GLACIER BANCORP INC
Form 424B3
February 22, 2005

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Registration No. 333-122243

PROXY STATEMENT OF CITIZENS BANK HOLDING COMPANY

PROSPECTUS OF GLACIER BANCORP, INC.

MERGER PROPOSED - YOUR VOTE IS VERY IMPORTANT

Dear Citizens Bank Holding Company Shareholders:

The boards of directors of Citizens Bank Holding Company and Glacier Bancorp, Inc. (Glacier) have agreed on a merger of Citizens Bank Holding Company into Glacier. When the merger occurs, Citizens Community Bank, now the subsidiary of Citizens Bank Holding Company, will operate as a wholly owned subsidiary of Glacier.

If we complete the merger, you will be entitled to elect to receive, in consideration for your Citizens Bank Holding Company shares, either cash, shares of Glacier common stock, or a combination of cash and Glacier common stock. Under the merger agreement, Glacier will pay $8.6 million of the total merger consideration in cash and the remainder in shares of Glacier common stock with an aggregate value of $8.6 million plus the amount of cash received by Citizens Bank Holding Company upon the exercise of Citizens Bank Holding Company stock options after the date of the merger agreement and prior to the effective date of the merger. Because the total amount of cash and total value of stock is fixed, you may receive a combination of cash and stock that differs from your election, if too many Citizens Bank Holding Company shareholders elect to receive one form of consideration over the other. If you own 100 or fewer shares, you will be deemed to make a cash election. ***A form for making your election and transmitting your stock will be mailed to you shortly please do not send your stock certificates to Citizens Bank Holding Company at this time.***

The number of shares of Glacier common stock that will be exchanged for shares of Citizens Bank Holding Company common stock will not be determined until five days prior to the merger. As explained in more detail in this document, whether you elect to receive cash or Glacier common stock or a combination for your shares, the value of the consideration that you receive as of the completion date will be substantially the same, based on the average Glacier common stock price used to calculate the merger consideration. Assuming a Glacier average common stock price of $32.00 (the approximate closing price for Glacier common stock on February 8, 2005, the most recent date practicable prior to the mailing of this document), 1.171 shares of Glacier common stock will be received for each Citizens Bank Holding Company share exchanged for stock. The amount of cash to be received for each Citizens Bank Holding Company share exchanged for cash is fixed at $37.47.

After completion of the merger, Citizens Bank Holding Company shareholders will own approximately 1% of Glacier s outstanding common stock.

Your board of directors believes that the terms of the merger are fair and in the best interest of Citizens Bank Holding Company and its shareholders. In reaching this decision, the board considered numerous factors as described in the attached proxy statement/prospectus. Glacier intends to operate Citizens Community Bank as a separately chartered Idaho state bank, under the name Citizens Community Bank. The arrangement will allow Citizens Community Bank to continue to deliver high quality banking services to its customers which are a result of timely, local decision making.

The merger cannot be completed unless our shareholders approve it. Approval requires the affirmative vote of at least a majority of the shares entitled to be cast at a special meeting of Citizens Bank Holding Company shareholders called to consider the merger. We will hold a special shareholders meeting to vote on the merger proposal. **The Citizens Bank Holding Company special shareholders meeting will be held on Friday, March 25, 2005, at 10:00 a.m. local time, at Juniper Hills Country Club, 6000 S. Bannock Highway, Pocatello, Idaho 83204.** Whether or not you plan to attend the special meeting, please take the time to vote by completing and mailing the enclosed form of proxy.

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On behalf of the Citizens Bank Holding Company board of directors, I recommend that you vote FOR approval of the merger.

Ralph G. Cottle
President and Chief Executive Officer

None of the Federal Deposit Insurance Corporation, Securities and Exchange Commission, nor any state securities commission has approved the securities to be issued by Glacier or determined if this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense. The shares of Glacier common stock to be issued in the merger are not savings or deposit accounts or other obligations of a bank and are not insured by the Federal Deposit Insurance Corporation, the Bank Insurance Fund or any other governmental agency. Such shares are not guaranteed by Glacier or Citizens Bank Holding Company and are subject to investment risk, including the possible loss of principal.

This proxy statement/prospectus is dated February 16, 2005, and is first being mailed to

Citizens Bank Holding Company shareholders on or about February 16, 2005.

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CITIZENS BANK HOLDING COMPANY
280 South Arthur

Pocatello, 83204

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD MARCH 25, 2005

TO THE SHAREHOLDERS OF CITIZENS BANK HOLDING COMPANY:

A special meeting of shareholders of Citizens Bank Holding Company will be held on Friday, March 25, 2005, at 10:00 a.m. local time, at Juniper Hills Country Club, 6000 S. Bannock Highway, Pocatello, Idaho 83204. The special meeting is for the following purposes:

1. **MERGER AGREEMENT.** To consider and vote upon a proposal to approve the Plan and Agreement of Merger, dated as of December 15, 2004, among Glacier Bancorp, Inc., Citizens Bank Holding Company and Citizens Community Bank, under the terms of which Citizens Bank Holding Company will merge with and into Glacier, as more fully described in the accompanying proxy statement/prospectus. The merger agreement is attached as **Appendix A** to the proxy statement/prospectus that accompanies this notice.

2. **OTHER MATTERS.** If necessary, to consider and act upon a proposal to adjourn the meeting to permit us to solicit additional proxies in the event that we do not have sufficient votes to approve the merger as of the date of the meeting.

Holders of record of Citizens Bank Holding Company common stock at the close of business on February 4, 2005, the record date for the special meeting, are entitled to notice of, and to vote at, the special meeting or any adjournments or postponements of it. The affirmative vote of the holders of at least a majority of the shares entitled to be cast at the Citizens Bank Holding Company special meeting is required for approval of the merger agreement. As of February 4, 2005, there were 441,034 shares of Citizens Bank Holding Company common stock outstanding and entitled to vote at the special meeting.

Citizens Bank Holding Company shareholders have the right to dissent from the merger and obtain payment of the fair value of their Citizens Bank Holding Company shares under the applicable provisions of Idaho law. A copy of the applicable statutes regarding dissenters rights is attached as **Appendix B** to the accompanying proxy statement/prospectus. For details of your dissenters rights and how to exercise them, please see the discussion under the heading The Merger Dissenters Rights of Appraisal.

Your vote is important. Whether or not you plan to attend the special meeting, please complete, sign, date and promptly return the accompanying proxy using the enclosed envelope. If for any reason you should desire to revoke your proxy, you may do so at any time before it is voted at the meeting. If you do not vote your shares, it will have the same effect as voting against the merger.

The board of directors of Citizens Bank Holding Company has determined that the plan and agreement of merger is fair to and in the best interests of Citizens Bank Holding Company and its shareholders and recommends that you vote FOR approval of the merger agreement.

Please do not send any certificates for your stock at this time. You will soon receive instructions on how to make your consideration election and to exchange your certificates.

By Order of the Board of Directors,

Kenneth A. Satterfield, Secretary

Pocatello, Idaho
February 16, 2005

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REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Glacier from documents that are not included in or delivered with this document.

You can obtain documents incorporated by reference into this proxy statement/prospectus by requesting them in writing or by telephone from Glacier at the following address:

Glacier Bancorp, Inc.
49 Commons Loop
Kalispell, Montana 59901
ATTN: James H. Strosahl, Corporate Secretary
Telephone: (406) 751-4702

You will not be charged for the documents that you request. If you would like to request documents, please do so by March 10, 2005 in order to receive them before the Citizens Bank Holding Company special shareholders meeting.

See Where You Can Find More Information About Glacier.

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QUESTIONS AND ANSWERS ABOUT THIS DOCUMENT AND THE MERGER

What is the purpose of this proxy statement/prospectus?

This document serves as both a proxy statement of Citizens Bank Holding Company and a prospectus of Glacier. As a proxy statement, it is being provided to you by Citizens Bank Holding Company because the board of directors of Citizens Bank Holding Company is soliciting your proxy to vote to approve the proposed merger of Citizens Bank Holding Company with and into Glacier. After the merger, Glacier will own Citizens Community Bank. As a prospectus, it is being provided to you by Glacier because Glacier is offering you shares of its common stock as partial consideration for your Citizens Bank Holding Company shares.

What will Citizens Bank Holding Company shareholders receive in the merger?

Under the merger agreement, Glacier will pay cash and issue shares of its common stock in exchange for all outstanding shares of Citizens Bank Holding Company common stock. The merger agreement provides that the total consideration will be $8.6 million in cash and the remainder in shares of Glacier common stock with an aggregate value of $8.6 million plus the amount of cash received by Citizens Bank Holding Company upon the exercise of Citizens Bank Holding Company stock options after the date of the merger agreement and prior to the effective date of the merger (the exact number of shares to be determined prior to the closing of the merger).

What will I receive in the merger?

Under the merger agreement, unless you have 100 or fewer shares, vote against the merger, and provide a notice of dissent, you may elect to receive for your shares either:

- all cash,
- all Glacier common stock, or
- a split of cash (50%) and Glacier common stock (50%)

All elections are subject to the election and allocation procedures described in this proxy statement/prospectus, if too many shareholders elect one form of consideration over the other. Due to these limitations, you may not receive the form of merger consideration that you elect, unless you elect to receive a combination of 50% cash and 50% Glacier common stock. See The Merger Allocation for a more detailed discussion of allocation procedures under the merger agreement.

What happens if I elect to receive cash in the merger and Citizens Bank Holding Company shareholders elect to receive more cash than is permitted under the merger agreement?

The total amount of cash to be paid by Glacier in the merger is fixed. If Citizens Bank Holding Company shareholders elect to receive more cash than is permitted by the merger agreement, your election to receive cash may be adjusted so as not to exceed the limitations set forth in the merger agreement. In that event, you may receive some stock despite your cash election. Glacier will first allocate stock in the merger to Citizens Bank Holding Company shares for which no valid election has been received in an effort to both honor elections and not exceed the total cash to be paid by Glacier. However, if there are insufficient amounts of no-electing Citizens Bank Holding Company shares to which excess Glacier common stock may be allocated, it will be necessary to adjust elections. For a detailed description of the allocation procedures, please see the discussion under the heading The Merger Allocation.

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What happens if I elect to receive stock in the merger and Citizens Bank Holding Company shareholders elect to receive more stock than is permitted under the merger agreement?

As in the case of excess cash elections by Citizens Bank Holding Company shareholders, adjustments to shareholder elections may be necessary to ensure that no more than 50% of the total merger consideration is paid in Glacier shares. If you elect to receive all stock and too many other shareholders elect stock, your election may be adjusted so as not to exceed the limitations set forth in the merger agreement and, consequently, you may receive some cash despite your stock election. Again, Glacier will first allocate cash to no-electing shares in an attempt to honor elections made by shareholders. However, there may not be sufficient amounts of no-electing shares to meet applicable limits on the issuance of stock by Glacier. In that case, you may receive cash for some of your shares, which will likely result in the recognition of gain or loss on a portion of your Citizens Bank Holding Company shares and be a taxable event to you. Please see The Merger Certain Federal Income Tax Consequences for a discussion of the tax consequences of the receipt of cash in the merger.

What is the amount of cash and/or the number of shares of Glacier common stock that I will receive for my shares of Citizens Bank Holding Company common stock?

The actual aggregate number of shares of Glacier common stock to be issued in the merger will not be determined until the fifth business day immediately prior to the effective date of the merger. The actual amount of cash and/or number of shares of Glacier common stock that you will receive for each of your Citizens Bank Holding Company shares will not be determined until shortly after the effective date of the merger. Those amounts will be determined based on a formula set forth in the merger agreement and described in this proxy statement/prospectus, and once they are determined, those amounts will be made available on Glacier s website at www.glacierbancorp.com.

Is the value of the per share consideration that I receive expected to be substantially equivalent regardless of which election I make?

Yes. The formula that will be used to calculate the per share consideration is intended to substantially equalize the value of the consideration to be received for each share of Citizens Bank Holding Company common stock in the merger, as measured during the valuation period ending on the determination date, regardless of whether you elect to receive cash or stock. As the value of Glacier stock fluctuates with its trading price, however, the value of the stock you receive for a Citizens Bank Holding Company share likely will not be the same as the cash to be paid per share on any given day before or after the merger.

How do I elect the form of consideration I prefer to receive?

An Election Form with instructions for making your election as to the form of consideration you prefer to receive in the merger accompanies this proxy statement/prospectus. To make your election, you must submit a green election form to Glacier s exchange agent before 5:00 p.m. Mountain Time on April 8, 2005, which is the 10th business day after the date of the Citizens Bank Holding Company special meeting. Your election choices and election procedures are described under The Merger Election Procedure.

What is the deadline for receipt of my election form?

The green election forms must be received by the exchange agent by 5:00 p.m., Mountain Time, on Friday, March 25, 2005.

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May I change my election once it has been submitted?

Yes. You may change your election so long as your new election is received by the exchange agent prior to 5:00 p.m. on April 8, 2005. To change your election, you must send the exchange agent a written notice revoking any election previously submitted. You may at that time provide a new election.

What happens if I do not make an election prior to the deadline?

If you fail to submit a valid green election form to the exchange agent prior to 5:00 p.m. Mountain Time on April 8, 2005, then you will be deemed to have made no election and will be issued either shares of Glacier common or cash for your shares, depending on the elections made by other shareholders.

When should I send in my stock certificates?

Please **DO NOT** send in your stock certificates with your proxy card. You will receive instructions and a letter of transmittal with the green election form from the exchange agent. **You should send the proxy card in the enclosed white envelope and the green election form, with your stock certificates, in the green envelope that you will receive from the exchange agent.**

When and where will the special meeting take place?

Citizens Bank Holding Company will hold a special meeting of its shareholders on Friday, March 25, 2005, at 10:00 a.m., at Juniper Hills Country Club, 6000 S. Bannock Highway, Pocatello, Idaho 83204.

How do I vote?

To vote, please indicate on the enclosed proxy card how you want to vote and then sign, date, and mail your proxy card in the enclosed white envelope as soon as possible so that your shares will be represented at the special meeting.

Why is my vote important?

If you fail to vote, that will have the same effect as voting against approval of the merger agreement. Approval of the merger agreement requires the affirmative vote of at least a majority of the shares of Citizens Bank Holding Company common stock outstanding and entitled to vote a the special meeting. The directors and executive officers of Citizens Bank Holding Company and their affiliates beneficially own and have the right to vote 49,932 shares, representing 11.2% of the shares entitled to be voted at the meeting, and they have each agreed to vote for the merger.

If my shares are held in street name by my broker, will my broker vote my shares for me?

No. Your broker will not vote your shares unless you provide instructions on how to vote. Consequently, it is important that you follow the directions provided by your broker regarding how to instruct your broker to vote your shares. If you fail to instruct your broker on how to vote your shares, the effect will be the same as if you voted against the merger.

What happens if I return my proxy but do not indicate how to vote my shares?

If you sign and return your proxy card, but do not provide instructions on how to vote your shares, your shares will be voted FOR approval of the merger agreement.

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Can I change my vote after I have mailed my signed proxy card?

Yes. You may change your vote at any time before your proxy is voted at the special meeting. If your shares are held in your own name, you may change your vote as follows:

You may send a written notice stating that you would like to revoke your proxy and provide new instructions on how to vote;

You may complete and submit a later-dated proxy card; or

You may attend the meeting and vote in person. If you intend to vote in person and your shares are held by a broker, you should contact your broker for instructions.

If you choose either the first or second method above, you must submit your notice of revocation or your new proxy card to Citizens Bank Holding Company s secretary prior to the special meeting.

If your shares are held in street name by a broker and you have instructed the broker to vote your shares, you must follow instructions received from your broker to change your vote.

Who may vote at the meeting?

The board of directors of Citizens Bank Holding Company has set February 4, 2005, as the record date for the meeting. If you were the owner of Citizens Bank Holding Company common stock at the close of business on February 4, 2005, you may vote at the meeting.

When will the merger occur?

We presently expect to complete the merger by March 31, 2005. The merger will occur after approval of the shareholders of Citizens Bank Holding Company is obtained and the other conditions to the merger are satisfied or waived. Glacier and Citizens Bank Holding Company are working toward completing the merger as quickly as possible.

How soon after the merger is completed can I expect to receive my cash or Glacier common stock?

Glacier will work with its exchange agent to distribute consideration payable in the merger as promptly as practicable following the completion of the merger.

What do I need to do now?

We encourage you to read this proxy statement/prospectus in its entirety. Important information is presented in greater detail elsewhere in this document and documents governing the merger are attached as appendices to this proxy statement/prospectus. In addition, much of the business and financial information about Glacier that may be important to you is incorporated by reference into this document from documents separately filed by Glacier with the Securities and Exchange Commission (SEC). This means that important disclosure obligations to you are satisfied by referring you to one or more documents separately filed with the SEC.

Following review of this proxy statement/prospectus, **please complete, sign, and date the enclosed proxy card and return it in the enclosed white envelope** as soon as possible so that your shares can be voted at Citizens Bank Holding Company s special meeting of shareholders.

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Additionally, once you have received the **green Election Form** from the exchange agent, **please return it, with your stock certificates, in the green envelope that you will receive from the exchange agent** before the close of business on April 8, 2005**.**

What if I choose not to read the incorporated documents?

Information contained in a document that is incorporated by reference is part of this proxy statement/prospectus, unless it is superseded by information contained directly in this proxy statement/prospectus or in documents filed with the SEC after the date of this proxy statement/prospectus. Information that is incorporated from another document is considered to have been disclosed to you WHETHER OR NOT YOU CHOOSE TO READ THE DOCUMENT.

What are the tax consequences of the merger to me?

We expect that for United States federal income tax purposes, the exchange of shares of Citizens Bank Holding Company common stock solely for shares of Glacier common stock generally will not cause you to recognize any taxable gain or loss. We also expect that if you receive a combination of cash and stock in exchange for your Citizens Bank Holding Company shares, you will be required to recognize any gain to the extent cash is received in the merger, and you will not be entitled to recognize any loss realized. If you receive solely cash in the merger, you will recognize any gain or loss realized on the disposition of your Citizens Bank Holding Company shares. We urge you to consult your tax adviser to fully understand the tax consequences of the merger to you. Tax matters are very complicated and in many cases tax consequences of the merger will depend on your particular facts and circumstances.

