	(982 )	(1,016 )
	619,633	599,768	597,991
	8,259	7,757	6,083
	627,892	607,525	604,074
	\$ 977,312	\$ 860,540	\$ 852,637

See notes to consolidated condensed financial statements.

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CONSOLIDATED STATEMENTS OF EARNINGS  
AND COMPREHENSIVE INCOME  
(Unaudited)

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
NET SALES	\$738,436	\$593,693	\$1,292,930	\$1,050,804
COST OF GOODS SOLD	658,220	521,618	1,155,535	925,063
GROSS PROFIT	80,216	72,075	137,395	125,741
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES NET (GAIN) LOSS ON DISPOSITION OF ASSETS, EARLY RETIREMENT AND OTHER IMPAIRMENT AND EXIT CHARGES	53,102 (3 )	49,434 (6,878 )	101,329 (109 )	95,212 (6,783 )
EARNINGS FROM OPERATIONS	27,117	29,519	36,175	37,312
INTEREST EXPENSE	1,180	1,240	2,425	2,251
INTEREST INCOME	(157 )	(321 )	(304 )	(562 )
EQUITY IN EARNINGS OF INVESTEE	(92 )	52	(134 )	(10 )
	931	971	1,987	1,679
EARNINGS BEFORE INCOME TAXES	26,186	28,548	34,188	35,633
INCOME TAXES	9,813	10,538	12,058	13,237
NET EARNINGS	16,373	18,010	22,130	22,396
LESS NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(601 )	(501 )	(1,133 )	(732 )
NET EARNINGS ATTRIBUTABLE TO CONTROLLING INTEREST	\$15,772	\$17,509	\$20,997	\$21,664
EARNINGS PER SHARE - BASIC	\$0.79	\$0.88	\$1.05	\$1.10
EARNINGS PER SHARE - DILUTED	\$0.79	\$0.88	\$1.05	\$1.10
COMPREHENSIVE INCOME	14,889	16,777	21,062	22,221
LESS COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	(164 )	(63 )	(992 )	(718 )

COMPREHENSIVE INCOME ATTRIBUTABLE TO  
CONTROLLING INTERST

\$14,725    \$16,714    \$20,070    \$21,503

See notes to consolidated condensed financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(Unaudited)

(in thousands, except share and per share data)

	Controlling Interest Shareholders' Equity			Accumulat- ed Other	Employees	Noncontrolling	
	Common	Additional	Retained	sive	Notes	Interest	Total
	Stock	Paid-In	Earnings	Comprehen-	Receivable		
		Capital		Stock			
Balance at December 31, 2011	\$19,624	\$143,988	\$410,848	\$3,600	\$(1,255)	\$5,794	\$582,599
Net earnings			21,664			732	22,396
Foreign currency translation adjustment				(161)		(14)	(175)
Distributions to noncontrolling interest						(429)	(429)
Cash dividends - \$0.200 per share			(3,946)				(3,946)
Issuance of 49,811 shares under employee stock plans	50	1,184					1,234
Issuance of 33,063 shares under stock grant programs	33	35	7				75
Issuance of 29,356 shares under deferred compensation plans	29	(29)					-
Tax benefits from non-qualified stock options exercised		129					129
Expense associated with share-based compensation arrangements		666					666
Accrued expense under deferred compensation plans		1,311					1,311
Notes receivable written-off	(1)	(24)			25		-
Payments received on employee stock notes receivable					214		214
Balance at June 30, 2012	\$19,735	\$147,260	\$428,573	\$3,439	\$(1,016)	\$6,083	\$604,074
Balance at December 29, 2012	\$19,800	\$149,805	\$426,887	\$4,258	\$(982)	\$7,757	\$607,525
Net earnings			20,997			1,133	22,130
Foreign currency translation adjustment				(927)		(141)	(1,068)
Distributions to noncontrolling interest						(490)	(490)
Cash dividends - \$0.200 per share			(3,977)				(3,977)
Issuance of 27,006 shares under employee stock plans	27	667					694
Issuance of 31,951 shares under stock grant programs	32	(28)	6				10



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Issuance of 37,107 shares under deferred compensation plans	37	(37	)					-
Tax benefits from non-qualified stock options exercised		107						107
Expense associated with share-based compensation arrangements		1,073						1,073
Accrued expense under deferred compensation plans		1,740						1,740
Notes receivable written off	(2	)	(73	)		77		2
Payments received on employee stock notes receivable						146		146
Balance at June 29, 2013	\$19,894	\$153,254	\$443,913	\$3,331	\$ (759	)	\$8,259	\$627,892

See notes to consolidated condensed financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(in thousands)

	Six Months Ended	
	June 29, 2013	June 30, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$22,130	\$22,396
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation	14,459	14,430
Amortization of intangibles	1,324	1,506
Expense associated with share-based compensation arrangements	1,073	666
Excess tax benefits from share-based compensation arrangements	(6 )	(26 )
Expense associated with stock grant plans	36	75
Deferred income taxes	(79 )	(1,133 )
Equity in earnings of investee	(134 )	(10 )
Net gain on sale or impairment of property, plant and equipment	(141 )	(6,932 )
Changes in:		
Accounts receivable	(108,893 )	(84,576 )
Inventories	(10,223 )	(12,166 )
Accounts payable	29,473	31,447
Accrued liabilities and other	22,064	14,684
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(28,917 )</b>	<b>(19,639 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(21,532 )	(15,760 )
Proceeds from sale of property, plant and equipment	453	14,635
Acquisitions, net of cash received	(9,296 )	(2,149 )
Purchase of patents	-	(48 )
Advances on notes receivable	(1,358 )	(706 )
Collections on notes receivable	749	755
Cash restricted as to use	6,078	(553 )
Other, net	(37 )	(187 )
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(24,943 )</b>	<b>(4,013 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings under revolving credit facilities	46,683	23,154
Repayment of long-term debt	-	(2,774 )
Debt issuance costs	(11 )	(85 )
Proceeds from issuance of common stock	694	1,234
Distributions to noncontrolling interest	(490 )	(429 )
Dividends paid to shareholders	(3,977 )	(3,946 )
Excess tax benefits from share-based compensation arrangements	6	26
Other, net	-	4
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>42,905</b>	<b>17,184</b>
Effect of exchange rate changes on cash	(99 )	(73 )

