



Universal Forest Products®

Report to Shareholders

2009



Universal Forest Products®

Dear Shareholders:

Throughout its history, Universal Forest Products has anticipated and adapted well to change, even when that has been difficult.

We started as a lumber supplier to the manufactured housing industry. When we saw the growth potential that partnerships with then-new DIY retailers could produce, we ventured into the wood treating business—and became the leading pressure-treater in the nation. At the beginning of the building boom, we saw opportunity in housing, and through acquisitions we became the largest residential truss and floor system manufacturer in the country.

When manufactured housing demand dropped in the early 2000s, we spread our wings into industrial and agricultural packaging—and grew that business to a nearly half-billion-dollar enterprise. Even within the industrial market, we have found opportunity for growth, branching into forms and products for concrete construction customers, and into packaging material, such as corrugated and banding, for industrial customers and others. That has helped us weather the contraction of other markets and remain a solid company with a bright future.

Today, we find ourselves in an economic crisis that forces us to take a hard look at our company, operations and markets, and to identify the means by which we can create sustainable growth. We have sized our organization to our business opportunities. We have broadened our product portfolio in each of our markets. We have taken on new markets and affiliated with new companies to enhance our offering. Our continuous improvement journey, on which we embarked about the time the bottom fell out of the housing market, has been transformative: Our plants become more efficient by the day and are prepared to take on more business.

All of this in an effort to ensure Universal makes it solidly through this economic downturn and creates avenues for long-term growth. It's working. We ended 2009 with a profit of \$24.3 million, strong cash flow and cash reserves well in excess of what little debt we had. We believe it's fair to say we have the best balance sheet in the industry, which gives us the confidence and resources to grow our company and success.

We are proud of what our people were able to accomplish in 2009:

DIY/Retail

Our gross sales to DIY customers in 2009 totaled \$805 million, a decrease of 12 percent from 2008. The decrease reflects the 12 percent decline in lumber prices in the year and the fractured confidence consumers have in the economy and in their own financial security. Despite the challenges, we had exciting progress in this market. We launched many new products in our consumer products group and now have items such as stepping stones and birdbaths in our portfolio. We reopened a plant in White Pigeon, Mich., to assemble a new line of premium vinyl fencing for one of our most valued customers. That reopening gave us one of the most rewarding experiences of 2009: rehiring many of the good employees we were forced to let go just a year earlier.

All indications are that this arena will see modest growth in the coming years as consumer confidence returns, as home maintenance projects become necessary (they can be delayed only so long), as foreclosed homes are purchased and necessary repairs and upgrades are made, and as pent-up demand for sprucing up homes and outdoor living spaces finally translates into action. Universal remains a leading supplier to big-box and independent retailers, and we look forward to growth in the years ahead.

Industrial

Our industrial/agricultural packaging and components business saw gross sales of \$479 million. This decrease of 20 percent from 2008 reflects the 12 percent drop in lumber prices as well as anemic U.S. manufacturing output. We remain enthusiastic about this business and comfortable with our position in what is a fragmented market, and we see nothing but opportunity for growth in the market and our market share.

In addition to our traditional industrial business—in which we supply crates and packaging for manufacturers nationwide as well as components for products such as doors and bed frames—we focused on two new areas: concrete forming products, and packaging materials and accessories. In the former, we manufacture the forms concrete construction companies use for building their structures and ship them to their job site, sell the lumber those customers need to build the forms themselves, or build the forms on-site for our customers. We continue to create affiliations that allow us to enhance our offering with things like curing blankets for concrete slabs. The latter arena—packaging products and accessories—is a natural extension of our traditional industrial business as we add shrink wrap, banding, corrugated, corner protectors and other items to the solutions we provide to industrial customers. These markets bring great promise and opportunity to Universal, complementing our existing business well and providing new areas for growth—and already adding sales.

Site-built construction

Our housing markets continue to suffer; fortunately, we are sized right for our current opportunities. There are companies in the marketplace still pricing their products marginally over cost simply to stay alive or in an effort to increase market share; we have no need to do that—and won't: It offers no long-term benefit. We will take on business only with customers who understand the benefits of focusing on mutual success and profitability. Our site-built construction sales were \$244 million, down 46 percent from 2008, which reflects the 39 percent drop in total housing starts and the declining lumber market. Among our strategies is a focus on multifamily, commercial and government projects. While we expect just modest growth in site-built in the coming year, in the long term, certain and enduring demand for housing will support only the best, most reliable players. We intend to be one of them.

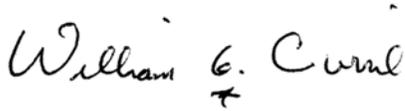
Manufactured housing

Sales in manufactured housing amounted to \$184 million in 2009, a decrease of 39 percent from the previous year. That reflects the 39 percent drop in shipments of HUD-code homes in 2009 from 2008 and the estimated 44 percent decline in modular housing shipments for the year. With our commanding share of this market, our performance will essentially track with the industry. We foresee flat to modestly increased sales for 2010. We intend to continue helping our customers create success and profitability, and seek ways we can increase the number of products we offer to them. For example, we started a laminating line in one of our Texas operations and are having success providing new products for inside the home.

We're proud of all we achieved, but we're not satisfied. By design, the Universal Forest Products you'll see in 2012 will look different than the Universal Forest Products of 2005. We'll still be a leading supplier to DIY retailers, but we'll be known for decorative outdoor living items as well as for lumber and decking, and we'll develop new lines of outdoor living products. We'll still be in the site-built business, and will look to create balance in that business. We'll be focused on growing with new products and new customers in all areas of our industrial business. We'll remain committed to manufactured housing, and with fewer homes being produced in this market, we will look to grow by supplying more products for each home that is built. We'll increase our collaborations with other companies to grow into new areas of business. And we'll add value to our customers by becoming a leaner, better company day by day.

We believe our markets hold strong opportunity for long-term growth, and we intend to remain in each of them and grow our importance as a dominant supplier in an era when vendor lists are being consolidated.

We also intend to remain true to who and what we are: a company that holds the utmost respect for its customer relationships and that values integrity, hard work and an entrepreneurial spirit. We intend to continue finding enjoyment in what we do; that's a big part of Universal—the love of our company, business, partners and co-workers. These are the things that make us great and grateful, and that will take us to new levels of success.



William G. Currie
Chairman of the Board



Michael B. Glenn
Chief Executive Officer



Universal Forest Products®

UNIVERSAL FOREST PRODUCTS, INC.
FINANCIAL INFORMATION

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SELECTED FINANCIAL DATA*(In thousands, except per share and statistics data)*

	2009	2008	2007	2006	2005
Consolidated Statement of Earnings Data					
Net sales	\$ 1,673,000	\$ 2,232,394	\$ 2,513,178	\$ 2,664,572	\$ 2,691,522
Gross profit	242,751	254,201	309,029	381,682	359,256
Earnings before income taxes	38,597	7,146	38,609	112,135	110,772
Net earnings attributable to controlling interest	24,272	4,343	21,045	70,125	67,373
Diluted earnings per share	\$ 1.25	\$ 0.23	\$ 1.09	\$ 3.62	\$ 3.53
Dividends per share	\$ 0.260	\$ 0.120	\$ 0.115	\$ 0.110	\$ 0.105
Weighted average shares outstanding with common stock equivalents	19,468	19,225	19,362	19,370	19,106
Consolidated Balance Sheet Data					
Working capital ⁽¹⁾	\$ 248,165	\$ 230,308	\$ 337,800	\$ 282,913	\$ 298,027
Total assets	791,677	816,019	957,000	913,441	876,920
Total debt and capital lease obligations	53,854	101,174	206,071	170,097	209,497
Shareholders' equity	568,946	548,226	547,044	525,561	440,429
Statistics					
Gross profit as a percentage of net sales	14.5%	11.4%	12.3%	14.3%	13.3%
Net earnings attributable to controlling interest as a percentage of net sales	1.5%	0.2%	0.8%	2.6%	2.5%
Return on beginning equity ⁽²⁾	4.4%	0.8%	4.0%	15.9%	18.5%
Current ratio	2.84	2.53	3.08	2.47	2.46
Debt to equity ratio	0.09	0.18	0.38	0.32	0.48
Book value per common share ⁽³⁾	\$ 29.50	\$ 28.72	\$ 28.93	\$ 27.87	\$ 23.93

(1) Current assets less current liabilities.

(2) Net earnings divided by beginning shareholders' equity.

(3) Shareholders' equity divided by common stock outstanding.

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

Universal Forest Products, Inc. ("the Company") is a holding company that provides capital, management and administrative resources to subsidiaries that design, manufacture and market wood and wood-alternative products for DIY/retail home centers and other retailers, structural lumber products for the manufactured housing industry, engineered wood components for the site-built construction market, and specialty wood packaging and components for various industries. The Company's consumer products subsidiary offers a large portfolio of outdoor living products, including wood composite decking, decorative balusters, post caps and plastic lattice, and its garden group offers an array of products, such as trellises and arches, to retailers nationwide. Our subsidiaries also provide framing services for the site-built market and forming products for concrete construction. The Company is headquartered in Grand Rapids, Michigan, with facilities throughout North America. For more about Universal Forest Products, Inc., go to www.ufpi.com.

We advise you to read the issues discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with our Consolidated Financial Statements and the Notes to the Consolidated Financial Statements included in this Annual Report for the year ended December 26, 2009. We also encourage you to read our Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission. That report includes "Risk Factors" that you should consider in connection with any decision to buy or sell our securities. We are pleased to present this overview of 2009.

OVERVIEW

Our results for 2009 were impacted by the following:

- Our overall unit sales decreased 19% due to weak demand in each of our markets. However, during 2009, we believe we gained additional share of the D-I-Y/retail and industrial markets and maintained our share of the manufactured housing and site-built markets.
- National housing starts decreased approximately 39% in 2009 compared to 2008 as a result of an excess supply of homes, tight credit conditions, and an increase in foreclosures.
- Consumer spending for large repair/remodel projects decreased due to general economic conditions, among other factors, including weak home prices and decreased cost recovery for most types of upper-end home improvement projects. Consequently, the same store sales of "big box" home improvement retailers declined by approximately 9%.
- Shipments of HUD code manufactured homes were down 39% in 2009. Industry sales of modular homes are estimated to have declined by 44% in 2009. Weak market conditions are due to issues mentioned above affecting the site-built market and tight credit conditions.
- The industrial market declined due to the general weakening of the U.S. economy. We gained additional share of this market due, in part, to adding new concrete forming business.

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

- Our gross margin increased to 14.5% in 2009 from 11.4% in 2008 due to the implementation of various cost reduction initiatives and the lower level of the Lumber Market.
- Our selling, general and administrative (“SG&A”) expenses were down approximately \$28.5 million, or 12.5%, from 2008, due to our right-sizing efforts and plant consolidation actions we took last year, offset somewhat by an increase in bad debt and incentive compensation expenses.
- Our interest costs decreased by \$7.5 million, or 61.9%, due to a reduction in our interest-bearing debt since the beginning of 2008.
- Operating and investing cash flows were \$125 million in 2009 due to improved profitability, effective working capital management, and reduced working capital requirements due to weak demand. The strength of our cash flows allowed us to reduce our debt to \$54 million and increase our cash to \$82 million at the end of 2009.

HISTORICAL LUMBER PRICES

The following table presents the Random Lengths framing lumber composite price for the years ended December 26, 2009, December 27, 2008, and December 29, 2007.

	Random Lengths Composite		
	Average \$/MBF		
	2009	2008	2007
January	\$ 198	\$ 249	\$ 292
February	199	244	289
March	195	240	280
April	208	255	286
May	198	281	288
June	222	268	306
July	238	267	299
August	239	282	290
September	236	272	276
October	235	234	261
November	245	224	264
December	252	213	267
Annual average	\$ 222	\$ 252	\$ 283
Annual percentage change	(11.9%)	(11.0%)	

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

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

	Random Lengths SYP Average \$/MBF		
	2009	2008	2007
January	\$ 241	\$ 269	297
February	233	264	284
March	232	264	282
April	241	272	277
May	231	324	283
June	236	318	294
July	253	303	307
August	241	304	282
September	244	309	270
October	242	269	307
November	247	257	282
December	250	248	270
Annual average	\$ 241	\$ 283	\$ 286
Annual percentage change	(14.8%)	(1.0%)	

IMPACT OF THE LUMBER MARKET ON OUR OPERATING PROFITS

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.

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

- 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.

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

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

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

	<u>Period 1</u>	<u>Period 2</u>
Lumber cost	\$ 300	\$ 400
Conversion cost	<u>50</u>	<u>50</u>
= Product cost	350	450
Adder	<u>50</u>	<u>50</u>
= 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.

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

BUSINESS COMBINATIONS AND ASSET PURCHASES

See Notes to Consolidated Financial Statements, Note C, "Business Combinations."