What risks should I consider?

You should review carefully our discussion of Risk Factors. You should also review the factors considered by the Citizens Bank Holding Company board of directors in approving the merger agreement. See The Merger Background of the Merger and Reasons for the Merger Citizens Bank Holding Company.

Who can help answer my questions?

If you have questions about the merger, the meeting, or your proxy, or if you need additional copies of this document or a proxy card, you should contact:

Ralph G. Cottle, President and CEO
Citizens Bank Holding Company
280 South Arthur
Pocatello, Idaho 83204
(208) 235-5264
e-mail: ralphc@ccb-idaho.com

OR

Terrill Schwartz, Treasurer
Citizens Bank Holding Company
280 South Arthur
Pocatello, Idaho 83204
(208) 235-5266
email: terrills@ccb-idaho.com

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This proxy statement/prospectus does not cover any resale of the securities to be received by shareholders of Citizens Bank Holding Company upon consummation of the proposed merger, and no person is authorized to make any use of this proxy statement/prospectus in connection with any such resale.

The date of this proxy statement/prospectus is February 16, 2005.

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SUMMARY

This summary, together with the preceding section entitled Questions and Answers about this Document and the Merger, highlights selected information about this proxy statement/prospectus. We urge you to read carefully the entire proxy statement/prospectus and any other documents to which we refer to fully understand the merger. The Plan and Agreement of Merger is attached as ***Appendix A*** *to this proxy statement/prospectus. Each item in the summary refers to the page in this proxy statement/prospectus where that subject is discussed in more detail.*

Information About Glacier and Citizens Bank Holding Company

Glacier Bancorp, Inc.
49 Commons Loop
Kalispell, Montana 59901
(406) 756-4200

Glacier, headquartered in Kalispell, Montana, is a Montana corporation, initially incorporated in Delaware in 1990. Glacier is a regional multi-bank holding company providing commercial banking services in 56 banking offices throughout Montana, Idaho, Washington and Utah. Glacier offers a wide range of banking products and services, including transaction and savings deposits, commercial, consumer and real estate loans, mortgage origination services, and retail brokerage services. Glacier serves individuals, small to medium-sized businesses, community organizations and public entities.

Glacier is the parent holding company of seven wholly owned subsidiary commercial banks: Glacier Bank, First Security Bank of Missoula, Western Security Bank, Mountain West Bank in Idaho, Big Sky Western Bank, Valley Bank of Helena, and Glacier Bank of Whitefish. In addition, on November 23, 2004, Glacier announced its pending acquisition of First National Bank West, located in Evanston, Wyoming. This transaction is scheduled to close during the first quarter of 2005.

As of September 30, 2004, Glacier had total assets of approximately $3.0 billion, total net loans receivable and loans held for sale of approximately $1.66 billion, total deposits of approximately $1.69 billion and approximately $263 million in shareholders equity. Glacier common stock trades on the Nasdaq National Market under the symbol GBCI.

Financial and other information regarding Glacier is set forth in Glacier s annual report on Form 10-K for the year ending December 31, 2003, and the quarterly reports on Form 10-Q for the quarters ending March 31, June 30 and September 30, 2004. Information regarding Glacier s executive officers and directors, as well as additional information, including executive compensation, certain relationships and related transactions, is set forth or incorporated by reference in Glacier s annual report on Form 10-K for the year ending December 31, 2003 and Glacier s proxy statement for its 2004 annual meeting of shareholders, and the Forms 8-K filed by Glacier and incorporated by reference into this proxy statement/prospectus. See Where You Can Find More Information About Glacier.

Citizens Bank Holding Company
280 South Arthur
Pocatello, Idaho 83204
(208) 232-5373

Citizens Bank Holding Company is headquartered in Pocatello, Idaho and is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Citizens Bank Holding Company was incorporated under the laws of the State of Idaho on March 26, 2002 at the direction of the Board of Directors of

Citizens Community Bank (the Bank) for the purpose of adopting a bank holding company structure through which it would exchange its shares of common stock for shares of common stock of Citizens Bank Holding Company. The exchange was approved by the shareholders of Citizens Community Bank on April 29, 2002 and became effective on July 1, 2002. Thereafter, Citizens Community Bank became a wholly owned subsidiary of Citizens Bank Holding Company. At September 30, 2004, Citizens Bank Holding Company had total consolidated assets of approximately $111.8 million, net loans of approximately $82.2 million and deposits of approximately $98.0 million. At September 30, 2004, Citizens Bank Holding Company had approximately 364 shareholders of record owning 441,034 shares of its common stock.

Citizens Community Bank, a wholly owned subsidiary of Citizens Bank Holding Company, was incorporated on April 17, 1996. The Bank is an Idaho state-chartered commercial bank. The Bank is regulated by the Idaho Department of Finance and by the Federal Deposit Insurance Corporation, its primary federal regulator and the insurer of its deposits. The Bank offers full-service community banking through three banking locations serving the southeastern Idaho area. The Bank has its main office in Pocatello, Idaho and one branch located in each of Pocatello and Idaho Falls, Idaho. In addition, the Bank has a loan production office in Rexburg, Idaho.

The Bank is a full service bank offering a wide variety of banking services targeted at all sectors of its community. The Bank offers customary types of demand, savings, time, and individual retirement accounts, installment, commercial and real estate loans, personal and commercial lines of credit, safe deposit, night depository services, automatic teller machine services, cashiers checks, money orders, travelers checks, wire transfers and various other services that may be tailored to fit the needs of a diverse customer base. The Bank does not have a trust department.

Citizens Bank Holding Company Will Merge into Glacier

The merger agreement provides for the merger of Citizens Bank Holding Company with and into Glacier, with Glacier as the surviving company. Citizens Community Bank, which is now the subsidiary of Citizens Bank Holding Company, will become a subsidiary of Glacier. In the merger, your shares of Citizens Bank Holding Company common stock will be exchanged for cash, shares of Glacier common stock or a combination of cash and stock. After the merger, you will no longer own shares of Citizens Bank Holding Company. The directors of Citizens Community Bank before the merger will continue to serve as the directors of Citizens Community Bank after the merger, and Mr. Michael Blodnick, President and Chief Executive Officer of Glacier, will be appointed to the board effective upon consummation of the merger.

The merger agreement is attached as **Appendix A** to this document. We encourage you to read the merger agreement in its entirety.

Citizens Bank Holding Company Special Meeting

The special meeting of shareholders of Citizens Bank Holding Company will be held at Juniper Hills Country Club, 6000 S. Bannock Highway, Pocatello, Idaho 83204, on Friday, March 25, 2005 at 10:00 a.m., local time. At the meeting you will be asked to consider and vote upon a proposal to approve the merger agreement and consider and act upon such other matters as may properly come before the meeting or any adjournment of the meeting.

You will be entitled to vote at the Citizens Bank Holding Company special meeting if you owned Citizens Bank Holding Company common stock at the close of business on February 4, 2005. As of that date there were 441,034 shares of Citizens Bank Holding Company common stock entitled to be voted at the special meeting.

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Approval of the Merger Agreement Requires the Affirmative Vote of a Majority of the Shares of Citizens Bank Holding Company Common Stock that Are Outstanding and Entitled to Vote

In order to approve the merger agreement, at least a majority of the outstanding shares of Citizens Bank Holding Company common stock outstanding and entitled to vote as of the record date must be voted at the special meeting in favor of approval. Glacier s shareholders do not have to vote on the transaction.

As of the record date for the meeting, directors and executive officers of Citizens Bank Holding Company, and their affiliates, beneficially owned approximately 11.2% of the outstanding shares of Citizens Bank Holding Company common stock. The directors of Citizens Bank Holding Company have agreed to vote their shares in favor of approval of the merger agreement.

What Citizens Bank Holding Company Shareholders Will Receive in the Merger

Under the merger agreement, Glacier will issue shares of its common stock and pay cash for all shares of Citizens Bank Holding Company common stock outstanding as of the date of the merger agreement. The total merger consideration that Glacier will pay will be $8.6 million in cash and the remainder in shares of Glacier common stock (the exact number of which will be determined as described below) with an aggregate value of $8.6 million plus the amount of cash received by Citizens Bank Holding Company upon the exercise of Citizens Bank Holding Company stock options after the date of the merger agreement and prior to the effective date of the merger.

If you own more than 100 shares and do not vote against the merger or provide notice of dissent, you may elect to receive in exchange for each of your shares of Citizens Bank Holding Company common stock either (1) all cash, without interest, (2) all shares of Glacier common stock, or (3) a combination of 50% cash, without interest, and 50% shares of Glacier common stock, in each case subject to the election and allocation procedures described in this proxy statement/prospectus. Because the total amount of cash and stock to be issued by Glacier in the merger is fixed, you may not receive cash or stock in chosen amounts, unless you elect to receive 50% cash and 50% Glacier common stock, in which case your election will not be affected by the allocation procedures.

The actual aggregate number of shares of Glacier common stock to be issued in the merger cannot be determined until the fifth business day immediately prior to the effective date of the merger (the determination date). The actual amount of cash and/or Glacier common stock that you will receive for each of your Citizens Bank Holding Company shares will not be determined until shortly after the effective date of the merger. Those amounts will be determined based on a formula set forth in the merger agreement and described under the heading The Merger Merger Consideration. The formula is intended to substantially equalize the value of the consideration to be received for each share of Citizens Bank Holding Company common stock, as measured during the valuation period ending on the determination date, regardless of whether you elect to receive cash or stock.

For example, if the average closing price of Glacier common stock during the valuation period was $32.00, Citizens Bank Holding Company shareholders would receive consideration for each of their shares as follows:

A Citizens Bank Holding Company shareholder receiving only cash would receive $37.47 in cash per Citizens Bank Holding Company share; and

A Citizens Bank Holding Company shareholder receiving only stock would receive 1.171 shares of Glacier common stock per Citizens Bank Holding Company share (with a value, based on such average closing price, of $37.47 per Citizens Bank Holding Company share).

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In each case consideration received would be subject to the allocation procedures described under the heading The Merger Allocation.

Stated differently, assuming a Citizens Bank Holding Company shareholder owns 200 shares of common stock (and based on the $32.00 assumed average closing price of Glacier common stock set forth previously), if such shareholder made:

- an all stock election, such shareholder would receive 234 shares of Glacier common stock (and $6.40 in cash in lieu of a fractional share) having a total value (based on Glacier s assumed average closing price) of $7,494.40;
- an all cash election, such shareholder would receive $7,494.00 in cash; or
- a mixed (50% stock /50% cash) election, such shareholder would receive 117 shares of Glacier common stock and cash of $3,750.20 (including $3.20 in cash in lieu of a fractional share), which together with the stock, would have a total value (based on Glacier assumed average closing price) of $7,494.20.

The actual amounts received will depend on the average closing price of Glacier common stock as of the determination date, and the actual allocation of cash and stock will be subject in each case to the allocation procedures described under the heading The Merger Allocation. Actual values of Glacier common stock received will depend on the market price of Glacier common stock at the time of the merger.

You May Elect to Receive Cash or Stock Consideration

In the merger, if you own more than 100 shares of Citizens Bank Holding Company common stock and do not vote against the merger or provide a notice of dissent, you may elect to receive in exchange for your shares either:

- all cash,
- all Glacier common stock, or
- a split of cash (50%) and Glacier common stock (50%).

If you own 100 or fewer shares of Citizens Bank Holding Company common stock, you will be treated as if you made an all cash election. If you vote against the merger or provide a notice of dissent, you will receive cash for your shares unless you perfect your dissenters rights. If you perfect your dissenters rights, you will receive cash for your shares as provided under the applicable provisions of Idaho law. See The Merger Dissenters Rights of Appraisal and The Merger Allocation.

With this proxy statement/prospectus, you will receive a green election form with instructions for making your election as to the form of consideration that you prefer to receive in the merger. The available elections, election procedures and deadline for making elections are described under the heading The Merger Election Procedure. If you fail to submit a valid green election form by the election deadline, you will be issued either Glacier common stock or cash in the merger, depending upon the elections made by other Citizens Bank Holding Company shareholders.

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Certain Federal Income Tax Consequences

Neither Citizens Bank Holding Company nor Glacier is required to complete the merger unless each of them receive a legal opinion of Glacier s counsel that the merger will be treated as a reorganization for federal income tax purposes. Assuming such opinion is received, we expect that for United States federal income tax purposes, Citizens Bank Holding Company shareholders generally will not recognize any gain or loss on the conversion of shares of Citizens Bank Holding Company common stock into shares of Glacier common stock (although the receipt of any cash will be a taxable event). This tax treatment may not apply to some Citizens Bank Holding Company shareholders. Determining the actual tax consequences of the merger to you may be complex. They will depend on your specific situation and on factors not within our control. You should consult your own tax advisor for a full understanding of the merger s tax consequences to you.

The Citizens Bank Holding Company Board of Directors Recommends Shareholder Approval of the Merger

The Citizens Bank Holding Company board of directors believes that the merger is in the best interests of the Citizens Bank Holding Company shareholders and has unanimously approved the merger agreement. The Citizens Bank Holding Company board of directors recommends that Citizens Bank Holding Company shareholders vote FOR approval of the merger agreement.

Citizens Bank Holding Company Financial Advisor Says the Merger Consideration is Fair to Citizens Bank Holding Company Shareholders From a Financial Point of View

Hovde Financial LLC (Hovde) has served as financial advisor to Citizens Bank Holding Company in connection with the merger. It has given an opinion to the Citizens Bank Holding Company board of directors that, as of December 15, 2004, the consideration Glacier will pay for the Citizens Bank Holding Company common stock is fair to Citizens Bank Holding Company shareholders from a financial point of view. Hovde has delivered to Citizens Bank Holding Company an updated fairness opinion. Hovde s opinion is expressly based upon and subject to, the assumptions made, matters considered and qualifications and limitations stated in the opinion. A copy of the opinion delivered by Hovde is attached to this document as **Appendix C.** You should read the opinion carefully and in its entirety. Citizens Bank Holding Company agreed to pay Hovde a fee for its services in the amount of $30,000 plus expenses.

Citizens Bank Holding Company Officers and Directors Have Interests in the Merger that Are Different from or in Addition to Their Interests as Shareholders

Certain members of Citizens Bank Holding Company management have interests in the merger that are different from, or in addition to, their interests as Citizens Bank Holding Company shareholders. These interests arise out of existing option agreements that they have entered into with Citizens Bank Holding Company, provisions in the merger agreement relating to indemnification and continuing service of certain directors, and, in the case of Ralph Cottle, an employment agreement that will take effect upon consummation of the merger. See The Merger Interests of Certain Persons in the Merger.

The Citizens Bank Holding Company board of directors was aware of these interests and took them into account in its decision to approve the merger agreement.

The Merger Is Expected to Occur in the First Quarter of 2005

Currently, we anticipate that the merger will occur by March 31, 2005. However, we cannot assure you when or if the merger will occur.

Completion of the Merger Is Subject to Satisfaction or Waiver of Certain Conditions

Completion of the merger is subject to the satisfaction or waiver of certain conditions including, among others:

approval of the merger agreement by shareholders holding at least a majority of the outstanding shares of Citizens Bank Holding Company common stock that are outstanding and entitled to vote;

approval of the merger by federal and state regulatory authorities; · accuracy of the other party s representations in the merger agreement; and

accuracy of the other party s representations in the merger agreement; and

compliance by the other party with all material terms, covenants and conditions of the merger agreement.

The merger agreement provides that either Glacier or Citizens Bank Holding Company may terminate the merger either before or after the Citizens Bank Holding Company special meeting, under certain circumstances. Among other things, the merger may be terminated under certain circumstances if the average closing price of Glacier common stock during the valuation period either exceeds or is lower than specified amounts. See The Merger Amendment or Termination of the Merger Agreement.

We May Not Complete the Merger Without All Required Regulatory Approvals

The merger must be approved by the Federal Reserve and the Idaho banking regulators. We have filed applications with these regulatory bodies seeking such approval. We expect to obtain all such regulatory approvals, although we cannot be certain if or when we will obtain them.

Either Citizens Bank Holding Company or Glacier, as the Case May Be, Must Pay a Termination Fee Under Certain Circumstances

The merger agreement provides that Citizens Bank Holding Company must pay Glacier a termination fee of $170,000 if Glacier terminates the merger agreement due to a breach by Citizens Bank Holding Company of its representations or covenants, or if the Citizens Bank Holding Company board of directors does not recommend approval of the merger to Citizens Bank Holding Company shareholders.

The merger agreement also provides that Glacier must pay Citizens Bank Holding Company a termination fee of $170,000 if Citizens Bank Holding Company terminates the merger agreement due to a breach by Glacier of its representations or covenants. See The Merger Agreement Termination Fees.

Citizens Bank Holding Company Must Pay Glacier a Break-up Fee Under Certain Circumstances

Under the merger agreement, Citizens Bank Holding Company must pay Glacier a break-up fee of $860,000, if the merger agreement is terminated due to the failure of the Citizens Bank Holding Company board of directors to recommend the merger to its shareholders, or due to the receipt of a superior acquisition proposal.

Citizens Bank Holding Company agreed to pay a break-up fee under the circumstances described above in order to induce Glacier to enter into the merger agreement. This arrangement could have the effect of discouraging other companies from trying to acquire Citizens Bank Holding Company. See The Merger Agreement Break-up Fee.

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Citizens Bank Holding Company Shareholders Will Have Different Rights After the Merger

The rights of Citizens Bank Holding Company shareholders are governed by Idaho law, as well as Citizens Bank Holding Company s articles of incorporation and bylaws. After completion of the merger, however, the rights of the former Citizens Bank Holding Company shareholders receiving Glacier common stock in the merger will be governed by Montana law, as well as Glacier s articles of incorporation and bylaws. Although Montana law and Glacier s articles of incorporation and bylaws are similar in many ways to Idaho law and Citizens Bank Holding Company s articles of incorporation and bylaws, there are some substantive and procedural differences that will affect the rights of Citizens Bank Holding Company shareholders. See Comparison of Certain Rights of Holders of Glacier and Citizens Bank Holding Company Stock.