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NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,054 )	(6,541 )
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,647	11,305
CASH (OVERDRAFT), END OF PERIOD	\$(3,407 )	\$4,764
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:		
Interest paid	\$2,434	\$2,079
Income taxes (refunded) paid	(910 )	6,289
NON-CASH FINANCING ACTIVITIES:		
Common stock issued under deferred compensation plans	\$1,490	\$1,008

See notes to consolidated condensed financial statements

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UNIVERSAL FOREST PRODUCTS, INC.

NOTES TO UNAUDITED  
CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

A. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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 29, 2012.

In the second quarter of fiscal 2013, we changed our annual testing date for evaluating goodwill and indefinite-lived intangible asset impairment from the last day of the fiscal year to the first day of the Company's fourth fiscal quarter for all reporting units and indefinite-lived intangible assets. This voluntary change in accounting method is preferable under the circumstances because it will allow us more time to complete the annual goodwill and indefinite-lived intangible asset impairment testing in advance of our year-end reporting. This change does not delay, accelerate or avoid an impairment charge. The change is not applied retrospectively as it is impracticable to do so because retrospective application would require application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively. There have been no other material changes in our policies or estimates since December 29, 2012.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASC Topic 220) ("ASU 2013-02"). ASU 2013-02 amends prior presentation of comprehensive income guidance. ASU 2013-02 requires that we report, in one place, the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. Our adoption of the provisions of ASU 2013-02 in the first quarter of 2013 did not affect our consolidated financial position, results of operations or cash flows.

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## UNIVERSAL FOREST PRODUCTS, INC.

## 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:

(in thousands)	June 29, 2013	June 30, 2012	Total
	Quoted Prices in Active Markets (Level 1)	Quoted Prices in Active Markets (Level 1)    Quoted Prices in Active Markets (Level 2)	
Recurring:			
Money market funds	\$ 62	\$99	\$99
Mutual funds:			
Domestic stock funds	706	568	568
International stock funds	541	442	442
Target funds	158	132	132
Bond funds	140	113	113
Total mutual funds	1,607	1,255	1,255
Non-recurring:			
Property, plant and equipment		\$600	600
	\$ 1,607	\$1,354 \$600	\$1,954

We maintain money market and mutual funds in our non-qualified deferred compensation plan. These funds are valued at prices quoted in an active exchange market and are included in "Other Assets". 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.

We do not maintain any Level 3 assets or liabilities that would be based on significant observable or unobservable inputs.

## C. REVENUE RECOGNITION

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

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## UNIVERSAL FOREST PRODUCTS, INC.

Our construction contracts are generally entered into with a fixed price and completion of the projects can range from 6 to 18 months in duration. Therefore, our operating results are impacted by, among many other things, labor rates and commodity costs. During the quarter, we updated our estimated costs to complete our projects using current labor and commodity costs and as a result of significant increases in these costs, our profits were adversely impacted.

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):

	June 29, 2013	December 29, 2012	June 30, 2012
Cost and Earnings in Excess of Billings	\$11,014	\$ 4,981	\$4,799
Billings in Excess of Cost and Earnings	3,757	2,020	3,227

## D. EARNINGS PER SHARE

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

	Three Months		Six Months Ended	
	Ended June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Numerator:				
Net earnings attributable to controlling interest	\$15,772	\$17,509	\$20,997	\$21,664
Adjustment for earnings allocated to non-vested restricted common stock	(157 )	(148 )	(202 )	(184 )
Net earnings for calculating EPS	\$15,615	\$17,361	\$20,795	\$21,480
Denominator:				
Weighted average shares outstanding	19,951	19,787	19,919	19,761
Adjustment for non-vested restricted common stock	(199 )	(173 )	(192 )	(169 )
Shares for calculating basic EPS	19,752	19,614	19,727	19,592
Effect of dilutive stock options	34	29	36	24
Shares for calculating diluted EPS	19,786	19,643	19,763	19,616
Net earnings per share:				
Basic	\$0.79	\$0.88	\$1.05	\$1.10
Diluted	\$0.79	\$0.88	\$1.05	\$1.10

No options were excluded from the computation of diluted EPS for the quarter ended June 29, 2013 or June 30, 2012.

Options to purchase 10,000 shares were not included in the computation of diluted EPS for the six months ended June 30, 2012 because the options’ exercise price was greater than the average market price of the common stock during the period and, therefore would be antidilutive.

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## UNIVERSAL FOREST PRODUCTS, INC.

