

UNIVERSAL FOREST PRODUCTS INC

Form 10-Q

August 01, 2007

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

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the quarterly period ended **June 30, 2007**

OR

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

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

Michigan

38-1465835

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

2801 East Beltline NE, Grand Rapids,
Michigan

49525

(Address of principal executive offices)

(Zip Code)

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

NONE

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

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

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

| Class | Outstanding as of June 30, 2007 |
|----------------------------|---------------------------------|
| Common stock, no par value | 19,024,641 |

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

| (in thousands, except share data) | June 30, 2007 | December 30, 2006 | July 1, 2006 |
|---|---------------------|-------------------------|-------------------|
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | \$ 42,697 | \$ 51,108 | \$ 43,309 |
| Accounts receivable, net | 233,067 | 148,242 | 242,829 |
| Inventories: | | | |
| Raw materials | 153,924 | 128,621 | 139,250 |
| Finished goods | 120,471 | 116,497 | 107,560 |
| | 274,395 | 245,118 | 246,810 |
| Other current assets | 22,339 | 30,667 | 22,495 |
| TOTAL CURRENT ASSETS | 572,498 | 475,135 | 555,443 |
| OTHER ASSETS | 7,691 | 7,404 | 8,003 |
| GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS | 152,170 | 155,177 | 134,928 |
| OTHER INTANGIBLE ASSETS, net | 33,132 | 25,390 | 12,973 |
| PROPERTY, PLANT AND EQUIPMENT: | | | |
| Property, plant and equipment | 518,407 | 466,021 | 430,933 |
| Land held for sale | 17,115 | | |
| Accumulated depreciation and amortization | (231,969) | (215,686) | (202,938) |
| PROPERTY, PLANT AND EQUIPMENT, NET | 303,553 | 250,335 | 227,995 |
| TOTAL ASSETS | \$ 1,069,044 | \$ 913,441 | \$ 939,342 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | \$ 147,614 | \$ 94,441 | \$ 146,409 |
| Accrued liabilities: | | | |
| Compensation and benefits | 56,553 | 71,990 | 66,750 |
| Other | 25,879 | 25,111 | 34,365 |
| Current portion of long-term debt and capital lease obligations | 3,611 | 680 | 902 |
| TOTAL CURRENT LIABILITIES | 233,657 | 192,222 | 248,426 |
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion | 243,833 | 169,417 | 170,192 |
| DEFERRED INCOME TAXES | 24,196 | 12,697 | 13,067 |
| MINORITY INTEREST | 10,218 | 10,819 | 8,908 |
| OTHER LIABILITIES | 15,795 | 13,544 | 11,075 |

| | | | |
|---|--------------|------------|------------|
| TOTAL LIABILITIES | 527,699 | 398,699 | 451,668 |
| SHAREHOLDERS EQUITY: | | | |
| Preferred stock, no par value; shares authorized 1,000,000; issued and outstanding, none | | | |
| Common stock, no par value; shares authorized 40,000,000; issued and outstanding, 19,024,641 18,858,892 and 18,836,034 | \$ 19,025 | \$ 18,859 | \$ 18,836 |
| Additional paid-in capital | 121,785 | 113,754 | 112,488 |
| Retained earnings | 398,509 | 380,931 | 355,023 |
| Accumulated other comprehensive earnings | 3,654 | 2,451 | 2,593 |
| | 542,973 | 515,995 | 488,940 |
| Employee stock notes receivable | (1,628) | (1,253) | (1,266) |
| TOTAL SHAREHOLDERS EQUITY | 541,345 | 514,742 | 487,674 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 1,069,044 | \$ 913,441 | \$ 939,342 |

See notes to consolidated condensed financial statements.

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

(in thousands, except per share data)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| NET SALES | \$ 773,105 | \$ 826,847 | \$ 1,322,143 | \$ 1,492,456 |
| COST OF GOODS SOLD | 671,400 | 706,429 | 1,146,918 | 1,277,727 |
| GROSS PROFIT | 101,705 | 120,418 | 175,225 | 214,729 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 70,382 | 70,773 | 133,840 | 135,302 |
| EARNINGS FROM OPERATIONS | 31,323 | 49,645 | 41,385 | 79,427 |
| OTHER EXPENSE (INCOME): | | | | |
| Interest expense | 4,766 | 3,744 | 9,090 | 7,543 |
| Interest income | (558) | (352) | (1,140) | (781) |
| Net (gain) loss on sale of real estate | (333) | (63) | (333) | (63) |
| | 3,875 | 3,329 | 7,617 | 6,699 |
| EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST | 27,448 | 46,316 | 33,768 | 72,728 |
| INCOME TAXES | 10,182 | 17,885 | 12,250 | 27,641 |
| EARNINGS BEFORE MINORITY INTEREST | 17,266 | 28,431 | 21,518 | 45,087 |
| MINORITY INTEREST | (466) | (1,117) | (832) | (1,907) |
| NET EARNINGS | \$ 16,800 | \$ 27,314 | \$ 20,686 | \$ 43,180 |
| EARNINGS PER SHARE BASIC | \$ 0.88 | \$ 1.45 | \$ 1.09 | \$ 2.31 |
| EARNINGS PER SHARE DILUTED | \$ 0.86 | \$ 1.41 | \$ 1.06 | \$ 2.23 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 19,127 | 18,851 | 19,056 | 18,729 |

| | | | | |
|---|--------|--------|--------|--------|
| WEIGHTED AVERAGE SHARES OUTSTANDING WITH COMMON STOCK EQUIVALENTS | 19,487 | 19,432 | 19,448 | 19,355 |
| See notes to consolidated condensed financial statements. | 4 | | | |

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

(in thousands, except share and per share data)

| | Common Stock | Additional Paid-In Capital | Deferred Stock Compensa- tion | Deferred Compensa- tion Rabbi Trust | Retained Earnings | Accumulat- ed Other Comprehen- sive Earnings | Employees Stock Notes Receivable | Total |
|--|------------------|----------------------------------|--|---|----------------------|--|---|-------------------|
| Balance at December 31, 2005 | \$ 18,403 | \$ 97,372 | \$ 4,212 | \$ (2,117) | \$ 312,878 | \$ 2,408 | \$ (1,304) | \$ 431,852 |
| Comprehensive earnings: | | | | | | | | |
| Net earnings | | | | | 43,180 | | | |
| Foreign currency translation adjustment | | | | | | 185 | | |
| Total comprehensive earnings | | | | | | | | 43,365 |
| Cash dividends \$.055 per share | | | | | (1,035) | | | (1,035) |
| Reversal of deferred compensation upon adoption of SFAS 123(R) | | 2,095 | (4,212) | 2,117 | | | | |
| Issuance of 327,195 shares under employee stock plans | 327 | 5,151 | | | | | | 5,478 |
| Issuance of 3,058 shares under stock grant programs | 3 | 173 | | | | | | 176 |
| Issuance of 101,278 shares under deferred compensation plans | 101 | (101) | | | | | | |
| Received 1,367 shares for the exercise of stock options | (1) | (89) | | | | | | (90) |
| Tax benefits from non-qualified stock options | | 4,247 | | | | | | 4,247 |