RESULTS OF OPERATIONS

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

	Years Ended		
	December 26, 2009	December 27, 2008	December 29, 2007
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	85.5	88.6	87.7
Gross profit	14.5	11.4	12.3
Selling, general, and administrative expenses	11.9	10.2	9.8
Net (gain) loss on disposition of assets and other impairment and exit charges	(0.0)	0.3	0.4
Earnings from operations	2.6	0.9	2.1
Interest, net	(0.3)	(0.5)	(0.6)
Earnings before income taxes	2.3	0.4	1.5
Income taxes	0.8	0.1	0.6
Net earnings	1.5	0.3	0.9
Less net earnings attributable to noncontrolling interest	(0.0)	(0.1)	(0.1)
Net earnings attributable to controlling interest	<u>1.5%</u>	<u>0.2%</u>	<u>0.8%</u>

GROSS SALES

We market, manufacture and engineer wood and wood-alternative products for the DIY/retail market, structural lumber products for the manufactured housing market, engineered wood components for the site-built construction market, and specialty wood packaging for various markets. We also provide framing services for the site-built construction market and various forms for concrete construction. Our strategic long-term sales objectives include:

- Diversifying our end market sales mix by increasing sales of specialty wood packaging to industrial users, increasing our penetration of the concrete forms market, increasing our sales of engineered wood components for custom home, multi-family and light commercial construction, and expanding our product lines in each of the markets we serve.
- Expanding geographically in our core businesses.
- Increasing sales of "value-added" products and framing services. Value-added product sales primarily consist of fencing, decking, lattice, and other specialty products sold to the DIY/retail market, specialty wood packaging, engineered wood components, and "wood alternative" products. Engineered wood components include roof trusses, wall panels, and floor systems. Wood alternative products consist primarily of composite wood and plastics. Although we consider the treatment of dimensional lumber with certain chemical preservatives a value-added process, treated lumber is not presently included in the value-added sales totals.
- Maximizing unit sales growth while achieving return on investment goals.

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

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

Market Classification	Years Ended				
	December 26, 2009	% Change	December 27, 2008	% Change	December 29, 2007
DIY/Retail	\$ 805,052	(12.4)	\$ 919,200	(7.0)	\$ 988,175
Site-Built Construction	244,117	(46.1)	452,689	(23.1)	588,778
Industrial	479,284	(20.0)	598,915	1.1	592,369
Manufactured Housing	183,912	(39.4)	303,387	(22.6)	392,163
Total Gross Sales	1,712,365	(24.7)	2,274,191	(11.2)	2,561,485
Sales Allowances	(39,365)		(41,797)		(48,307)
Total Net Sales	<u>\$ 1,673,000</u>	(25.1)	<u>\$ 2,232,394</u>	(11.2)	<u>\$ 2,513,178</u>

The following table presents estimates, for the periods indicated, of our percentage change in gross sales which were attributable to changes in overall selling prices versus changes in units shipped.

	% Change		
	in Sales	in Selling Prices	in Units
2009 versus 2008	-25%	-6%	-19%
2008 versus 2007	-11%	-2%	-9%
2007 versus 2006	-5%	-5%	0%

Gross sales in 2009 decreased 25% compared to 2008 resulting from an estimated decrease in units shipped of approximately 19%, while overall selling prices decreased by 6%. We estimate that our unit sales increased 1% as a result of business acquisitions and new plants, while our unit sales from existing and closed facilities decreased by 20% due to a decline in market demand. 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 construction market.

Gross sales in 2008 decreased 11% compared to 2007. We estimate that our unit sales decreased by 9% and overall selling prices decreased by 2% comparing the two periods. We estimate our unit sales increased 3% as a result of acquisitions and new facilities, while unit sales from existing and closed facilities decreased 12%.

Changes in our sales by market are discussed below.

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

DIY/Retail:

Gross sales to the DIY/retail market decreased 12% in 2009 compared to 2008 primarily due to an estimated 6% decrease in overall unit sales and an estimated 6% decrease in overall selling prices due to the Lumber Market. We estimate that our unit sales increased 1% as a result of acquisitions, while unit sales from existing and closed facilities decreased 7%. 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 declines in same store sales reported by our "big box" customers. We believe that we achieved market share gains in 2009, which offset some of the impact of these adverse market conditions.

Gross sales to the DIY/retail market decreased 7% in 2008 compared to 2007, as a result of an estimated 6% decrease in overall unit sales combined with 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 8%. 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.

Site-Built Construction:

Gross sales to the site-built construction market decreased 46% in 2009 compared to 2008, due to an estimated 38% decrease in unit sales and an estimated 8% decrease in selling prices. National housing starts were off a reported 39% for 2009 compared to the same period of 2008.

Gross sales to the site-built construction market decreased 23% in 2008 compared to 2007, due to an estimated 14% decrease in unit sales out of existing facilities and an estimated 9% decrease in average selling prices primarily due to intense pricing pressure and a soft Lumber Market. National single-family housing starts were off a reported 41% for 2008 compared to 2007. In the first half of 2008, 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 have been impacted by tight credit conditions as well as other economic factors.

Industrial:

Gross sales to the industrial market decreased 20% in 2009 compared to the same period of 2008, due to an estimated 14% decrease in unit sales and an estimated 6% decrease in selling prices. We experienced a decline in sales to our customers that supply the housing market or have been impacted by the weakening U.S. economy. We have been able to offset some of the impact of a decline in demand with market share gains and our continued penetration of the concrete forming market.

Gross sales to the industrial market increased 1% in 2008 compared to 2007, due to an estimated 2% increase in unit sales and an estimated 1% decrease 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 customers that supply the housing market or have been impacted by the weakening U.S. economy.

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

Manufactured Housing:

Gross sales to the manufactured housing market decreased 39% in 2009 compared to the same period of 2008 primarily due to a decline in unit sales as a result of weak demand. Industry production of HUD code homes was off a reported 39% for 2009 compared to the same period of 2008. Modular home production was down an estimated 44% in 2009.

Gross sales to the manufactured housing market decreased 23% in 2008 compared to 2007, due to an estimated 21% decrease in unit sales and 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 reported a 14% decrease in HUD code production in 2008, while modular production was off a reported 28%.

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.

	<u>Value-Added</u>	<u>Commodity-Based</u>
2009	59.4%	40.6%
2008	60.4%	39.6%
2007	60.5%	39.5%

Value-added sales decreased 26% in 2009 compared to 2008, primarily due to decreased sales of trusses, turn-key framing and installed sales, fencing, engineered wood products and manufactured component lumber. Commodity-based sales decreased 25% comparing 2009 with 2008, primarily due to decreased sales of non-manufactured lumber and panels and treated lumber. See Notes to Consolidated Financial Statements, Note Q, "Segment Reporting."

Value-added sales decreased 11% in 2008 compared to 2007, primarily due to decreased sales of trusses, engineered wood products, wall panels, and manufactured brite and other lumber, offset partially by increases in sales of industrial packaging and related components. Commodity-based sales decreased 11% in 2008 compared to 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 increased to 14.5% in 2009 from 11.4% in 2008. Our gross profit dollars decreased by only 5%, which compares favorably with our 19% decrease in unit sales. Our improved gross margin is primarily due to cost reductions consisting of:

- An improvement in material costs as a percentage of net sales as a result of better buying and inventory management to protect margins.
- An improvement in labor and plant overhead as a percentage of net sales due to plant consolidation and right-sizing efforts previously taken.
- Lower freight costs due to fuel prices.

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

In addition, the lower level of the Lumber Market caused our gross margin to increase. See "Impact of the Lumber Market on Our Operating Results".

Our gross profit percentage decreased to 11.4% in 2008 from 12.3% in 2007 and gross profit dollars decreased 17.7% in 2008 compared to 2007. The decline in profitability was primarily due to a combination of:

- Price pressure in all of our markets but particularly in our site-built construction market.
- A significant increase in fuel and other transportation costs in the second and third quarter of 2008.
- Missed buying opportunities as a result of stocking lower levels of lumber inventory.
- Cost inefficiencies as a result of lower volumes combined with fixed manufacturing costs.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses decreased by approximately \$28.5 million, or 12.5%, in 2009 compared to 2008, while we reported a 19% decrease in unit sales. New operations added \$0.6 million of expenses, operations we closed decreased expenses by \$15.5 million, and existing operations reduced expenses by \$13.6 million. The decrease in SG&A expenses at our existing operations was primarily due to a decline in wages and related costs due to a reduction in headcount and a decline in many other account categories as a result of efforts to control costs. These decreases were partially offset by an increase in accrued bonus and bad debt expense. Our SG&A expenses increased as a percentage of sales primarily due to the lower level of the Lumber Market, accrued bonus, and bad debt expense.

Selling, general and administrative ("SG&A") expenses decreased by approximately \$18.8 million, or 7.6%, in 2008, while we reported a 9% decrease in unit sales. Existing facilities decreased SG&A expenses by approximately \$2.6 million, operations we closed decreased expenses approximately \$20.9 million, and business acquisitions added \$4.7 million in expenses. The decrease in SG&A expenses in our existing facilities 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.

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

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

We incurred \$4.1 million of charges in 2009 and \$7.7 million in 2008 relating to asset impairments and other costs associated with idled facilities and down-sizing efforts. These costs were offset by gains on the sale of certain real estate totaling \$4.2 million in 2009 and \$0.5 million in 2008. See Notes to Consolidated Financial Statements, Note D "Assets Held for Sale and Net (Gain) Loss on Disposition of Assets and Other Impairment and Exit Charges."

We regularly review the performance of each of 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 9 operations which experienced operating losses and negative cash flow in 2009. The net book value of the long-lived assets of these operations, which could be subject to an impairment charge in the future in the event a closure action is taken, was \$15.3 million at the end of 2009. In addition, these operations had future fixed operating lease payments totaling \$1.8 million at the end of 2009.

We incurred \$8.2 million of asset impairments and other costs associated with idled facilities in 2007.

INSURANCE PROCEEDS

In May, 2008 our plant in Windsor, CO was hit by a tornado. In accordance with Accounting Standards Codification ("ASC") 605, *Accounting for Involuntary Conversions of Non-Monetary Assets to Monetary Assets*, we have written off the net book value of the destroyed inventory and property totaling \$0.7 million. The insured value of the property exceeded its net book value, which was recorded as a gain in 2008. In 2008, we collected \$0.8 million of the insurance receivable and in 2009 we collected \$1.0 million. As of December 26, 2009, there is no remaining insurance receivable.

INTEREST, NET

Net interest costs were lower in 2009 compared to 2008 due to lower debt balances combined with a decrease in short-term interest rates upon which our variable rate debt is based.

Net interest costs were lower in 2008 compared to 2007 due to lower debt balances combined with a decrease in short-term interest rates.

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

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 35.9% in 2009 compared to 23.6% in 2008. Our effective tax rate differs from the federal statutory rate primarily due to estimated state and local income taxes and certain permanent tax differences. See Notes to Consolidated Financial Statements, Note M, "Income Taxes".

Our effective tax rate decreased to 23.6% in 2008 compared to 39.9% in 2007. The 2008 rate was favorably impacted by certain state income tax credits we received and the impact of other permanent tax differences on substantially lower pretax income.

OFF-BALANCE SHEET TRANSACTIONS AND CONTRACTUAL OBLIGATIONS

We have no significant off-balance sheet transactions other than operating leases. The following table summarizes our contractual obligations as of December 26, 2009 (in thousands).

Contractual Obligation	Payments Due by Period				Total
	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years	
Long-term debt and capital lease obligations	\$ 673	\$ 40,981	\$ 0	\$ 12,200	\$ 53,854
Estimated interest on long-term debt	2,531	5,062	135	619	8,347
Operating leases	12,313	11,571	3,277	1,125	28,286
Capital project purchase obligations	919				919
Total	\$ 16,436	\$ 57,614	\$ 3,412	\$ 13,944	\$ 91,406

As of December 26, 2009, we also had \$32.3 million in outstanding letters of credit issued during the normal course of business, as required by some vendor contracts.

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

LIQUIDITY AND CAPITAL RESOURCES

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

	December 26, 2009	December 27, 2008	December 29, 2007
Cash from operating activities	\$ 128,346	\$ 88,551	\$ 87,078
Cash from investing activities	(3,329)	(11,367)	(91,971)
Cash from financing activities	<u>(56,135)</u>	<u>(107,452)</u>	<u>(2,610)</u>
Net change in cash and cash equivalents	68,882	(30,268)	(7,503)
Cash and cash equivalents, beginning of year	13,337	43,605	51,108
Cash and cash equivalents, end of year	<u>\$ 82,219</u>	<u>\$ 13,337</u>	<u>\$ 43,605</u>

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 issuances of long-term notes payable at times when interest rates are favorable. We have not issued equity to finance our 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 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.

Due to the seasonality of our business and the effects of the Lumber Market, we believe our cash cycle (days 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) decreased to 45 days in 2009 from 46 days in 2008 due to a one day decrease in our days of sales outstanding. The decrease was due to more focused efforts to make sure we are paid on time by our customers.

Cash provided by operating activities was approximately \$128 million in 2009 including net earnings of \$24 million, \$47 million of non-cash expenses and a \$57 million decrease in working capital since the end of 2008. Working capital decreased primarily due to lower sales volumes associated with weak demand throughout 2009. In addition, there was approximately \$27 million of negative cash flow included in operating activities in 2008 related to our sale of receivables program. Specifically, at the end of December 2007 we had approximately \$27 million of receivables sold and outstanding under this program, while no amounts were sold outstanding at the end of September of 2008 because the program was terminated in that month.

We made the decision to limit our investing activities in 2008 and 2009 and make debt repayment and building cash reserves our first priority for use of our operating cash flows. As a result, we curtailed our capital expenditures for these years. In addition, we sold certain equipment and real estate, for which we had no planned future use, for approximately \$12 million. (See Notes to Consolidated Financial Statements, Note D, "Assets Held for Sale and Net (Gain) Loss on Disposition of Assets and Other Impairment and Exit Charges".)