## E. NET (GAIN) LOSS ON DISPOSITION OF ASSETS, EARLY RETIREMENT AND OTHER IMPAIRMENT AND EXIT CHARGES

We have long-lived assets that consist of certain vacant land and facilities we closed to better align manufacturing capacity with the current business environment. The fair values were determined based on broker assessments of value, appraisals or recent offers to acquire assets. These and other idle assets were evaluated based on the requirements of ASC 360, which resulted in impairment and other exit charges included in "Net loss (gain) on disposition of assets, early retirement and other impairment and exit charges" for the periods presented below. These amounts include the following, separated by reporting segment (in thousands):

	Three Months Ended June 29, 2013				Three Months Ended June 30, 2012				
	Eastern and Western		All Other		Eastern and Western		All Other		
	Site-Built	Other	Total	Site-Built	Other	Total	Site-Built	Other	Total
Severances and early retirement	\$ 8	\$ 1	\$ 3	\$ 12	\$ 26	\$ -	\$ 2	\$ 2	\$ 28
Property, plant and equipment	(64)	(16)	65	\$(15)	(59)	(68)	129	2	2
Net gain on impairment or sale of real estate	-	-	-	-	(6,908)	-	-	-	(6,908)
Total	\$(56)	\$(15)	\$ 68	\$(3)	\$(6,941)	\$(68)	\$ 131	\$ 131	\$(6,878)

	Six Months Ended June 29, 2013				Six Months Ended June 30, 2012				
	Eastern and Western		All Other		Eastern and Western		All Other		
	Site-Built	Other	Total	Site-Built	Other	Total	Site-Built	Other	Total
Severances and early retirement	\$ 13	\$ 1	\$ 19	\$ 33	\$ 111	\$ 1	\$ 36	\$ 36	\$ 148
Property, plant and equipment	(156)	29	(15)	(142)	(95)	(96)	170	(21)	(21)
Net gain on impairment or sale of real estate	-	-	-	-	(6,910)	-	-	-	(6,910)
Total	\$(143)	\$ 30	\$ 5	\$(109)	\$(6,894)	\$(95)	\$ 206	\$ 206	\$(6,783)

In the second quarter of 2012, we sold certain real estate in Fontana, CA for approximately \$12.5 million and recognized a pre-tax gain of \$7.2 million.

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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, Ardellis Insurance Ltd., a licensed captive insurance company.

We own and operate a number of facilities throughout the United States that chemically treat lumber products. In connection with the ownership and operation of these and other real properties, and the disposal or treatment of hazardous or toxic substances, we may, under various federal, state, and local environmental laws, ordinances, and regulations, be potentially liable for removal and remediation costs, as well as other potential costs, damages, and expenses. Environmental reserves, calculated with no discount rate, have been established to cover remediation activities at our affiliates' wood preservation facilities in Stockertown, PA; Elizabeth City, NC; Auburndale, FL; Janesville, WI; and Medley, FL. In addition, a reserve was established for our affiliate's facility in Thornton, CA to remove certain lead containing materials which existed on the property at the time of purchase. During 2009, a subsidiary entered into a consent order with the State of Florida to conduct additional testing at the Auburndale, FL facility. We admitted no liability and the costs are not expected to be material.

On a consolidated basis, we have reserved approximately \$3.5 million on June 29, 2013 and \$3.4 million on June 30, 2012, representing the estimated costs to complete future remediation efforts. These amounts have not been reduced by an insurance receivable.

In addition, on June 29, 2013, 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 June 29, 2013, we had outstanding purchase commitments on capital projects of approximately \$14.4 million.

We provide a variety of warranties for products we manufacture. Historically, warranty claims have not been material.

We distribute products manufactured by other companies, some of which are no longer in business. While we do not warrant these products, we have received claims as a distributor of these products when the manufacturer no longer exists or has the ability to pay. Historically, these costs have not had a material affect on our consolidated financial statements.

In certain cases we supply building materials and labor to 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 June 29, 2013, we had approximately \$30.9 million in outstanding payment and performance bonds, which expire during the next two years.

In addition, approximately \$21.0 million in payment and performance bonds are outstanding for completed projects which are still under warranty.



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UNIVERSAL FOREST PRODUCTS, INC.

On June 29, 2013, we had outstanding letters of credit totaling \$28.7 million, primarily related to certain insurance contracts and industrial development revenue bonds described further below.

In lieu of cash deposits, we provide irrevocable letters of credit in favor of our insurers to guarantee our performance under certain insurance contracts. We currently have irrevocable letters of credit outstanding totaling approximately \$18.9 million for these types of insurance arrangements. We have reserves recorded on our balance sheet, in accrued liabilities, that reflect our expected future liabilities under these insurance arrangements.

We are required to provide irrevocable letters of credit in favor of the bond trustees for all of the industrial development revenue bonds that we have issued. These letters of credit guarantee principal and interest payments to the bondholders. We currently have irrevocable letters of credit outstanding totaling approximately \$9.8 million related to our outstanding industrial development revenue bonds. These letters of credit have varying terms but may be renewed at the option of the issuing banks.

Certain wholly owned domestic subsidiaries have guaranteed the indebtedness of Universal Forest Products, Inc. in certain debt agreements, including the Series 2012 Senior Notes and our revolving credit facility. The maximum exposure of these guarantees is limited to the indebtedness outstanding under these debt arrangements and this exposure will expire concurrent with the expiration of the debt agreements.

Many of our wood treating operations utilize "Subpart W" drip pads, defined as hazardous waste management units by the EPA. The rules regulating drip pads require that the pad be "closed" at the point that it is no longer intended to be used for wood treating operations or to manage hazardous waste. Closure involves identification and disposal of contaminants which are required to be removed from the facility. The cost of closure is dependent upon a number of factors including, but not limited to, identification and removal of contaminants, cleanup standards that vary from state to state, and the time period over which the cleanup would be completed. Based on our present knowledge of existing circumstances, it is considered probable that these costs will approximate \$0.6 million. As a result, this amount is recorded in other long-term liabilities on June 29, 2013.

We did not enter into any new guarantee arrangements during the second quarter of 2013 which would require us to recognize a liability on our balance sheet.

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## UNIVERSAL FOREST PRODUCTS, INC.