| | | | | | | | | |
|--|------------------|-------------------|-----------|-----------|-------------------|-----------------|-------------------|-------------------|
| exercised | | | | | | | | |
| Expense associated with share-based compensation arrangements | | 522 | | | | | | 522 |
| Accrued expense under deferred compensation plans | | 2,917 | | | | | | 2,917 |
| Issuance of 3,222 shares in exchange for employee stock notes receivable | 3 | 201 | | | | | (204) | |
| Payments received on employee stock notes receivable | | | | | | | 242 | 242 |
| Balance at July 1, 2006 | \$ 18,836 | \$ 112,488 | \$ | \$ | \$ 355,023 | \$ 2,593 | \$ (1,266) | \$ 487,674 |
| Balance at December 30, 2006 | \$ 18,859 | \$ 113,754 | \$ | \$ | \$ 380,931 | \$ 2,451 | \$ (1,253) | \$ 514,742 |
| Comprehensive earnings: | | | | | | | | |
| Net earnings | | | | | 20,686 | | | |
| Foreign currency translation adjustment | | | | | | 1,203 | | |
| Total comprehensive earnings | | | | | | | | 21,889 |
| Cash dividends \$.055 per share | | | | | (1,047) | | | (1,047) |
| Issuance of 187,870 shares under employee stock plans | 188 | 3,038 | | | | | | 3,226 |
| Issuance of 3,130 shares under stock grant programs | 3 | 143 | | | | | | 146 |
| Issuance of 25,583 shares under deferred compensation plans | 26 | (26) | | | | | | |
| | (45) | | | | (2,061) | | | (2,106) |

| | | | | | | | | |
|---|------------------|-------------------|-----------|-----------|-------------------|-----------------|-------------------|-------------------|
| Repurchase of 45,100 shares | | | | | | | | |
| Received 15,866 shares for the exercise of stock options | (16) | (766) | | | | | | (782) |
| Tax benefits from non-qualified stock options exercised | | 1,453 | | | | | | 1,453 |
| Expense associated with share-based compensation arrangements | | 258 | | | | | | 258 |
| Accrued expense under deferred compensation plans | | 3,439 | | | | | | 3,439 |
| Issuance of 10,132 shares in exchange for employee stock notes receivable | 10 | 492 | | | | (502) | | |
| Payments received on employee stock notes receivable | | | | | | 127 | | 127 |
| Balance at June 30, 2007 | \$ 19,025 | \$ 121,785 | \$ | \$ | \$ 398,509 | \$ 3,654 | \$ (1,628) | \$ 541,345 |

See notes to consolidated condensed financial statements.

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

(in thousands)

| | Six Months Ended | |
|--|------------------|-----------------|
| | June 30, 2007 | July 1, 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | \$ 20,686 | \$ 43,180 |
| Adjustments to reconcile net earnings to net cash from operating activities: | | |
| Depreciation | 19,013 | 16,730 |
| Amortization of intangibles | 4,633 | 2,151 |
| Expense associated with share-based compensation arrangements | 258 | 522 |
| Expense associated with stock grant plans | 146 | 177 |
| Deferred income taxes | (89) | (867) |
| Minority interest | 832 | 1,907 |
| Gain on sale of interest in subsidiary | (140) | |
| Net gain on sale or impairment of property, plant and equipment | (131) | (183) |
| Changes in: | | |
| Accounts receivable | (72,549) | (57,246) |
| Inventories | (11,354) | 7,768 |
| Accounts payable | 54,581 | 39,426 |
| Accrued liabilities and other | (158) | 8,237 |
| Excess tax benefits from share-based compensation arrangements | (679) | (3,866) |
| NET CASH FROM OPERATING ACTIVITIES | 15,049 | 57,936 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property, plant and equipment | (18,653) | (16,234) |
| Acquisitions, net of cash received | (56,209) | (11,298) |
| Proceeds from sale of interest in subsidiary | 400 | |
| Proceeds from sale of property, plant and equipment | 2,686 | 565 |
| Collections of notes receivable | 137 | 1,600 |
| Advances on notes receivable | | (2,473) |
| Other, net | (16) | 38 |
| NET CASH FROM INVESTING ACTIVITIES | (71,655) | (27,802) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net borrowings (repayments) under revolving credit facilities | 74,318 | (40,000) |
| Repayment of long-term debt | (25,417) | (325) |
| Proceeds from issuance of common stock | 2,862 | 5,389 |
| Distributions to minority shareholders | (825) | (930) |
| Dividends paid to shareholders | (1,047) | (1,035) |
| Repurchase of common stock | (2,106) | |
| Excess tax benefits from share-based compensation arrangements | 679 | 3,866 |
| Other, net | (269) | (5) |

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| | | |
|--|-----------|-----------|
| NET CASH FROM FINANCING ACTIVITIES | 48,195 | (33,040) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (8,411) | (2,906) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 51,108 | 46,215 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 42,697 | \$ 43,309 |

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:

Cash paid (refunded) during the period for:

| | | |
|--------------|----------|----------|
| Interest | \$ 9,014 | \$ 8,292 |
| Income taxes | (2,261) | 24,824 |

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

| | Six Months Ended | |
|--|------------------|-----------------|
| | June 30, 2007 | July 1, 2006 |
| NON-CASH OPERATING ACTIVITIES: | | |
| Accounts receivable exchanged for note receivable | | \$ 431 |
| Deferred purchase price of acquisition exchanged for current payable | | 53 |
| Deferred purchase price of acquisition exchanged for long-term liability | | 721 |
| NON-CASH INVESTING ACTIVITIES: | | |
| Property, plant and equipment exchanged for debt | | \$1,303 |
| Stock acquired through employees' stock notes receivable | \$ 502 | 204 |
| NON-CASH FINANCING ACTIVITIES: | | |
| Common stock issued under deferred compensation plans | \$3,439 | \$2,917 |
| Stock received for the exercise of stock options, net | 418 | |

See notes to consolidated condensed financial statements

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

A. BASIS OF PRESENTATION

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

In our opinion, the Financial Statements contain all material adjustments necessary to present fairly our consolidated financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. These Financial Statements should be read in conjunction with the annual consolidated financial statements, and footnotes thereto, included in our Annual Report to Shareholders on Form 10-K for the fiscal year ended December 30, 2006.

Certain reclassifications have been made to the Financial Statements for 2006 to conform to the classifications used in 2007.