Citizens Bank Holding Company Shareholders Have Dissenters Rights

Under Idaho law, Citizens Bank Holding Company shareholders have the right to dissent from the merger and receive cash for the fair value of their shares of Citizens Bank Holding Company common stock. A shareholder electing to dissent must strictly comply with all the procedures required by Idaho law. These procedures are described later in this document, and a copy of the relevant portions of Idaho law is attached as **Appendix B**.

RISK FACTORS

In addition to the other information contained in or incorporated by reference into this document, including the matters addressed under the caption Cautionary Note Regarding Forward-Looking Statements, you should consider the matters described below carefully in determining whether to approve the merger agreement and the transactions contemplated by the merger agreement.

The merger agreement limits Citizens Bank Holding Company ability to pursue other transactions and provides for the payment of a break up fee if we do so.

While the merger agreement is in effect and subject to very narrow exceptions, Citizens Bank Holding Company and its directors, officers and agents are prohibited from initiating or encouraging inquiries with respect to alternative acquisition proposals. The prohibition limits Citizens Bank Holding Company s ability to seek offers that may be superior from a financial point of view from other possible acquirers. If Citizens Bank Holding Company receives an unsolicited proposal from a third party that is superior from a financial point of view to that made by Glacier and the merger agreement is terminated, Citizens Bank Holding Company may be required to pay an $860,000 break up fee. This fee makes it less likely that a third party will make an alternative acquisition proposal.

Under certain conditions, the merger agreement requires Citizens Bank Holding Company to pay a termination fee.

Under certain circumstances, Glacier can terminate the merger agreement and require Citizens Bank Holding Company to pay a termination fee of $170,000.

Because the market price of Glacier common stock may fluctuate, you cannot be sure of the number of shares of Glacier common stock that you will receive.

At the time of the Citizens Bank Holding Company special meeting, you will not be able to determine the number of shares of Glacier common stock you would receive upon completion of the merger. While the merger agreement does guarantee you a fixed value for your shares, fluctuations in Glacier s stock price will impact how much Glacier common stock you own relative to existing Glacier shareholders. Your relative portion will be less the higher Glacier s stock price, and more the lower Glacier s stock price. We urge you to obtain current market quotations for Glacier common stock.

You may not receive the form of merger consideration that you elect.

The merger agreement provides that the aggregate consideration to be received by Citizens Bank Holding Company shareholders in the merger will be $8.6 million in cash and the remainder in shares of Glacier common stock, the exact number determined in accordance with the merger agreement, the aggregate value of which will equal $8.6 million plus the amount of cash received by Citizens Bank Holding Company upon the exercise of Citizens Bank Holding Company stock options after the date of the merger agreement and prior to the effective date of the merger. If elections are made by Citizens Bank Holding Company shareholders that would result in their receiving more or less cash or Glacier common stock than these amounts, then certain of those shareholders will have the consideration of the form they selected reduced by a pro rata amount and will receive a portion of their consideration in the form that they did not elect. For a detailed description of the allocation procedures, please see the discussion under the heading The Merger Allocation.

Accordingly, there is a risk that you will receive a portion of the merger consideration in the form that you do not elect, which could result in, among other things, tax consequences that differ from those that would

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have resulted had you received the form of consideration you elected (including with respect to the recognition of taxable gain to the extent cash is received). See The Merger Federal Income Tax Consequences.

Because the aggregate merger consideration is divided equally between cash and Glacier common stock, the allocation provisions described above will not apply to Citizens Bank Holding Company shareholders who elect to receive a combination of cash (50%) and Glacier common stock (50%). Such elections will be effective, without change, regardless of the elections made by other Citizens Bank Holding Company shareholders.

Combining our two companies may be more difficult, costly or time-consuming than we expect.

Glacier and Citizens Bank Holding Company have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of Citizens Community Bank s ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger. As with any merger of banking institutions, there also may be disruptions that cause us to lose customers or cause customers to take their deposits out of Citizens Community Bank.

Glacier may grow through future acquisitions, which could, in some circumstances, adversely affect net income.

Glacier anticipates engaging in selected acquisitions of financial institutions and assets in the future. There are risks associated with Glacier s acquisition strategy that could adversely impact net income. These risks include, among others, incorrectly assessing the asset quality of a particular institution being acquired, encountering greater than anticipated costs of incorporating acquired businesses into Glacier, and being unable to profitably deploy funds acquired in an acquisition. Furthermore, we can give you no assurance about the extent to which Glacier can continue to grow through acquisitions.

In the future, Glacier may issue capital stock in connection with additional acquisitions. These acquisitions and related issuances of stock may have a dilutive effect on earnings per share and ownership. Glacier does not currently have any definitive understandings or agreements for any acquisitions that involve the issuance of Glacier capital stock. However, as noted above, Glacier anticipates that it will continue to expand by acquisition in the future.

Glacier has various anti-takeover measures that could impede a takeover of Glacier

Glacier has various anti-takeover measures in place, some of which are listed elsewhere in this document. Any one or more of these measures may impede the takeover of Glacier without the approval of the Glacier board of directors and may prevent you from taking part in a transaction in which you could realize a premium over the current market price of Glacier common stock. See Comparison of Certain Rights of Holders of Glacier and Citizens Bank Holding Company Common Stock.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document, including information included or incorporated by reference in this document may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, (i) statements about the benefits of the merger, including future financial and operating results, cost savings, enhancements to revenue and accretion to reported earnings that may be realized from the merger; (ii) statements about our respective plans, objectives, expectations and intentions and other statements that are not historical facts; and (iii) other statements identified by words such as expects, anticipates, intends, plans, believes, seeks, estimates, or words of similar

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meaning. These forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond Glacier s and Citizens Bank Holding Company s control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations in the forward-looking statements:

our business may not be integrated successfully, or such integration may take longer to accomplish than expected;

the anticipated growth opportunities and cost savings from the merger may not be fully realized or may take longer to realize than expected;

operating costs, customer losses and business disruption following the merger, including adverse developments in relationships with employees, may be greater than expected;

adverse governmental or regulatory policies may be enacted;

the interest rate environment may change, causing margins to compress and adversely affecting net interest income;

the risks associated with continued diversification of assets and potential adverse changes in credit quality;

increased loan delinquency rates;

competition from other financial services companies in our markets; and

the risk of an economic slowdown adversely affecting credit quality and loan originations.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in Glacier s reports filed with the SEC.

All subsequent written and oral forward-looking statements concerning the proposed transaction or other matters attributable to Glacier or Citizens Bank Holding Company or any person acting on behalf of Glacier or Citizens Bank Holding Company are expressly qualified in their entirety by the cautionary statements above. Neither Glacier nor Citizens Bank Holding Company undertake any obligation to update any forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

SELECTED HISTORICAL FINANCIAL INFORMATION OF GLACIER

The following selected financial information for the fiscal years ended December 31, 2003, 2002, 2001, 2000 and 1999 is derived from audited consolidated financial statements of Glacier. The financial information of and for the nine months ended September 30, 2004 and 2003 are derived from unaudited financial statements. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which Glacier considers necessary for fair presentation of the financial results of operations for such periods. The operating results for the nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2004. The financial data below should be read in conjunction with the financial statements and notes thereto, incorporated by reference in this proxy statement/prospectus. See Where You Can Find More

Information About Glacier.

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GLACIER BANCORP, INC. AND SUBSIDIARIES
SELECTED CONDENSED CONSOLIDATED AND OTHER FINANCIAL INFORMATION
($ in thousands, except per share data)

	At or for the Nine Months Ended September 30		At or for the Fiscal Years Ended December 31				
	2004	2003	2003	2002	2001	2000	1999
Summary of Operations:							
Interest income	$ 108,546	$ 96,778	$ 130,830	$ 133,989	$ 137,920	$ 78,837	$ 64,719
Interest expense	28,993	29,313	38,478	47,522	65,546	37,357	27,635
Net interest income	79,553	67,465	92,352	86,467	72,374	41,480	37,084
Provision for loan losses	2,995	3,113	3,809	5,745	4,525	1,864	1,723
Net interest income after provision for loan losses	76,558	64,352	88,543	80,722	67,849	39,616	35,361
Noninterest income	25,396	26,239	33,562	25,917	23,251	13,294	12,809
Noninterest expenses	53,423	48,255	65,944	57,813	57,385	31,327	29,096
Income before provision for income taxes	48,531	42,336	56,161	48,826	33,715	21,583	19,074
Provision for income taxes	15,478	13,859	18,153	16,424	12,026	7,580	6,722
Net income	33,053	28,477	38,008	32,402	21,689	14,003	12,352
Basic earnings per share	$ 1.35	$ 1.18	$ 1.58	$ 1.37	$ 1.00	$ 0.89	$ 0.79
Diluted earnings per share	$ 1.33	$ 1.16	$ 1.55	$ 1.35	$ 0.97	$ 0.88	$ 0.78
Cash dividends paid per common share	$ 0.51	$ 0.44	$ 0.60	$ 0.49	$ 0.44	$ 0.43	$ 0.42

	At or for the Nine Months Ended September 30		At or for the Fiscal Years Ended December 31				
	2004	2003	2003	2002	2001	2000	1999
Statement of Financial Condition:							
Total assets	$ 3,002,699	$ 2,683,074	$ 2,739,633	$ 2,281,344	$ 2,085,747	$ 1,056,712	$ 974,001
Net loans receivable and loans held for	1,659,614	1,443,200	1,430,365	1,300,653	1,322,327	733,561	652,208

sale							
Total deposits	1,688,121	1,618,399	1,597,625	1,459,923	1,446,064	720,570	644,106
Total borrowings	936,742	773,624	842,280	544,953	399,880	226,320	235,264
Shareholder s equity	262,978	228,105	237,839	212,249	176,983	98,113	85,056
Book value per share	$ 10.73	$ 9.44	$ 9.83	$ 8.93	$ 7.63	$ 6.23	$ 5.41
Key Operating Ratios:							
Return on average assets	1.54%	1.58%	1.53%	1.50%	1.10%	1.39%	1.41%
Return on average shareholders equity	17.74%	17.00%	16.82%	16.57%	13.49%	15.83%	14.60%
Average shareholders equity to average assets	8.69%	9.28%	9.10%	9.08%	8.26%	8.78%	9.73%
Net interest margin	4.15%	4.21%	4.20%	4.51%	4.08%	4.48%	4.67%
Ratio of non-performing assets to total assets	0.41%	0.39%	0.48%	0.51%	0.53%	0.21%	0.23%
Dividend payout ratio	37.78%	37.29%	38.07%	35.45%	43.48%	48.36%	53.70%

HISTORICAL AND PRO FORMA PER SHARE DATA

The table set below presents the historical earnings, book value and cash dividends per share as of September 30, 2004, and the nine months then ended, and as of December 31, 2003, and the year then ended, for Glacier, together with the pro forma amounts after giving effect to the merger. This data should be read in conjunction with the Glacier financial statements and other financial information included elsewhere in this document. The pro forma data are not necessarily indicative of future operating results or financial position.

The table below also presents the closing prices per share for Glacier and Citizens Bank Holding Company common stock, respectively, on the day prior to the announcement of the merger, and as of February 8, 2005, the most recent practicable trading date prior to the printing of this document, together what the pro forma equivalent market value of Citizens Bank Holding Company shares after giving effect to the merger. The pro forma equivalent per share data for Citizens Bank Holding Company is calculated by multiplying the historical per share data for Glacier by the implied exchange ratio of 1.171 used to calculate the merger consideration (assuming (i) a Glacier average closing price of $32.00 and (ii) that the share of Citizens Bank Holding Company common stock will be exchanged for a share of Glacier common stock). See the discussion under the heading Comparative Stock Price and Dividend Information on the next page for important information about the limited trading in stock of Citizens Bank Holding Company and the effect that may have on the reliability of the share price data.

	Glacier		Citizens Bank Holding Company	
	Historical	Pro Forma Combined	Historical	Pro Forma Equivalent
Basic earnings per share:				
Year ended December 31, 2003	$ 1.58	$ 1.60	$ 2.10	$ 1.85
Nine months ended September 30, 2004	$ 1.35	$ 1.37	$ 1.49	$ 1.58
Diluted earnings per share:				
Year ended December 31, 2003	$ 1.55	$ 1.57	$ 1.99	$ 1.82
Nine months ended September 30, 2004	$ 1.33	$ 1.34	$ 1.41	$ 1.56
Book value per share at:				
December 31, 2003	$ 9.83	$ 10.00	$ 15.25	$ 11.51
September 30, 2004	$ 10.73	$ 10.92	$ 16.74	$ 12.56
Cash dividends per share declared(1) :				
Year ended December 31, 2003	$ 0.60	$ 0.59	$ 0	$ 0.70
Nine months ended September 30, 2004	$ 0.51	$ 0.50	$ 0	$ 0.60
Market value per share at December 14, 2004 (2)	$ 34.37	N/A	$ 23.00	$ 40.25
Market value per share at February 8, 2005	$ 32.08	N/A	$ 23.00	$ 37.57

(1) Citizens Bank Holding Company has never paid a cash dividend to its shareholders.

(2) The most recent trade of Citizens Bank Holding Company common stock occurred on December 2, 2004; however, the most recent transaction for which management of Citizens Bank Holding Company is aware of the purchase price occurred in the second quarter of 2004.

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COMPARATIVE STOCK PRICE AND DIVIDEND INFORMATION

Glacier Common Stock

Glacier common stock is quoted on the Nasdaq National Market under the symbol GBCI. The following table sets forth for the periods indicated:

the high and low sale prices for Glacier common stock as reported on the Nasdaq National Market, and

dividends per share on Glacier common stock.

	High*	Low*	Cash Dividends Declared
2003			
First quarter	$ 21.59	$ 17.00	$ 0.13
Second quarter	$ 20.96	$ 18.36	$ 0.15
Third quarter	$ 23.72	$ 19.56	$ 0.16
Fourth quarter	$ 26.40	$ 21.54	$ 0.16
2004			
First quarter	$ 27.04	$ 23.60	$ 0.17
Second quarter	$ 28.25	$ 24.49	$ 0.17
Third quarter	$ 30.35	$ 25.75	$ 0.17
Fourth quarter	$ 34.99	$ 28.90	$ 0.17
2005			
First quarter (through February 8, 2005)	$ 34.98	$ 30.52	$ 0.17

*Adjusted for stock splits and stock dividends.

At February 4, 2005, the 24,607,010 outstanding shares of Glacier common stock were held by approximately 6,784 holders of record.

Citizens Bank Holding Company Common Stock

Citizens Bank Holding Company common stock is not quoted on a stock exchange or market and no broker makes a market in the stock. Stock transfer records maintained by Citizens Bank Holding Company indicate that there have been relatively infrequent transactions in Citizens Bank Holding Company s stock. Sales and purchases of shares of Citizens Bank Holding Company common stock are privately negotiated, and Citizens Bank Holding Company is often not aware of the price for those transactions. Citizens Bank Holding Company is aware of approximately thirty (30) transfers of Citizens Bank Holding Company common stock since January 2003; however, management of Citizens Bank Holding Company is only aware of the purchase price for two (2) of those transactions. As a result, trading price data is very limited and may not accurately reflect the actual market value of the shares. The table below sets forth the high and low sales prices per share of Citizens Bank Holding Company common stock as reported to Citizens Bank Holding Company, acting as its own transfer agent. There have been no trades of Citizens Bank Holding Company stock in 2005.

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	High	Low
2003		
First quarter	N/A	N/A
Second quarter	N/A	N/A
Third quarter	N/A	N/A
Fourth quarter	N/A	N/A
2004		
First quarter	$ 18.00	$ 18.00
Second quarter	$ 23.00	$ 23.00
Third quarter	N/A	N/A
Fourth quarter	N/A	N/A

At February 8, 2005, the 441,034 outstanding shares of Citizens Bank Holding Company common stock were held by approximately 364 holders of record.

Citizens Bank Holding Company has never paid a dividend to its shareholders. In the absence of the proposed merger, Citizens Bank Holding Company does not anticipate paying a cash dividend in the foreseeable future. Rather, Citizens Bank Holding Company plans to retain earnings to provide capital to fund its operations.

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CITIZENS BANK HOLDING COMPANY SPECIAL SHAREHOLDERS MEETING

Date, Time, Place

The Citizens Bank Holding Company special meeting of shareholders will be held on Friday, March 25, 2005, at 10:00 a.m. local time, at Juniper Hills Country Club, 6000 S. Bannock Highway, Pocatello, Idaho 83204.

As described below under Vote Required, approval of the merger agreement requires the affirmative vote of at least a majority of the shares of Citizens Bank Holding Company common stock that are outstanding and entitled to vote on the record date. If there are not sufficient votes represented at the special meeting, either in person or by proxy, to approve the merger agreement, or if a quorum is not present, Citizens Bank Holding Company may adjourn or postpone the meeting in order to permit further solicitation of proxies by Citizens Bank Holding Company. The persons appointed as proxies on the form accompanying this document are authorized to vote to approve such adjournment or postponement, unless the proxy appointing them instructs them to vote against approval of the merger agreement.

Purpose

At the special meeting, Citizens Bank Holding Company shareholders will:

- consider and vote on a proposal to approve the merger, and
- if necessary, consider and act upon a proposal to adjourn the special meeting to allow additional time to solicit proxies

Record Date; Shares Outstanding and Entitled to Vote

The Citizens Bank Holding Company board of directors has fixed 5:00 p.m. on February 4, 2005 as the record date for determining the holders of shares of Citizens Bank Holding Company common stock entitled to notice of and to vote at the special meeting. At the close of business on the Citizens Bank Holding Company record date, there were 441,034 shares of common stock issued and outstanding held by approximately 364 holders of record. Holders of record of Citizens Bank Holding Company common stock on the record date are entitled to one vote per share, and are also entitled to exercise dissenters rights if certain procedures are followed. See The Merger - Dissenters Rights of Appraisal and **Appendix B**.