## G. BUSINESS COMBINATIONS

We completed the following acquisitions in fiscal 2013 and 2012 which were accounted for using the purchase method (in millions):

Company Name	Acquisition Date	Purchase Price	Intangible Assets	Net Tangible Assets	Operating Segment	Business Description
Premier Laminating Services, Inc. ("Premier Laminating")	May 31, 2013	\$0.7 (asset purchase)	\$0.2	\$0.5	Western Division	A business specialized in environmentally sustainable laminated wooden products. Facility is located in Perris, CA.
Millry Mill Company, Inc. ("Millry")	February 28, 2013	\$2.3 (asset purchase)	\$0.1	\$2.2	Eastern Division	A highly specialized export mill that produces rough dimension boards and lumber. Facility is located in Millry, AL.
Custom Caseworks, Inc. ("Custom Caseworks")	December 31, 2012	\$6.3 (asset purchase)	\$2.0	\$4.3	Western Division	A high-precision business-to-business manufacturer of engineered wood products in many commercial markets. Facility is located in Sauk Rapids, MN. Custom Caseworks had annual sales of \$7 million.
Nepa Pallet and Container Co., Inc. ("Nepa")	November 5, 2012	\$16.2 (asset purchase)	\$1.4	\$14.8	Western Division	Manufactures pallets, containers and bins for agricultural and industrial customers. Facilities are located in Snohomish, Yakima and Wenatchee, WA. NEPA had trailing twelve month sales of \$25 million.
MSR Forest Products, LLC ("MSR")	May 16, 2012	\$3.2 (asset purchase)	\$1.1	\$2.1	Distribution Division	Supplies roof trusses and cut-to-size lumber to manufactured housing customers. Facilities are located in Haleyville, AL and Waycross, GA. MSR had annual sales of \$10 million.

The purchase price allocations for Premier Laminating, Millry, Custom Caseworks and Nepa are preliminary for the valuation of intangible assets and will be revised, as necessary, as final determinations of intangible fair value are completed. The intangible assets for MSR were finalized and allocated to goodwill during the second quarter of 2013.

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## UNIVERSAL FOREST PRODUCTS, INC.

## 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.

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

	Three Months Ended June 29, 2013					
	Eastern and Western		Site-Built	All Other	Corporate	Total
Net sales to outside customers	\$601,185	\$73,860		\$63,391	\$ -	\$738,436
Intersegment net sales	29,140	4,469		4,335	-	37,944
Segment operating profit	21,710	2,225		1,258	1,924	27,117
	Three Months Ended June 30, 2012					
	Eastern and Western		Site-Built	All Other	Corporate	Total
Net sales to outside customers	\$476,065	\$53,388		\$64,240	\$ -	\$593,693
Intersegment net sales	17,792	5,053		4,256	-	27,101
Segment operating profit	26,733	1,057		199	1,530	29,519
	Six Months Ended June 29, 2013					
	Eastern and Western		Site-Built	All Other	Corporate	Total
Net sales to outside customers	\$1,046,709	\$132,011		\$114,210	\$ -	\$1,292,930
Intersegment net sales	47,932	8,762		6,946	-	63,640
Segment operating profit (loss)	35,783	(1,829 )		913	1,308	36,175

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## UNIVERSAL FOREST PRODUCTS, INC.

	Six Months Ended June 30, 2012					
	Eastern and					
	Western	Site-Built	All Other	Corporate	Total	
Net sales to outside customers	\$842,903	\$100,931	\$106,970	\$ -	\$1,050,804	
Intersegment net sales	35,933	8,876	8,609	-	53,418	
Segment operating profit (loss)	39,245	464	(1,275 )	(1,122 )	37,312	

## I. 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 37.5% in the second quarter of 2013 compared to 36.9% for same period of 2012. Our effective tax rate was 35.3% in the first six months of 2013 compared to 37.1% for the same period of 2012. The decrease in our effective tax rate is primarily due to research and development and certain other tax credits totaling approximately \$700,000 relating to 2012. These tax credits were enacted in the first quarter of 2013, retroactive to the beginning of 2012.

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UNIVERSAL FOREST PRODUCTS, INC.

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

Universal Forest Products, Inc. is a holding company that provides capital, management and administrative resources to subsidiaries that design, manufacture and market wood and wood-alternative products for building materials retailers and wholesalers, structural lumber and other products for the manufactured housing and residential construction markets, and specialty wood packaging and components and packing materials for various industries. It has subsidiaries that provide framing services for the residential construction market in some parts of the country; that manufacture and market products used for concrete construction; and that offer lawn and garden products, such as trellises and arches, to retailers nationwide. Its consumer products operations offer a large portfolio of outdoor living products, including wood composite decking, decorative balusters, post caps and plastic lattice. Founded in 1955, Universal Forest Products is headquartered in Grand Rapids, Mich. Its subsidiaries operate facilities throughout North America. For more about Universal, go to [www.ufpi.com](http://www.ufpi.com).

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act, as amended, that are based on management's beliefs, assumptions, current expectations, estimates and projections about the markets we serve, the economy and the Company itself. Words like "anticipates," "believes," "confident," "estimates," "expects," "forecasts," "likely," "plans," "projects," "should," variations of such words, and similar expressions identify such forward-looking statements. These statements do not guarantee future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. The Company does not undertake to update forward-looking statements to reflect facts, circumstances, events, or assumptions that occur after the date the forward-looking statements are made. Actual results could differ materially from those included in such forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty. Among the factors that could cause actual results to differ materially from forward-looking statements are the following: fluctuations in the price of lumber; adverse or unusual weather conditions; adverse economic conditions in the markets we serve; government regulations, particularly involving environmental and safety regulations; and our ability to make successful business acquisitions. Certain of these risk factors as well as other risk factors and additional information are included in the Company's reports on Form 10-K and 10-Q on file with the Securities and Exchange Commission. We are pleased to present this overview of 2013.