B. REVENUE RECOGNITION

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

Table of Contents**UNIVERSAL FOREST PRODUCTS, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

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

| | | |
|---|------------------|-----------------|
| | June 30, 2007 | July 1, 2006 |
| Cost and Earnings in Excess of Billings | \$4,249 | \$7,454 |
| Billings in Excess of Cost and Earnings | 3,857 | 8,412 |
| C. EARNINGS PER SHARE | | |

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

| | Three Months Ended 06/30/07 | | | Three Months Ended 07/01/06 | | |
|---|-----------------------------|-------------------------|------------------------|-----------------------------|-------------------------|------------------------|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Net Earnings | \$ 16,800 | | | \$ 27,314 | | |
| EPS Basic | | | | | | |
| Income available to common stockholders | 16,800 | 19,127 | \$ 0.88 | 27,314 | 18,851 | \$ 1.45 |
| Effect of dilutive securities | | | | | | |
| Options | | 360 | | | 581 | |
| EPS Diluted | | | | | | |
| Income available to common stockholders and assumed options exercised | \$ 16,800 | 19,487 | \$ 0.86 | \$ 27,314 | 19,432 | \$ 1.41 |

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

| | Six Months Ended 06/30/07 | | | Six Months Ended 07/01/06 | | |
|---|---------------------------|-------------------------|------------------------|---------------------------|-------------------------|------------------------|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Net Earnings | \$ 20,686 | | | \$ 43,180 | | |
| EPS Basic | | | | | | |
| Income available to common stockholders | 20,686 | 19,056 | \$ 1.09 | 43,180 | 18,729 | \$ 2.31 |
| Effect of dilutive securities | | | | | | |
| Options | | 392 | | | 626 | |
| EPS Diluted | | | | | | |
| Income available to common stockholders and assumed options exercised | \$ 20,686 | 19,448 | \$ 1.06 | \$ 43,180 | 19,355 | \$ 2.23 |

No outstanding options were excluded from the computation of diluted EPS for the quarters and six months ended June 30, 2007 or July 1, 2006.

D. SALE OF ACCOUNTS RECEIVABLE

On March 8, 2006 we entered into a new accounts receivable sale agreement with a bank. Under the terms of this agreement:

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

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

We receive an incentive servicing fee, which we account for as a retained interest in the receivables sold. Our retained interest is determined based on the fair market value of anticipated collections in excess of the Agreed Base Value of the receivables sold. Appropriate valuation allowances are recorded against the retained interest.

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

On June 30, 2007 \$54.1 million of receivables were sold and outstanding, and we recorded \$4.1 million of retained interest in other current assets. On July 1, 2006, \$54.1 million of receivables were sold and outstanding, and we recorded \$4.1 million of retained interest in other current assets. A summary of the transactions we completed for the first six months of 2007 and 2006 are presented below (in thousands).

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

| | Six Months Ended June 30, 2007 | Six Months Ended July 1, 2006 |
|----------------------------------|--------------------------------------|-------------------------------------|
| Accounts receivable sold | \$ 306,738 | \$ 270,474 |
| Retained interest in receivables | (1,982) | (4,054) |
| Expense from sale | (1,389) | (1,190) |
| Servicing fee received | 111 | 99 |
| Net cash received from sale | \$ 303,478 | \$ 265,329 |

E. GOODWILL AND OTHER INTANGIBLE ASSETS

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

| | June 30, 2007 | | July 1, 2006 | |
|------------------------|---------------|-----------------------------|--------------|-----------------------------|
| | Assets | Accumulated Amortization | Assets | Accumulated Amortization |
| Non-compete agreements | \$ 36,648 | (\$10,863) | \$ 15,511 | (\$7,401) |
| Licensing agreements | | | 2,510 | (2,223) |
| Customer relationships | 10,950 | (3,603) | 5,927 | (1,380) |
| Backlog | 49 | (49) | 644 | (615) |
| Total | \$ 47,647 | (\$14,515) | \$ 24,592 | (\$11,619) |

The estimated amortization expense for intangible assets as of June 30, 2007 for each of the five succeeding fiscal years is as follows (in thousands):

| | |
|------------|---------|
| 2007 | \$4,732 |
| 2008 | 9,131 |
| 2009 | 7,244 |
| 2010 | 6,261 |
| 2011 | 4,426 |
| Thereafter | 1,338 |

The changes in the net carrying amount of goodwill and indefinite-lived intangible assets for the six months ended June 30, 2007 and July 1, 2006 are as follows (in thousands):

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

| | Goodwill | Indefinite- Lived Intangible Assets |
|--|------------|--|
| Balance as of December 30, 2006 | \$ 152,837 | \$ 2,340 |
| Acquisitions | 1,517 | |
| Preliminary purchase price allocations | (5,000) | |
| Other, net | 476 | |
| Balance as of June 30, 2007 | \$ 149,830 | \$ 2,340 |
| Balance as of December 31, 2005 | \$ 131,556 | \$ 0 |
| Acquisitions | 6,701 | 2,340 |
| Final purchase price allocation of DecKorators | (5,925) | |
| Other, net | 256 | |
| Balance as of July 1, 2006 | \$ 132,588 | \$ 2,340 |

F. EMPLOYEE STOCK NOTES RECEIVABLE

Employee stock notes receivable represents notes issued to us by certain employees and officers to finance the purchase of our common stock. Directors and executive officers do not, and are not allowed to, participate in this program.

G. STOCK-BASED COMPENSATION

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

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

H. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

We are self-insured for environmental impairment liability through a wholly owned subsidiary, UFP Insurance Ltd., a licensed captive insurance company. We own and operate a number of facilities throughout the United States that chemically treat lumber products. In connection with the ownership and operation of these and other real properties, and the disposal or treatment of hazardous or toxic substances, we may, under various federal, state, and local environmental laws, ordinances, and regulations, be potentially liable for removal and remediation costs, as well as other potential costs, damages, and expenses. Insurance reserves, calculated with no discount rate, have been established to cover remediation activities at our

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UNIVERSAL FOREST PRODUCTS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Stockertown, PA; Elizabeth City, NC; Auburndale, FL; Janesville, WI; Medley, FL; and Ponce, PR wood preservation facilities. In addition, a reserve was established for our Thornton, CA property to remove asbestos and certain lead containing materials which existed on the property at the time of purchase.

Including amounts from our wholly owned captive insurance company, we have reserved approximately \$4.1 million on June 30, 2007 and \$1.7 million on July 1, 2006, representing the estimated costs to complete future remediation efforts. These amounts have not been reduced by an insurance receivable.

The manufacturers of CCA preservative voluntarily discontinued the registration of CCA for certain residential applications as of December 31, 2003. Our wood preservation facilities have been converted to alternate preservatives, either ACQ, borates or ProWood® Micro. In March 2005, one facility began using CCA to treat certain marine products and panel goods for which the alternative preservatives are not suitable.