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

On December 26, 2009, we had no outstanding balance on our \$300 million revolving credit facility, which matures in February of 2012, and increased our cash reserves to over \$82 million. The revolving credit facility supports letters of credit totaling approximately \$32.3 million on December 26, 2009. 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 December 26, 2009.

As a result of our strong financial position, in October 2009 our Board of Directors approved an increase in our dividend to a semi-annual rate of \$0.20 per share. It has been our practice to pay dividends on June 15 and December 15 of each year to shareholders of record as of June 1 and December 1, respectively.

ENVIRONMENTAL CONSIDERATIONS AND REGULATIONS

See Notes to Consolidated Financial Statements, Note O, "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. Following is a summary of our more significant accounting policies that require the use of estimates and judgments in preparing the financial statements.

ACCOUNTS RECEIVABLE ALLOWANCES

We record provisions against gross revenues for estimated returns and cash discounts in the period when the related revenue is recorded. These estimates are based on factors that include, but are not limited to, historical discounts taken, analysis of credit memorandum activity, and customer demand. We also evaluate the allowance for uncollectible accounts receivable and discounts based on historical collection experience and specific identification of other potential problems, including the economic climate. Actual collections can differ, requiring adjustments to the allowances.

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

SELF-INSURANCE RESERVES

We are primarily self-insured for certain employee health benefits, and have self-funded retentions for general liability, automobile liability, property and workers' compensation. We are fully self-insured for environmental liabilities. The general liability, automobile liability, property, workers' compensation, and certain environmental liabilities are managed through a wholly-owned insurance captive; the related assets and liabilities of which are included in the consolidated financial statements as of December 26, 2009. Our accounting policies with respect to the reserves are as follows:

- General liability, automobile, workers' compensation reserves are accrued based on third party actuarial valuations of the expected future liabilities.
- Health benefits are self-insured by us up to our pre-determined stop loss limits. These reserves, including incurred but not reported claims, are based on internal computations. These computations consider our historical claims experience, independent statistics, and trends.
- The environmental reserve is based on known remediation activities at certain wood preservation facilities and the potential for undetected environmental matters at other sites. The reserve for known activities is based on expected future costs and is computed by in-house experts responsible for managing our monitoring and remediation activities. (See "Environmental Considerations and Regulations.")

REVENUE RECOGNITION

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

LONG-LIVED ASSETS AND GOODWILL

We evaluate long-lived assets for indicators of impairment when events or circumstances indicate that this risk may be present. Our judgments regarding the existence of impairment are based on market conditions, operational performance and estimated future cash flows. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded to adjust the asset to its fair value. Changes in forecasted operations and changes in discounted rates can materially affect these estimates. In addition, we test goodwill for impairment by utilizing the discounted cash flow method.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Notes to Consolidated Financial Statements, Note A, "Summary of Significant Accounting Policies".

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

FORWARD OUTLOOK

The following section contains 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 in the "Risk Factors" section of our Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission and certain economic and business factors which may be beyond our control. Investors are cautioned that all forward-looking statements involve risks and uncertainties.

"Route 2012"

Since we discussed our Growth & Opportunity 2010 ("GO 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. In addition, the Lumber Market has declined from an average of \$388/MBF in 2005 to an average of \$222/MBF in 2009; a 43% decline from when we first set our goals.

In place of our GO 2010 goals, we have a new four-year growth plan entitled "Route 2012," which includes goals to be achieved by the end of our fiscal year 2012 including:

- Increase sales to \$3 billion as our markets recover from the current downturn and by increasing our market share and expanding our product lines.
- Improve productivity by 15% through our Continuous Improvement initiative.
- Improve profitability by three hundred basis points through productivity improvements, cost reductions, and growth.
- Improve receivables cycles in our industrial, site-built and manufactured housing markets by 10% by reducing the amount of our receivables that are paid past the agreed upon due date.
- Improve inventory turnover by 10% through our Continuous Improvement initiative.

DIY/RETAIL MARKET

Harvard's Joint Center for Housing Studies projects home improvement spending to continue to decline through the second quarter of 2010, reflecting continuing challenges in housing, credit, and the general economy. However, the Consumer Confidence Index increased to 52.9 in December 2009, up from 38.6 at the beginning of the year.

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

In 2010, we believe we will maintain our overall market share with “big box” home improvement and other retailers, but will continue to be impacted by the soft market conditions discussed above. On a long-term basis, it is our goal to achieve sales growth by:

- Increasing our market share of value-added wood products and preservative-treated products as a result of our national presence, service capabilities that meet stringent customer requirements, diversified product offering, and purchasing leverage.
- Increasing our sales of wood alternative products such as composite wood decking, which continues to take market share from preservative-treated products. Although we expect this trend to continue to some extent, we believe wood products will continue to maintain a dominant market share for the foreseeable future as a result of its cost advantages over wood alternative products.
- Increasing our market penetration of products distributed by our Consumer Products Division, including decorative balusters, accessories, and post caps, plastic lattice, and other proprietary plastic products which have greatly enhanced our deck and fencing product lines.
- Developing new value-added products and services for this market.
- Adding new products or new markets through strategic business acquisitions.

SITE-BUILT CONSTRUCTION MARKET

The *Mortgage Bankers Association of America* forecasts a 34% increase in national housing starts to an estimated 743,000 starts in 2010. The *National Association of Home Builders* forecasts starts of 697,000, a 25% increase from 2009. In 2010, we believe we are well-positioned to capture our share of an increase that may occur in housing starts. The excess supply of site-built homes, foreclosures, and tight credit conditions still present significant challenges for the industry.

On a long-term basis, we anticipate growth in our sales to the site-built construction market as market conditions improve and as a result of market share gains as weaker competitors exit the market. In addition, it is our goal to improve our diversification of sales to this market by increasing our sales to the multi-family, light commercial, military and customer home building markets.

MANUFACTURED HOUSING MARKET

The *National Association of Home Builders* forecasts a 14% increase in manufactured home shipments in 2010, with year over year increases primarily occurring in the second half of the year. It is our goal to maintain our current market share of trusses produced for the HUD code market, which increased as a result of our acquisition of Banks in November 2006. On a long-term basis, we believe the HUD code market will regain a greater share of the single-family market as credit conditions normalize and as consumers seek more affordable housing alternatives.

Sales of modular homes are expected to continue to be impacted by the current oversupply of single-family housing and tight credit conditions. It is our goal to maintain our market share of trusses produced for the modular market as a result of our strong relationships with modular builders, design services and proprietary products. On a long-term basis, we anticipate modular housing will gain additional share of the single-family market as a result of more developers adopting the controlled building environment of modular construction as a method of cost control.

In addition, on a long-term basis, it is our goal to expand our product offering to manufactured housing customers.

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

INDUSTRIAL MARKET

One of our key strategic objectives is to increase our sales of wood packaging products to industrial users. We believe the vast amount of hardwood and softwood lumber consumed for industrial applications, combined with the highly fragmented nature of this market provides us with significant market share growth opportunities as a result of our competitive cost advantages in manufacturing, purchasing, and material utilization. To take advantage of these opportunities, we plan to continue to obtain market share through an internal growth strategy utilizing our current manufacturing capabilities and dedicated industrial sales force. However, we recognize that any market share gains we may realize in 2010 may continue to be offset to some extent by a decline in demand. On a long-term basis, we plan to evaluate strategic acquisition opportunities and continue to gain market share with concrete forming customers, and expand our product offering to customers.

GROSS PROFIT

We believe the following factors may impact our gross profits and margins in 2010:

- Our ability to maintain sales and gross margins on products sold to our largest customers. We believe our level of service, geographic diversity, and quality of products provides an added value to our customers. However, if our customers are unwilling to pay for these advantages, our sales and gross margins may be reduced.
- Through at least the first half of 2010 we expect to continue to experience soft demand in each of our markets, which, in turn, may impact our sales prices, capacity utilization, and profitability.
- Fluctuations in the relative level of the Lumber Market and the trend in the market price of lumber. (See "Impact of the Lumber Market on our Operating Results.")
- Fuel and transportation cost trends.
- Our ability to continue to achieve productivity improvements and planned cost reductions through our Continuous Improvement and other initiatives.
- Our ability to maintain productivity and material cost improvements achieved in 2009.

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

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Since the third quarter of 2008, as a result of weak market conditions, we have continuously taken actions to close plants to better align our manufacturing capacity with the current business environment and reduce our headcount and certain overhead costs to better align our cost structure with current demand and sales. We expect that these actions will continue to favorably impact our SG&A expenses in 2010. In addition, economic and credit conditions significantly impacted our bad debt expense in 2008 and 2009. As a result of actions taken in 2009 to reduce our credit exposure and improve the management of our receivables, we believe we are well-positioned to reduce our bad debt expense in 2010. We continue to monitor our customers' credit profiles carefully and make changes in our terms where necessary in response to this heightened risk.

On a long-term basis, we expect that our SG&A expenses will primarily be impacted by:

- Our growth in sales to the industrial market and, when industry conditions improve, the site-built construction market. Our sales to these markets require a higher ratio of SG&A costs due, in part, to product design requirements.
- Our incentive compensation program which is tied to pre-bonus operating profits and return on investment.
- Our growth and success in achieving Continuous Improvement objectives.

LIQUIDITY AND CAPITAL RESOURCES

Our cash cycle will continue to be impacted in the future based on our mix of sales by market. Sales to the site-built construction and industrial markets require a greater investment in working capital (inventory and accounts receivable) than our sales to the DIY/retail and manufactured housing markets.

Management expects to spend up to \$32 million on capital expenditures in 2010 and incur depreciation of approximately \$33 million and amortization of intangible assets of approximately \$8 million. On December 26, 2009, we had outstanding purchase commitments on capital projects of approximately \$0.9 million. We intend to fund capital expenditures and purchase commitments through our operating cash flows and cash.

We have no present intention to change our dividend policy, which was recently increased to \$0.20 per share paid semi-annually.

Our Board of Directors has approved a share repurchase program, and as of December 26, 2009, we have authorization to buy back approximately 1.1 million shares. In the past, we have repurchased shares in order to offset the effect of issuances resulting from our employee benefit plans and at times when our stock price falls to a pre-determined level.

We are also obligated to pay amounts due on long-term debt totaling approximately \$0.7 million in 2010.

Management's Annual Report on Internal Control Over Financial Reporting

The management of Universal Forest Products, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to us and the Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We assessed the effectiveness of our internal control over financial reporting as of December 26, 2009. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on our assessment, management has concluded that as of December 26, 2009, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The effectiveness of the Company's internal control over financial reporting has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which follows our report.

Universal Forest Products, Inc.

February 23, 2010

**Report of Independent Registered Public Accounting Firm
On Internal Control over Financial Reporting**

The Board of Directors and Shareholders of Universal Forest Products, Inc.

We have audited Universal Forest Products, Inc. and subsidiaries internal control over financial reporting as of December 26, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Universal Forest Products, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Universal Forest Products, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 26, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Universal Forest Products, Inc. and subsidiaries as of December 26, 2009 and the related consolidated statements of income, shareholder's equity, and cash flows for each of the three years then ended December 26, 2009 and our report dated February 23, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Grand Rapids, Michigan
February 23, 2010

**Report of Independent Registered Public Accounting Firm
On Financial Statements**

The Board of Directors and Shareholders of Universal Forest Products, Inc.

We have audited the accompanying consolidated balance sheets of Universal Forest Products, Inc. and subsidiaries as of December 26, 2009 and December 27, 2008, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 26, 2009. These financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Universal Forest Products, Inc. and subsidiaries at December 26, 2009 and December 27, 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 26, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Universal Forest Products, Inc. and subsidiaries' internal control over financial reporting as of December 26, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Grand Rapids, Michigan
February 23, 2010

**UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	<u>December 26, 2009</u>	<u>December 27, 2008</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 82,219	\$ 13,337
Accounts receivable, net	107,383	138,043
Inventories:		
Raw materials	89,956	109,942
Finished goods	<u>72,192</u>	<u>83,554</u>
	162,148	193,496
Assets held for sale		8,296
Other current assets	13,528	13,037
Refundable income taxes	10,391	6,283
Deferred income taxes	<u>7,680</u>	<u>8,416</u>
TOTAL CURRENT ASSETS	383,349	380,908
OTHER ASSETS	4,478	5,927
GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS	157,058	159,263
OTHER INTANGIBLE ASSETS, NET	16,693	22,751
PROPERTY, PLANT AND EQUIPMENT:		
Land and improvements	96,559	88,958
Building and improvements	140,505	143,845
Machinery, equipment and office furniture	272,816	271,104
Construction in progress	<u>894</u>	<u>1,270</u>
	510,774	505,177
Less accumulated depreciation and amortization	<u>(280,675)</u>	<u>(258,007)</u>
PROPERTY, PLANT AND EQUIPMENT, NET	230,099	247,170
TOTAL ASSETS	<u>\$ 791,677</u>	<u>\$ 816,019</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 64,473	\$ 63,184
Accrued liabilities:		
Compensation and benefits	48,340	49,306
Other	21,698	22,620
Current portion of long-term debt and capital lease obligations	<u>673</u>	<u>15,490</u>
TOTAL CURRENT LIABILITIES	135,184	150,600
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	53,181	85,684
DEFERRED INCOME TAXES	21,707	17,056
OTHER LIABILITIES	<u>12,659</u>	<u>14,453</u>
TOTAL LIABILITIES	222,731	267,793
SHAREHOLDERS' EQUITY:		
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, 19,284,587 and 19,088,880	\$ 19,285	\$ 19,089
Additional paid-in capital	132,765	128,830
Retained earnings	409,278	393,312
Accumulated other comprehensive earnings	<u>3,633</u>	<u>2,353</u>
	564,961	543,584
Employee stock notes receivable	<u>(1,743)</u>	<u>(1,701)</u>
	563,218	541,883
Noncontrolling interest	<u>5,728</u>	<u>6,343</u>
TOTAL SHAREHOLDERS' EQUITY	568,946	548,226
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 791,677</u>	<u>\$ 816,019</u>

See notes to consolidated financial statements.

UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)

	Year Ended		
	December 26, 2009	December 27, 2008	December 29, 2007
NET SALES	\$ 1,673,000	\$ 2,232,394	\$ 2,513,178
COST OF GOODS SOLD	<u>1,430,249</u>	<u>1,978,193</u>	<u>2,204,149</u>
GROSS PROFIT	242,751	254,201	309,029
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	200,026	228,557	247,373
NET (GAIN) LOSS ON DISPOSITION OF ASSETS AND OTHER IMPAIRMENT AND EXIT CHARGES	<u>(92)</u>	<u>7,239</u>	<u>8,164</u>
EARNINGS FROM OPERATIONS	42,817	18,405	53,492
INTEREST EXPENSE	4,611	12,088	17,033
INTEREST INCOME	<u>(391)</u>	<u>(829)</u>	<u>(2,150)</u>
	<u>4,220</u>	<u>11,259</u>	<u>14,883</u>
EARNINGS BEFORE INCOME TAXES	38,597	7,146	38,609
INCOME TAXES	<u>13,852</u>	<u>1,686</u>	<u>15,396</u>
NET EARNINGS	24,745	5,460	23,213
LESS NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>(473)</u>	<u>(1,117)</u>	<u>(2,168)</u>
NET EARNINGS ATTRIBUTABLE TO CONTROLLING INTEREST	<u>\$ 24,272</u>	<u>\$ 4,343</u>	<u>\$ 21,045</u>
EARNINGS PER SHARE — BASIC	\$ 1.26	\$ 0.23	\$ 1.10
EARNINGS PER SHARE — DILUTED	\$ 1.25	\$ 0.23	\$ 1.09
WEIGHTED AVERAGE SHARES OUTSTANDING	19,256	19,074	19,056
WEIGHTED AVERAGE SHARES OUTSTANDING WITH COMMON STOCK EQUIVALENTS	19,468	19,225	19,362

See notes to consolidated financial statements.

UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except share and per share data)

	Controlling Interest Shareholders' Equity						Total
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Employees Stock Notes Receivable	Noncontrolling Interest	
Balance at December 30, 2006	\$ 18,859	\$ 113,754	\$ 380,931	\$ 2,451	\$ (1,253)	\$ 10,819	\$ 525,561
Comprehensive earnings:							
Net earnings			21,045			2,168	
Foreign currency translation adjustment				2,253		45	
Total comprehensive earnings							25,511
Purchase of additional noncontrolling interest						(859)	(859)
Distributions to noncontrolling interest						(1,797)	(1,797)
Cash dividends — \$0.115 per share			(2,185)				(2,185)
Issuance of 220,345 shares under employee stock plans	220	3,683					3,903
Issuance of 3,961 shares under stock grant programs	4	170					174
Issuance of 69,777 shares under deferred compensation plans	70	(70)					—
Repurchase of 239,400 shares	(239)		(8,538)				(8,777)
Received 15,866 shares for the exercise of stock options	(16)	(766)					(782)
Tax benefits from non-qualified stock options exercised		1,867					1,867
Expense associated with share-based compensation arrangements		505					505
Accrued expense under deferred compensation plans		3,733					3,733
Issuance of 10,132 shares in exchange for employee stock notes receivable	10	492			(502)		—
Payments received on employee stock notes receivable					190		190
Balance at December 29, 2007	\$ 18,908	\$ 123,368	\$ 391,253	\$ 4,704	\$ (1,565)	\$ 10,376	\$ 547,044
Comprehensive earnings:							
Net earnings			4,343			1,117	
Foreign currency translation adjustment				(2,351)		(1,071)	
Total comprehensive earnings							2,038
Capital contribution from noncontrolling interest						419	419
Purchase of additional noncontrolling interest						(844)	(844)
Distributions to noncontrolling interest						(3,654)	(3,654)
Cash dividends — \$0.120 per share			(2,284)				(2,284)
Issuance of 174,528 shares under employee stock plans	175	3,030					3,205
Issuance of 3,706 shares under stock grant programs	4	100					104
Issuance of 15,288 shares under deferred compensation plans	15	(15)					—
Received 19,857 shares for the exercise of stock options	(20)	(622)					(642)
Tax benefits from non-qualified stock options exercised		878					878
Expense associated with share-based compensation arrangements		1,136					1,136
Accrued expense under deferred compensation plans		725					725
Issuance of 7,374 shares in exchange for employee stock notes receivable	7	230			(237)		—
Payments received on employee stock notes receivable					101		101
Balance at December 27, 2008	\$ 19,089	\$ 128,830	\$ 393,312	\$ 2,353	\$ (1,701)	\$ 6,343	\$ 548,226

UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY — (CONTINUED)

(in thousands, except share and per share data)

	Controlling Interest Shareholders' Equity						Total
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Employees Stock Notes Receivable	Noncontrolling Interest	
Comprehensive earnings:							
Net earnings			24,272			473	
Foreign currency translation adjustment				1,280		85	
Total comprehensive earnings							26,110
Capital contribution from noncontrolling interest						14	14
Purchase of additional noncontrolling interest		(853)				(917)	(1,770)
Distributions to noncontrolling interest						(270)	(270)
Cash dividends — \$0.260 per share			(5,017)				(5,017)
Issuance of 130,265 shares under employee stock plans	130	2,290					2,420
Issuance of 79,216 shares under stock grant programs	80	29					109
Issuance of 74,229 shares under deferred compensation plans	74	(74)					—
Repurchase of 90,122 shares	(90)		(3,289)				(3,379)
Received 1,602 shares for the exercise of stock options	(2)	(33)					(35)
Tax benefits from non-qualified stock options exercised		730					730
Deferred income tax asset reversal for deferred compensation plans		(518)					(518)
Expense associated with share-based compensation arrangements		1,597					1,597
Accrued expense under deferred compensation plans		646					646
Issuance of 3,721 shares in exchange for employee stock notes receivable	4	121			(125)		—
Payments received on employee stock notes receivable					83		83
Balance at December 26, 2009	\$ 19,285	\$ 132,765	\$ 409,278	\$ 3,633	\$ (1,743)	\$ 5,728	\$ 568,946

See notes to consolidated financial statements.

UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended		
	December 26, 2009	December 27, 2008	December 29, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings attributable to controlling interest	\$ 24,272	\$ 4,343	\$ 21,045
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation	32,917	37,570	39,547
Amortization of intangibles	8,308	9,797	8,034
Expense associated with share-based compensation arrangements	1,597	1,136	505
Excess tax benefits from share-based compensation arrangements	(603)	(171)	(755)
Expense associated with stock grant plans	109	104	174
Deferred income taxes (credit)	4,744	(7,747)	(4,134)
Net earnings attributable to noncontrolling interest	473	1,117	2,168
Gain on sale of interest in subsidiary			(140)
Gain on insurance settlement		(598)	
Net (gain) loss on sale or impairment of property, plant and equipment	(773)	7,062	6,755
Changes in:			
Accounts receivable	31,071	4,287	19,538
Inventories	31,522	42,922	27,795
Accounts payable	610	(20,153)	(9,569)
Accrued liabilities and other	(5,901)	8,882	(23,885)
NET CASH FROM OPERATING ACTIVITIES	<u>128,346</u>	<u>88,551</u>	<u>87,078</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(15,604)	(18,944)	(39,360)
Investment in joint venture	(659)		
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	11,724	30,367	4,769
Advances on notes receivable	(14)	(997)	(1,002)
Collections on notes receivable	171	556	347
Insurance proceeds	1,023	800	
Other, net	30	189	(38)
NET CASH FROM INVESTING ACTIVITIES	<u>(3,329)</u>	<u>(11,367)</u>	<u>(91,971)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings (repayments) under revolving credit facilities	(30,257)	(24,148)	34,648
Repayment of long-term debt	(19,207)	(80,824)	(28,466)
Borrowings of long-term debt	800		
Proceeds from issuance of common stock	2,420	2,957	3,539
Purchase of additional noncontrolling interest	(1,770)		
Distributions to noncontrolling interest	(270)	(3,654)	(1,797)
Capital contribution from noncontrolling interest	14	419	
Dividends paid to shareholders	(5,017)	(2,284)	(2,185)
Repurchase of common stock	(3,379)		(8,777)
Excess tax benefits from share-based compensation arrangements	603	171	755
Other, net	(72)	(89)	(327)
NET CASH FROM FINANCING ACTIVITIES	<u>(56,135)</u>	<u>(107,452)</u>	<u>(2,610)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	68,882	(30,268)	(7,503)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>13,337</u>	<u>43,605</u>	<u>51,108</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 82,219</u>	<u>\$ 13,337</u>	<u>\$ 43,605</u>

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

(in thousands)

	Year Ended		
	December 26, 2009	December 27, 2008	December 29, 2007
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:			
Cash paid (refunded) during the period for:			
Interest	\$ 4,905	\$ 12,418	\$ 17,055
Income taxes	12,346	(8)	16,919
NON-CASH OPERATING ACTIVITIES:			
Accounts receivable exchanged for property, plant and equipment	\$ 167		
Assets exchanged for insurance receivable		\$ 737	
Accounts receivable exchanged for note receivable			\$ 257
NON-CASH INVESTING ACTIVITIES:			
Stock acquired through employees' stock notes receivable	125	237	502
NON-CASH FINANCING ACTIVITIES:			
Common stock issued under deferred compensation plans	2,438	99	3,452
Stock received for the exercise of stock options, net	35	352	418

See notes to consolidated financial statements

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS

We market, manufacture and engineer wood and wood-alternative products for the do-it-yourself/retail (“D-I-Y/retail”) market, structural lumber products for the manufactured housing market, engineered wood components for the site-built construction market, and specialty wood packaging for various markets. We also provide framing services for the site-built construction market and various forms for concrete construction. Our principal products include preservative-treated wood, remanufactured lumber, lattice, fence panels, deck components, specialty packaging, engineered trusses, wall panels, and other building products.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include our accounts and those of our wholly-owned and majority-owned subsidiaries and partnerships. In addition, we consolidate 50% owned entities over which we exercise control. Intercompany transactions and balances have been eliminated.

NONCONTROLLING INTEREST IN SUBSIDIARIES

Noncontrolling interest in results of operations of consolidated subsidiaries represents the noncontrolling shareholders’ share of the income or loss of various consolidated subsidiaries. The noncontrolling interest reflects the original investment by these noncontrolling shareholders combined with their proportional share of the earnings or losses of these subsidiaries, net of distributions paid.

FISCAL YEAR

Our fiscal year is a 52 or 53 week period, ending on the last Saturday of December. Unless otherwise stated, references to 2009, 2008, and 2007 relate to the fiscal years ended December 26, 2009, December 27, 2008, and December 29, 2007, respectively. Fiscal years 2009, 2008, and 2007 were comprised of 52 weeks.

FAIR VALUE DISCLOSURES OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments have been determined in accordance with ASC 825, *Financial Instruments*. Significant differences in the fair market value and recorded value of our debt is disclosed in Note F. The fair values of all other financial instruments approximate their carrying values. The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

The fair value estimates presented herein are based on pertinent information available to management as of December 26, 2009. Although we are not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and highly-liquid investments purchased with an original maturity of three months or less. Cash equivalents totaled approximately \$44.9 million and \$0.1 million as of December 26, 2009 and December 27, 2008, respectively.

As a result of our cash management system, checks issued but not presented to our bank for payment create negative cash balances. These negative balances are included in accounts payable and accrued liabilities and totaled \$14.8 million and \$18.2 million as of December 26, 2009 and December 27, 2008, respectively.

ACCOUNTS RECEIVABLE

We perform periodic credit evaluations of our customers and generally do not require collateral. Accounts receivable are due under a range of terms we offer to our customers. Discounts are offered, in most instances, as an incentive for early payment.

ACCOUNTS RECEIVABLE ALLOWANCES

We base our allowances related to receivables on historical credit and collections experience, and the specific identification of other potential problems, including the general economic climate. Actual collections can differ, requiring adjustments to the allowances. Individual accounts receivable balances are evaluated on a monthly basis, and those balances considered uncollectible are charged to the allowance. Collections of amounts previously written off are recorded as an increase to the allowance.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

The following table presents the activity in our accounts receivable allowances (in thousands):

	<u>Beginning Balance</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Deductions*</u>	<u>Collections</u>	<u>Ending Balance</u>
Year Ended December 26, 2009: Allowance for possible losses on accounts receivable	\$ 2,440	\$ 23,984	\$ (24,600)	\$ 1,073	\$ 2,897
Year Ended December 27, 2008: Allowance for possible losses on accounts receivable	\$ 2,403	\$ 24,734	\$ (25,453)	\$ 756	\$ 2,440
Year Ended December 29, 2007: Allowance for possible losses on accounts receivable	\$ 3,576	\$ 23,686	\$ (25,374)	\$ 515	\$ 2,403

* Includes accounts charged off, discounts given to customers and actual customer returns and allowances.