OVERVIEW

Our results for the second quarter of 2013 were impacted by the following:

Our sales increased 24% due to a 15% increase in prices due to the lumber market and a 9% increase in unit sales.

See "Historical Lumber Prices". Our unit sales increased in all five of our markets, with our strongest growth occurring in our construction and home building markets - commercial construction and concrete forming, residential construction, and manufactured housing. Our unit sales to the retail building materials market reported a slight increase of approximately 2% as we gained market share with retail customers during 2013 and our industrial market increased by 5% due to acquisitions we've recently completed.

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## UNIVERSAL FOREST PRODUCTS, INC.

National housing starts increased approximately 28% in the period of March 2013 through May 2013 (our sales trail housing starts by about a month), compared to the same period of 2012, while our unit sales increased 27% in the residential construction market. Since the downturn in housing began, suppliers servicing this market have been challenged with significant excess capacity. Consequently, pricing pressure has been intense resulting in several years of operating losses for many industry participants. We have maintained our focus on profitability and cash flow by being selective in the business we take. Consequently, our sales may trail the market from time to time.

Production of HUD code manufactured homes was up 11% during the second quarter of 2013, compared to the same period of 2012, which helped drive our 14% increase in unit sales to this market. We also believe modular market activity has improved. Our sales increased slightly more than the market as a result of share gains in our distribution business. We have maintained our share of the manufactured housing market in the core manufactured product lines we offer.

In June 2012, we sold a plant we had previously closed in Fontana CA and recorded a gain of approximately \$7.2 million. Our net gain on the sale of Fontana and certain other properties was \$6.9 million.

Higher lumber prices have resulted in a substantial year over year increase in our working capital and debt levels.

## HISTORICAL LUMBER PRICES

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

	Random Lengths Composite Average \$/MBF	
	2013	2012
January	\$393	\$281
February	409	286
March	436	300
April	429	308
May	367	342
June	329	330
Second quarter average	\$375	\$327
Year-to-date average	394	308
Second quarter percentage change	14.7%	
Year-to-date percentage change	27.9%	

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## UNIVERSAL FOREST PRODUCTS, INC.

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

	Random Lengths SYP Average \$/MBF	
	2013	2012
January	\$397	\$269
February	426	278
March	445	300
April	436	314
May	383	341
June	355	314
Second quarter average	\$391	\$323
Year-to-date average	\$407	\$303
Second quarter percentage change	21.0%	
Year-to-date percentage change	34.3%	

## 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.

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UNIVERSAL FOREST PRODUCTS, INC.

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

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

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

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

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

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



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UNIVERSAL FOREST PRODUCTS, INC.

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.

	Three Months		Six months	
	Ended		Ended	
	June	June	June	June
	29,	30,	29,	30,
	2013	2012	2013	2012
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	89.1	87.9	89.4	88.0
Gross profit	10.9	12.1	10.6	12.0
Selling, general, and administrative expenses	7.2	8.3	7.8	9.0
Net (gain) loss on disposition of assets, early retirement, and other impairment and exit charges	-	(1.2 )	-	(0.6 )
Earnings from operations	3.7	5.0	2.8	3.6
Other expense (income), net	0.1	0.2	0.2	0.2
Earnings before income taxes	3.5	4.8	2.6	3.4
Income taxes	1.3	1.8	0.9	1.3
Net earnings	2.2	3.0	1.7	2.1
Less net earnings attributable to noncontrolling interest	(0.1 )	(0.1 )	(0.1 )	(0.1 )
Net earnings attributable to controlling interest	2.1 %	2.9 %	1.6 %	2.1 %

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

## GROSS SALES

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

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

Expanding geographically in our core businesses, domestically and internationally.

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

Developing new products and expanding our product offering for existing customers.

Maximizing unit sales growth while achieving return on investment goals.

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## UNIVERSAL FOREST PRODUCTS, INC.

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

(in thousands)	Three Months Ended			Six Months Ended		
	June 29, 2013	June 30, 2012	% Change	June 29, 2013	June 30, 2012	% Change
<u>Market Classification</u>						
Retail Building Materials	\$315,093	\$279,187	12.9	\$520,810	\$475,304	9.6
Residential Construction	94,328	59,948	57.3	168,635	111,755	50.9
Commercial Construction and Concrete Forming	37,534	24,036	56.2	67,889	43,751	55.2
Industrial	193,369	160,277	20.6	353,826	293,947	20.4
Manufactured Housing	109,495	80,663	35.7	199,362	143,703	38.7
Total Gross Sales	749,819	604,111	24.1	1,310,522	1,068,460	22.7
Sales Allowances	(11,383 )	(10,418 )		(17,592 )	(17,656 )	
Total Net Sales	\$738,436	\$593,693	24.4	\$1,292,930	\$1,050,804	23.0

Gross sales in the second quarter of 2013 increased 24% compared to the same period of 2012, due to a 15% increase in overall prices due to the higher level of the Lumber Market, which impacts our selling prices to customers in each of our markets, and a 9% increase in overall unit sales.

Gross sales in the first six months of 2013 increased 23% compared to the same period of 2012, due to higher lumber prices and a 6% increase in unit sales primarily resulting from improved demand related to new home construction.

Changes in our gross sales by market are discussed below.

**Retail Building Materials:**

Gross sales to the retail building materials market increased 13% in the second quarter of 2013 compared to the same period of 2012, primarily due to an 11% increase in selling prices and a 2% increase in our overall unit sales. Within this market, sales to our big box customers increased 14% while our sales to other retailers increased 12%. In addition, our unit sales improved sequentially within the quarter as the weather improved.