In November 2003, the EPA published its report on the risks associated with the use of CCA in children's playsets. While the study observed that the range of potential exposure to CCA increased by the continuous use of playsets, the EPA concluded that the risks were not sufficient to require removal or replacement of any CCA treated structures. The results of the EPA study are consistent with a prior Consumer Products Safety Commission (CPSC) study which reached a similar conclusion. The EPA did refer a question on the use of sealants to a scientific advisory panel. The panel issued a report which provides guidance to the EPA on the use of various sealants but does not mandate their use. The EPA is expected to issue a final report at the end of 2007.

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

We have been requested by a customer to defend it from purported class action lawsuits. To date, none of these cases have been certified as class action. One such purported class action lawsuit pending in Illinois seeks unspecified damages from this customer, based on generalized claims under a purported theory of violation of individual state Consumer Protection Act statutes. The Illinois case was previously dismissed without prejudice. The claim was then restated and filed with no allegations of personal injury or property damage. The judge in the case denied class certification for this case in December 2005, and the appellate court denied the plaintiff's appeal in June of 2007. As previously stated, our vendors believe and scientific studies support the fact that CCA treated lumber poses no unreasonable risks, and we intend to vigorously defend this position. While our customer has charged us for certain costs incurred in the defense of these claims and we have expensed them accordingly, we have not formally

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accepted liability of these costs.

We believe that based on current facts, laws, and existing scientific evidence, as well as the favorable disposition of the above referenced lawsuits, that the likelihood of a material adverse financial impact from the remaining claims is remote. Therefore, we have not accrued for any potential loss related to the contingencies above. However, potential liabilities of this nature are not conducive to precise estimates and are subject to change. To the extent we are required to defend these actions, we intend to do so vigorously and will monitor these facts on an ongoing basis.

In addition, on June 30, 2007, we were parties either as plaintiff or a defendant to a number of lawsuits and claims arising through the normal course of our business. In the opinion of management, our consolidated financial statements will not be materially affected by the outcome of these contingencies and claims.

On June 30, 2007, we had outstanding purchase commitments on capital projects of approximately \$3.9 million.

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

In certain cases we jointly bid on contracts with framing companies to supply building materials to site-built construction projects. In some of these instances we are required to post payment and performance bonds to insure the owner that the products and installation services are completed in accordance with our contractual obligations. We have agreed to indemnify the surety for claims made against the bonds. Historically, we have not had any claims for indemnity from our sureties. As of June 30, 2007, we had approximately \$27.9 million in outstanding payment and performance bonds, which expire during the next two years. In addition, approximately \$15.4 million in payment and performance bonds are outstanding for completed projects which are still under warranty.

We have entered into operating leases for certain assets that include a guarantee of a portion of the residual value of the leased assets. If at the expiration of the initial lease term we do not exercise our option to purchase the leased assets and these assets are sold by the lessor for a price below a predetermined amount, we will reimburse the lessor for a certain portion of the shortfall. These operating leases will expire periodically over the next five years. The estimated maximum aggregate exposure of these guarantees is approximately \$2.5 million.

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

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On June 30, 2007, we had outstanding letters of credit totaling \$41.2 million, primarily related to certain insurance contracts, industrial development revenue bonds and commercial trade, as further described below.

In lieu of cash deposits, we provide irrevocable letters of credit in favor of our insurers to guarantee our performance under certain insurance contracts. We currently have irrevocable letters of credit outstanding totaling approximately \$20.4 million for these types of insurance arrangements. We have reserves recorded on our balance sheet, in accrued liabilities, that reflect our expected future liabilities under these insurance arrangements.

We are required to provide irrevocable letters of credit in favor of the bond trustees for all of the industrial development revenue bonds that we have issued. These letters of credit guarantee principal and interest payments to the bondholders. We currently have irrevocable letters of credit outstanding totaling approximately \$18.5 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.

We are required to provide irrevocable commercial letters of credit in favor of certain import vendors to guarantee our payment upon their performance under certain import purchase orders. We currently have irrevocable commercial letters of credit outstanding totaling approximately \$2.1 million related to pending import purchase orders.

Certain wholly owned domestic subsidiaries have guaranteed the indebtedness of Universal Forest Products, Inc. in certain debt agreements, including the Series 1998-A Senior Notes, Series 2002-A Senior Notes and our revolving credit facility. The maximum exposure of these guarantees is limited to the indebtedness outstanding under these debt arrangements and this exposure will expire concurrent with the expiration of the debt agreements.

Our treating operations utilize Subpart W drip pads, defined as hazardous waste management units by the EPA. The rules regulating drip pads require that the pad be closed at the point that it is no longer used to manage hazardous waste. Closure involves identification and disposal of contamination which requires removal from the wood treating operations. The ultimate cost of closure is dependent upon a number of factors including, but not limited to, identification and removal of contamination, cleanup standards that vary from state to state, and the time period over which the cleanup would be completed. Based on our present knowledge of existing circumstances, it is considered probable that these costs will approximate \$465,000. As a result, this amount is recorded in other long-term liabilities on June 30, 2007.

We did not enter into any new guarantee arrangements during the second quarter of 2007 which would require us to recognize a liability on our balance sheet.

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I. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) Accounting for Uncertainty in Income Taxes. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, and disclosure requirements. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, we adopted FIN 48 beginning December 31, 2006. The implementation of FIN 48 did not have a significant impact on our financial position or results of operations.

As of the beginning of fiscal year 2007, we had unrecognized tax benefits of \$6.5 million including accrued interest and penalties. There has been no significant change in the unrecognized tax benefits during the second quarter and six months ending June 30, 2007. If recognized, the effective tax rate would be affected by the unrecognized tax benefits.

We recognize interest and penalties related to unrecognized tax benefits, which are included in Income Taxes. Interest and penalties accrued as of June 30, 2007 are insignificant. Interest and penalties recorded during the quarter ended June 30, 2007 were not considered significant.

We are subject to periodic audits by domestic and foreign tax authorities. Currently, we are undergoing routine periodic audits in domestic jurisdictions. It is reasonably possible that the amounts of unrecognized tax benefits could change in the next 12 months as a result of the audits. Based on the current audits in process, the payment of taxes as a result of audit settlements could be from \$0.1 to \$2.8 million.

For the majority of tax jurisdictions, we are no longer subject to income tax examinations by tax authorities for years before 2003.