We record estimated sales returns, discounts, and other applicable adjustments as a reduction of net sales in the same period revenue is recognized.

INVENTORIES

Inventories are stated at the lower of cost or market. The cost of inventories includes raw materials, direct labor, and manufacturing overhead. Cost is determined on a weighted average basis. Raw materials consist primarily of unfinished wood products expected to be manufactured or treated prior to sale, while finished goods represent various manufactured and treated wood products ready for sale.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are stated at cost. Expenditures for renewals and betterments are capitalized, and maintenance and repairs are expensed as incurred. Amortization of assets held under capital leases is included in depreciation and amortized over the shorter of the estimated useful life of the asset or the lease term. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	5 to 15 years
Buildings and improvements	15 to 31.5 years
Machinery, equipment and office furniture	3 to 10 years

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

FOREIGN CURRENCY TRANSLATION

Our foreign operations use the local currency as their functional currency. Accordingly, assets and liabilities are translated at exchange rates as of the balance sheet date and revenues and expenses are translated using weighted average rates, with translation adjustments included as a separate component of shareholders' equity.

SELF-INSURANCE RESERVES

We are primarily self-insured for certain employee health benefits, and have self-funded retentions for general liability, automobile liability, property and workers' compensation. We are fully self-insured for environmental liabilities. The general liability, automobile liability, property, workers' compensation, and certain environmental liabilities are managed through a wholly-owned insurance captive; the related assets and liabilities of which are included in the consolidated financial statements as of December 26, 2009 and December 27, 2008. Our policy is to accrue amounts equal to actuarially determined or internally computed liabilities. The actuarial and internal valuations are based on historical information along with certain assumptions about future events. Changes in assumptions for such matters as legal actions, medical cost trends, and changes in claims experience could cause these estimates to change in the future.

INCOME TAXES

Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates. Valuation allowances are established when necessary to reduce deferred income tax assets to the amounts expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred income tax assets and liabilities.

REVENUE RECOGNITION

Revenue is recognized at the time the product is shipped to the customer. Generally, title passes at the time of shipment. In certain circumstances, the customer takes title when the shipment arrives at the destination. However, our shipping process is typically completed the same day.

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

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

The following table presents the balances of percentage-of-completion and completed contract accounts on December 26, 2009 and December 27, 2008 which are included in other current assets and other accrued liabilities, respectively (in thousands):

	<u>2009</u>	<u>2008</u>
Cost and Earnings in Excess of Billings	\$ 9,998	\$ 7,934
Billings in Excess of Cost and Earnings	8,954	8,656

SHIPPING AND HANDLING OF PRODUCT

Shipping and handling costs that are charged to and reimbursed by the customer are recognized as revenue. Costs incurred related to the shipment and handling of products are classified in cost of goods sold.

LONG-LIVED ASSETS

In accordance with ASC 360, *Property, Plant and Equipment* ("ASC 360"), when an indicator of potential impairment exists, we evaluate the recoverability of our long-lived assets by determining whether unamortized balances could be recovered through undiscounted future operating cash flows over the remaining lives of the assets. If the sum of the expected future cash flows was less than the carrying value of the assets, an impairment loss would be recognized for the excess of the carrying value over the fair value.

EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated based on the weighted average number of common shares outstanding during the periods presented. Diluted EPS is calculated based on the weighted average number of common and common equivalent shares outstanding during the periods presented, giving effect to stock options granted and conditional stock grants (see Note K) utilizing the "treasury stock" method.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

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):

	2009			2008			2007		
	Income (Num- erator)	Shares (Denom- inator)	Per Share Amount	Income (Num- erator)	Shares (Denom- inator)	Per Share Amount	Income (Num- erator)	Shares (Denom- inator)	Per Share Amount
Net Earnings	\$24,272			\$ 4,343			\$21,045		
EPS — Basic									
Income available to common stockholders	24,272	19,256	\$ 1.26	4,343	19,074	\$ 0.23	21,045	19,056	\$ 1.10
Effect of Dilutive Securities									
Options		<u>212</u>			<u>151</u>			<u>306</u>	
EPS — Diluted									
Income available to common stockholders and assumed options exercised	<u>\$24,272</u>	<u>19,468</u>	<u>\$ 1.25</u>	<u>\$ 4,343</u>	<u>19,225</u>	<u>\$ 0.23</u>	<u>\$21,045</u>	<u>19,362</u>	<u>\$ 1.09</u>

Options to purchase 10,000, 230,000 and 30,000 shares of common stock were not included in the computation of diluted EPS for 2009, 2008 and 2007, respectively, because the options' exercise prices were greater than the average market price of the common stock during the period and, therefore, would be antidilutive.

USE OF ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. We believe our estimates to be reasonable; however, actual results could differ from these estimates.

RECENTLY ISSUED ACCOUNTING STANDARDS

Effective at the beginning of the fiscal year ended December 26, 2009, we adopted ASC 805, *Business Combinations* ("ASC 805"). ASC 805 establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. ASC 805 will affect our accounting for any future business combinations.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

Effective at the beginning of the fiscal year ended December 26, 2009, we adopted ASC 810, *Noncontrolling Interests in Consolidated Financial Statements* (“ASC 810”). ASC 810 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent’s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. ASC 810 clarifies that changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. ASC 810 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. The adoption of ASC 810 did not have a material impact on our consolidated financial statements and related disclosures and financial reporting of noncontrolling interests presented herein.

Effective at the beginning of the fiscal year ended December 26, 2009, we adopted ASC 260, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (“ASC 260”). ASC 260 clarifies that unvested share-based payment awards with a right to receive nonforfeitable dividends are participating securities and also provides guidance on how to allocate earnings to participating securities and compute basic earnings per share using the two-class method. The adoption of ASC 260 impacts our Executive Stock Grant Plan and it had no impact on our earnings per share calculation.

B. FAIR VALUE

Effective at the beginning of the fiscal year ended December 27, 2008, we adopted ASC 820, *Fair Value Measurements* (“ASC 820”). 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. ASC 820 also expands financial statement disclosure requirements about a company’s use of fair value measurements, including the effect of such measures on earnings.

Effective at the beginning of the fiscal year ended December 26, 2009, we also adopted the nonfinancial asset and liability provisions of ASC 820 that were previously deferred by the standard.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

Assets and liabilities measured at fair value are as follows:

(in thousands)	December 26, 2009			December 27, 2008		
	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)
Assets:						
Trading marketable securities	\$ 883	\$ 883		\$ 3,000	\$ 3,000	
Assets held for sale				410		\$ 410
Property, plant and equipment	1,385		\$ 1,385	1,629		1,629
	\$ 2,268	\$ 883	\$ 1,385	\$ 5,039	\$ 3,000	\$ 2,039

Effective at the beginning of the fiscal year ended December 27, 2008, we adopted ASC 825, *The Fair Value Option for Financial Assets and Financial Liabilities* ("ASC 825"). ASC 825 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.

C. BUSINESS COMBINATIONS

No business combinations were completed in fiscal 2009. We completed the following business combinations in fiscal 2008 and 2007, which were accounted for using the purchase method (in millions).

Company Name	Acquisition Date	Purchase Price	Intangible Assets	Net Tangible Assets	Reportable Segment	Business Description
D-Stake Mill and Manufacturing Country ("D-Stake")	June 9, 2008	\$7.1 (asset purchase)	\$ 5.1	\$2.0	Western Division	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. Purchased 100% of the inventory, property, plant and equipment, and intangibles.
Shawnee Construction, LLC ("Shawnee")	April 1, 2008	\$1.8 (asset purchase)	\$ 1.0	\$0.8	Eastern Division	Provides framing services for multi-family construction in the northeast. Located in Plainville, MA. As of April 1, 2008 we owned a 90% membership interest and have purchased an additional 5% interest each year.
	April 2, 2007	\$1.4 (asset purchase)	\$ 0.9	\$0.5		

**UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**

<u>Company Name</u>	<u>Acquisition Date</u>	<u>Purchase Price</u>	<u>Intangible Assets</u>	<u>Net Tangible Assets</u>	<u>Reportable Segment</u>	<u>Business Description</u>
Romano Construction Company, Ltd. ("Romano")	March 15, 2008	\$0.4 (asset purchase)	\$ 0.2	\$ 0.2	Eastern Division	Provides framing services and is located in Middletown, NY. Purchased 100% of the property, plant and equipment and intangibles.
International Wood Industries, Inc. ("IWI")	February 4, 2008	\$14.0 (stock purchase)	\$10.6	\$ 3.4	Western Division	Manufactures and distributes industrial products, including specialty boxes, crates, pallets and skids. Headquartered in Turlock, CA with distribution sites in Hawaii and Alaska. 2007 sales were \$40.0 million. Purchased 100% voting interest.
Deck Images	July 10, 2007	\$0.9 (asset purchase)	\$ 0.6	\$ 0.3	Consumer Products Division	Manufactures and distributes aluminum railing systems. Located in Hastings, MN. 2006 sales were \$1.9 million. Purchased 100% of the property, plant and equipment and intangibles.
Perfection Trusses, Inc. ("Perfection")	March 5, 2007	\$1.3 (asset purchase)	\$ 0.8	\$ 0.5	Eastern Division	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. Purchased 100% of the property, plant and equipment and intangibles.
Aljoma Lumber Company ("Aljoma")	February 12, 2007	\$53.5 (stock purchase)	\$ 0.4	\$53.1	Eastern Division	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. Purchased 100% voting interest.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

The amounts assigned to major intangible classes for business combinations mentioned above are as follows (in millions):

	Non-compete agreements	Customer Relationships	Patents	Goodwill - Total	Goodwill - Tax Deductible
D-Stake	\$ 2.6			\$ 2.5	\$ 2.5
Shawnlee	0.3	\$ 0.4		0.3	0.3
	0.3	0.4		0.2	0.2
Romano	0.2				
IWI	2.4	5.6		2.6	0.0
Deck Images		0.6			
Perfection	0.3	0.5			
Aljoma	0.4				

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

D. ASSETS HELD FOR SALE AND NET (GAIN) LOSS ON DISPOSITION OF ASSETS AND OTHER IMPAIRMENT AND EXIT CHARGES

Included in "Assets held for sale" on our Consolidated Balance Sheets is certain property, plant and equipment totaling \$8.3 million on December 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. These and other idle assets were evaluated based on the requirements of ASC 360, which resulted in an impairment and other exit charges included in "Net (gain) loss on disposition of assets and other impairment and exit charges" for the years ended December 26, 2009, December 27, 2008 and December 29, 2007, respectively. These amounts include the following, separated by reporting segment (in millions):

	December 26, 2009		December 27, 2008		December 29, 2007	
	Eastern and Western Divisions	All Other	Eastern and Western Divisions	All Other	Eastern and Western Divisions	All Other
Severances	\$ 0.7		\$ 1.1	\$ 0.3	\$ 1.3	\$ 0.1
Property, plant and equipment	2.5		2.8	0.8	5.8	1.0
Gain on sale of real estate	(4.2)		(0.5)			
Notes receivable			1.6			
Lease termination	0.6		0.5			
Other intangibles		0.3	0.6			

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

The changes in assets held for sale in 2009 are as follows (in thousands):

Description	Net Book Value	Date of Sale	Net Sales Price
Assets held for sale as of December 27, 2008	\$ 8,296		
Additions	1,030		
Transfers to held for use	(3,057)		
Sale of certain real estate in Woodburn, Oregon	(2,806)	February 6, 2009	\$5.2 million
Sale of certain real estate in Dallas, Texas	(2,433)	May 13, 2009	\$3.4 million
Sale of certain real estate in Murrieta, California	(1,030)	June 10, 2009	\$0.9 million
Assets held for sale as of December 26, 2009	<u>\$ —</u>		

We have transferred certain assets back to held for use because we do not believe we will sell these assets within a year due to difficult economic conditions and competitive factors. Appropriate “catch-up” adjustments were recorded for depreciation associated with the transfer of these assets to held for use.

E. GOODWILL AND OTHER INTANGIBLE ASSETS

We account for goodwill and other intangible assets in accordance with the provisions of ASC 350, *Intangibles — Goodwill and Other*. Goodwill and other intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually or when a triggering event occurs. We tested for impairment in the fourth quarter by utilizing the discounted cash flow method and compared it against other market indicators, allocating goodwill based on operating segments, which resulted in no impairment.