Gross sales to the retail building materials market increased 10% in the first six months of 2013 compared to the same period of 2012, primarily due to the same factors discussed above. Within this market, sales to our big box customers increased 7% while our sales to other retailers increased 14%. Our unit sales decreased 3% for the first six months of 2013.

**Residential Construction:**

Gross sales to the residential construction market increased 57% in the second quarter of 2013 compared to the same period of 2012 due to an increase in lumber prices and a 27% increase in our unit sales. By comparison, national housing starts increased approximately 28% in the period of March 2013 through May 2013 (our sales typically trail housing starts by about a month), compared to the same period of 2012. Our sales growth may trail the market from time to time due to our focus on profitability and cash flow as this market is still challenged with excess capacity resulting in pricing pressure from customers.

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UNIVERSAL FOREST PRODUCTS, INC.

Gross sales to the residential construction market increased 51% in the first six months of 2013 compared to the same period of 2012, primarily due to the same factors discussed above. Our unit sales increased 24% for the first six months of 2013.

Commercial Construction and Concrete Forming:

Gross sales to the commercial construction and concrete forming market increased 56% in the second quarter of 2013 compared to the same period of 2012. Within this market, sales to commercial builders increased 103%, primarily due to new product sales in our Gulf region and sales of products used to make concrete forms increased 29%.

Gross sales to the commercial construction and concrete forming market increased 55% in the first six months of 2013 compared to the same period of 2012. Within this market, sales to commercial builders increased 100%, and sales of products used to make concrete forms increased 30% due to our continued focus on growing our share of this market.

Industrial:

Gross sales to the industrial market increased 21% in the second quarter of 2013 compared to the same period of 2012, resulting from a 16% increase in selling prices and a 5% increase in unit sales. We acquired two new operations which contributed all of our growth in unit sales.

Gross sales to the industrial market increased 20% in the first six months of 2013 compared to the same period of 2012, primarily due to the same factors discussed above. Our unit sales increased 5% in the first six months of 2013.

Manufactured Housing:

Gross sales to the manufactured housing market increased 36% in the second quarter of 2013 compared to 2012, primarily due to a 22% increase in selling prices and a 14% increase in unit sales. Production of HUD-code homes in the second quarter of 2013 increased 11% compared to 2012, and we believe modular market activity also increased. Our unit sales increase exceeded the market due to share gains of our distribution business.

Gross sales to the manufactured housing market increased 39% in the first six months of 2013 compared to 2012, primarily due to the same factors discussed above. Our unit sales increased 12% for the first six months of 2013.

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## UNIVERSAL FOREST PRODUCTS, INC.

## Value-Added and Commodity-Based Sales:

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

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Value-Added	57.8%	59.3%	57.5%	59.2%
Commodity-Based	42.2%	40.7%	42.5%	40.8%

The processes used to produce preservative treated lumber and its applications in the marketplace would suggest that it is a “value-added” product, but we have classified this product category as “commodity-based” as a result of its lower margin.

## COST OF GOODS SOLD AND GROSS PROFIT

Our gross profit percentage decreased to 10.9% from 12.1% comparing the second quarter of 2013 to the same period of 2012. However, our gross profit dollars increased by 11.3%, exceeding our 9% increase in unit sales.

Our lower gross profit percentage in 2013 is a result of the higher level of year over year lumber prices this year compared to 2012. See Historical Lumber Prices. If lumber prices had remained at the same level in 2013 as they were in 2012, we estimate that our gross profit percentage would have been approximately 12.5% in 2013, which compares favorably with our 12.1% gross profit percentage in 2012.

The improvement in our gross profit per unit and profitability this quarter resulted from our increase in unit sales combined with the operating leverage we have on our labor, overhead and outbound freight costs. This favorable impact was offset to some extent by the significant sequential decline in lumber prices throughout the second quarter of 2013. See Historical Lumber Prices. Currently, the selling prices of most of our products reflect the Lumber Market at the time that they are shipped, while we have previously purchased and prepared the products for sale based on the anticipated needs of our customers. Accordingly, in periods when the trend of lumber prices is declining, our gross profit per unit will decline.

Our gross profit percentage decreased to 10.6% from 12.0% comparing the first six months of 2013 to the same period of 2012. However, our gross profit dollars increased by 9.3%, which compares favorably to our 6% increase in unit sales. This improvement is primarily due to the same factors discussed above.

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UNIVERSAL FOREST PRODUCTS, INC.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses increased by approximately \$3.7 million, or 7.4%, in the second quarter of 2013 compared to the same period of 2012, while we reported a 9% increase in unit sales. The increase in SG&A was primarily due to increases in wages and certain incentive compensation tied to profitability and returns. These increases were partially offset by a decrease in bad debt expense.

Selling, general and administrative ("SG&A") expenses increased by approximately \$6.1 million, or 6.4%, in the first six months of 2013 compared to the same period of 2012, while we reported a 5% increase in unit sales. SG&A expenses were impacted in the first six months of 2013 by the same factors discussed above.

NET (GAIN) LOSS ON DISPOSITION OF ASSETS, EARLY RETIREMENT AND OTHER IMPAIRMENT AND EXIT CHARGES

In the first six months of 2013, we had net gains on the sale of real estate and other property, plant and equipment totaling approximately \$0.1 million. In the first six months of 2012, we had net gains on the sale of real estate and other property, plant and equipment totaling approximately \$6.9 million, which was offset by approximately \$0.1 million of severance costs.

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 six months of 2013. The net book value of the long-lived assets of these operations, which could be subject to an impairment charge in the future, was \$18.4 million as of June 29, 2013. In addition, these operations had future fixed operating lease payments totaling \$0.5 million as of June 29, 2013.