J. SEGMENT REPORTING

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131) defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

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Under the definition of a segment, our Eastern, Western and Consumer Products Divisions may be considered an operating segment of our business. Under SFAS 131, segments may be aggregated if the segments have similar economic characteristics and if the nature of the products, distribution methods, customers and regulatory environments are similar. Based on this criteria, we have aggregated our Eastern and Western divisions into one reporting segment. Our Consumer Products Division, which was formed in 2006, is included in the All Other column in the table below. Our divisions operate manufacturing and treating facilities throughout North America. A summary of results for the first six months of 2007 and 2006 are presented below (in thousands).

| | Six Months Ended 6/30/07 | | | Six Months Ended 7/1/06 | | |
|--------------------------------|--|--------------|-------------|--|--------------|-------------|
| | Eastern and Western Divisions | All Other | Total | Eastern and Western Divisions | All Other | Total |
| Net sales to outside customers | \$1,253,147 | \$68,996 | \$1,322,143 | \$1,446,800 | \$45,656 | \$1,492,456 |
| Intersegment net sales | 0 | 15,169 | 15,169 | 0 | 11,045 | 11,045 |
| Segment operating profit | 35,573 | 5,812 | 41,385 | 72,613 | 6,814 | 79,427 |

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

OVERVIEW

Our results for the second quarter of 2007 were impacted by the following:

Our overall unit sales increased 1%, as sales out of existing facilities and operations we closed decreased by 9% this quarter and we experienced a 10% increase in unit sales as a result of acquisitions and new operations.

Lumber prices were 15% lower compared to the same period of 2006, impacting our overall selling prices (see Impact of the Lumber Market on Our Operating Results below) and sales dollars.

We faced challenging industry conditions in our site-built construction, manufactured housing and DIY/retail markets, which impacted our unit sales. We were able to partially mitigate the impact of these adverse conditions by the market share we believe we gained in each of our four markets, highlighted by acquisition and organic growth in sales to our big box retail and industrial customers.

Single-family housing starts fell approximately 24% in second quarter 2007 compared to 2006 as a result of an excess supply of homes and an increase in foreclosures associated with sub-prime lending practices.

We believe consumer spending for large repair/remodel projects has decreased due to a combination of an increase in home equity loans, concerns over home values due to housing market conditions, and a greater use of adjustable rate mortgages in recent years that are beginning to reset at higher rates resulting in higher monthly payments.

Production of HUD code manufactured homes and modular homes has continued to decline due, in part, to an excess supply of site-built homes in certain key regions and continued tight credit conditions.

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Our gross profits decreased almost 16% compared to the same period of 2006 due to a combination of lower unit sales out of existing facilities and fixed manufacturing costs and greater pricing pressure in the site-built market.

Our cash flows from operating activities decreased \$42.9 million in the first six months of 2007 compared to the same period of 2006 due to a 52% decrease in our year- to-date net earnings, a 5 day increase in our days supply of inventory, and the impact of our sale of receivables program (see Liquidity and Capital Resources below).

An increase in interest-bearing debt to \$247.4 million from \$171.1 million last year primarily due to business acquisitions.

Outlook

Our initial targets for 2007 were based, in part, on assumptions that haven't materialized. Therefore, we are revising our targets to annual net sales of \$2.375 billion to \$2.425 billion and annual net earnings of \$40.0 million to \$42.0 million in 2007. This implies the following six-month targets for the remainder of 2007: net sales of \$1.053 billion to \$1.103 billion and net earnings of \$19.3 million to \$21.3 million. By comparison, net sales and net earnings (excluding certain non-recurring tax adjustments) were \$1.172 billion and \$23.5 million, respectively, for the last six months of 2006. The revised targets are based on the following assumptions:

Continued challenging conditions in the DIY/retail, site-built construction, and manufactured housing markets. Housing starts are expected to show little, if any, improvement for the remainder of 2007 and will not begin a recovery until mid to late 2008; DIY/retail sales will continue to be adversely impacted by the reluctance of homeowners to undertake large home improvement projects.

The Company will continue to achieve market share gains in the DIY/retail, industrial, and site-built markets;

Plant consolidation or closures will be temporary in nature, resulting in no asset impairment charges;

The lumber market will continue to be depressed for the balance of the year; and

The Company will incur incentive compensation expense as a percentage of operating profits consistent with historical experience.

(In addition, please refer to the Risk Factors section of our annual report on form 10-K, filed with the United States Securities and Exchange Commission.)

HISTORICAL LUMBER PRICES

The following table presents the Random Lengths framing lumber composite price for the six months ended June 30, 2007 and July 1, 2006:

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| | Random Lengths Composite Average \$/MBF | |
|--|--|-------|
| | 2007 | 2006 |
| January | \$ 292 | \$382 |
| February | 289 | 377 |
| March | 280 | 368 |
| April | 286 | 369 |
| May | 288 | 341 |
| June | 306 | 326 |
| Second quarter average | \$ 293 | \$345 |
| Year-to-date average | \$ 290 | \$361 |
| Second quarter percentage change from 2006 | (15.1%) | |
| Year-to-date percentage change from 2006 | (19.7%) | |

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

| | Random Lengths SYP Average \$/MBF | |
|--|--------------------------------------|-------|
| | 2007 | 2006 |
| January | \$ 414 | \$496 |
| February | 405 | 503 |
| March | 396 | 514 |
| April | 397 | 510 |
| May | 390 | 488 |
| June | 410 | 444 |
| Second quarter average | \$ 399 | \$481 |
| Year-to-date average | \$ 402 | \$493 |
| Second quarter percentage change from 2006 | (17.0%) | |
| Year-to-date percentage Change from 2006 | (18.5%) | |

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IMPACT OF THE LUMBER MARKET ON OUR OPERATING RESULTS

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

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

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

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

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

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

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Products with significant inventory levels with low turnover rates, whose selling prices are indexed to the Lumber Market. In other words, the longer the period of time these products remain in inventory, the greater the exposure to changes in the price of lumber. This would include treated lumber, which comprises approximately 12% of our total sales. This exposure is less significant with remanufactured lumber, trusses sold to the manufactured housing market, and other similar products, due to the higher rate of inventory turnover. We attempt to mitigate the risk associated with treated lumber through vendor consignment inventory programs. *(Please refer to the Risk Factors section of our annual report on form 10-K, filed with the United States Securities and Exchange Commission.)*

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

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

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

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

BUSINESS COMBINATIONS

We completed the following business combinations in fiscal 2007 and fiscal 2006, which were accounted for using the purchase method.