Each director of Citizens Bank Holding Company has agreed to vote all Citizens Bank Holding Company shares held or controlled by him in favor of approval of the merger. A total of 47,482 outstanding shares or shares subject to stock options, or approximately 10.6% of the outstanding shares of Citizens Bank Holding Company common stock, are covered by this voting agreement. See The Merger - Voting Agreement.

Vote Required

The affirmative vote of at least a majority of all shares of Citizens Bank Holding Company common stock outstanding and entitled to vote on the record date is required to approve the merger. At least fifty percent (50%) of the outstanding shares of Citizens Bank Holding Company common stock must be present, either in person or by proxy, in order to constitute a quorum for the meeting. For this purpose, abstentions and broker nonvotes (that is, proxies from brokers or nominees, indicating that such person has not received instructions from the beneficial owners or other persons entitled to vote shares as to a matter with respect to which the broker or nominees do not have discretionary power to vote) are counted in determining the shares present at a meeting.

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For voting purposes, however, only shares actually voted **for** the approval of the merger agreement, and neither abstentions nor broker nonvotes, will be counted as favorable votes in determining whether the merger agreement is approved by the holders of Citizens Bank Holding Company common stock. **As a result, abstentions and broker nonvotes will have the same effect as votes against approval of the merger agreement.**

Voting, Solicitation, and Revocation of Proxies

If the enclosed proxy card is duly executed and received in time for the special meeting, it will be voted in accordance with the instructions given. If the proxy card is duly executed and received but no instruction is given, it is the intention of the persons named in the proxy to vote the shares represented by the proxy **for the approval of the merger and in the proxy s discretion on any other matter coming before the meeting.** Any proxy given by a shareholder may be revoked before its exercise by:

written notice to the Secretary of Citizens Bank Holding Company;

a later-dated proxy; or

appearing and voting at the special meeting in person.

Citizens Bank Holding Company is soliciting the proxy for the special meeting on behalf of the Citizens Bank Holding Company board of directors. Citizens Bank Holding Company will bear the cost of solicitation of proxies from its shareholders. In addition to using the mails, Citizens Bank Holding Company may solicit proxies by personal interview, telephone, and facsimile. Banks, brokerage houses, other institutions, nominees, and fiduciaries will be requested to forward their proxy soliciting material to their principals and obtain authorization for the execution of proxies. Citizens Bank Holding Company does not expect to pay any compensation for the solicitation of proxies. However, Citizens Bank Holding Company will, upon request, pay the standard charges and expenses of banks, brokerage houses, other institutions, nominees, and fiduciaries for forwarding proxy materials to and obtaining proxies from their principals.

BACKGROUND OF AND REASONS FOR THE MERGER

Background of the Merger

Glacier, through its Mountain West Bank subsidiary, currently offers community banking services from offices in northern Idaho, the Boise area, and Ketchum/Sun Valley, but does not serve the southeastern Idaho market. Consistent with its historical acquisition strategy, Glacier is interested in partnering with attractive financial institutions in markets that fit within or expand Glacier s existing geographic footprint. In April 2004, D.A. Davidson & Co. (Davidson), as Glacier s investment banking representative, sent a letter to Citizens Bank Holding Company expressing Glacier s interest in expanding its community banking presence to southeastern Idaho through a merger with Citizens Bank Holding Company. In May and June, a representative of Davidson and Ralph Cottle, President of Citizens Bank Holding Company, had several telephone conversations regarding the prospect of arranging a meeting with Glacier to share information and further explore the prospect of a merger.

On July 13, Mick Blodnick, CEO of Glacier, and a representative of Davidson met in Pocatello with Mr. Cottle and with Messrs. James Lee and Gary Blanchard, the chairman and vice chairman, respectively, of Citizens Bank Holding Company. Mr. Blodnick and the Citizens representatives shared information about their respective companies, discussed market conditions and prospects in southeastern Idaho, shared financial information, reviewed operating practices and corporate strategies, and discussed the potential benefits of a merger to shareholders, employees, and customers. In the course of the meeting, Messrs. Blodnick and Cottle

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agreed that Glacier and Citizens Bank Holding Company shared similar community banking philosophies and that the parties should further explore the prospect of a merger.

On August 5, Mr. Blodnick and a representative of Davidson met with Mr. Cottle and the Citizens Bank Holding Company board of directors in Pocatello. Mr. Blodnick presented the board with information about Glacier and answered questions about its financial performance, its operating practices with subsidiary banks, and the experiences of other community banks that chose to merge with Glacier. Davidson shared information and answered questions about the structure and process of a merger transaction, market valuation levels, and Glacier s approach to structuring and valuing merger transactions.

In August and September, Citizens Bank Holding Company shared additional information with Glacier, including management s expectations for financial performance during 2004 and 2005. The parties also engaged in negotiations regarding the value and terms of a merger transaction.

On September 27, following a meeting of its board of directors, Glacier provided Citizens Bank Holding Company a formal proposal setting forth the proposed terms of the merger. On September 29, the board of directors of Citizens Bank Holding Company met to discuss the formal proposal of Glacier with respect to the merger. The board of directors raised several issues with regard to the proposal and directed legal counsel of Citizens Bank Holding Company and Mr. Cottle to communicate the comments of the board of directors to Glacier. The comments of the board of directors of Citizens Bank Holding Company were communicated to Glacier on September 30. On September 30, after receiving comments from Citizens Bank Holding Company and its legal counsel, Glacier submitted a revised written proposal for the merger that was accepted by Citizens Bank Holding Company.

In October and November, the parties and their advisors exchanged additional information, conducted due diligence reviews (with most of Glacier s due diligence review occurring between October 18 and November 12), discussed operating and strategic plans for the Bank post-closing, and drafted and negotiated the terms of the merger agreement and related documents.

On December 14, the board of directors of Glacier met to consider approval of the merger. Matters discussed included the fiduciary duties of the directors, the results of due diligence reviews, the terms of the merger agreement and related documents, the pro forma financial impact of the merger, expansion opportunities available to the Bank, and the timing and process for consummation of the merger. After due consideration of these matters, the Glacier board approved the merger by unanimous vote.

On December 15, the Board of Directors of Citizens Bank Holding Company met to consider approval of the merger with Glacier. The Board of Directors discussed: their fiduciary duty to the shareholders of Citizens Bank Holding Company, questions about the definitive agreement, the form of consideration to be received by the shareholders, the break-up fee, the current stock price of Glacier and its dividend history, and the implications to Citizens Bank Holding Company, its shareholders, employees and customers. Also discussed were the reasons for completing the merger and the implications to Citizens Bank Holding Company if the Bank continued without an affiliation with Glacier. The Board of Directors took into consideration the presentation made by Hovde and its fairness opinion that was presented and approved by the Board of Directors as written. The Board then voted unanimously to approve the merger.

Glacier and Citizens executed the merger agreement and related documents on the afternoon of December 15. After the close of business on December 15, the parties issued a joint press release announcing the execution of the merger agreement.

Reasons For The Merger - Citizens Bank Holding Company

The Citizens Bank Holding Company board of directors believes the merger is in the best interests of Citizens Bank Holding Company and the Citizens Bank Holding Company shareholders. The Citizens Bank Holding Company board of directors unanimously recommends that Citizens Bank Holding Company shareholders vote **for** the approval of the merger agreement and the consummation of the transaction contemplated by that merger agreement.

In reaching its determination to approve the merger agreement, the Citizens Bank Holding Company board of directors consulted with its management and its financial and legal advisors, and considered a number of factors. Following is a description of each of the material factors that Citizens Bank Holding Company board of directors believes favor the merger:

Terms of the Merger. The terms of the merger, including the consideration being paid and various other documents related to the merger and the structure of the merger. The fact that when the merger was publicly announced, the aggregate consideration being paid to Citizens Bank Holding Company shareholders represented a premium over the last known sales price for shares of Citizens Bank Holding Company.

Fairness Opinion. Hovde s opinion, discussed below in Opinion of Bank of Citizens Bank Holding Company Advisor, stating that, based upon and subject to, the assumptions made, matters considered and qualifications and limitations stated in the opinion, as of December 15, 2004, the merger consideration was fair to Citizens Bank Holding Company shareholders from a financial point of view.

Liquidity. The expectation that Glacier common stock will provide greater liquidity for Citizens Bank Holding Company shareholders.

Dividends. The fact that Glacier s common stock pays dividends, has done so since 1985, and that Citizens Bank Holding Company has never paid a dividend.

Products & Services. The fact that Citizens Bank Holding Company customers would be afforded new products and services not previously available. For instance, larger credit relationships, international banking services including letters of credit, and enhanced cash management services will be available.

Autonomy. The fact that Glacier intends to operate Citizens Community Bank as a separate subsidiary under the direction and control of the bank s current management team, under the name Citizens Community Bank.

Corporate Values. The understanding that Glacier and Citizens Bank Holding Company share a common vision of the importance of customer service and local decision making and that management and employees of Citizens Community Bank and Glacier possess complementary skills and expertise.

Competitive Issues. The fact that competition in the Citizens Bank Holding Company market has increased in the past few years and is expected to increase in the future as other larger banks enter the market.

Future Prospects. The Citizens Bank Holding Company board of directors believes that future earnings prospects will be stronger on a combined basis. In addition, affiliations with Glacier will offer expansion opportunities not currently available.

Other Strategies. The alternatives to the merger, and the timing and likelihood of success in trying to achieve such alternatives.

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Employee Matters. The expectation that the merger will generally expand the career opportunities and employee benefits available to many Citizens Community Bank employees.

Directors and Executive Officers. The fact that the current members of the Citizens Community Bank board of directors will continue to serve following the merger.

Tax Free Reorganization. The expectation that the merger will constitute a reorganization under section 368(a) of the Internal Revenue Code.

Risks of Stand Alone. The Citizens Bank Holding Company board of directors considered the risks and costs associated with remaining a stand alone bank, such as the possible need to raise additional capital.

Approvals. The likelihood of receiving required regulatory approvals in a timely fashion and the likelihood that the merger would be completed.

In the course of its deliberations regarding the merger, the Citizens Bank Holding Company board of directors also considered the following information, which the board of directors determined did not outweigh the benefits to Citizens Community Bank and its shareholders expected to be generated by the merger:

Consideration Unknown until Closing. Because the market price of Glacier common stock will fluctuate, and because the total merger consideration is payable $8.6 million in cash and the remainder in Glacier common stock, Citizens Bank Holding Company shareholders cannot be sure of the number of shares of Glacier common stock that will be exchanged for shares of Citizens Bank common stock, or the form of merger consideration that they will receive until the completion of the merger.

Business Interruption. The possible disruption to Citizens Community Bank business that may result from the announcement of the merger and the resulting distraction of its management s attention from the day-to-day operations of Citizens Community Bank s business.

Integration Issues. The difficulty inherent in integrating two businesses and the risk that the cost efficiencies, synergies and other benefits expected to be obtained in the merger may not be fully realized.

Operational Restrictions. The restrictions contained in the merger agreement on the operation of Citizens Bank Holding Company s business during the period between the signing of the merger agreement and completion of the merger.

Termination, No-Approval and Break-Up Fees. Under certain circumstances, Glacier may terminate the merger agreement and require Citizens Bank Holding Company to pay a termination fee of $170,000. In certain circumstances where the merger agreement is terminated following the receipt of a superior proposal prior to the consummation of the merger and such a superior proposal is accepted within the twelve months following such termination and then subsequently consummated, Citizens Bank Holding Company may be required to pay a break-up fee of $860,000.

Risk of Termination. The possibility that the merger might not be completed and the effect of the resulting public announcement of the termination of the merger agreement on, among other things, the market price of Citizens Bank Holding Company common stock and Citizens Bank Holding Company operating results, particularly in light of the costs incurred in connection with the transaction.

Other Matters. Other matters described in the sections entitled Risk Factors and The Merger - Interests of Certain Persons in the Merger.

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The foregoing discussion of the information considered by the Citizens Bank Holding Company board of directors is not intended to be exhaustive but includes all of the material factors considered by the board of directors. In reaching its determination to approve and recommend the merger, the Citizens Bank Holding Company board of directors did not assign any relative or specific weights to the factors considered in reaching that determination and individual directors may have given differing weights to different factors. Given the above, the Citizens Bank Holding Company board of directors determined that the merger agreement is in the best interests of Citizens Bank Holding Company and its shareholders and unanimously approved the merger.

Opinion of Hovde Financial LLC, Citizens Bank Holding Company Financial Advisor

Hovde has delivered to the Board of Directors of Citizens Bank Holding Company its opinion that, based upon and subject to the various considerations set forth in its written opinion dated December 15, 2004, the total transaction consideration to be paid to the shareholders of Citizens Bank Holding Company is fair from a financial point of view as of such date. In requesting Hovde s advice and opinion, no limitations were imposed by Citizens Bank Holding Company upon Hovde with respect to the investigations made or procedures followed by it in rendering its opinion. **The full text of the opinion of Hovde, dated December 15, 2004, which describes the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached hereto as Appendix C. The shareholders of Citizens Bank Holding Company should read this opinion in its entirety.**

Hovde is a nationally recognized investment banking firm and, as part of its investment banking business, is continually engaged in the valuation of financial institutions in connection with mergers and acquisitions, private placements and valuations for other purposes. As a specialist in securities of financial institutions, Hovde has experience in, and knowledge of, banks, thrifts and bank and thrift holding companies. The Board of Directors of Citizens Bank Holding Company selected Hovde to act as its financial advisor in connection with the merger on the basis of the firm s reputation and expertise in transactions such as the merger.

Hovde received a fee from Citizens Bank Holding Company for performing a financial analysis of the merger and rendering a written opinion to the Board of Directors of Citizens Bank Holding Company as to the fairness, from a financial point of view, of the merger to the shareholders of Citizens Bank Holding Company. Hovde received all of such fee subsequent to Hovde s presentation of its fairness opinion and analysis to the Board of Directors of Citizens Bank Holding Company. Citizens Bank Holding Company has also agreed to indemnify Hovde against any claims, losses and expenses arising out of the merger or Hovde s engagement that did not arise from Hovde s gross negligence or willful misconduct.

Hovde s opinion is directed only to the fairness, from a financial point of view, of the total transaction consideration, and, as such, does not constitute a recommendation to any shareholder of Citizens Bank Holding Company as to how the shareholder should vote at the Citizens Bank Holding Company shareholder meeting. The summary of the opinion of Hovde set forth in this joint statement/prospectus is qualified in its entirety by reference to the full text of the opinion.

The following is a summary of the analyses performed by Hovde in connection with its fairness opinion. Certain of these analyses were confirmed in a presentation to the Board of Directors of Citizens Bank Holding Company by Hovde. The summary set forth below does not purport to be a complete description of either the analyses performed by Hovde in rendering its opinion or the presentation delivered by Hovde to the Board of Directors of Citizens Bank Holding Company, but it does summarize all of the material analyses performed and presented by Hovde.

The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances. In arriving at its opinion, Hovde did not attribute any particular weight to any analysis and factor considered by it, but

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rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Hovde believes that its analyses and the following summary must be considered as a whole and that selecting portions of its analyses, without considering all factors and analyses, could create an incomplete view of the process underlying the analyses set forth in its report to the Board of Directors of Citizens Bank Holding Company and its fairness opinion.

In performing its analyses, Hovde made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Citizens Bank Holding Company and Glacier. The analyses performed by Hovde are not necessarily indicative of actual value or actual future results, which may be significantly more or less favorable than suggested by such analyses. Such analyses were prepared solely as part of Hovde s analysis of the fairness of the transaction consideration, from a financial point of view, to the shareholders of Citizens Bank Holding Company. The analyses do not purport to be an appraisal or to reflect the prices at which a company might actually be sold or the prices at which any securities may trade at the present time or at any time in the future. Hovde s opinion does not address the relative merits of the merger as compared to any other business combination in which Citizens Bank Holding Company might engage. In addition, as described above, Hovde s opinion to the Board of Directors of Citizens Bank Holding Company was one of many factors taken into consideration by the Board of Directors of Citizens Bank Holding Company in making its determination to approve the merger agreement.

During the course of its engagement, and as a basis for arriving at its opinion, Hovde reviewed and analyzed material bearing upon the financial and operating conditions of Citizens Bank Holding Company and Glacier and material prepared in connection with the merger, including, among other things, the following:

- the merger agreement;
- certain historical publicly available information concerning Citizens Bank Holding Company and Glacier;
- certain internal financial statements and other financial and operating data concerning Citizens Bank Holding Company and Glacier;
- certain financial projections prepared by the managements of Citizens Bank Holding Company and Glacier;
- certain other information provided to Hovde by members of the senior managements of Citizens Bank Holding Company and Glacier for the purpose of reviewing the future prospects of Citizens Bank Holding Company and Glacier, including financial forecasts related to the respective businesses, earnings, assets, liabilities and the amount and timing of cost savings expected to be achieved as a result of the merger;
- historical market prices and trading volumes for Glacier common stock;
- the nature and terms of recent merger and acquisition transactions to the extent publicly available, involving banks, thrifts and bank and thrift holding companies that we considered relevant;
- the pro forma ownership of Glacier s common stock by the shareholders of Citizens Bank Holding Company relative to the pro forma contribution of Citizens Bank Holding Company s assets, liabilities, equity and earnings to the combined company;
- the pro forma impact of the merger on the combined company s earnings per share, consolidated capitalization and financial ratios; and

such other information and factors as it has deemed appropriate.

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Hovde also took into account its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its knowledge of the commercial banking industry and its general experience in securities valuations.

In rendering its opinion, Hovde assumed, without independent verification, the accuracy and completeness of the financial and other information and relied upon the accuracy of the representations of the parties contained in the merger agreement. Hovde also assumed that the financial forecasts furnished to or discussed with Hovde by Citizens Bank Holding Company and Glacier were reasonably prepared and reflected the best currently available estimates and judgments of senior management of Citizens Bank Holding Company and Glacier as to the future financial performance of Citizens Bank Holding Company, Glacier, or the combined company, as the case may be. Hovde has not made any independent evaluation or appraisal of any properties, assets or liabilities of Citizens Bank Holding Company or Glacier. Hovde assumed and relied upon the accuracy and completeness of the publicly available and other non-public financial information provided to it by Citizens Bank Holding Company and Glacier, relied upon the representations and warranties of Citizens Bank Holding Company and Glacier made pursuant to the merger agreement, and did not independently attempt to verify any of such information.