The following amounts were included in other intangible assets, net as of December 26, 2009 and December 26, 2008 (in thousands):

	2009		2008	
	Assets	Accumulated Amortization	Assets	Accumulated Amortization
Non-compete agreements	\$ 18,162	\$ (11,182)	\$ 26,899	\$ (13,481)
Customer relationships	19,813	(11,643)	17,734	(10,326)
Patents	2,980	(1,437)	2,980	(1,055)
Total	<u>\$ 40,955</u>	<u>\$ (24,262)</u>	<u>\$ 47,613</u>	<u>\$ (24,862)</u>

Amortization is computed principally by the straight-line method over the estimated useful lives of the intangible assets as follows:

Non-compete agreements	5 to 10 years
Customer relationship	5 years

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

Amortization expense of intangibles totaled \$8.3 million, \$9.8 million and \$8.0 million in 2009, 2008 and 2007, respectively. The estimated amortization expense for intangibles for each of the five succeeding fiscal years is as follows (in thousands):

2010	\$ 6,778
2011	4,729
2012	2,127
2013	1,197
2014	909
Thereafter	953
Total	<u>\$ 16,693</u>

The changes in the net carrying amount of goodwill and indefinite-lived intangible assets for the years ended December 26, 2009 and December 27, 2008, are as follows (in thousands):

	<u>Goodwill</u>	<u>Indefinite- Lived Intangible Assets</u>
Balance as of December 29, 2007	\$ 147,932	\$ 2,340
Final purchase price allocations	1,226	
Acquisitions	8,013	
Translation adjustment	(248)	
Balance as of December 27, 2008	<u>\$ 156,923</u>	<u>\$ 2,340</u>
Final purchase price allocations	(2,326)	
Deferred income tax adjustment	121	
Balance as of December 26, 2009	<u>\$ 154,718</u>	<u>\$ 2,340</u>

F. DEBT

We have a five-year, \$300 million unsecured revolving credit facility, which includes amounts reserved for letters of credit. Cash borrowings are charged interest based upon an index equal to the Eurodollar rate (in the case of borrowings in US Dollars) or the bankers' acceptance rate quoted (in the case of borrowings in Canadian Dollars), plus a margin (ranging from 27 to 90 basis points, based upon our financial performance). We are also charged an annual facility fee on the entire amount of the lending commitment (ranging from 8 to 25 basis points, based upon our performance), and a usage premium (ranging from 5 to 12.5 basis points, based upon our performance) at times when borrowings in US Dollars exceed 150 million. The average borrowing rate on this facility was 0.8% and 3.6% in 2009 and 2008, respectively. The amount outstanding on the revolving credit facility is included in the long-term debt summary below. The revolving credit facility supports letters of credit totaling approximately \$32.3 million on December 26, 2009.

Outstanding letters of credit extended on our behalf aggregated \$32.3 million on December 26, 2009, which includes approximately \$12.4 million related to industrial development revenue bonds. Outstanding letters of credit extended on our behalf aggregated \$32.2 million on December 27, 2008, which includes approximately \$14.8 million related to industrial development revenue bonds. Letters of credit have terms ranging from one to three years, and include an automatic renewal clause. The letters of credit are charged an annual interest rate ranging from 27 to 90 basis points under the \$300 million facility, based upon our financial performance.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

Long-term debt and capital lease obligations are summarized as follows on December 26, 2009 and December 27, 2008 (amounts in thousands):

	<u>2009</u>	<u>2008</u>
Series 2002-A Senior Notes Tranche A, due on December 18, 2009, interest payable semi-annually at 5.63%		\$ 15,000
Series 2002-A Senior Notes Tranche B, due on December 18, 2012, interest payable semi-annually at 6.16%	\$ 40,000	40,000
Revolving credit facility totaling \$300 million due on February 12, 2012, interest due monthly at a floating rate		30,257
Series 1999 Industrial Development Revenue Bonds, due on August 1, 2029, interest payable monthly at a floating rate (0.54% on December 26, 2009)	3,300	3,300
Series 2000 Industrial Development Revenue Bonds, due on October 1, 2020, interest payable monthly at a floating rate (0.56% on December 26, 2009)	2,700	2,700
Series 2000 Industrial Development Revenue Bonds		2,400
Series 2001 Industrial Development Revenue Bonds, due on November 1, 2021, interest payable monthly at a floating rate (0.56% on December 26, 2009)	2,500	2,500
Series 2002 Industrial Development Revenue Bonds, due on December 1, 2022, interest payable monthly at a floating rate (0.55% on December 26, 2009)	3,700	3,700
Capital lease obligations, interest imputed at 5.37%	892	279
Other	<u>762</u>	<u>1,038</u>
	53,854	101,174
Less current portion	<u>673</u>	<u>15,490</u>
Long-term portion	<u>\$ 53,181</u>	<u>\$ 85,684</u>

Financial covenants on the unsecured revolving credit facility and unsecured notes include a minimum net worth requirement, minimum interest 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 December 26, 2009.

On December 26, 2009, the principal maturities of long-term debt and capital lease obligations are as follows (in thousands):

2010	\$ 673
2011	711
2012	40,270
2013	
2014	
Thereafter	<u>12,200</u>
	<u>\$ 53,854</u>

On December 26, 2009, the estimated fair value of our long-term debt, including the current portion, was \$54.7 million, which was \$0.8 million greater than the carrying value. The estimated fair value is based on rates anticipated to be available to us for debt with similar terms and maturities.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

G. LEASES

Leased property included in the balance sheet on December 26, 2009 and December 27, 2008 is as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Machinery and equipment	\$ 1,345	\$ 2,589
Less accumulated amortization	(224)	(2,001)
	<u>\$ 1,121</u>	<u>\$ 588</u>

We lease certain real estate under operating and capital lease agreements with original terms ranging from one to ten years. We are required to pay real estate taxes and other occupancy costs under these leases. Certain leases carry renewal options of five to fifteen years. We also lease motor vehicles, equipment, and aircrafts under operating lease agreements for periods of one to ten years. Future minimum payments under non-cancelable leases on December 26, 2009 are as follows (in thousands):

	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
2010	\$ 472	\$ 12,313	\$ 12,785
2011	472	7,689	8,161
2012		3,882	3,882
2013		1,950	1,950
2014		1,327	1,327
Thereafter		1,125	1,125
Total minimum lease payments	<u>\$ 944</u>	<u>\$ 28,286</u>	<u>\$ 29,230</u>
Less imputed interest	(52)		
Present value of minimum lease payments	<u>\$ 892</u>		

Rent expense was approximately \$16.7 million, \$19.9 million, and \$24.0 million in 2009, 2008, and 2007, respectively.

H. DEFERRED COMPENSATION

We have a program whereby certain executives irrevocably elected to defer receipt of certain compensation in 1985 through 1988. Deferred compensation payments to these executives will commence upon their retirement. We purchased life insurance on such executives, payable to us in amounts which, if assumptions made as to mortality experience, policy dividends, and other factors are realized, will accumulate cash values adequate to reimburse us for all payments for insurance and deferred compensation obligations. In the event cash values are not sufficient to fund such obligations, the program allows us to reduce benefit payments to such amounts as may be funded by accumulated cash values. The deferred compensation liabilities and related cash surrender value of life insurance policies are included in "Other Liabilities" and "Other Assets," respectively.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

We also maintain a non-qualified deferred compensation plan (the “Plan”) for the benefit of senior management employees who may elect to defer a portion of their annual bonus payments and salaries. The Plan provides investment options similar to our 401(k) plan, including our stock. The investment in our stock is funded by the issuance of shares to a Rabbi trust, and may only be distributed in kind. Assets held by the Plan totaled approximately \$0.9 million and \$3.0 million on December 26, 2009 and December 27, 2008, respectively, and are included in “Other Assets.” Related liabilities totaled \$4.9 million and \$8.9 million on December 26, 2009 and December 26, 2008, respectively, and are included in “Other Liabilities” and “Shareholders’ Equity.” Assets of the Plan are recorded at fair market value. The related liabilities are recorded at fair market value, with the exception of obligations associated with investments in our stock which are recorded at the market value on the date of deferral.

I. 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 accounted for as a retained interest in the receivables sold. Our retained interest was determined based on the fair market value of anticipated collections in excess of the Agreed Base Value of the receivables sold. Appropriate valuation allowances were recorded against the retained interest.
- The maximum amount of receivables, net of retained interest, which were sold and outstanding at any point in time under this arrangement was \$50 million.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

No receivables were sold and outstanding on December 26, 2009 and December 27, 2008. A summary of the transactions we completed in 2008 and 2007 is presented below (in thousands).

	<u>2008</u>	<u>2007</u>
Accounts receivable sold	\$ 369,242	\$ 624,448
Retained interest in receivables	(2,432)	(1,982)
Expense from sale	(869)	(2,629)
Servicing fee received	119	212
Net cash received from sale	<u>\$ 366,060</u>	<u>\$ 620,049</u>

J. COMMON STOCK

On June 1, 1993, our shareholders approved the Incentive Stock Option Plan (the “Plan”) for our officers. Options for the purchase of all 1,200,000 shares of our common stock authorized under the Plan have been granted. The Plan provides that the options are exercisable only if the officer is employed by us at the time of exercise and holds at least seventy-five percent of the individuals’ shares held on April 1, 1993. The Plan also requires the option shares to be held for periods of six months to three years. The remaining options were exercisable within thirty days of the anniversary of the Plan in 2008. There are no options outstanding under the Plan.

In January 1994, the Employee Stock Gift Program was approved by the Board of Directors which allows us to gift shares of stock to eligible employees based on length of service. We gifted shares of stock under this Plan in 2009, 2008, and 2007, and recognized the market value of the shares at the date of issuance as an expense totaling approximately \$45,000, \$45,000, and \$68,000, respectively.

In April 2002, our shareholders approved the 2002 Employee Stock Purchase Plan (“2002 Stock Purchase Plan”) to succeed the Employee Stock Purchase Plan originally approved in 1994. In April 2008, our shareholders authorized additional shares to be allocated to the 2002 Stock Purchase Plan. The plan allows eligible employees to purchase shares of our stock at a share price equal to 85% of fair market value on the purchase date. In 2009, 2008, and 2007, shares were issued under this Plan for amounts totaling approximately \$454,000, \$582,000, and \$617,000, respectively. The weighted average discounted fair value of these shares was \$29.10, \$25.92, and \$30.75, respectively. Upon adoption of ASC 718, *Compensation — Stock Compensation*, (“ASC 718”), we have expensed the fair value associated with these awards, which approximates the discount.

In April 1994, our shareholders approved the Directors’ Retainer Stock Plan (“Stock Retainer Plan”). In April 2007, our shareholders authorized additional shares to be distributed pursuant to this plan. The Stock Retainer Plan allows eligible members of the Board of Directors to defer their retainer fees and receive shares of our stock at the time of their retirement, disability or death. The number of shares to be received is equal to the amount of the retainer fee deferred multiplied by 110%, divided by the fair market value of a share of our stock at the time of deferral, and increased for dividends declared. Shareholders’ equity includes approximately \$1.1 million and \$1.4 million on December 26, 2009 and December 26, 2008, respectively, for obligations incurred under this Plan. In 2009, distributions totaled approximately \$600,000, all of which was paid in shares of our common stock. There were no distributions in 2008 or 2007.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

In January 1997, we instituted a Directors' Stock Grant Program. In lieu of a cash increase in the amount of Directors' fees, each outside Director receives 100 shares of stock for each board meeting attended up to a maximum of 400 shares per year. In 2009, 2008, and 2007, we issued shares and recognized the market value of the shares on the date of issuance as an expense totaling approximately \$63,000, \$58,000, and \$106,000, respectively.

On April 28, 1999, our shareholders approved our Long Term Stock Incentive Plan (the "LTSI Plan"), which was amended and restated in 2009 to extend the term on the plan to 2019. The LTSI Plan reserves a maximum of 1,000,000 additional shares, plus a balance of unused shares from prior plans of 406,029 shares, plus an annual increase of no more than 200,000 shares per year which may be added on the date of the annual meeting of shareholders. The 1999 Plan provides for the granting of stock options, reload options, stock appreciation rights, restricted stock, performance shares and other stock-based awards. No options were granted under the LTSI Plan in 2009 or 2008.

The following stock grants are outstanding under the LTSI Plan:

- On April 17, 2002, a Conditional Share Grant was made which will grant our Executive Chairman 10,000 shares of common stock immediately upon the satisfaction of the terms and conditions set forth in the grant. Shareholders' equity includes approximately \$245,000 and \$159,000 on December 26, 2009 and December 27, 2008 respectively, for this grant.
- Shares of common stock were issued on February 9, 2009 for Performance Share Grants made on February 3, 2006. Shareholders' equity included approximately \$2.1 million on December 27, 2008 for this grant.
- On January 16, 2007, Conditional Share Grants were made which will grant certain employees 500 shares each of common stock immediately upon vesting in 2017, subject to conditions set forth in the grant. Shareholders' equity includes approximately \$49,000 and \$32,000 on December 26, 2009 and December 27, 2008, respectively, for this grant.
- On February 23, 2007, shares were issued into a Deferred Stock Bonus Plan for certain employees. These shares are distributable upon retirement, subject to conditions set forth in the plan. Shareholders' equity includes approximately \$1.4 million on December 26, 2009 and \$1.9 million December 27, 2008, respectively.
- On January 16, 2008, Conditional Share Grants were made which will grant certain employees 500 shares each of common stock immediately upon vesting in 2018, subject to conditions set forth in the grant. Shareholders' equity includes approximately \$21,000 and \$10,000 on December 26, 2009 and December 27, 2008, respectively.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

- On February 8, 2008, Conditional Share Grants were made which will grant certain employees approximately 105,000 shares of common stock on February 8, 2010, subject to conditions set forth in the grant. Shareholders' equity includes approximately \$1.3 million and \$0.7 million on December 26, 2009 and December 27, 2008, respectively.
- On January 21, 2009, Conditional Share Grants were made which will grant certain employees 500 shares each of common stock immediately upon vesting in 2019, subject to conditions set forth in the grant. Shareholders' equity includes approximately \$3,000 on December 26, 2009.
- On February 1, 2009, approximately 75,000 shares of common stock were issued into a deferred compensation plan for certain employees and independent directors. The shares will be vested on February 1, 2014, subject to conditions set forth in the grant. Shareholders' equity includes approximately \$0.5 million December 26, 2009.

As of December 26, 2009, a total of approximately 3.0 million shares are reserved for issuance under the plans mentioned above.