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| Company Name | Acquisition Date | Business Description |
|--|--------------------------------|---|
| Shawnlee Construction, LLC (Shawnlee) | April 2, 2007 April 3, 2006 | Provides framing services for multi-family construction in the northeast. Located in Plainville, MA. Purchased an additional 5% membership interest each in 2007 & 2006. We currently own an 85% membership interest. |
| 2007 Purchase price: \$1.4 million 2006 Purchase price: \$0.8 million | | |
| Perfection Trusses, Inc. (Perfection) | March 5, 2007 | Manufacture and distribute roof and floor trusses to the Eastern Florida market. The company is located in Vero Beach, FL. |
| Purchase price: \$1.3 million 2006 sales: \$3.9 million | | |
| Aljoma Lumber Company (Aljoma) | February 12, 2007 | Manufacture, treat and distribute various wood products, building materials and specialty hardwoods. The company is located in Medley, FL. They serve Florida, the Eastern United States and the Caribbean islands. Aljoma has one of the largest treating facilities in the country. |
| Purchase price: \$53.5 million 2006 sales: \$225 million | | |
| Banks Lumber (Banks) | November 17, 2006 | Manufactures roof trusses and cut-to-size structural lumber for manufactured housing and recreational vehicle (RV) manufacturers nationwide. The company currently has continuing operations in Elkhart, IN, Edwardsburg, MI, Morristown, TN, Auburndale, FL and Hillsboro, TX. |
| Purchase price: \$46.7 million 2006 sales: \$147.0 million | | |
| GeoMatrix, Inc. (GeoMatrix) | August 18, 2006 | A developer and distributor of plastic lattice products and other proprietary plastic products located in Troy, MI. |
| Purchase price: \$11.5 million 2005 sales: \$19.0 million | | |
| United Lumber & Reman, LLC (United) | July 10, 2006 | An industrial wood manufacturing plant located in Muscle Shoals, AL. Acquired a 50% membership interest. |
| Purchase price: \$4.9 million 2005 sales: \$26.0 million | | |

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| | | |
|---|-------------------------------------|---|
| Company Name Dura-Bilt Mfg. Co. (Dura-Bilt) | Acquisition Date June 5, 2006 | Business Description Designs and manufactures roof and floor trusses for site-built construction. The company is located in Riverbank, CA. |
| Purchase price: \$9.2 million 2005 sales: \$16.0 million | | |
| Company Name Classic Truss Company, Inc. (Classic) | Acquisition Date January 9, 2006 | Business Description Manufactures and distributes engineered wood components for site-built construction. The company is located in Fort Pierce, FL. |
| Purchase price: \$2.1 million 2005 sales: \$6.0 million | | |

RESULTS OF OPERATIONS

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

| | For the Three Months Ended | | For the Six Months Ended | |
|--|----------------------------|-----------------|--------------------------|-----------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 86.8 | 85.4 | 86.7 | 85.6 |
| Gross profit | 13.2 | 14.6 | 13.3 | 14.4 |
| Selling, general, and administrative expenses | 9.1 | 8.6 | 10.1 | 9.1 |
| Earnings from operations | 4.1 | 6.0 | 3.2 | 5.3 |
| Interest, net | 0.6 | 0.4 | 0.6 | 0.4 |
| Net gain on sale of real estate | (0.0) | (0.0) | (0.0) | (0.0) |
| | 0.6 | 0.4 | 0.6 | 0.4 |
| Earnings before income taxes and minority interest | 3.5 | 5.6 | 2.6 | 4.9 |
| Income taxes | 1.3 | 2.2 | 0.9 | 1.9 |
| Earnings before minority interest | 2.2 | 3.4 | 1.7 | 3.0 |
| Minority interest | (0.1) | (0.1) | (0.1) | (0.1) |
| Net earnings | 2.2% | 3.3% | 1.6% | 2.9% |

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GROSS SALES

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

Diversifying our end market sales mix by increasing sales of specialty wood packaging to industrial users.

Expanding geographically in our core businesses.

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

Maximizing unit sales growth while achieving return on investment goals.

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

| Market Classification | For the Three Months Ended | | | For the Six Months Ended | | |
|--------------------------|----------------------------|---------------|-------------------|--------------------------|----------------|---------------------|
| | June 30, 2007 | % Change | July 1, 2006 | June 30, 2007 | % Change | July 1, 2006 |
| DIY/Retail | \$ 360,881 | 1.7% | \$ 354,838 | \$ 557,017 | (2.5%) | \$ 571,304 |
| Site-Built Construction | 161,969 | (30.0) | 231,298 | 300,811 | (32.3) | 444,430 |
| Industrial | 162,442 | 7.1 | 151,638 | 295,894 | 1.4 | 291,592 |
| Manufactured Housing | 105,223 | 3.5 | 101,659 | 193,501 | (7.2) | 208,463 |
| Total Gross Sales | \$ 790,515 | (5.8) | \$ 839,433 | \$ 1,347,223 | (11.1) | \$ 1,515,789 |
| Sales allowances | (17,410) | 38.3 | (12,586) | (25,080) | 7.5 | (23,333) |
| Total Net Sales | \$ 773,105 | (6.5%) | \$ 826,847 | \$ 1,322,143 | (11.4%) | \$ 1,492,456 |

Gross sales in the second quarter of 2007 decreased 6% compared to the second quarter of 2006. We estimate that our unit sales increased by 1% and overall selling prices decreased by an estimated 7% comparing the two periods. We estimate that our unit sales increased 10% as a result of acquisitions, while unit sales from existing and closed facilities decreased 9%. Our overall selling prices fluctuate as a result of the Lumber Market (see Historical Lumber Prices), since our pricing practices are designed to pass these costs along to our customers. (See Impact of the Lumber Market on our Operating Results.)

Gross sales in the first six months of 2007 decreased 11% compared to the first six months of 2006 resulting from an estimated decrease in units shipped of approximately 3%, while overall selling

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prices decreased by 8%. We estimate that our unit sales increased 10% as a result of business acquisitions and new plants, while our unit sales out of existing facilities decreased by 13%.

Changes in our sales by market are discussed below.

DIY/Retail:

Gross sales to the DIY/retail market increased 2% in the second quarter of 2007 compared to 2006 primarily due to a 7% decline in selling prices due to the Lumber Market and a 9% increase in overall unit sales. Unit sales growth was the result of our acquisitions of GeoMatrix and Aljoma, while sales out of existing facilities were flat in spite of challenging market conditions. This was primarily the result of significant market share gains we realized with big box retail customers. Our sales to these customers increased 10% (units increased an estimated 13%) for the quarter while our sales to other retailers whose business is more closely correlated with housing starts was off 19%. Our increase in sales to big box customers was less than expected, however, which we believe was caused by a decline in consumer spending on large home improvement projects.

Gross sales to the DIY/retail market decreased 3% in the first six months of 2007 compared to 2006, as a result of a 5% increase in units shipped and an 8% decrease in overall selling prices. We estimate that our unit sales increased 9% as a result of acquisitions, while unit sales from existing and closed facilities decreased 4%.

Site-Built Construction:

Gross sales to the site-built construction market decreased 30% in the second quarter of 2007 compared to 2006 due to an 18% decrease in unit sales out of existing plants, a 4% decline due to our decision to exit the Las Vegas framing market, and an 8% decrease in our average selling prices. We continue to be negatively impacted by difficult housing market conditions, particularly in regional markets such as Southern California, Colorado and the Midwest. National single family housing starts were off a reported 24% from March through May of 2007.