Analysis of Selected Mergers. As part of its analysis, Hovde reviewed two groups of comparable merger transactions. The first peer group included transactions, which have occurred since January 1, 2002, that involved target banks in the Northwestern United States (ID, OR, WA, MT, WY) that had total assets under $400 million (the Northwest Merger Group). This Northwest Merger Group consisted of the following 11 transactions:

Buyer	Seller
Glacier Bancorp Inc. (MT)	First National Banks-West Co. (WY)
Intermountain Community Bncp (ID)	Snake River Bancorp (ID)
Heartland Financial USA Inc. (IA)	Rocky Mountain Bancorp. Inc. (MT)
Pacific Financial Corp. (WA)	BNW Bancorp Inc. (WA)
Washington Federal Inc. (WA)	United S&L Bank (WA)
Glacier Bancorp Inc. (MT)	Pend Oreille Bancorp (ID)
Riverview Bancorp Inc. (WA)	Today s Bancorp Inc. (WA)
Sterling Financial Corp. (WA)	Empire Federal Bancorp Inc. (MT)
First Community Financial (WA)	Harbor Bank N.A. (WA)
Pacific Northwest Bancorp (WA)	Bank of the Northwest (OR)
AmericanWest Bancorporation (WA)	Latah Bancorporation, Inc. (WA)

Hovde also reviewed comparable mergers involving banks headquartered in the Western United States announced since January 1, 2003, in which the total assets of the seller were between $50 million and $150 million (the West Merger Group). This West Merger Group consisted of the following 33 transactions:

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Buyer	Seller
Riverview Bancorp Inc. (WA)	American Pacific Bank (OR)
First Financial Bankshares (TX)	Clyde Financial Corporation (TX)
IB Bancshares Inc. (TX)	First Celina Corporation (TX)
IB Bancshares Inc. (TX)	Coupland State Bank Of Couplan (TX)
Franklin Bank Corp. (TX)	Cedar Creek Bancshares Inc. (TX)
Intermountain Community Bncp (ID)	Snake River Bancorp (ID)
First Federal Bank of LA (LA)	First Allen Parish Bancorp (LA)
MidSouth Bancorp Inc. (LA)	Lamar Bancshares Inc. (TX)
Prosperity Bancshares Inc. (TX)	Village Bank & Trust S.S.B. (TX)
Pinnacle Bancorp Inc. (NE)	Fncl. Srvcs. the Rockies Inc (CO)
First Financial Bankshares (TX)	Liberty National Bank (TX)
Teche Holding Co. (LA)	St. Landry Financial Corp. (LA)
Central Bancompany (MO)	Community Bancs of Oklahoma (OK)
Cascade Financial Corp. (WA)	Issaquah Bancshares Inc. (WA)
Summit Bancshares Inc. (TX)	ANB Financial Corporation (TX)
HGroup Acquisition Co. (TX)	Heritage Bancshares (TX)
Happy Bancshares Inc. (TX)	Sun Banc Corporation (TX)
IBERIABANK Corp. (LA)	Alliance Bank of Baton Rouge (LA)
Pacific Financial Corp. (WA)	BNW Bancorp Inc. (WA)
Prosperity Bancshares Inc. (TX)	First State Bk North TX (TX)
Investor group (TX)	Snyder National Bank (TX)

First Community Capital Corp. (TX)	Grimes County Capital Corp. (TX)
North American Bcshs Inc. (TX)	Pioneer Bankshares Inc. (TX)
BancFirst Corp. (OK)	Lincoln National Bancorp. (OK)
Industry Bancshares Inc. (TX)	Fayetteville Bancshares Inc. (TX)
Marquette Financial Companies (MN)	Valley Bancorp, Inc. (AZ)
Southeast Texas Bcshs Inc. (TX)	Secured Trust Bank (TX)
Glacier Bancorp Inc. (MT)	Pend Oreille Bancorp (ID)
Franklin Bank Corp. (TX)	Highland Lakes Bank (TX)
Riverview Bancorp Inc. (WA)	Today s Bancorp Inc. (WA)
Doss Ltd. (TX)	Northwest NB of Arlington (TX)
Prosperity Bancshares Inc. (TX)	Abrams Centre Bancshares Inc. (TX)
Premier Bcshs Inc. (TX)	Synergy Bank, SSB (TX)

Hovde calculated the medians and averages of the following relevant transaction ratios in the Northwest Merger Group and the West Merger Group: the percentage of the offer value to the acquired company s total assets, the multiple of the offer value to the acquired company s earnings for the twelve months preceding the announcement date of the transaction; the multiple of the offer value to the acquired company s tangible book value; and the tangible book value premium to core deposits. Hovde compared these multiples with the corresponding multiples for the merger, valuing the total consideration that would be received pursuant to the merger agreement at approximately $17.3 million ($8.6 million in consideration in the form of Glacier s stock, $8.6 million in cash, and $88,970 in qualified options consideration), or $37.47 per Citizens Bank Holding Company diluted share. In calculating the multiples for the merger, Hovde used Citizens Bank Holding Company s earnings for the twelve months ended September 30, 2004, and Citizens Bank Holding Company s tangible book value per share, total assets, and total deposits as of September 30, 2004. The results of this analysis are as follows:

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	Offer Value to			
	Total Assets (%)	Tangible Book Value (x)	12 months Preceding Earnings (x)	Ratio of Tangible Book Value Premium to Core Deposits (%)
Citizens Bank Holding Company	15.7	2.34	18.9	14.1
Northwest Merger Group median	16.0	1.90	19.4	13.0
Northwest Merger Group average	16.5	2.13	20.3	13.3
West Merger Group median	17.4	1.90	22.2	12.2
West Merger Group average	18.1	2.06	25.7	13.1

Discounted Cash Flow Analysis. Hovde estimated the present value of all shares of Citizens Bank Holding Company common stock by estimating the value of Citizens Bank Holding Company s estimated future earnings stream beginning in 2005. Reflecting Citizens Bank Holding Company s internal projections and Hovde estimates, Hovde assumed net income in 2005, 2006, 2007, 2008, and 2009 of $0.99 million, $1.14 million, $1.31 million, $1.51 million, and $1.74 million, respectively. The present value of these earnings was calculated based on a range of discount rates of 11.0%, 12.0%, 13.0%, 14.0%, and 15.0%, respectively. In order to derive the terminal value of Citizens Bank Holding Company s earnings stream beyond 2009, Hovde assumed a terminal value based on a multiple of between 16.0x and 20.0x applied to free cash flows in 2009. The present value of this terminal amount was then calculated based on the range of discount rates mentioned above. These rates and values were chosen to reflect different assumptions regarding the required rates of return of holders or prospective buyers of Citizens Bank Holding Company common stock. This analysis and its underlying assumptions yielded a range of value for all the shares of Citizens Bank Holding Company stock of approximately $13.82 million (at a 15.0% discount rate and a 16.0x terminal multiple) to $20.61 million (at a 11.0% discount rate and a 20.0x terminal multiple) with a midpoint of $16.97 (using a 13.0% discount rate and a 18.0x terminal multiple), compared to total merger consideration of $17.29 million.

Contribution Analysis. Hovde prepared a contribution analysis showing percentages of total assets, total net loans, total deposits, and total common equity and tangible equity at September 30, 2004 for Citizens Bank Holding Company and for Glacier, and actual twelve months preceding earnings and estimated fiscal year 2004 earnings that would be contributed to the combined company on a pro-forma basis by Citizens Bank Holding Company and Glacier. This analysis indicated that holders of Citizens Bank Holding Company common stock would own approximately 1.0% of the pro forma common shares outstanding of Glacier, assuming an exchange ratio of 1.129 for the stock consideration portion, while contributing a median of 3.2% of the financial components listed above. This pro forma ownership is based on the total consideration being paid to Citizens Bank Holding Company consisting of 50.3% of Glacier common stock and 49.7% in cash, therefore if pro forma ownership of 1.0% is divided by the percentage of stock (50.3%), the resulting value is 2.0%.

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	Citizens Bank Holding Company Contribution To Glacier
Total assets	3.5%
Total net loans	5.0%
Total deposits	5.5%
Total equity	2.7%
Total tangible equity	3.2%
Net income - LTM	2.1%
Net income - estimated fiscal year 2004	1.8%
Median Citizens Bank Holding Company Contribution Percentage	3.2%
Actual Citizens Bank Holding Company Pro Forma Ownership	1.0%
Citizens Bank Holding Company Pro Forma Ownership adjusted for cash component	2.0%

Financial Implications to Citizens Bank Holding Company Shareholders. Hovde prepared an analysis of the financial implications of Glacier s offer to a holder of Citizens Bank Holding Company common stock who elects to receive 100% Glacier common stock. This analysis indicated that on a pro forma equivalent basis, assuming the exchange ratio of 1.129 for the stock consideration portion of the total consideration and excluding any potential revenue enhancement opportunities, a stockholder of Citizens Bank Holding Company would achieve approximately 7.06% accretion in GAAP earnings per share, approximately 9.48% accretion in cash earnings per share, a decrease in tangible book value per share of approximately 43.12%, and a decrease in total book value per share of approximately 29.07% as a result of the consummation of the merger. The table below summarizes the results discussed above:

	Per Share:			
	2004E GAAP Earnings	2004E Cash Earnings	Book Value	Tangible Book Value
Citizens Bank Holding Company standalone	$ 2.25	$ 2.25	$ 16.74	$ 16.74
Citizens Bank Holding Company Pro Forma*	$ 2.41	$ 2.46	$ 11.87	$ 9.52
% Accretion Dilution	7.06%	9.48%	-29.07%	-43.12%

**Based on an exchange ratio of 1.129*

Comparable Company Analysis. Using publicly available information, Hovde compared the financial performance and stock market valuation of Glacier with the following Northwest United States publicly traded banking institutions with assets as of September 30, 2004 between $500 million and $5 billion:

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Company Name (Ticker)	Assets ($mm)
AmericanWest Bancorporation (AWBC)	29,204

TOTAL LIABILITIES

585,447

490,654

536,846

SHAREHOLDERS' EQUITY:

Controlling interest shareholders' equity:

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

$

—

$

—

$

—

Common stock, $1 par value; shares authorized 80,000,000; issued and outstanding, 61,656,181, 61,191,888 and 61,174,197

61,656

61,192

61,174

Additional paid-in capital

176,671

161,928

159,995

Retained earnings

841,431

736,212

715,497

Accumulated other comprehensive income

(3,638)

144

(871)

Total controlling interest shareholders’ equity

1,076,120

959,476

935,795

Noncontrolling interest

15,604

14,547

14,285

TOTAL SHAREHOLDERS’ EQUITY

1,091,724

974,023

950,080

TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY

$

1,677,171

$

1,464,677

$

1,486,926

See notes to consolidated condensed financial statements.

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UNIVERSAL FOREST PRODUCTS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

AND COMPREHENSIVE INCOME

(Unaudited)

(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
NET SALES	$ 1,212,702	$ 1,056,586	$ 3,500,999	$ 2,975,091
COST OF GOODS SOLD	1,054,029	911,899	3,045,748	2,561,424
GROSS PROFIT	158,673	144,687	455,251	413,667
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	102,292	92,389	300,292	272,956
FOREIGN CURRENCY EXCHANGE LOSS	412	301	213	1,157
NET (GAIN) ON DISPOSITION OF ASSETS AND IMPAIRMENT OF ASSETS	(1,022)	(274)	(7,079)	(437)
EARNINGS FROM OPERATIONS	56,991	52,271	161,825	139,991
INTEREST EXPENSE	1,945	1,481	5,971	4,825
INTEREST AND INVESTMENT INCOME	(211)	(130)	(1,109)	(541)
EQUITY IN EARNINGS OF INVESTEE	—	1	—	(25)
	1,734	1,352	4,862	4,259
EARNINGS BEFORE INCOME TAXES	55,257	50,919	156,963	135,732
INCOME TAXES	13,189	16,250	36,183	44,855
NET EARNINGS	42,068	34,669	120,780	90,877
LESS NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(849)	(976)	(2,684)	(2,480)
NET EARNINGS ATTRIBUTABLE TO CONTROLLING INTEREST	$ 41,219	$ 33,693	$ 118,096	$ 88,397
EARNINGS PER SHARE - BASIC	$ 0.67	$ 0.55	$ 1.91	$ 1.44
EARNINGS PER SHARE - DILUTED	$ 0.66	$ 0.55	$ 1.91	$ 1.44
OTHER COMPREHENSIVE INCOME:				
NET EARNINGS	42,068	34,669	120,780	90,877
OTHER COMPREHENSIVE GAIN (LOSS)	1,174	1,719	(3,170)	6,141
COMPREHENSIVE INCOME	43,242	36,388	117,610	97,018
LESS COMPREHENSIVE INCOME ATTRIBUTABLE TO	(1,583)	(975)	(3,296)	(3,862)

NONCONTROLLING INTEREST COMPREHENSIVE INCOME ATTRIBUTABLE TO CONTROLLING INTEREST	$ 41,659	$ 35,413	$ 114,314	$ 93,156

See notes to consolidated condensed financial statements.

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UNIVERSAL FOREST PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

(in thousands, except share and per share data)	Controlling Interest Shareholders' Equity					
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Noncontrolling Interest	Total
Balance at December 31, 2016	$ 61,026	$ 144,649	$ 649,135	$ (5,630)	$ 11,286	$ 860,466
Net earnings			88,397		2,480	90,877
Foreign currency translation adjustment				4,325	1,382	5,707
Unrealized gain (loss) on investment & foreign currency				434		434
Distributions to noncontrolling interest					(3,272)	(3,272)
Additional purchases of noncontrolling interest					2,409	2,409
Cash dividends - $0.150 per share			(9,208)			(9,208)
Issuance of 17,925 shares under employee stock plans	18	458				476
Issuance of 428,325 shares under stock grant programs	428	6,752				7,180
Issuance of 147,480 shares under deferred compensation plans	148	(148)				—
Repurchase of 445,740 shares	(446)	297	(12,827)			(12,976)
Expense associated with share-based compensation arrangements		1,978				1,978
Accrued expense under deferred compensation plans		6,009				6,009
Balance at September 30, 2017	$ 61,174	$ 159,995	$ 715,497	$ (871)	$ 14,285	$ 950,080
Balance at December 30, 2017	61,192	161,928	736,212	144	14,547	974,023
Net earnings			118,096		2,684	120,780
Foreign currency translation adjustment				(3,562)	612	(2,950)
Unrealized gain (loss) on investment & foreign currency				(220)		(220)
Distributions to noncontrolling interest					(2,239)	(2,239)
Cash dividends - $0.180 per share			(11,090)			(11,090)
Issuance of 25,449 shares under employee stock plans	25	731				756
Issuance of 348,140 shares under stock grant programs	348	4,911				5,259
Issuance of 147,188 shares under deferred compensation plans	147	(147)				—
Repurchase of 56,484 shares	(56)		(1,787)			(1,843)

Expense associated with share-based compensation arrangements		2,613				2,613
Accrued expense under deferred compensation plans		6,635				6,635
Balance at September 29, 2018	$ 61,656	$ 176,671	$ 841,431	$ (3,638)	$ 15,604	$ 1,091,724

See notes to consolidated condensed financial statements.

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UNIVERSAL FOREST PRODUCTS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Nine Months Ended September 29, 2018	September 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 120,780	$ 90,877
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation	40,490	36,010
Amortization of intangibles	4,274	3,549
Expense associated with share-based and grant compensation arrangements	2,762	2,122
Deferred income taxes (credits)	(583)	117
Equity in earnings of investee	—	(25)
Net (gain) on disposition of assets and impairment of assets	(7,079)	(437)
Changes in:		
Accounts receivable	(121,067)	(121,688)
Inventories	(39,448)	(820)
Accounts payable and cash overdraft	38,611	53,424
Accrued liabilities and other	21,361	34,221
NET CASH FROM OPERATING ACTIVITIES	60,101	97,350
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(74,541)	(57,189)
Proceeds from sale of property, plant and equipment	37,612	2,121
Acquisitions, net of cash received	(38,963)	(59,859)
Purchases of investments	(12,401)	(12,155)
Proceeds from sale of investments	3,298	4,227
Other	(620)	1,480
NET CASH FROM (USED IN) INVESTING ACTIVITIES	(85,615)	(121,375)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facilities	636,798	610,038
Repayments under revolving credit facilities	(668,941)	(573,829)
Borrowings of debt	927	—
Repayment of debt	(5,511)	—
Issuance of long-term debt	75,000	—
Proceeds from issuance of common stock	756	476
Dividends paid to shareholders	(11,090)	(9,207)
Distributions to noncontrolling interest	(2,239)	(3,272)
Repurchase of common stock	(1,843)	(12,976)
Other	(55)	—
NET CASH FROM FINANCING ACTIVITIES	23,802	11,230
Effect of exchange rate changes on cash	247	1,255
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,465)	(11,540)

CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	28,816	34,489
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD	$ 27,351	$ 22,949
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:		
Cash and cash equivalents, beginning of period	$ 28,339	$ 34,091
Restricted cash, beginning of period	477	398
Cash, cash equivalents, and restricted cash, beginning of period	$ 28,816	$ 34,489
Cash and cash equivalents, end of period	$ 26,327	$ 22,044
Restricted cash, end of period	1,024	905
Cash, cash equivalents, and restricted cash, end of period	$ 27,351	$ 22,949
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 4,955	$ 3,910
Income taxes paid	38,675	34,108
NON-CASH FINANCING ACTIVITIES:		
Common stock issued under deferred compensation plans	5,312	4,673

See notes to consolidated condensed financial statements.

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UNIVERSAL FOREST PRODUCTS, INC.