On November 14, 2001, the Board of Directors approved a share repurchase program (which succeeded a previous program) allowing us to repurchase up to 2,500,000 shares of our common stock. We repurchased 91,724 and 19,857 shares under this program in 2009 and 2008, respectively. As of December 26, 2009, cumulative total authorized shares available for repurchase is approximately 1.1 million shares.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

Common stock activity for 2009, 2008 and 2007 was as follows:

	2009	2008	2007
Shares issued under plan:			
Employee Stock Purchase	15,614	22,474	20,079
Stock option	114,651	152,054	200,266
Employee stock plans	130,265	174,528	220,345
Stock gift	1,466	1,606	1,661
Executive Stock Grant	74,750		
Directors' Retainer Stock	23,413		
Directors' Stock Grant	3,000	2,100	2,300
Stock grant plans	102,629	3,706	3,961
Deferred compensation	50,816	15,288	69,777
Stock notes receivable	3,721	7,374	10,132
Shares received for exercise of stock options	(1,602)	(19,857)	(15,866)
Stock repurchase	(90,122)		(239,400)
	195,707	181,039	48,949
Beginning common stock	19,088,880	18,907,841	18,858,892
Ending common stock	19,284,587	19,088,880	18,907,841

K. STOCK-BASED COMPENSATION

We account for share-based compensation using the fair value recognition provisions of ASC 718, *Compensation — Stock Compensation*, (“ACS 718”), which we have adopted using the modified-prospective-transition method effective January 1, 2006. As discussed in Note J, Common Stock, we provide compensation benefits to employees and non-employee directors under several share-based payment arrangements including the Employee Stock Gift Program, the 2002 Employee Stock Purchase Plan, the Directors' Retainer Stock Plan, the Directors' Stock Grant Program and the Long-Term Stock Incentive Plan.

Stock Option Plans

To date, other than certain, relatively nominal conditional share grants, performance share awards and deferred share awards that are permitted under the LTSI Plan, we have only issued options under the LTSI Plan. Vesting requirements for awards under this plan will vary by individual grant and, as to outstanding awards, and are subject to time-based vesting. The contractual life of all of the options granted under this plan is no greater than 15 years.

The fair value of each option award is estimated as of the date of grant using the Black-Scholes option pricing model. Expected volatility assumptions used were based on historical volatility of our stock. We utilize historical data to estimate option exercise and employee termination behavior within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The risk-free rate for the expected term of the option award was based on the U.S. Treasury yield curve in effect at the time of the grant. No new option awards were granted in 2009, 2008 or 2007 and therefore no specific valuation assumptions are presented.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

The following summary presents information regarding outstanding options as of December 26, 2009 and changes during the period then ended with regard to options under all stock option plans:

	Stock Under Option	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 27, 2008	600,047	\$ 22.16		
Exercised	(114,651)	\$ 17.14		
Forfeited or expired	(11,518)	\$ 23.48		
Outstanding at December 26, 2009	<u>473,878</u>	<u>\$ 23.34</u>	<u>2.97</u>	<u>\$ 7,049,362</u>
Vested or expected to vest at December 26, 2009	<u>260,000</u>	<u>\$ 25.14</u>	<u>3.49</u>	<u>\$ 3,399,745</u>
Exercisable at December 26, 2009	<u>213,878</u>	<u>\$ 21.16</u>	<u>2.33</u>	<u>\$ 3,649,617</u>

The total intrinsic value of options exercised during 2009, 2008 and 2007 was \$2.3 million \$2.4 million and \$6.5 million, respectively.

Employee Stock Purchase Plan

In 2009, 2008 and 2007, we issued shares under this plan totaling 15,614, 22,474 and 20,079, respectively. In 2009, 2008 and 2007, the weighted average fair values per share of employee stock purchase rights pursuant to this plan were \$5.14, \$4.57 and \$5.42, respectively. The fair value of the stock purchase rights approximated the difference between the stock price and the employee purchase price.

Directors' Retainer Stock Plan

We recognized the fair market value of the shares issued under this plan, calculated using the number of shares issued and the stock price on the issuance date, as expense and recorded the related obligation in shareholders' equity. In 2009, 2008 and 2007, we recognized approximately \$317,000, \$268,000 and \$281,000, respectively, in expense for shares issued under this program.

Directors' Stock Grant Program

In 2009, 2008 and 2007, we recognized the fair market value of the shares issued under this plan, calculated using the number of shares issued and the stock price on the issuance date, as an expense totaling approximately \$63,000, \$58,000 and \$106,000, respectively.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

Conditional Share Grant Agreements

In 2009, 2008 and 2007, we recognized the fair value of the awards estimated as of the date of grant. We recognized approximately \$118,000, \$50,000 and \$39,000, respectively, in expense for shares issuable under this program.

All Share-Based Payment Arrangements

The total share-based compensation cost and the related total income tax benefit that has been recognized in results of operations was approximately \$1,252,000 and \$724,000, respectively in 2009. The total share-based compensation cost and the related total income tax benefit that has been recognized in results of operations was approximately \$820,000 and \$255,000, respectively in 2008. The total share-based compensation cost and the related total income tax benefit that has been recognized in results of operations was approximately \$892,000 and \$299,000, respectively in 2007.

In 2009, 2008 and 2007, cash received from option exercises and share issuances under our plans was \$2.4 million, \$3.0 million and \$3.5 million, respectively. The actual tax benefit realized in 2009, 2008 and 2007 for the tax deductions from option exercises totaled \$0.7 million, \$0.9 million and \$1.9 million, respectively.

L. RETIREMENT PLANS

We have a profit sharing and 401(k) plan for the benefit of substantially all of our employees, excluding the employees of certain non-wholly-owned subsidiaries. Amounts contributed to the plan are made at the discretion of the Board of Directors. We matched 25% of employee contributions in 2009, on a discretionary basis, totaling \$1.4 million. We matched 50% of employee contributions in 2008 and 2007, on a discretionary basis, totaling \$3.5 million and \$4.1 million, respectively. The basis for matching contributions may not exceed the lesser of 6% of the employee's annual compensation or the IRS limitation.

M. INCOME TAXES

Income tax provisions for the years ended December 26, 2009, December 27, 2008, and December 29, 2007 are summarized as follows (in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Currently Payable:			
Federal	\$ 4,411	\$ 5,566	\$ 13,725
State and local	1,452	915	2,714
Foreign	<u>2,602</u>	<u>3,169</u>	<u>2,824</u>
	8,465	9,650	19,263
Net Deferred:			
Federal	4,868	(5,768)	(3,734)
State and local	337	(1,951)	134
Foreign	<u>182</u>	<u>(245)</u>	<u>(267)</u>
	<u>5,387</u>	<u>(7,964)</u>	<u>(3,867)</u>
	<u>\$ 13,852</u>	<u>\$ 1,686</u>	<u>\$ 15,396</u>

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

The components of earnings before income taxes consist of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
U.S	\$ 29,806	\$ (702)	\$ 37,641
Foreign	<u>8,791</u>	<u>7,848</u>	<u>968</u>
Total	<u>\$ 38,597</u>	<u>\$ 7,146</u>	<u>\$ 38,609</u>

The effective income tax rates are different from the statutory federal income tax rates for the following reasons:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local taxes (net of federal benefits)	1.9	(1.3)	4.5
Effect of noncontrolling owned interest in earnings of partnerships	0.1	(2.2)	(1.0)
Manufacturing deduction	(0.8)	(4.0)	(1.9)
Research & development tax credits	(1.8)	(14.0)	(3.2)
Change in valuation allowance	(1.4)	1.1	5.5
Amortization of goodwill	1.2	5.7	
Other, net	<u>1.7</u>	<u>3.3</u>	<u>1.0</u>
Effective income tax rate	<u>35.9%</u>	<u>23.6%</u>	<u>39.9%</u>

Temporary differences which give rise to deferred income tax assets and (liabilities) on December 26, 2009 and December 27, 2008 are as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Employee benefits	\$ 5,189	\$ 7,044
Foreign subsidiary net operating loss	1,782	2,454
Accrued expenses	3,769	4,748
Other, net	<u>3,764</u>	<u>3,511</u>
Gross deferred income tax assets	14,504	17,757
Valuation allowance	<u>(2,712)</u>	<u>(2,838)</u>
Deferred income tax assets	11,792	14,919
Depreciation	(17,522)	(16,495)
Intangibles	(7,799)	(6,876)
Inventory	(421)	(30)
Other, net	<u>(77)</u>	<u>(158)</u>
Deferred income tax liabilities	<u>(25,819)</u>	<u>(23,559)</u>
Net deferred income tax liability	<u>\$ (14,027)</u>	<u>\$ (8,640)</u>

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

The valuation allowance consists of a net operating loss carryforward we have for a wholly-owned subsidiary, Universal Forest Products of Canada, Inc. As a result of cumulative historical losses of this subsidiary, our ability to realize a future benefit from this loss carryforward is in doubt, therefore, we established an allowance for the entire amount of the future benefit. This carryforward will expire at the end of 2027.

N. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

ASC 740, *Income Taxes* (“ASC 740”) clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, and disclosure requirements. ASC 740 is effective for fiscal years beginning after December 15, 2006.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Gross unrecognized tax benefits beginning of year	\$ 11,034	\$ 8,705
Increase in tax positions for prior years	116	1,347
Increase in tax positions for current year	512	1,486
Settlements with taxing authorities	(778)	
Lapse in statute of limitations	<u>(573)</u>	<u>(504)</u>
Gross unrecognized tax benefits end of year	<u>\$ 10,311</u>	<u>\$ 11,034</u>

The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$10.3 million and \$11.0 million at December 26, 2009 and December 27, 2008, respectively. We recognized interest and penalties for unrecognized tax benefits in our provision for income taxes. The liability for unrecognized tax benefits included accrued interest and penalties of \$0.3 million and \$0.4 million at December 26, 2009 and December 27, 2008, respectively.

We file income tax returns in the United States and in various state, local and foreign jurisdictions. For the majority of tax jurisdictions, we are no longer subject to income tax examinations for years before 2004. A number of state and local examinations as well as an examination by the Internal Revenue Service are currently ongoing. It is possible that these examinations may be resolved within the next twelve months. Due to the potential for resolution of federal, state and foreign examinations, and the expiration of various statutes of limitation, it is reasonably possible that our gross unrecognized tax benefits may change within the next twelve months by a range of \$0.2 million to \$9.4 million.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

O. 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. 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 \$4.3 million on December 26, 2009 and \$4.4 million on December 27, 2008, representing the estimated costs to complete future remediation efforts. These amounts have not been reduced by an insurance receivable.

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

We 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 December 26, 2009, 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.

On December 26, 2009, we had outstanding purchase commitments on capital projects of approximately \$0.9 million.

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

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 December 26, 2009, we had approximately \$16.0 million in outstanding payment and performance bonds, which expire during the next two years. In addition, approximately \$32.6 million in payment and performance bonds are outstanding for completed projects which are still under warranty.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

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 \$1.3 million.

On December 26, 2009 we had outstanding letters of credit totaling \$32.3 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 \$19.9 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 \$12.4 million related to our outstanding industrial development revenue bonds. These letters of credit have varying terms but may be renewed at the option of the issuing banks.

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

Many of our wood treating operations utilize "Subpart W" drip pads, defined as hazardous waste management units by the EPA. The rules regulating drip pads require that the pad be "closed" at the point that it is no longer intended to be used for wood treating operations or to manage hazardous waste. Closure involves identification and disposal of contaminants which are required to be removed from the facility. The cost of closure is dependent upon a number of factors including, but not limited to, identification and removal of contaminants, cleanup standards that vary from state to state, and the time period over which the cleanup would be completed. Based on our present knowledge of existing circumstances, it is considered probable that these costs will approximate \$0.3 million. As a result, this amount is recorded in other long-term liabilities on December 26, 2009.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

We did not enter into any new guarantee arrangements during 2009 which would require us to recognize a liability on our balance sheet.

P. CONSULTING & NON-COMPETE AGREEMENTS

On December 17, 2007 we entered into a consulting and non-compete agreement with our former CEO which provides for monthly payments for a term of three years that will begin upon retirement from Universal Forest Products, Inc. The present value of the vested portion of the non-compete payments totaling approximately \$1.8 million and \$1.4 million at December 26, 2009 and December 27, 2008, respectively, is accrued in other liabilities.

On December 31, 2007 the former President of Universal Forest Products Western Division, Inc. retired as an employee of Universal Forest Products, Inc., and we entered into an agreement with him which provides for monthly payments for a term of three years. The present value of these payments totaling approximately \$0.4 million and \$0.6 million at December 26, 2009 and December 27, 2008, respectively, has been recorded in other liabilities.