Gross sales to the site-built construction market decreased 32% in the first six months of 2007 compared to 2006, due to an estimated 22% decrease in unit sales and an estimated 10% decrease in selling prices. Single-family housing starts have fallen approximately 28% in 2007 compared to 2006 as a result of an excess supply of homes and an increase in foreclosures associated with sub-prime lending practices.

Industrial:

Gross sales to the industrial market increased 7% in the second quarter of 2007 compared to the same period of 2006, due to a 3% decrease in selling prices, offset by a 10% increase in unit sales. Our unit sales growth was a result of continuing to add many new customers, which helped offset the

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impact of a decline in our sales to certain customers that supply products to builders. Our dedicated local sales teams and national sales support efforts, combined with our competitive advantages in manufacturing, purchasing, and material utilization continue to provide us with strong opportunities for continued growth in the market.

Gross sales to the industrial market increased 1% in the first six months of 2007 compared to the same period of 2006, due to an estimated 6% increase in units shipped offset by a 5% decline in selling prices. Unit sales increased for the reasons mentioned in the paragraph above.

Manufactured Housing:

Gross sales to the manufactured housing market increased 4% in the second quarter of 2007 compared to the same period of 2006, due to a 14% increase in unit sales offset by a 10% decrease in overall selling prices due to the Lumber Market. Our acquisition of Banks contributed unit sales growth of 35% for the quarter, while unit sales from existing facilities decreased 21%. Our decline in unit sales from existing facilities was a result of a decline in industry production. The industry most recently reported a decrease in HUD code production of approximately 19% in April and May. The modular market originally forecasted a flat year but the first quarter results reported the market was off 20% and we believe this trend continued into the second quarter.

Gross sales to the manufactured housing market decreased 7% in the first six months of 2007 compared to the same period of 2006. This decrease resulted from a 4% increase in unit sales offset by an 11% decrease in selling prices. We estimate that our unit sales increased 30% as a result of acquisitions, while unit sales from existing and closed facilities decreased 26%. The industry most recently reported a decrease in HUD code production of approximately 30%.

Value-Added and Commodity-Based Sales:

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

| | Three Months Ended | | Six Months Ended | |
|-----------------|--------------------|-----------------|------------------|-----------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Value-Added | 60.9% | 61.5% | 62.4% | 62.6% |
| Commodity-Based | 39.1% | 38.5% | 37.6% | 37.4% |

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

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

Value-added sales decreased 8% in the second quarter of 2007 compared to 2006, primarily due to decreased sales of engineered wood components and framing services to the site-built construction market. Commodity-based sales decreased 2% comparing the second quarter of 2007 with the same period of 2006, primarily due to a decrease in unit sales of panelized lumber products and lower prices due to the Lumber Market for SYP.

Value-added sales decreased 13% in the first six months of 2007 compared to 2006, primarily due to decreased sales of engineered wood components and framing services to the site-built construction market. Commodity-based sales decreased approximately 8% during the first six months of 2007 due to a decrease in selling prices due to the Lumber Market.

COST OF GOODS SOLD AND GROSS PROFIT

Our gross profit percentage decreased to 13.2% from 14.6% and gross profit dollars decreased 16% comparing the second quarter of 2007 with the same period of 2006. The decline in our profitability was primarily due to a combination of:

A change in sales mix whereby historically higher margin engineered wood components sold to site-built customers comprised a lower percentage of our sales this quarter.

Cost inefficiencies as a result of the impact of decreased unit sales out of existing facilities and fixed manufacturing costs.

Increased pricing pressure on sales to the site-built construction market due to the overall decline in market demand and excess capacity of suppliers.

Our gross profit percentage decreased to 13.3% from 14.4% and gross profit dollars decreased approximately 18% comparing the first six months of 2007 with the same period of 2006. Our decline in profitability comparing these two periods was primarily due to the factors mentioned in the paragraph above.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses decreased by approximately \$400,000 ,or 1% , in the second quarter of 2007 compared to the same period of 2006 in spite of a 1% increase in unit sales. Existing facilities and operations we closed this year decreased SG&A expenses approximately \$4.9 million, while business acquisitions added \$4.5 million in SG&A expenses. The decreases in SG&A expenses at our existing facilities were primarily due to decreases in accrued sales incentive compensation and bonus expense, which is tied to operating profits and return on investment.

SG&A expenses decreased by 1% in the first six months of 2007 compared to the same period of 2006, primarily due to the same factors mentioned in the paragraph above.

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

INTEREST, NET

Net interest costs were higher in the second quarter of 2007 compared to the same period of 2006 due to an increase in borrowings on the revolving credit facility as a result of acquisitions.

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 decreased to 37.1% in the second quarter of 2007 from 38.6% in the same period of 2006. The decrease in the effective rate was primarily due to an increase in the Domestic Manufacturing Deduction allowed in 2007 and the current year benefit of a research and development tax credit.

ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

See Notes to Consolidated Condensed Financial Statements, Note I, Accounting for Uncertainty in Income Taxes.

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):

| | June 30, 2007 | July 1, 2006 |
|--|------------------|-----------------|
| Cash from operating activities | \$ 15,049 | \$ 57,936 |
| Cash from investing activities | (71,655) | (27,802) |
| Cash from financing activities | 48,195 | (33,040) |
| Net change in cash and cash equivalents | (8,411) | (2,906) |
| Cash and cash equivalents, beginning of period | 51,108 | 46,215 |
| Cash and cash equivalents, end of period | \$ 42,697 | \$ 43,309 |

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

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

Seasonality has a significant impact on our working capital from March to August which historically resulted in negative or modest cash flows from operations in our first and second quarters. Conversely, we experience a substantial decrease in working capital from September to February which results in significant cash flow from operations in our third and fourth quarters. For comparative purposes, we have included the July 1, 2006 balances in the accompanying un-audited consolidated condensed balance sheets.

Due to the seasonality of our business and the effects of the Lumber Market, we believe our cash cycle (days of sales outstanding plus days supply of inventory less days payables outstanding) is a good indicator of our working capital management. Our cash cycle (excluding the impact of our sale of receivables program) increased to 39 days in the first six months of 2007 from 34 days in the first six months of 2006, due to a 5 day increase in our days of supply of inventory. Our days supply of inventory primarily increased because we planned for higher sales volumes in 2007 than has occurred due to market conditions.

Cash flow from operating activities decreased by \$43 million in the first six months of 2007 compared with the same period of 2006, primarily due to the following:

A decline in net earnings of approximately \$22 million.

The impact of our sale of receivables program in the first six months of 2007 compared to the prior period.

Specifically, during the first quarter of 2006 we entered into a new sale of receivables program and had approximately \$50 million of net receivables sold and outstanding at the end of the second quarter of 2006. At the end of fiscal 2006, we had approximately \$27 million sold and outstanding, which was increased to approximately \$50 million of net receivables sold and outstanding at the end of the second quarter of 2007. Therefore, in the first six months of 2007 we generated approximately \$23 million of positive cash flow from our sales of receivables program compared to \$50 million of positive cash flow in the prior year period.