NOTES TO UNAUDITED

CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

A. BASIS OF PRESENTATION

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

In our opinion, the Financial Statements contain all material adjustments necessary to present fairly our consolidated financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. These Financial Statements should be read in conjunction with the annual consolidated financial statements, and footnotes thereto, included in our Annual Report to Shareholders on Form 10 K for the fiscal year ended December 30, 2017.

Seasonality has a significant impact on our working capital from March to August which historically results in negative or modest cash flows from operations in our first and second quarters. Conversely, we experience a substantial decrease in working capital from September to February which typically results in significant cash flow from operations in our third and fourth quarters. For comparative purposes, we have included the September 30, 2017 balances in the accompanying unaudited consolidated condensed balance sheets.

B. FAIR VALUE

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

	September 29, 2018				September 30, 2017		
(in thousands)	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Total
Money market funds	$ 56	$ 1,381	$ —	$ 1,437	$ 64	$ 413	$ 477
Fixed income funds	2,846	9,484	—	12,330	1,299	6,905	8,204
Equity securities	8,203	—	—	8,203	10,194	—	10,194

Hedge funds	—	—	1,725	1,725			
Mutual funds:							
Domestic stock funds	2,970	—	—	2,970	335	—	335
International stock funds	948	—	—	948	87	—	87
Target funds	255	—	—	255	260	—	260
Bond funds	208	635	—	843	208	—	208
Alternative funds	1,364			1,364			
Total mutual funds	5,745	635	—	6,380	890	—	890
Total	$ 16,850	$ 11,500	$ 1,725	$ 30,075	$ 12,447	$ 7,318	$ 19,765
Assets at fair value	$ 16,850	$ 11,500	$ 1,725	$ 30,075	$ 12,447	$ 7,318	$ 19,765

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UNIVERSAL FOREST PRODUCTS, INC.

We maintain money market, mutual funds, bonds, and/or stocks in our non-qualified deferred compensation plan and our wholly owned licensed captive insurance company. These funds are valued at prices quoted in an active exchange market and are included in "Cash and Cash Equivalents", "Investments", "Restricted Cash", and "Restricted Investments". We have elected not to apply the fair value option under ASC 825, Financial Instruments, to any of our financial instruments except for those expressly required by U.S. GAAP.

During 2018, we purchased a private real estate income trust which will be valued as a Level 3 asset. We did not maintain any Level 3 assets or liabilities at September 30, 2017.

In 2017, our wholly-owned captive, Ardellis Insurance Ltd. ("Ardellis") transferred fixed income securities to a newly formed collateral trust account in line with regulatory requirements in the State of Michigan to allow Ardellis to act as an admitted carrier in the State. These funds are intended to safeguard the insureds of the Michigan Branch of Ardellis. The funds are classified as "Restricted Investments".

In accordance with our investment policy, our wholly-owned captive, Ardellis Insurance Ltd. ("Ardellis"), maintains an investment portfolio, totaling $27.6 million as of September 29, 2018, consisting of domestic and international stocks, hedge funds, and fixed income bonds.

Ardellis' available for sale investment portfolio, including funds held with the State of Michigan, consists of the following (in thousands):

	September 29,2018		
	Cost	Unrealized Gain/(Loss)	Fair Value
Fixed Income	$ 12,575	$ (245)	$ 12,330
Equity	6,975	1,228	8,203
Mutual Funds	5,416	(25)	5,391
Hedge Funds	1,715	10	1,725
Total	$ 26,681	$ 968	$ 27,649

Our fixed income investments consist of a blend of US Government and Agency bonds and investment grade corporate bonds with varying maturities. Our equity investments consist of small, mid, and large cap growth and value funds, as well as international equity. Our hedge funds consist of the private real estate income trust which is valued as a Level 3 asset. The net unrealized gain was $1.0 million. Carrying amounts above are recorded in the investments and restricted investments line items within the balance sheet as of September 29, 2018. During the first nine months of 2018, Ardellis' investments reported a net realized gain of $551 thousand, which was recorded in interest income on the statement of earnings.

C. REVENUE RECOGNITION

On May 28, 2014, the FASB issued ASU No. 2014-09 (Accounting Standard Codification 606), Revenue from Contracts with Customers. Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the considerations to which the entity expects to be entitled to in exchange for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The Company has adopted the requirements of the new standard as of January 1, 2018, and utilized the modified retrospective method of transition which was applied to all contracts.

The Company completed the new revenue recognition standard assessment and determined that there was no material impact to our consolidated financial statements, aside from additional required disclosures, thus no needed adjustment to the opening retained earnings for the annual reporting period.

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UNIVERSAL FOREST PRODUCTS, INC.

Within the three markets (retail, industrial, and construction) that the Company operates, there are a variety of written and oral contracts that are utilized to generate revenue from the sale of wood, wood composite and other products. The transaction price is stated at the purchase order level, which includes shipping and/or freight costs and any applicable governmental authority taxes. The majority of our contracts have a single performance obligation concentrated around the delivery of goods to the carrier, Free On Board (FOB) shipping point. Therefore, revenue is recognized when this performance obligation is satisfied. Generally, title and control 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.

Certain customer products that we provide require installation by the Company or a 3rd party. Installation revenue is recognized upon completion, which is typically 2-3 days after receipt. If it is determined to utilize a 3rd party for installation, the party will act as an agent to the Company until completion of the installation. Installation revenue represents an immaterial share of the Company’s total sales.

The Company utilizes rebates, credits, discounts and/or cash-based incentives with certain customers which are accounted for as variable consideration. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. We believe that there will not be significant changes to our estimates of variable consideration. The allocation of these costs are applied at the invoice level and recognized in conjunction with revenue. Additionally, the volume returns and refunds are estimated on a historical and expected basis which is a reduction of revenue recognized.

Earnings on construction contracts are reflected in operations using over time accounting, under either cost to cost or units of delivery methods, depending on the nature of the business at individual operations, which is in accordance with ASC 606 as revenue is recognized when certain performance obligations are performed. Under over time accounting 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 over time accounting 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.

Our construction contracts are generally entered into with a fixed price and completion of the projects can range from 6 to 18 months in duration. Therefore, our operating results are impacted by, among many other things, labor rates and commodity costs. During the year, we update our estimated costs to complete our projects using current labor and commodity costs and recognize losses to the extent that they exist.

The following table presents our gross revenues disaggregated by revenue source:

	Three Months Ended			Nine Months Ended		
(in thousands)	September 29,	September 30,		September 29,	September 30,	
Market Classification	2018	2017	% Change	2018	2017	% Change
FOB Shipping Point Revenue	$ 1,197,959	$ 1,037,049	15.5%	$ 3,461,208	$ 2,922,701	18.4%

Construction Contract Revenue	35,731	36,597	-2.4%	104,518	101,997	2.5%
Total Gross Sales	1,233,690	1,073,646	14.9%	3,565,726	3,024,698	17.9%
Sales Allowances	(20,988)	(17,060)	23.0%	(64,727)	(49,607)	30.5%
Total Net Sales	$ 1,212,702	$ 1,056,586	14.8%	$ 3,500,999	$ 2,975,091	17.7%

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UNIVERSAL FOREST PRODUCTS, INC.

In the first nine months of 2018, the North and West segments comprise the construction contract revenue above, $72.0 million and $32.5 million, respectively. Construction contract revenue is primarily made up of site-built and framing customers.

The following table presents the balances of over time accounting accounts which are included in “Other current assets” and “Accrued liabilities: Other”, respectively (in thousands):

	September 29, 2018	December 30, 2017	September 30, 2017
Cost and Earnings in Excess of Billings	$ 5,167	$ 5,005	$ 2,594
Billings in Excess of Cost and Earnings	4,955	4,435	4,802

D. EARNINGS PER SHARE

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

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Numerator:				
Net earnings attributable to controlling interest	$ 41,219	$ 33,693	$ 118,096	$ 88,397
Adjustment for earnings allocated to non-vested restricted common stock	(952)	(656)	(2,678)	(1,633)
Net earnings for calculating EPS	$ 40,267	$ 33,037	$ 115,418	$ 86,764
Denominator:				
Weighted average shares outstanding	61,954	61,422	61,838	61,443
Adjustment for non-vested restricted common stock	(1,430)	(1,197)	(1,402)	(1,134)
Shares for calculating basic EPS	60,524	60,225	60,436	60,309
Effect of dilutive restricted common stock	90	123	84	111
Shares for calculating diluted EPS	60,614	60,348	60,520	60,420
Net earnings per share:				
Basic	$ 0.67	$ 0.55	$ 1.91	$ 1.44
Diluted	$ 0.66	$ 0.55	$ 1.91	$ 1.44

No options were excluded from the computation of diluted EPS for the quarters ended September 29, 2018, or September 30, 2017.

On October 17, 2017, our Board of Directors declared a three-for-one stock split effected in the form of a stock dividend. The record date of the stock split was on October 31, 2017, and the eventual stock distribution to shareholders occurred on November 14, 2017. As a result of the stock split, all historical per share data and number of shares outstanding presented in future financial statements are retroactively adjusted.

E. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

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

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

On a consolidated basis, we have reserved approximately $2.5 million and $3.6 million on September 29, 2018, and September 30, 2017, respectively, representing the estimated costs to complete future remediation efforts. These amounts have not been reduced by an insurance receivable.

Many of our wood treating operations utilize “Subpart W” drip pads, defined as hazardous waste management units by the Environmental Protection Agency. The rules regulating drip pads require that a pad be “closed” at the point that it is no longer intended to be used for wood treating operations or to manage hazardous waste. Closure involves identification and disposal of contaminants which are required to be removed from the facility. The cost of closure is dependent upon a number of factors including, but not limited to, identification and removal of contaminants, cleanup standards that vary from state to state, and the time period over which the cleanup would be completed. Based on our present knowledge of existing circumstances, it is considered probable that these costs will approximate $0.1 million. As a result, this amount is recorded in other long-term liabilities on September 29, 2018.

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

In addition, on September 29, 2018, we were parties either as plaintiff or defendant to a number of lawsuits and claims arising through the normal course of our business. In the opinion of management, our consolidated financial statements will not be materially affected by the outcome of these contingencies and claims.

On September 29, 2018, we had outstanding purchase commitments on commenced capital projects of approximately $23.4 million.

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

As part of our operations, we supply building materials and labor to site-built construction projects or we jointly bid on contracts with framing companies for such projects. In some instances, we are required to post payment and performance bonds to insure the project owner that the products and installation services are completed in accordance with our contractual obligations. We have agreed to indemnify the surety for claims made against the

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bonds. As of September 29, 2018, we had approximately $19.7 million outstanding payment and performance bonds for open projects. We had approximately $1.3 million in payment and performance bonds outstanding for completed projects which are still under warranty.

On September 29, 2018, we had outstanding letters of credit totaling $30.6 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 $20.5 million for these types of insurance arrangements. We have reserves recorded on our balance sheet, in accrued liabilities, that reflect our expected future liabilities under these insurance arrangements.

We are required to provide irrevocable letters of credit in favor of the bond trustees for all industrial development revenue bonds that have been issued. These letters of credit guarantee principal and interest payments to the bondholders. We currently have irrevocable letters of credit outstanding totaling approximately $10.1 million related to our outstanding industrial development revenue bonds. These letters of credit have varying terms but may be renewed at the option of the issuing banks.

Certain wholly owned domestic subsidiaries have guaranteed the indebtedness of Universal Forest Products, Inc. in certain debt agreements, including the Series 2012 and 2018 Senior Notes and our revolving credit facility. The maximum exposure of these guarantees is limited to the indebtedness outstanding under these debt arrangements and this exposure will expire concurrent with the expiration of the debt agreements.

We did not enter into any new guarantee arrangements during the third quarter of 2018 which would require us to recognize a liability on our balance sheet.

F. BUSINESS COMBINATIONS

We completed the following acquisitions in nine months ended 2018 and 2017 which were accounted for using the purchase method in thousands unless otherwise noted:

Company Name	Acquisition Date	Purchase Price	Intangible Assets	Net Tangible Assets	Operating Segment
	July 31, 2018	$1,016 cash paid for 100% asset purchase	$ 250	$ 766	West
The Pallet Place, LLC ("Pallet Place")	A manufacturer and distributor of total packaging solutions in timber, crates, skids, and pallets. Pallet Place had annual sales of approximately $5 million. The acquisition of Pallet Place allows us to increase our industrial business and creates operating leverage by consolidating with another regional operation.				
	June 1, 2018	$23,866 cash paid for 100% asset	$ 7,123	$ 16,743	South

	purchase
North American Container Corporation ("NACC")	A manufacturer of structural packaging products, including steel, corrugated and hardwood packaging. NACC had annual sales of approximately $71 million. The acquisition of NACC allows us to enhance our presence in this region, expand our product offering, and serve customers more cost effectively.

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UNIVERSAL FOREST PRODUCTS, INC.

Company Name	Acquisition Date	Purchase Price	Intangible Assets	Net Tangible Assets	Operating Segment
	April 9, 2018	$3,890 cash paid for 100% asset purchase	$ 2,235	$ 1,655	West
Fontana Wood Products ("Fontana")	A manufacturer and distributor lumber and trusses in the Southern California region. Fontana had annual sales of approximately $12 million. The acquisition of Fontana allows us to expand our manufactured housing business and creates operating leverage by consolidating with another regional operation.				
	April 3, 2018	$1,404 cash paid for 100% asset purchase	$ 1,344	$ 60	All Other
Expert Packaging ("Expert")	A manufacturer and distributor of total packaging solutions in timber, crates, pallets, and skids. Expert had annual sales of approximately $3.6 million. The acquisition of Expert allows us to make progress on our goal of becoming a global provider of packaging solutions.				
	January 23, 2018	$2,942 cash paid for 100% asset purchase	$ 850	$ 2,092	West
Spinner Wood Products, LLC ("Spinner")	A manufacturer and distributor of agricultural bin and various industrial packaging. Spinner had annual sales of approximately $8 million. The acquisition of Spinner allows us to expand our industrial packaging product offering and creates operating leverage by consolidating with other regional operations.				
	January 15, 2018	$5,845 cash paid for 100% asset purchase	$ 50	$ 5,795	North
Great Northern Lumber, LLC	A manufacturer of industrial products as well as serving the concrete forming market in the Chicago area. Great Northern Lumber had annual sales of approximately $25 million. The acquisition of Great Northern Lumber enables us to expand our concrete forming product offering and regional coverage.				
	October 16, 2017	$931 cash paid for 100% asset purchase	$ 909	$ 22	All Other
Silverwater Box	A manufacturer and distributor of total packaging solutions in timber, plastic, steel, fiberglass, and cardboard. Silverwater Box had annual sales of approximately $2.8 million. The acquisition of Silverwater Box allows us to make progress on our goal of becoming a global provider of packaging solutions.				
	May 26, 2017	$5,042 cash paid for 100% asset purchase	$ 4,880	$ 162	South
Go Boy Pallets, LLC ("Go Boy")	A manufacturer and distributor of industrial pallets and packaging in Georgia and North Carolina. Go Boy had annual sales of approximately $8 million. The				

	acquisition of Go Boy enables us to expand our industrial packaging product offering and lumber sourcing in this region.				
	March 6, 2017	$31,818 cash paid for 100% asset purchase	$ 7,653	$ 24,165	South
Robbins Manufacturing Co. ("Robbins")	A manufacturer of treated wood products with facilities in Florida, Georgia, and North Carolina. Robbins had annual sales of approximately $86 million. The acquisition of Robbins allows us to expand our presence in this region and serve customers more cost effectively.				

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UNIVERSAL FOREST PRODUCTS, INC.

Company Name	Acquisition Date	Purchase Price	Intangible Assets	Net Tangible Assets	Operating Segment
	March 6, 2017	$22,789 cash paid for 100% asset purchase	$ 14,341	$ 8,448	North
Quality Hardwood Sales, LLC ("Quality")	A manufacturer and supplier of hardwood products, including components of cabinets used in homes and recreational vehicles. Quality had annual sales of approximately $30 million. The acquisition of Quality enables us to expand our product offering to include hardwood-based products.				

The intangible assets for each acquisition were finalized and allocated to their respective identifiable intangible asset and goodwill accounts during 2018, excluding the NACC and Pallet Place acquisitions. In aggregate, acquisitions completed since the end of September 2017 and not consolidated with other operations contributed approximately $21.1 million in revenue and a $0.8 million operating loss during the third quarter of 2018.

G. SEGMENT REPORTING

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

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

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

Our Alternative Materials, International and idX division have been included in the "All Other" column of the table below. The "Corporate" column includes unallocated administrative costs and certain incentive compensation expense.

	Three Months Ended September 29, 2018					
	North	South	West	All Other	Corporate	Total
Net sales to outside customers	$ 341,334	$ 270,077	$ 434,123	$ 167,168	$ —	$ 1,212,702
	15,259	21,360	14,121	56,771	—	107,511

Intersegment net sales						
Segment operating profit	14,339	10,209	25,125	5,460	1,858	56,991

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

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UNIVERSAL FOREST PRODUCTS, INC.

	Nine Months Ended September 29, 2018					
	North	South	West	All Other	Corporate	Total
Net sales to outside customers	$ 1,002,341	$ 803,417	$ 1,253,416	$ 441,825	$ —	$ 3,500,999
Intersegment net sales	45,841	60,683	44,183	181,450	—	332,157
Segment operating profit (loss)	42,862	44,659	76,030	6,679	(8,405)	161,825

	Nine Months Ended September 30, 2017					
	North	South	West	All Other	Corporate	Total
Net sales to outside customers	$ 857,858	$ 616,376	$ 1,088,744	$ 412,113	$ —	$ 2,975,091
Intersegment net sales	51,859	55,472	65,466	116,743	—	289,540
Segment operating profit	42,921	31,152	65,547	13,285	(12,914)	139,991

H. INCOME TAXES

Effective tax rates differ from statutory federal income tax rates, primarily due to provisions for state and local income taxes and permanent tax differences. Our effective tax rate was 23.8% in the third quarter of 2018 compared to 31.9% for same period in 2017. Our effective tax rate was 23.0% in the first nine months of 2018 compared to 33.0% for the same period in 2017. This decrease was due primarily to changes resulting from the Tax Act, which reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018, along with eliminating the domestic manufacturing deduction. Pursuant to SAB 118, the accounting for the Tax Act was incomplete at December 30, 2017 and is still incomplete as of September 29, 2018. As noted at year-end, however, we were able to reasonably estimate certain effects and, therefore, recorded provisional adjustments associated with the deemed repatriation transition tax, a provisional decrease for certain of our Deferred Tax Assets (DTAs) and Deferred Tax Liabilities (DTLs) related to the reduced corporate tax rate, and a provisional benefit related to our intent to fully expense all qualifying expenditures under the new cost recovery rules.