Q. 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. Under the definition of a segment, our Eastern, Western and Consumer Products Divisions may be considered an operating segment of our business. Under ASC 280, segments may be aggregated if the segments have similar economic characteristics and if the nature of the products, distribution methods, customers and regulatory environments are similar. Based on this criteria, we have aggregated our Eastern and Western divisions into one reporting segment. Our Consumer Products Division, which was formed in 2006, is included in the “All Other” column in the table below. Our divisions operate manufacturing and treating facilities throughout North America.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

	2009			2008			2007		
	Eastern and Western Divisions	All Other	Total	Eastern and Western Divisions	All Other	Total	Eastern and Western Divisions	All Other	Total
Net sales to outside customers	\$1,567,639	\$105,361	\$1,673,000	\$2,130,437	\$101,957	2,232,394	\$2,405,830	\$107,348	\$2,513,178
Intersegment net sales	0	33,059	33,059	0	26,765	26,765	0	24,126	24,126
Interest expense	4,590	21	4,611	12,037	51	12,088	17,018	15	17,033
Amortization expense	5,746	2,562	8,308	6,983	2,814	9,797	5,331	2,703	8,034
Depreciation expense	30,405	2,512	32,917	34,656	2,914	37,570	36,347	3,200	39,547
Segment operating profit	38,884	3,933	42,817	21,310	(2,905)	18,405	48,399	5,093	53,492
Segment assets	718,361	73,316	791,677	746,335	69,684	816,019	864,546	92,454	957,000
Capital expenditures	14,695	909	15,604	18,409	535	18,944	37,571	1,789	39,360

In 2009, 2008, and 2007, 32%, 27%, and 26% of net sales, respectively, were to a single customer.

Information regarding principal geographic areas was as follows (in thousands):

	2009		2008		2007	
	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets
United States	\$1,630,763	\$ 389,640	\$2,170,933	\$ 418,603	\$2,442,676	\$ 427,547
Foreign	42,237	18,688	61,461	16,508	70,502	28,928
Total	<u>\$1,673,000</u>	<u>\$ 408,328</u>	<u>\$2,232,394</u>	<u>\$ 435,111</u>	<u>\$2,513,178</u>	<u>\$ 456,475</u>

Sales generated in Canada and Mexico are primarily to customers in the United States of America.

The following table presents, for the periods indicated, our percentage of value-added and commodity-based sales to total sales.

	Value-Added	Commodity-Based
2009	59.4%	40.6%
2008	60.4%	39.6%
2007	60.5%	39.5%

Value-added product sales 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. Commodity-based product sales consist primarily of remanufactured lumber and preservative treated lumber.

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

The following table presents, for the periods indicated, our gross sales (in thousands) by major product classification.

	Years Ended		
	December 26, 2009	December 27, 2008	December 29, 2007
<u>Value-Added Sales</u>			
Trusses – site-built, modular and manufactured housing	\$ 202,916	\$ 365,155	\$ 489,970
Fencing	167,214	194,029	199,392
Decking and railing – composite , wood and other	155,700	167,722	179,707
Turn-key framing and installed sales	57,200	103,149	84,403
Industrial packaging and components	132,894	147,605	106,982
Engineered wood products (eg. LVL; i-joist)	35,386	57,631	87,588
Manufactured brite and other lumber	40,129	64,552	82,784
Wall panels	25,774	31,101	57,065
Outdoor DIY products (eg. stakes; landscape ties)	40,530	51,565	53,031
Construction and building materials (eg. door packages; drywall)	35,946	49,437	46,492
Lattice – plastic and wood	46,442	43,895	46,523
Manufactured brite and other panels	28,422	34,326	42,793
Siding, trim and moulding	20,275	28,879	38,098
Hardware	11,828	15,134	15,746
Manufactured treated lumber	12,597	14,354	8,066
Manufactured treated panels	2,991	4,904	3,637
Other	134	459	6,915
Total Value-Added Sales	<u>1,016,378</u>	<u>1,373,897</u>	<u>1,549,192</u>
<u>Commodity-Based Sales</u>			
Non-manufactured brite and other lumber	254,768	384,268	454,445
Non-manufactured treated lumber	298,291	345,211	378,240
Non-manufactured brite and other panels	116,753	138,448	149,643
Non-manufactured treated panels	21,373	24,534	24,947
Other	4,802	7,833	5,018
Total Commodity-Based Sales	<u>695,987</u>	<u>900,294</u>	<u>1,012,293</u>
Total Gross Sales	1,712,365	2,274,191	2,561,485
Sales allowances	(39,365)	(41,797)	(48,307)
Total Net Sales	<u>\$ 1,673,000</u>	<u>\$ 2,232,394</u>	<u>\$ 2,513,178</u>

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

R. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth selected financial information for all of the quarters, each consisting of 13 weeks) during the years ended December 26, 2009 and December 27, 2008 (in thousands, except per share data):

	First		Second		Third		Fourth	
	2009	2008	2009	2008	2009	2008	2009	2008
Net sales	\$361,722	\$489,512	\$514,945	\$708,485	\$457,768	\$610,744	\$338,565	\$423,653
Gross profit	46,821	54,820	82,485	84,878	69,263	64,650	44,182	49,853
Net earnings (loss)	(1,163)	(4,402)	16,455	12,177	10,260	(1,764)	(807)	(551)
Net earnings (loss) attributable to controlling interest	(1,207)	(4,576)	16,088	11,663	10,054	(1,951)	(663)	(793)
Basic earnings (loss) per share	(0.06)	(0.24)	0.84	0.61	0.52	(0.10)	(0.03)	(0.04)
Diluted earnings (loss) per share	(0.06)	(0.24)	0.83	0.61	0.51	(0.10)	(0.03)	(0.04)

S. SUBSEQUENT EVENTS

Subsequent events have been evaluated through our filing date of February 23, 2010.

On February 1, 2010, an approved stock grant was made for certain employees and independent directors which will grant shares of common stock immediately upon the satisfaction of certain terms and conditions. We estimate that we will recognize total expense of approximately \$2.5 million over the next five years for this grant.

PRICE RANGE OF COMMON STOCK AND DIVIDENDS

Our common stock trades on The Nasdaq Stock Market (“NASDAQ”) under the symbol UFPI. The following table sets forth the range of high and low sales prices as reported by NASDAQ.

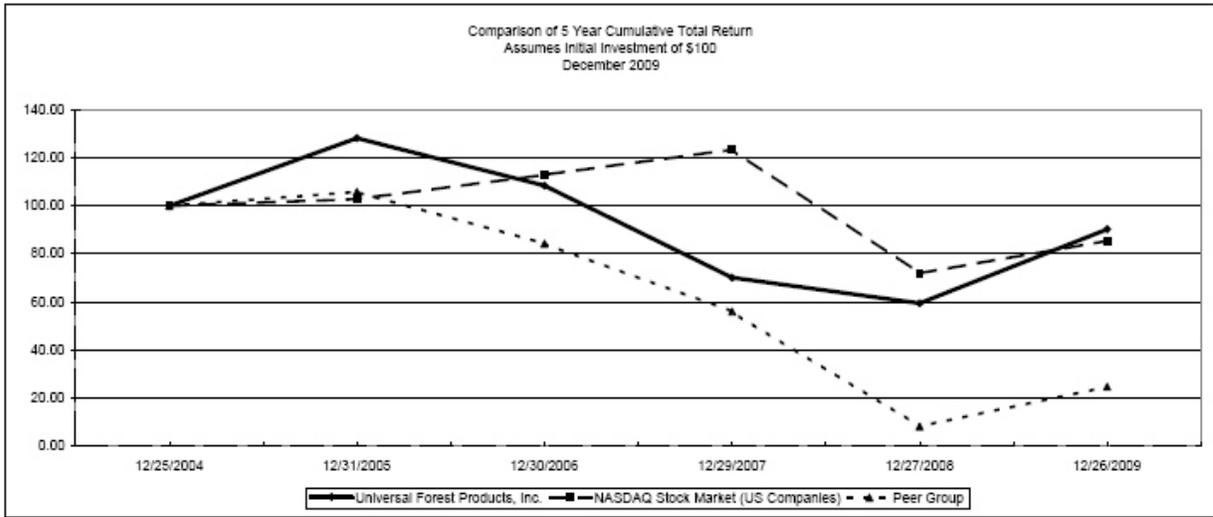
<u>Fiscal 2009</u>	<u>High</u>	<u>Low</u>	<u>Fiscal 2008</u>	<u>High</u>	<u>Low</u>
Fourth Quarter	42.32	34.00	Fourth Quarter	34.91	14.61
Third Quarter	47.78	30.24	Third Quarter	37.37	23.35
Second Quarter	37.50	25.53	Second Quarter	35.80	29.20
First Quarter	29.98	19.01	First Quarter	37.35	26.26

There were approximately 1,130 shareholders of record as of January 31, 2010.

In 2009, we paid dividends on our common stock of \$0.060 per share in June and \$0.200 per share in December. In 2008, we paid dividends on our common stock of \$0.060 per share in June and December. We intend to continue with our current semi-annual dividend policy for the foreseeable future.

STOCK PERFORMANCE GRAPH

The following graph depicts the cumulative total return on our common stock compared to the cumulative total return on the indices for The Nasdaq Stock Market (all U.S. companies) and an industry peer group we selected. The graph assumes an investment of \$100 on December 25, 2004, and reinvestment of dividends in all cases.



The companies included in our self-determined industry peer group are as follows:

Bluelinx Holdings Inc.
Builders FirstSource, Inc.

Champion Enterprises, Inc.
Louisiana-Pacific Corp.

The returns of each company included in the self-determined peer group are weighted according to each respective company's stock market capitalization at the beginning of each period presented in the graph above. In determining the members of our peer group, we considered companies who selected UFPI as a member of their peer group, and looked for similarly sized companies or companies that are a good fit with the markets we serve.

Directors and Executive Officers

BOARD OF DIRECTORS

William G. Currie
Chairman of the Board
Universal Forest Products, Inc.

Michael B. Glenn
President and Chief Executive Officer
Universal Forest Products, Inc.

Dan M. Dutton
Chairman of the Board
Stimson Lumber Co.

John M. Engler
President and Chief Executive Officer
National Association of Manufacturers

John W. Garside
President and Treasurer
Woodruff Coal Company

Gary F. Goode, CPA
Chairman
Titan Sales & Consulting, LLC

Mark A. Murray
President
Meijer, Inc.

William R. Payne
Chief of Staff
Alticor, Inc.

Louis A. Smith
President
Smith and Johnson, Attorneys, P.C.

Bruce A. Merino

EXECUTIVE OFFICERS

Michael B. Glenn
Chief Executive Officer

Patrick M. Webster
President and Chief Operating Officer

Michael R. Cole
Chief Financial Officer and Treasurer

Robert D. Coleman
Executive Vice President Manufacturing

C. Scott Greene
President
UFP Southern Division

Richard C. Frazier
President
UFP Western Division

Robert W. Lees
President
UFP Northern Division

Ronald G. Klyn
Chief Information Officer

Matthew J. Missad
Executive Vice President and Secretary

Joseph F. Granger
Executive Vice President of Sales and Marketing

Michael F. Mordell
Executive Vice President of Purchasing

Shareholder Information

ANNUAL MEETING

The annual meeting of Universal Forest Products, Inc. will be held at 8:30 a.m. on April 14, 2010, at 2880 East Beltline Lane NE, Grand Rapids, MI 49525.

SHAREHOLDER INFORMATION

Shares of the Company's stock are traded under the symbol UFPI on the NASDAQ Stock Market. The Company's 10-K report, filed with the Securities and Exchange Commission, will be provided free of charge to any shareholder upon written request. For more information contact:

Investor Relations Department
Universal Forest Products, Inc.
2801 East Beltline NE
Grand Rapids, MI 49525
Telephone: (616) 364-6161
Web: www.ufpi.com

SECURITIES COUNSEL

Varnum, LLP
Grand Rapids, MI

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
Grand Rapids, MI

TRANSFER AGENT/SHAREHOLDER INQUIRIES

American Stock Transfer & Trust Company serves as the transfer agent for the Corporation. Inquiries relating to stock transfers, changes of ownership, lost or stolen stock certificates, changes of address, and dividend payments should be addressed to:

American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10005
Telephone: (718) 921-8210

UNIVERSAL FOREST PRODUCTS®, INC., CORPORATE HEADQUARTERS

2801 East Beltline NE
Grand Rapids, MI 49525
Telephone: (616) 364-6161
Facsimile: (616) 364-5558

UNIVERSAL FOREST PRODUCTS®, INC., AND ITS AFFILIATES

Locations:

Arlington, TX
Ashburn, GA
Auburn, NY
Auburndale, FL
Bayamon, Puerto Rico
Belchertown, MA
Berlin, NJ
Blanchester, OH
Burleson, TX
Burlington, NC
Chaffee, NY
Chandler, AZ
Chesapeake, VA
Clinton, NY
Conway, SC
Dallas, NC
Durango, Durango, Mexico
Eatonton, GA
Elizabeth City, NC
Emlenton, PA
Englewood, CO
Evans City, PA
Fontana, CA
Gordon, PA
Grandview, TX
Grand Rapids, MI
Granger, IN
Greene, ME
Haleyville, AL
Harrisonville, MO
Hastings, MN
Hillsboro, TX
Houston, TX
Hudson, NY
Independence, OR
Indianapolis, IN
Janesville, WI
Jefferson, GA
Lacolle, Quebec, Canada
Lafayette, CO
Lansing, MI
Liberty, NC
Lodi, OH
McMinnville, OR
Medley, FL
Minneota, MN
Morristown, TN
Moultrie, GA
Muscle Shoals, AL
New London, NC
New Waverly, TX
New Windsor, MD
Parker, PA
Pearisburg, VA
Plainville, MA
Prairie du Chien, WI
Ranson, WV
Riverbank, CA
Riverside, CA
Saginaw, TX
Salisbury, NC
San Antonio, TX
Schertz, TX
Sidney, NY
Silsbee, TX
Stockertown, PA
Thornton, CA
Turlock, CA
Union City, GA
Warrens, WI
White Bear Lake, MN
Windsor, CO
Woodburn, OR