An increase in our days supply of inventory.

Cash used for investing activities increased by \$44 million in the first six months of 2007 compared to the same period of 2006, which was primarily due to a \$45 million increase in amounts spent for business acquisitions (see Business Combinations).

We currently plan to spend approximately \$40 million on capital expenditures in 2007, which includes outstanding purchase commitments on existing capital projects totaling approximately \$3.9

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

million on June 30, 2007. We intend to fund capital expenditures and purchase commitments through a combination of operating cash flows and availability under our revolving credit facility.

Cash provided by financing activities increased by \$81 million in the first six months of 2007 primarily due to the purchase of Aljoma and retire its mortgage obligation.

On June 30, 2007, we had \$93 million outstanding on our \$300 million revolving credit facility. The revolving credit facility also supports letters of credit totaling approximately \$37 million on June 30, 2007. Financial covenants on the unsecured revolving credit facility and unsecured notes include a minimum net worth requirement, minimum interest coverage tests, and a maximum leverage ratio. The agreements also restrict the amount of additional indebtedness we may incur and the amount of assets which may be sold. We were within all of our lending requirements on June 30, 2007.

ENVIRONMENTAL CONSIDERATIONS AND REGULATIONS

See Notes to Consolidated Condensed Financial Statements, Note H, Commitments, Contingencies, and Guarantees.

CRITICAL ACCOUNTING POLICIES

In preparing our consolidated financial statements, we follow accounting principles generally accepted in the United States. These principles require us to make certain estimates and apply judgments that affect our financial position and results of operations. We continually review our accounting policies and financial information disclosures. There have been no material changes in our policies or estimates since December 30, 2006.

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UNIVERSAL FOREST PRODUCTS, INC.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to market risks related to fluctuations in interest rates on our variable rate debt, which consists of a revolving credit facility and industrial development revenue bonds. We do not currently use interest rate swaps, futures contracts or options on futures, or other types of derivative financial instruments to mitigate this risk. For fixed rate debt, changes in interest rates generally affect the fair market value, but not earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not influence fair market value, but do affect future earnings and cash flows. We do not have an obligation to prepay fixed rate debt prior to maturity, and as a result, interest rate risk and changes in fair market value should not have a significant impact on such debt until we would be required to refinance it.

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UNIVERSAL FOREST PRODUCTS, INC.

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 June 30, 2007 (the Evaluation Date), have concluded that, as of such date, our disclosure controls and procedures were effective.
- (b) **Changes in Internal Controls.** During the second quarter ended June 30, 2007, there were no changes in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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UNIVERSAL FOREST PRODUCTS, INC.
PART II. OTHER INFORMATION

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

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

| Fiscal Month | (a) | (b) | (c) | (d) |
|--|--------|---------|--------|-----------|
| April 1, 2007 May 5, 2007 ¹⁾ | 18,429 | \$48.69 | 18,429 | 1,479,810 |
| May 6, 2007 June 2, 2007 | 25,300 | \$46.84 | 25,300 | 1,454,510 |
| June 3, 2007 June 30, 2007 | 15,500 | \$46.50 | 15,500 | 1,439,010 |

- (a) Total number of shares purchased.
- (b) Average price paid per share.
- (c) Total number of shares purchased as part of publicly announced plans or programs.
- (d) Maximum number of shares that may yet be purchased under the plans or programs.
- (1) On November 14, 2001, the Board of Directors approved a share repurchase program (which succeeded a previous program) allowing us to repurchase up to 2.5 million

shares of our
common stock.
As of June 30,
2007,
cumulative total
authorized
shares available
for repurchase is
1.4 million
shares.

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UNIVERSAL FOREST PRODUCTS, INC.
PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

(1) The following matters were voted upon at our Annual Meeting of Shareholders on April 18, 2007:

| | For | Withheld | Abstain |
|--|-----------|-----------|---------|
| (b) Election of the following Director for a two year term expiring in 2009: | 9,156,303 | 5,901,682 | 5,871 |

| | For | Withheld |
|----------------|------------|-----------|
| Louis A. Smith | 10,369,145 | 4,694,711 |

Election of the following Directors for three year terms expiring in 2010:

| | | |
|-------------------|------------|---------|
| William G. Currie | 14,690,121 | 373,735 |
| John M. Engler | 14,885,845 | 178,011 |
| Michael B. Glenn | 14,722,833 | 341,023 |

Other Directors whose terms of office continued after the meeting are as follows:

Dan M. Dutton
 John W. Garside
 Gary F. Goode
 Mark A. Murray
 Peter F. Secchia

(c) Amendment to the Director Retainer Stock Plan.

| | For | Withheld | Abstain |
|--|------------|----------|---------|
| (2) Clarification of Proxy Disclosure. | 12,944,931 | 299,689 | 10,159 |

In its Proxy Statement, dated March 21, 2007, for its 2007 Annual Meeting of Shareholders held on April 18, 2007, the Company incorrectly included a statement that the Company had entered into a severance agreement with its Executive Chairman of the Board of Directors, William G. Currie. In fact, the Company has yet to enter into any such agreement. Rather,

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the date of the agreement referenced in the Proxy Statement was the date the Compensation Committee met and authorized the general economic terms of a severance package for Mr. Currie. Amounts disclosed in the Proxy Statement which showed potential value transfer to Mr. Currie upon retirement, voluntary termination, termination for cause and termination without cause should all be listed as zero until and unless altered by a final agreement. The Company is still in the process of establishing various terms and conditions of such an agreement, including the conditions to be satisfied as a right to the referenced severance benefits.

Subject to and conditioned upon the establishment of the contractual terms and conditions, as well as the execution of, such a severance agreement, the Company will make all required disclosures of that agreement, including those required under Item 5.02 of Form 8-K.

Item 5. Other Information.

In the second quarter of 2007, the Audit Committee approved no non-audit services to be provided by our independent auditors, Ernst & Young LLP, for 2007.

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**UNIVERSAL FOREST PRODUCTS, INC.
PART II. OTHER INFORMATION**

Item 6. Exhibits.

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

31 Certifications.

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

32 Certifications.

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

* Indicates a
compensatory
arrangement.

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**UNIVERSAL FOREST PRODUCTS, INC.
SIGNATURES**

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

UNIVERSAL FOREST PRODUCTS, INC.

Date: August 1, 2007

By: /s/ Michael B. Glenn

Michael B. Glenn
Its: Chief Executive Officer

Date: August 1, 2007

By: /s/ Michael R. Cole

Michael R. Cole
Its: Chief Financial Officer

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EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|---|
| 31 | Certifications. (a) Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). (b) Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). |
| 32 | Certifications. (a) Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). (b) Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). |
| * | Indicates a compensatory arrangement. |