We have not made any additional measurement-period adjustments related to these items during the quarter. However, we are continuing to gather additional information to complete our accounting for these items and expect to complete our accounting within the prescribed measurement period.

As noted at year-end, we were not yet able to reasonably estimate the effects for Global Intangible Low-Taxed Income (GILTI). Therefore, no provisional adjustment was recorded.

Because of the complexity of the new GILTI tax rules, we are continuing to evaluate this provision of the Act and the application of ASC 740. Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factoring such amounts into a company’s measurement of its deferred taxes (the “deferred method”). Our selection of an accounting policy related to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Because whether we expect to have future U.S. inclusions in taxable income related to GILTI depends on a number of different aspects or our estimated future results of global operations, we are not yet able to reasonably estimate the long-term effects of this provision of the Act. Therefore, we have not recorded any potential deferred tax effects related to GILTI in our financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI or use the period cost method. We have however, included an estimate of the estimated 2018 current GILTI impact in our Annual Effective Tax Rate (AETR) for 2018. We expect to complete our accounting within the prescribed measurement period.

I. PROPERTY SALE

The Company completed a sale of a property in Medley, Florida, during the first quarter of 2018. The sale price for the property was approximately $36 million and created a $7 million pre-tax gain. The transaction is part of a strategy to

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create efficiencies and advantages not possible with the current facility by optimizing the capacity of our other three Florida operations, including two acquired from Robbins Manufacturing in 2017, and adding a state-of-the-art facility in South Florida. The Company will lease back the Medley, Florida, facility for two years as it executes its long-term plan for Florida and the Southeast region. Since only a minor portion of the property sold was leased back the entire gain is included in income.

J. SUBSEQUENT EVENTS

On November 2, 2018, the Company renewed its five-year unsecured revolving credit facility and increased availability to $375 million with a syndicate of U.S. and Canadian banks led by JPMorgan Chase Bank, N.A., as administrative agent and Wells Fargo Bank, N.A., as syndication agent.

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UNIVERSAL FOREST PRODUCTS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act, as amended, that are based on management's beliefs, assumptions, current expectations, estimates and projections about the markets we serve, the economy and the Company itself. Words like "anticipates," "believes," "confident," "estimates," "expects," "forecasts," "likely," "plans," "projects," "should," variations of such words, and similar expressions identify such forward-looking statements. These statements do not guarantee future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. The Company does not undertake to update forward-looking statements to reflect facts, circumstances, events, or assumptions that occur after the date the forward-looking statements are made. Actual results could differ materially from those included in such forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty. Among the factors that could cause actual results to differ materially from forward-looking statements are the following: fluctuations in the price of lumber; adverse or unusual weather conditions; adverse economic conditions in the markets we serve; government regulations, particularly involving environmental and safety regulations; and our ability to make successful business acquisitions. Certain of these risk factors as well as other risk factors and additional information are included in the Company's reports on Form 10-K and 10-Q on file with the Securities and Exchange Commission. We are pleased to present this overview of 2018.

OVERVIEW

Our results for the third quarter of 2018 were impacted by the following:

- Our gross sales increased by 15% compared to the third quarter of 2017, which was comprised of a 7% increase in unit sales and an 8% increase in selling prices primarily due to the commodity lumber market (see Historical Lumber Prices below). Organic growth contributed 5% of our unit sales increase, while acquisitions contributed 2%. We experienced favorable organic growth to each of the markets we serve.
- Our operating profits increased by 9.0% compared to the third quarter of 2017, which compares favorably with our 7% increase in unit sales. The improvement in our profit per unit was primarily due to the favorable impact on gross profits of products we sell with a fixed selling price during a period of declining lumber prices. As described below, while the commodity lumber market was higher in 2018, relative to 2017, we experienced a decrease in lumber prices during the third quarter of this year.
- Our effective tax rate was approximately 23.8% due to the change in tax law.
- Cash flow from operating activities in the first nine months of 2018 were $37 million lower than the same period last year due to higher than targeted inventory levels at the end of September 2018. We anticipate further reductions in inventory in the fourth quarter of 2018 resulting in a corresponding decrease in our revolving credit facility.

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UNIVERSAL FOREST PRODUCTS, INC.

HISTORICAL LUMBER PRICES

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

	Random Lengths Composite Average $/MBF	
	2018	2017
January	$ 449	$ 356
February	496	393
March	505	401
April	496	424
May	554	416
June	572	399
July	525	411
August	449	417
September	443	416
Third quarter average	$ 472	$ 415
Year-to-date average	$ 499	$ 404
Third quarter percentage change	13.7 %	
Year-to-date percentage change	23.5 %	

In addition, a Southern Yellow Pine ("SYP") composite price, which we prepare and use, is presented below. Our purchases of this species comprised approximately 44% of total lumber purchases through the first nine months of 2018 and 2017.

	Random Lengths SYP Average $/MBF	
	2018	2017
January	$ 418	$ 397
February	459	420
March	480	433
April	483	438
May	535	416
June	562	399
July	512	381
August	449	383
September	440	387
Third quarter average	$ 467	$ 384

Year-to-date average	$ 482	$ 406
Third quarter percentage change	21.6 %	
Year-to-date percentage change	18.7 %	

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UNIVERSAL FOREST PRODUCTS, INC.

IMPACT OF THE LUMBER MARKET ON OUR OPERATING RESULTS

We generally price our products to pass lumber costs through to our customers so that our profitability is based on the value-added manufacturing, distribution, engineering, and other services we provide. As a result, our sales levels (and working capital requirements) are impacted by the lumber costs of our products. Lumber costs were 51.5% and 48.2% of our sales in the first nine months of 2018 and 2017, respectively.

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

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

- Products with fixed selling prices. These products include value-added products such as deck components and fencing sold to retail customers, as well as trusses, wall panels and other components sold to the construction market, and most industrial packaging products. Prices for these products are generally fixed at the time of the sales quotation for a specified period of time or are based upon a specific quantity. In order to maintain margins and reduce any exposure to adverse trends in the price of component lumber products, we attempt to lock in costs with our suppliers for these sales commitments. Also, the time period and quantity limitations eventually allow us to re-price our products for changes in lumber costs from our suppliers. We believe our sales of these products are at their highest relative level in our third and fourth quarter.
- Products with selling prices indexed to the reported Lumber Market with a fixed dollar “adder” to cover conversion costs and profits. These products primarily include treated lumber, remanufactured lumber, and trusses sold to the manufactured housing industry. For these products, we estimate the customers’ needs and we carry anticipated levels of inventory. Because lumber costs are incurred in advance of final sale prices, subsequent increases or decreases in the market price of lumber impact our gross margins. We believe our sales of these products are at their highest relative level in our second quarter, primarily due to treated lumber sold to the retail market.

For each of the product pricing categories above, our margins are exposed to changes in the trend of lumber prices.

The greatest risk associated with changes in the trend of lumber prices is on the following products:

- Products with significant inventory levels with low turnover rates, whose selling prices are indexed to the Lumber Market. In other words, the longer the period of time these products remain in inventory, the greater the exposure to changes in the price of lumber. This would include treated lumber, which comprises approximately 18% 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.

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

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

As is apparent from the preceding example, the level of lumber prices does not impact our overall profits, but does impact our margins. Gross margins are negatively impacted during periods of high lumber prices; conversely, we experience margin improvement when lumber prices are relatively low. In order to more effectively evaluate our profitability in such periods, we believe it is useful to compare our change in units shipped with our changes in costs and profits.

BUSINESS COMBINATIONS

We completed six business acquisitions during the first nine months of 2018 and four during all of 2017. The annual historical sales attributable to acquisitions completed in the first nine months 2018 and all of 2017 were approximately $125 million and $127 million, respectively. These business combinations were not significant to our quarterly or year-to-date operating results individually or in aggregate and thus pro forma results for 2018 or 2017 are not presented.

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

RESULTS OF OPERATIONS

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

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	86.9	86.3	87.0	86.1
Gross profit	13.1	13.7	13.0	13.9
	8.5	8.8	8.6	9.2

Selling, general, and administrative expenses				
Net loss (gain) on disposition and impairment of assets	(0.1)	—	(0.2)	—
Earnings from operations	4.7	4.9	4.6	4.7
Other expense, net	0.1	0.1	0.1	0.1
Earnings before income taxes	4.6	4.8	4.5	4.6
Income taxes	1.1	1.5	1.0	1.5
Net earnings	3.5	3.3	3.4	3.1
Less net earnings attributable to noncontrolling interest	(0.1)	(0.1)	(0.1)	(0.1)
Net earnings attributable to controlling interest	3.4 %	3.2 %	3.4 %	3.0 %

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

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UNIVERSAL FOREST PRODUCTS, INC.

GROSS SALES

We design, manufacture and market wood and wood-alternative products for national home centers and other retailers, structural lumber and other products for the manufactured housing industry, engineered wood components for residential and commercial construction, specialty wood packaging, components and packing materials for various industries, and customized interior fixtures used in a variety of retail stores, commercial and other structures. Our strategic long-term sales objectives include:

· Diversifying our end market sales mix by increasing sales of specialty wood and non-wood packaging to industrial users, increasing our penetration of the concrete forming market, increasing our sales of engineered wood components for custom home, multi-family, military and light commercial construction, increasing our market share with independent retailers, and increasing our sales of customized interior fixtures used in a variety of markets.
· Expanding geographically in our core businesses, domestically and internationally.
· Increasing sales of "value-added" products, which primarily consist of fencing, decking, lattice, and other specialty products sold to the retail market, specialty wood packaging, engineered wood components, customized interior fixtures, and "wood alternative" products. Engineered wood components include roof trusses, wall panels, and floor systems. Wood alternative products consist primarily of composite wood and plastics. Although we consider the treatment of dimensional lumber with certain chemical preservatives a value-added process, treated lumber is not presently included in the value-added sales totals.
· Maximizing unit sales growth while achieving return on investment goals.
· Developing new products and expanding our value-added product offering for existing customers. New product sales were $138.3 million in the third quarter of 2018 compared to $113.4 million during the third quarter of 2017. New products sales year-to-date for 2018 and 2017 were $406.6 million and $326.2 million, respectively.

(in thousands)	New Product Sales by Market Three Months Ended			New Product Sales by Market Nine Months Ended		
Market Classification	September 29, 2018	September 30, 2017	% Change	September 29, 2018	September 30, 2017	% Change
Retail	$ 81,328	$ 66,580	22.2	$ 239,440	$ 194,739	23.0
Industrial	37,747	30,432	24.0	105,422	84,719	24.4
Construction	19,264	16,430	17.2	61,707	46,716	32.1
Total New Product Sales	$ 138,339	$ 113,442	21.9	$ 406,569	$ 326,174	24.6

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

Value-Added and Commodity-Based Sales:

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

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017

Value-Added	62.1 %	63.9 %	61.2 %	62.9 %
Commodity-Based	37.9 %	36.1 %	38.8 %	37.1 %

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UNIVERSAL FOREST PRODUCTS, INC.

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

(in thousands) Market Classification	Three Months Ended September 29, 2018	September 30, 2017	% Change	Nine Months Ended September 29, 2018	September 30, 2017	% Change
Retail	$ 443,044	$ 391,043	13.3 %	$ 1,359,498	$ 1,161,662	17.0 %
Industrial	429,467	374,018	14.8 %	1,166,523	995,078	17.2 %
Construction	361,179	308,585	17.0 %	1,039,705	867,958	19.8 %
Total Gross Sales	1,233,690	1,073,646	14.9 %	3,565,726	3,024,698	17.9 %
Sales Allowances	(20,988)	(17,060)	23.0 %	(64,727)	(49,607)	30.5 %
Total Net Sales	$ 1,212,702	$ 1,056,586	14.8 %	$ 3,500,999	$ 2,975,091	17.7 %

Note: During 2018, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Gross sales in the third quarter of 2018 increased 15% compared to the same period of 2017, due to a 7% increase in unit sales and an 8% increase in selling prices primarily due to the Lumber Market. Acquired operations contributed 2% to our unit sales growth, and our organic unit sales growth was 5%.

Gross sales in the first nine months of 2018 increased 18% compared to the same period of 2017, due to an 8% increase in unit sales and a 10% increase in selling prices primarily due to the Lumber Market. Acquired operations contributed 3% to our unit sales growth, and our organic unit sales growth was 5%.

Changes in our gross sales by market are discussed below.

Retail:

Gross sales to the retail market increased 13% in the third quarter of 2018 compared to the same period of 2017, due to a 4% increase in unit sales and a 9% increase in selling prices. Within this market, sales to our big box customers increased almost 11%, and sales to other independent retailers increased over 17%. Our organic unit growth was 4% for the quarter primarily due to an increase in customer demand.

Gross sales to the retail market increased almost 17% in the first nine months of 2018 compared to the same period of 2017, due to a 6% increase in unit sales and a 11% increase in selling prices. Within this market, sales to our big box customers increased 14%, while sales to other independent retailers increased almost 22%. Businesses we acquired contributed 2% to our growth in unit sales, primarily to independent retail customers, while organic unit sales growth increased 4% in the first nine months of 2018.

Industrial:

Gross sales to the industrial market increased almost 15% in the third quarter of 2018 compared to the same period of 2017, resulting from an 8% increase in unit sales and an 7% increase in selling prices. Businesses we acquired contributed 5% to our growth in unit sales. Our organic growth in unit sales of 3% was lower than previous quarters primarily due to a $7 million, or 8.7%, decrease in sales of idX. Excluding idX, our industrial wood business reported a 7% organic growth rate due to adding nearly 90 new customers, 140 new locations of existing customers, and $7 million of new sales growth as our efforts to improve market share continue to gain traction.

Gross sales to the industrial market increased over 17% in the first nine months of 2018 compared to the same period of 2017, resulting from a 9% increase in unit sales and a 8% increase in selling prices. Businesses we acquired contributed

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UNIVERSAL FOREST PRODUCTS, INC.

4% to our growth in unit sales. Our organic growth in unit sales of 5% was primarily due to the same factors discussed above.

Construction:

Gross sales to the construction market increased 17% in the third quarter of 2018 compared to 2017. The increase was due to a 9% increase in unit sales and an 8% increase in our selling prices. Our increase in unit sales was driven by a 3% increase to manufactured housing customers, an 11% increase to residential construction customers, and an 18% increase to commercial construction customers. Acquired businesses contributed 1% to our growth in unit sales to the overall construction market and 4% to the commercial market.

By comparison (and based upon various industry publications):

- Production of HUD-code manufactured homes in July and August 2018, the most recent period reported, was up 11.9% compared to the same period of 2017. Our sales growth trailed the market as a result of losing certain high volume, low margin business with one of our customers and due to a significant percentage of our sales to the manufactured housing market going to modular home producers, which are experiencing lower growth rates.
- Non-residential construction activity in July and August increased approximately 6.1% compared to the same period of 2017.
- National housing starts increased approximately 1.5% in the period from June through August 2018 (our sales trail housing starts by about a month) compared to the same period of 2017.

Gross sales to the construction market increased almost 20% in the first nine months of 2018 compared to 2017. The increase was due to an 8% increase in unit sales and a 12% increase in our selling prices. Our increase in unit sales was driven by a 7% increase to manufactured housing customers, a 13% increase to commercial construction customers, and an 8% increase to residential construction customers due to the same factors discussed above.

COST OF GOODS SOLD AND GROSS PROFIT

Our gross margin decreased to 13.1% from 13.7% comparing the third quarter of 2018 to the same period of 2017 due to the higher level of lumber prices (See "Impact of the Lumber Market on Our Operating Results"). More importantly, our $14 million, or 9.7%, increase in gross profit dollars compares favorably to our 7% increase in unit sales during the same period. Acquired operations contributed $1.0 million of gross profit in the third quarter of 2018. Excluding acquisitions, our gross profits increased by $13.0 million, or 9.0%, over the same period last year due to the following:

- Our gross profit on sales to the industrial market increased by approximately $6 million, due to a combination of growth and the impact of the falling lumber market on products we well with fixed prices. This increase was offset by a $2 million reduction in the gross profits of idX.
- Our gross profit on sales to the construction market increased by approximately $8 million, primarily due to organic growth and the impact of the falling lumber market on products we sell with fixed prices.
- The favorable results above were offset by a decrease in gross profit on sales to the retail market of approximately $1 million, despite a 4% increase in unit sales. This was primarily due to the unfavorable impact of the declining lumber market on products we sell with variable selling prices.

Our gross margin decreased to 13.0% from 13.9% comparing the first nine months of 2018 to the same period of 2017 due to the higher level of lumber prices (See “Impact of the Lumber Market on Our Operating Results”). More importantly, our $42 million, or 10.0%, increase in gross profit dollars compares favorably to our 8% increase in unit sales during the same period. Acquired operations contributed almost $7 million of gross profit in the first nine months of 2018. Excluding acquisitions, our gross profits increased by $35 million, or 8.5%, over the same period last year primarily due to the following:

- Our gross profit on sales to the retail market increased by approximately $9 million.
- Our gross profit on sales to the industrial market increased by approximately $15 million.
- Our gross profit on sales to the construction market increased by over $14 million.
- Gross profit on sales to each of our markets improved due to the same factors discussed above.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses increased by approximately $9.9 million, or 10.7%, in the third quarter of 2018 compared to the same period of 2017, while we reported a 7% increase in unit sales. Accrued bonus expense, which varies with our overall profitability and return on investment, totaled $14.3 million in the third quarter of 2018 compared to $12.4 million in 2017. Acquired operations contributed approximately $1.8 million to our year over year increase in SG&A. The remaining increase was primarily due to an increase in base wages and benefits ($2.4 million), sales incentive expenses ($1.7 million), professional services ($1.0 million), and depreciation and amortization expense ($0.9 million).