INTEREST, NET

Net interest costs were higher in the second quarter and first six months of 2013 compared to the same period of 2012, due to higher debt levels in 2013 resulting from the impact of higher lumber prices on working capital.

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## UNIVERSAL FOREST PRODUCTS, INC.

## 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 37.5% in the second quarter of 2013 compared to 36.9% for same period of 2012. Our effective tax rate was 35.3% in the first six months of 2013 compared to 37.1% for the same period of 2012. The decrease in our year to date effective tax rate is primarily due to research and development and certain other tax credits related to 2012, which Congress approved in 2013.

## SEGMENT REPORTING

The following table presents, for the periods indicated, our net sales and operating profit by reportable segment.

(in thousands)	Net Sales Three Months Ended				Segment Operating Profit Three Months Ended			
	June 29, 2013	June 30, 2012	\$ Change	% Change	June 29, 2013	June 30, 2012	\$ Change	% Change
	Eastern and Western	\$601,185	\$476,065	\$125,120	26.3 %	\$21,710	\$26,733	\$ (5,023)
Site-Built	73,860	53,388	20,472	38.3	2,225	1,057	1,168	110.5
All Other	63,391	64,240	(849 )	(1.3 )	1,258	199	1,059	532.2
Corporate <sup>1</sup>	-	-	-	-	1,924	1,530	394	25.8
Total	\$738,436	\$593,693	\$144,743	24.4 %	\$27,117	\$29,519	\$ (2,402)	(8.1 %)

(in thousands)	Net Sales Six Months Ended				Segment Operating Profit Six Months Ended			
	June 29, 2013	June 30, 2012	\$ Change	% Change	June 29, 2013	June 30, 2012	\$ Change	% Change
	Eastern and Western	\$1,046,709	\$842,903	\$203,806	24.2 %	\$35,783	\$39,245	\$ (3,462)
Site-Built	132,011	100,931	31,080	30.8	(1,829)	464	(2,293)	(494.2 )
All Other	114,210	106,970	7,240	6.8	913	(1,275)	2,188	171.6
Corporate <sup>1</sup>	-	-	-	-	1,308	(1,122)	2,430	216.6
Total	\$1,292,930	\$1,050,804	\$242,126	23.0 %	\$36,175	\$37,312	\$ (1,137)	(3.0 %)

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

Eastern and Western

Net sales to the Eastern and Western reportable segment increased 26% in the second quarter of 2013 compared to 2012 and 24% in the first six months of 2013 compared to 2012, due to increased lumber prices and:

An increase in commercial construction and concrete forming sales primarily due to new products introduced in our Gulf region and other market share gains.



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UNIVERSAL FOREST PRODUCTS, INC.

- An increase in manufactured housing sales due to an increase in industry production of HUD code homes.
- Recently acquired businesses that serve the industrial market.

Operating profit for the Eastern and Western reportable segment decreased in the second quarter and in the first six months of 2013, due to a \$6.9 million net gain on the sale of real estate recorded in the prior year. Net of this gain, operating profits increased due to greater unit sales and operating leverage on labor and overhead costs, offset by the impact of the falling lumber market on gross profits from March through June of 2013.

Site-Built

Net sales to the Site-Built reportable segment increased 38% in the second quarter of 2013 compared to 2012 and 31% in the first six months of 2013 primarily due to increased lumber prices and an increase in housing starts.

Operating profit for the Site-Built reportable segment increased in the second quarter of 2013 compared to 2012, primarily due to an increase in unit sales and operating leverage on labor and overhead costs. This was offset somewhat by a decline in profits of our turn-key framing operations primarily due to an unexpected rise in labor costs on certain projects.

Operating profit for the Site-Built reportable segment decreased in the first six months of 2013 compared to 2012 primarily due to the impact of rising commodity and labor costs on construction contracts sold with a fixed price.

All Other

Net sales to all other segments decreased 1% in the second quarter of 2013 compared to 2012 primarily due to a decrease in our Universal Consumer Products operations, partially offset by improvements in our Pinelli Universal partnership and UFP Distribution operations.

Net sales increased 7% in the first six months of 2013, primarily due to:

· An increase in sales by our UFP Distribution operations, primarily due to an increase in industry production of HUD code homes and market share gains from adding new product lines.

· An increase in sales to the industrial market by our Pinelli Universal partnership, which manufactures moulding and millwork products out of its plant in Durango, Durango Mexico.

· The increases above were offset somewhat by a decrease in sales by our Universal Consumer Products operations.

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## UNIVERSAL FOREST PRODUCTS, INC.

Operating profit for all other segments increased in the second quarter of 2013 compared to 2012, primarily due to improved profitability of our Universal Consumer Products operations resulting from operational improvements and our Pinelli Universal partnership due to higher lumber prices. These factors were offset by additional development costs associated with our new Eovations product line.

Operating profit for all other segments increased in the first six months of 2013 compared to 2012 due to the same factors noted 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):

	Six Months Ended	
	June 29, 2013	June 30, 2012
Cash used in operating activities	\$ (28,917)	\$ (19,639)
Cash used in investing activities	(24,943)	(4,013 )
Cash from financing activities	42,905	17,184
Effect of exchange rate changes on cash	(99 )	(73 )
Net change in cash and cash equivalents	(11,054)	(6,541 )
Cash and cash equivalents, beginning of period	7,647	11,305
Cash (cash overdraft), end of period	\$ ( 3,407 )	\$ 4,764

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 and 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 results in negative or modest cash flows from operations in our first and second quarters. Conversely, we experience a substantial decrease in working capital from September to February which typically results in significant cash flow from operations in our third and fourth quarters. For comparative purposes, we have included the June 30, 2012 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 increased to 49 days in the first six months of 2013 from 47 days in the first six months of 2012, due to a 1 day increase in our days supply of inventory, combined with a 1 day decrease in our days payable outstanding. In 2013, retail demand and weather were poor, resulting in weaker than expected unit sales and lower inventory turnover, particularly in our first quarter. Conversely, in 2012, consumer demand and weather were unexpectedly good resulting in sales increases over anticipated levels and higher inventory turnover.