Selling, general and administrative ("SG&A") expenses increased by approximately $27.3 million, or 10.0%, in the first nine months of 2018 compared to the same period of 2017, while we reported an 8% increase in unit sales. Accrued bonus expense, which varies with our overall profitability and return on investment, totaled $37.9 million in the first nine months of 2018 compared to $32.6 million in 2017. Acquired operations contributed approximately $5.0 million to our year over year increase. The remaining increase was primarily due to an increase in base wages and benefits ($7.4 million), sales incentive expenses ($5.8 million), employee benefits ($2.1 million), professional services ($1.7 million), and idX's lease termination ($0.7 million).

INTEREST, NET

Net interest costs were higher in the third quarter of 2018 compared to the same period of 2017 primarily due to carrying a higher amount of debt and higher interest rates.

INCOME TAXES

Effective tax rates differ from statutory federal income tax rates, primarily due to provisions for state and local income taxes and permanent tax differences. Our effective tax rate was 23.8% in the third quarter of 2018 compared to 31.9% for same period in 2017. Our effective tax rate was 23.0% in the first nine months of 2018 compared to 33.0% for the same period in 2017. This decrease was due to changes resulting from the Tax Act, which reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018, along with eliminating the domestic manufacturing deduction. We currently anticipate an overall effective tax rate for the year of 23.5%.

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UNIVERSAL FOREST PRODUCTS, INC.

SEGMENT REPORTING

(in thousands)	Net Sales Three Months Ended September 29, 2018	September 30, 2017	$ Change	% Change	Earnings from Operations Three Months Ended September 29, 2018	September 30, 2017	$ Change	% Chan
North	$ 341,334	$ 310,384	$ 30,950	10.0 %	$ 14,339	$ 16,697	$ (2,358)	(14.1
South	270,077	206,050	64,027	31.1 %	10,209	10,234	(25)	(0.2)
West	434,123	378,714	55,409	14.6 %	25,125	22,538	2,587	11.5
All Other	167,168	161,438	5,730	3.5 %	5,460	6,882	(1,422)	(20.7
Corporate1	—	—	—	—	1,858	(4,080)	5,938	145.5
Total	$ 1,212,702	$ 1,056,586	$ 156,116	14.8 %	$ 56,991	$ 52,271	$ 4,720	9.0

(in thousands)	Net Sales Nine Months Ended September 29, 2018	September 30, 2017	$ Change	% Change	Earnings from Operations Nine Months Ended September 29, 2018	September 30, 2017	$ Change	% Change
North	$ 1,002,341	$ 857,858	$ 144,483	16.8 %	$ 42,862	$ 42,921	$ (59)	(0.1) %
South	803,417	616,376	187,041	30.3 %	44,659	31,152	13,507	43.4 %
West	1,253,416	1,088,744	164,672	15.1 %	76,030	65,547	10,483	16.0 %
All Other	441,825	412,113	29,712	7.2 %	6,679	13,285	(6,606)	(49.7) %
Corporate1	—	—	—	—	(8,405)	(12,914)	4,509	34.9 %
Total	$ 3,500,999	$ 2,975,091	$ 525,908	17.7 %	$ 161,825	$ 139,991	$ 21,834	15.6 %

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

North

(in thousands) Market Classification	Net Sales North Segment by Market Three Months Ended September 29, 2018	September 30, 2017	% Change	Net Sales North Segment by Market Nine Months Ended September 29, 2018	September 30, 2017	% Change
Retail	$ 152,755	$ 139,197	9.7 %	$ 439,955	$ 388,282	13.3 %
Industrial	52,417	40,276	30.1 %	159,859	114,814	39.2 %
Construction	143,834	137,618	4.5 %	423,897	373,200	13.6 %
Total Gross Sales	349,006	317,091	10.1 %	1,023,711	876,296	16.8 %
Sales Allowances	(7,672)	(6,707)	14.4 %	(21,370)	(18,438)	15.9 %
Total Net Sales	$ 341,334	$ 310,384	10.0 %	$ 1,002,341	$ 857,858	16.8 %

Note: During 2018, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Net sales attributable to the North reportable segment increased in the third quarter of 2018 compared to 2017 to each of our markets, primarily due to the same factors previously discussed. Acquired operations contributed $4.0 million and $1.7 to our industrial and construction sales increases, respectively.

Earnings from operations for the North reportable segment decreased in the third quarter of 2018 by $2.4 million, or 14.1%, due to a $2.4 million increase in SG&A expenses as gross profits remained flat compared to last year. Gross profits were flat despite higher unit sales due to unfavorable cost variances. Acquired operations contributed $0.3 million to our operating profits in the third quarter.

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Net sales attributable to the North reportable segment increased in the first nine months of 2018 compared to 2017 as a result of increased sales to each of our markets, primarily due to the same factors previously discussed. Acquired operations contributed $20.5 million and $5.0 to our industrial and construction sales increase, respectively, in the first nine months of 2018.

Earnings from operations for the North reportable segment were flat comparing in the first nine months of 2018 with the same period of 2017, due to an increase in gross profit of $4.3 million offset by a $4.3 million increase in SG&A expenses compared to last year. Acquired operations contributed $1.4 million to our operating profits in the first nine months.

South

(in thousands) Market Classification	Net Sales South Segment by Market Three Months Ended September 29, 2018	September 30, 2017	% Change	Net Sales South Segment by Market Nine Months Ended September 29, 2018	September 30, 2017	% Change
Retail	$ 109,337	$ 91,808	19.1 %	$ 355,465	$ 282,362	25.9 %
Industrial	112,177	71,025	57.9 %	296,569	206,413	43.7 %
Construction	54,080	47,757	13.2 %	168,022	141,349	18.9 %
Total Gross Sales	275,594	210,590	30.9 %	820,056	630,124	30.1 %
Sales Allowances	(5,517)	(4,540)	21.5 %	(16,639)	(13,748)	21.0 %
Total Net Sales	$ 270,077	$ 206,050	31.1 %	$ 803,417	$ 616,376	30.3 %

Note: During 2018, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Net sales attributable to the South reportable segment increased in the third quarter of 2018 compared to 2017 due to increased sales to all markets, primarily due to the same factors previously discussed. Acquired operations contributed $14.8 million to our growth in sales to the industrial market.

Earnings from operations for the South reportable segment remained flat in the third quarter of 2018 due to an increase in gross profits and SG&A expenses of $3.4 million compared to the same period of 2017, due to the same factors previously discussed. Acquired operations had a $0.9 million operating loss in the third quarter due to the seasonality of their business.

Net sales attributable to the South reportable segment increased in the first nine months of 2018 compared to 2017 due to increased sales to all markets, primarily due to the same factors previously discussed. Acquired operations contributed $33.4 million and $23.1 million to our growth in sales to the retail and industrial markets, respectively.

Earnings from operations for the South reportable segment increased in the first nine months of 2018 by $13.5 million, or 43.4%, compared to the same period in 2017. Excluding the gain on the sale of our Medley plant, earnings from operations increased during the first nine months of 2018 by $6.5 million due to an increase in gross profit dollars of $14.6 million, offset by an increase in SG&A expenses of $8.1 million compared to the same period of 2017. Acquired operations contributed $3.4 million to gross profits, $3.2 million to SG&A, and $0.2 million to operating profits in the first nine months of the year.

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UNIVERSAL FOREST PRODUCTS, INC.

West

(in thousands)	Net Sales West Segment by Market Three Months Ended September 29,	September 30,		Net Sales West Segment by Market Nine Months Ended September 29,	September 30,	
Market Classification	2018	2017	% Change	2018	2017	% Change
Retail	$ 126,321	$ 114,642	10.2 %	$ 393,573	$ 346,236	13.7 %
Industrial	150,876	145,705	3.5 %	431,055	403,246	6.9 %
Construction	163,089	122,880	32.7 %	447,219	352,876	26.7 %
Total Gross Sales	440,286	383,227	14.9 %	1,271,847	1,102,358	15.4 %
Sales Allowances	(6,163)	(4,513)	36.6 %	(18,431)	(13,614)	35.4 %
Total Net Sales	$ 434,123	$ 378,714	14.6 %	$ 1,253,416	$ 1,088,744	15.1 %

Note: During 2018, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Net sales attributable to the West reportable segment increased in the third quarter of 2018 compared to 2017 due to increases in sales to all markets primarily due to factors previously discussed.

Earnings from operations for the West reportable segment increased in the third quarter of 2018 by $2.6 million, or 11.5%, compared to the same period in 2017 due to a $6.1 million increase in gross profit, offset by a $3.5 million increase in SG&A expenses due to the same factors previously discussed.

Net sales attributable to the West reportable segment increased in the first nine months of 2018 compared to 2017 due to increases in sales to all markets primarily due to factors previously discussed.

Earnings from operations for the West reportable segment increased in the first nine months of 2018 by $10.5 million, or 16.0%, compared to the same period in 2017 due to an $18.3 million increase in gross profit, offset by a $7.8 million increase in SG&A expenses due to the same factors previously discussed.

All Other

(in thousands)	Net Sales All Other Segment by Market Three Months Ended September 29,	September 30,		Net Sales All Other Segment by Market Nine Months Ended September 29,	September 30,	
Market Classification	2018	2017	% Change	2018	2017	% Change
Retail	$ 54,631	$ 45,396	20.3 %	$ 170,505	$ 144,782	17.8 %
Industrial	113,998	117,011	(2.6) %	279,040	270,605	3.1 %
Construction	177	58	205.2 %	567	533	6.4 %
Total Gross Sales	168,806	162,465	3.9 %	450,112	415,920	8.2 %

Sales Allowances & Other	(1,638)	(1,027)	59.5 %	(8,287)	(3,807)	117.7 %
Total Net Sales	$ 167,168	$ 161,438	3.5 %	$ 441,825	$ 412,113	7.2 %

Note: During 2018, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

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

Net sales attributable to All Other reportable segments increased in the third quarter of 2018 compared to 2017 due to increases in sales to the retail market within our International segment. Our sales to the industrial market decreased primarily due to our idX division.

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Earnings from operations for All Other reportable segments decreased during the third quarter of 2018 by $1.4 million primarily due to the idX segment.

Net sales attributable to All Other reportable segments increased in the first nine months of 2018 compared to 2017 due to increases in sales to the retail and industrial markets. Our increase in sales to the retail market was primarily due to a $22.0 million and $5.1 million increase in sales by our International and Alternative Materials segments, respectively.

Earnings from operations for All Other reportable segments decreased during the first nine months of 2018 by $6.6 million primarily due to the idX segment.

OFF-BALANCE SHEET TRANSACTIONS

We have no significant off-balance sheet transactions other than operating leases.

LIQUIDITY AND CAPITAL RESOURCES

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

	Nine Months Ended	
	September 29, 2018	September 30, 2017
Cash from operating activities	$ 60,101	$ 97,350
Cash used in investing activities	(85,615)	(121,375)
Cash from financing activities	23,802	11,230
Effect of exchange rate changes on cash	247	1,255
Net change in all cash and cash equivalents	(1,465)	(11,540)
Cash, cash equivalents, and restricted cash, beginning of period	28,816	34,489
Cash, cash equivalents, and restricted cash, end of period	$ 27,351	$ 22,949

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

Seasonality has a significant impact on our working capital due to our primary selling season which occurs during the period from March to September. Consequently, our working capital increases during our first and second quarters resulting in negative or modest cash flows from operations during those periods. Conversely, we experience a substantial decrease in working capital once we move beyond our peak selling season which typically results in significant cash flows from operations in our third and fourth quarters.

Due to the seasonality of our business and the effects of the Lumber Market, we believe our cash cycle (days of sales outstanding plus days supply of inventory less days payables outstanding) is a good indicator of our working capital

management. As indicated in the table below, our cash cycle increased to 51 days from 49 days during the third quarter of 2018 compared to the prior periods.

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Days of sales outstanding	32	31	32	31
Days supply of inventory	39	38	41	41
Days payables outstanding	(20)	(20)	(21)	(20)
Days in cash cycle	51	49	52	52

In the first nine months of 2018, our cash from operating activities was $60.1 million, which was comprised of net earnings of $120.8 million and $39.8 million of non-cash expenses, offset by a $100.5 million seasonal increase in working capital since the end of December 2017. Comparatively in the first nine months of 2017, our cash provided by operating activities was $97.3 million, which was comprised of net earnings of $90.9 million, and $41.3 million of non-cash expenses, offset by a $34.9 million seasonal increase in working capital since the end of December 2016. The increase in working capital compared to the same period last year was due to growth in our business, higher lumber prices, and inventory levels at many locations that exceed internal targets and will be addressed in the fourth quarter.

Acquisitions and purchases of property, plant, and equipment comprised most of our cash used in investing activities during the first nine months of 2018 and totaled $39.0 million and $74.5 million, respectively. Proceeds from the sale of our Medley, FL, plant provided approximately $36 million in net cash proceeds. Outstanding purchase commitments on existing capital projects totaled approximately $23.4 million on September 29, 2018. We currently plan to spend up to $100 million for the year on capital expenditures. We intend to fund remaining capital expenditures and related purchase commitments through our operating cash flows for the balance of the year. Comparatively, capital expenditures and acquisitions were $57.1 million and $59.9 million, respectively, during the first nine months of 2017. The increase in our capital expenditures in 2018 is primarily due to the additional requirements of recently acquired operations, real estate purchases as we continue to grow our business and utilize the proceeds from the sale of our Medley plant to add replacement capacity, add capacity to produce new and value-added products, and our efforts to automate processes to combat labor shortages. The purchase and sale of investments totaling $12.4 million and $3.3 million, respectively, are due to investment activity in our captive insurance subsidiary.

Cash flows from financing activities primarily consisted of net repayments under our revolving credit facility of approximately $32.1 million and the issuance of $75 million in Senior Notes under our shelf facility. Additionally, we paid a semi-annual dividend totaling $11.1 million or $0.18 per share, in June 2018, and in October 2018 approved another semi-annual dividend of $0.18 per share to be paid in December 2018.

On September 29, 2018, we had $37.0 million outstanding on our $295 million revolving credit facility. The amount outstanding on the revolving credit facility includes letters of credit totaling approximately $9.8 million on September 29, 2018; as a result, we had approximately $258.0 million in remaining availability on our revolver after considering letters of credit. Additionally, we have $150 million in availability under an amended “shelf agreement” for long term debt with a current lender after considering the second quarter issuance of long-term Senior Notes. Financial covenants on the unsecured revolving credit facility and unsecured notes include minimum interest tests and a maximum leverage ratio. The agreements also restrict the amount of additional indebtedness we may incur and the amount of assets which may be sold. We were in compliance with all our covenant requirements on September 29, 2018.

ENVIRONMENTAL CONSIDERATIONS AND REGULATIONS

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

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CRITICAL ACCOUNTING POLICIES

In preparing our consolidated financial statements, we follow accounting principles generally accepted in the United States. These principles require us to make certain estimates and apply judgments that affect our financial position and results of operations. We continually review our accounting policies and financial information disclosures. There have been no material changes in our policies or estimates since December 30, 2017.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

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

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

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

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. With the participation of management, our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a – 15e and 15d – 15e) as of the quarter ended September 29, 2018 (the “Evaluation Date”), have concluded that, as of such date, our disclosure controls and procedures were effective.
(b) Changes in Internal Controls. During the quarter ended September 29, 2018, there were no changes in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1A. Risk Factors.

We may be impacted by new tariffs and duties on U.S. imports and foreign export sales. Instability of established free trade agreements may lead to raw material and finished goods price volatility. An increase in foreign tariffs on U.S. goods could curtail our export sales to other countries which was approximately $110.8 million in 2017. Increased tariffs and duties on U.S. imports will increase pricing by adding duty cost, where the duty is sustainable in light of overall unit price, or otherwise constrain supply by eliminating historical production sources by country or commodity type with unsustainable duties. UFP's U.S. import of Canadian Softwood Lumber was approximately $243.0 million in 2017, which is the primary imported commodity. In addition, there is a risk that U.S. tariffs on imports and countering tariffs on U.S. exports could trigger broader international trade conflicts that could adversely impact our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) None.
(b) None.
(c) Issuer purchases of equity securities.

Fiscal Month	(a)	(b)	(c)	(d)
July 1 - August 4, 2018	—	—	—	2,665,239
August 5 - September 1, 2018	—	—	—	2,665,239
September 2 - 29, 2018	—	—	—	2,665,239

(a) Total number of shares purchased.
(b) Average price paid per share.
(c) Total number of shares purchased as part of publicly announced plans or programs.
(d) Maximum number of shares that may yet be purchased under the plans or programs.

On November 14, 2001, the Board of Directors approved a share repurchase program (which succeeded a previous program) allowing us to repurchase up to 2.5 million shares of our common stock. On October 14, 2011, our Board authorized an additional 2 million shares to be repurchased under our share repurchase program. The total number of remaining shares that may be repurchased under the program is approximately 2.7 million.

Item 5. Other Information.

None.

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PART II. OTHER INFORMATION

Item 6. Exhibits.

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

31 Certifications.

(a) Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

(b) Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

32 Certifications.

(a) Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

(b) Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

101 Interactive Data File.

(INS) XBRL Instance Document.

(SCH) XBRL Schema Document.

(CAL) XBRL Taxonomy Extension Calculation Linkbase Document.

(LAB) XBRL Taxonomy Extension Label Linkbase Document.

(PRE) XBRL Taxonomy Extension Presentation Linkbase Document.

(DEF) XBRL Taxonomy Extension Definition Linkbase Document.

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SIGNATURES

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

	UNIVERSAL FOREST PRODUCTS, INC.
Date: November 7, 2018	By: /s/ Matthew J. Missad Matthew J. Missad, Chief Executive Officer and Principal Executive Officer
Date: November 7, 2018	By: /s/ Michael R. Cole Michael R. Cole, Chief Financial Officer, Principal Financial Officer and Principal Accounting Officer

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