Cash used in operating activities was \$28.9 million in the first six months of 2013, which was comprised of net earnings of \$22.1 million and \$16.6 million of non-cash expenses, offset by a \$67.6 million increase in working capital since the end of 2012. Working capital at the end of June 2013 is higher than the end of June 2012 primarily due to the impact of higher lumber prices and sales levels. In June 2012, we sold real estate including a plant we previously closed in Fontana, CA and recorded a pre-tax gain of approximately \$7.2 million with proceeds on the sale totaling approximately \$12.5 million.

Capital expenditures were \$21.5 million in the first six months of 2013. We currently plan to spend up to \$40 million in 2013, which includes outstanding purchase commitments on existing capital projects totaling approximately \$14.4 million on June 29, 2013, primarily for expansion to support new product offerings and sales growth into new geographic markets. We intend to fund capital expenditures and purchase commitments through our operating cash flows for the balance of the year.

Cash flows used in investing activities also included \$9.3 million spent to acquire assets of Custom Caseworks, Inc., Millry Mill Company, Inc., and Premier Laminating Services, Inc. See Notes to Unaudited Consolidated Condensed Financial Statements, Note G "Business Combinations". Cash held in escrow and classified as restricted cash at December 29, 2012 of \$6.3 million was used to fund the Custom Caseworks, Inc. asset acquisition.

Operating and investing activities were supported through borrowings on our revolving credit facility. On June 29, 2013, we had \$57.8 million outstanding on our \$265 million revolving credit facility compared to \$23.3 million outstanding at June 30, 2012. The increase was due to the impact of the higher Lumber Market on working capital. The revolving credit facility also supports letters of credit totaling approximately \$28.7 million on June 29, 2013. Financial covenants on the unsecured revolving credit facility and unsecured notes include minimum interest tests and a maximum leverage ratio. The agreements also restrict the amount of additional indebtedness we may incur and the amount of assets which may be sold. We were in compliance with all our covenant requirements on June 29, 2013.

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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.

In the second quarter of fiscal 2013, we changed our annual testing date for evaluating goodwill and indefinite-lived intangible asset impairment from the last day of the fiscal year to the first day of the Company's fourth fiscal quarter for all reporting units and indefinite-lived intangible assets. This voluntary change in accounting method is preferable under the circumstances because it will allow us more time to complete the annual goodwill and indefinite-lived intangible asset impairment testing in advance of our year-end reporting. This change does not delay, accelerate or avoid an impairment charge. The change is not applied retrospectively as it is impracticable to do so because retrospective application would require application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

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

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

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UNIVERSAL FOREST PRODUCTS, INC.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. With the participation of management, our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as (a) defined in Exchange Act Rules 13a – 15e and 15d – 15e) as of the quarter ended June 29, 2013 (the “Evaluation Date”), have concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Controls. During the quarter ended June 29, 2013, there were no changes in our internal (b) control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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UNIVERSAL FOREST PRODUCTS, INC.

## PART II. OTHER INFORMATION

Item 1A. Risk Factors.

CCA Treated Lumber Products. In connection with the chemical treatment of lumber products, certain of our affiliates market a modest amount of CCA (Chromated Copper Arsenate) treated products for permitted, non-residential applications. From time to time, various special interests and environmental groups have petitioned certain states requesting restrictions on the use or disposal of CCA treated products. The wood preservation industry trade groups have been and are working with individual states and the regulatory agencies to provide an accurate, factual background that demonstrates that the present method of uses and disposal is scientifically supported. While the level of activity in this area has diminished over time, our inability to market CCA treated products could impact our operations adversely.

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)
March 31 – May 4, 2013 <sup>(1)</sup>				2,988,229
May 5 – June 1, 2013				2,988,229
June 2 – June 29, 2013				2,988,229

(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.

On November 14, 2001, the Board of Directors approved a share repurchase program (which succeeded a previous program) allowing us to repurchase up to 2.5 million shares of our common stock. On October 14, 2011, our Board<sup>(1)</sup> authorized an additional 2 million shares to be repurchased under our share repurchase program. The total number of shares that may be repurchased under the program is approximately 3 million shares.

Item 5. Other Information.

None.

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UNIVERSAL FOREST PRODUCTS, INC.

PART II. OTHER INFORMATION

Item 6. Exhibits.

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

18.1 Preferability Letter of Ernst & Young LLP on change in date of annual goodwill and indefinite-lived intangible assets impairment testing performed by the Company.

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.

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101 Interactive Data File.

(INS) XBRL Instance Document.

(SCH) XBRL Schema Document.

(CAL) XBRL Taxonomy Extension Calculation Linkbase Document.

(LAB) XBRL Taxonomy Extension Label Linkbase Document.

(PRE) XBRL Taxonomy Extension Presentation Linkbase Document.

(DEF) XBRL Taxonomy Extension Definition Linkbase Document.

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UNIVERSAL FOREST PRODUCTS, INC.

SIGNATURES

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

UNIVERSAL FOREST  
PRODUCTS, INC.

Date: August 1, 2013 By: /s/ Matthew J. Missad  
Matthew J. Missad,  
Chief Executive Officer  
and Principal Executive  
Officer

Date: August 1, 2013 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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