UNIVERSAL FOREST PRODUCTS INC
Form 10-Q
October 25, 2006

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

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

For the quarterly period ended September 30, 2006

OR

o **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 þ No o

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 þ Accelerated Filer o Non-Accelerated Filer o

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

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 September 30, 2006
Common stock, no par value	18,851,040

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

(in thousands, except share data)

	September 30, 2006	December 31, 2005	September 24, 2005
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 46,184	$ 46,215	$ 30,767
Accounts receivable, net	227,428	185,080	230,762
Inventories:			
Raw materials	121,324	144,361	121,502
Finished goods	111,560	109,408	105,235
	232,884	253,769	226,737
Other current assets	24,752	17,114	13,191
TOTAL CURRENT ASSETS	531,248	502,178	501,457
OTHER ASSETS	7,762	7,887	8,414
GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS	146,602	131,556	129,719
OTHER INTANGIBLE ASSETS, net	11,947	10,966	7,629
PROPERTY, PLANT AND EQUIPMENT:			
Property, plant and equipment	443,751	412,475	406,595
Accumulated depreciation and amortization	(211,323)	(188,142)	(183,488)
PROPERTY, PLANT AND EQUIPMENT, NET	232,428	224,333	223,107
TOTAL ASSETS	$ 929,987	$ 876,920	$ 870,326
LIABILITIES AND SHAREHOLDERS EQUITY			
CURRENT LIABILITIES:			
Accounts payable	$ 109,581	$ 106,716	$ 131,621
Accrued liabilities:			
Compensation and benefits	73,551	69,528	68,919
Other	32,809	27,449	27,752
Current portion of long-term debt and capital lease obligations	697	458	22,091
TOTAL CURRENT LIABILITIES	216,638	204,151	250,383
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	171,009	209,039	168,602
DEFERRED INCOME TAXES	13,089	12,914	17,691
MINORITY INTEREST	11,922	8,577	7,826

OTHER LIABILITIES	10,926	10,387	9,910
TOTAL LIABILITIES	423,584	445,068	454,412

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UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS CONTINUED

	September 30, 2006	December 31, 2005	September 24, 2005
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, 18,851,040, 18,402,648 and 18,380,366	$ 18,851	$ 18,403	$ 18,380
Additional paid-in capital	113,157	97,372	96,710
Deferred stock compensation		4,212	4,133
Deferred stock compensation in rabbi trust		(2,117)	(2,087)
Retained earnings	372,728	312,878	297,707
Accumulated other comprehensive earnings	2,920	2,408	2,414
	507,656	433,156	417,257
Employee stock notes receivable	(1,253)	(1,304)	(1,343)
TOTAL SHAREHOLDERS EQUITY	506,403	431,852	415,914
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 929,987	$ 876,920	$ 870,326

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		Nine Months Ended	
	Sept. 30, 2006	Sept. 24, 2005	Sept. 30, 2006	Sept. 24, 2005
NET SALES	$ 672,873	$ 721,497	$ 2,165,329	$ 2,038,209
COST OF GOODS SOLD	574,048	622,435	1,851,775	1,770,676
GROSS PROFIT	98,825	99,062	313,554	267,533
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	65,970	63,877	201,272	173,233
EARNINGS FROM OPERATIONS	32,855	35,185	112,282	94,300
OTHER EXPENSE (INCOME):				
Interest expense	3,214	3,714	10,757	11,755
Interest income	(875)	(227)	(1,656)	(646)
Gain on sale of real estate			(63)	(1,240)
	2,339	3,487	9,038	9,869
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	30,516	31,698	103,244	84,431
INCOME TAXES	11,322	12,009	38,963	32,005
EARNINGS BEFORE MINORITY INTEREST	19,194	19,689	64,281	52,426
MINORITY INTEREST	(1,489)	(518)	(3,396)	(1,236)
NET EARNINGS	$ 17,705	$ 19,171	$ 60,885	$ 51,190
EARNINGS PER SHARE BASIC	$ 0.94	$ 1.04	$ 3.24	$ 2.79
EARNINGS PER SHARE DILUTED	$ 0.91	$ 1.00	$ 3.14	$ 2.69
WEIGHTED AVERAGE SHARES OUTSTANDING	18,906	18,465	18,788	18,325

WEIGHTED AVERAGE SHARES OUTSTANDING WITH COMMON STOCK EQUIVALENTS	19,394	19,193	19,368	19,050

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)

	Common Stock	Additional Paid-In Capital	Deferred Stock Compen-sation	Deferred Compen-sation Rabbi Trust	Retained Earnings	Accumulated Other Comprehensive Earnings	Employees Stock Notes Receivable	Total
Balance at December 25, 2004	**$ 18,002**	**$ 89,269**	**$ 3,423**	**($1,331)**	**$ 247,427**	**$ 1,525**	**($1,546)**	**$ 356,769**
Comprehensive earnings:								
Net earnings					51,190			
Foreign currency translation adjustment						889		
Total comprehensive earnings								52,079
Cash dividends $.050 per share					(910)			(910)
Issuance of 389,207 shares under employee stock plans	389	4,388						4,777
Issuance of 3,469 shares under stock grant programs	3	146						149
Issuance of 33,074 shares under deferred compensation plans	33	939	(216)	(756)				0
Received 49,244 shares for the exercise of stock options	(49)	(1,856)						(1,905)
Tax benefits from non-qualified stock options exercised		3,764						3,764
Accrued expense under deferred compensation plans			926					926

Issuance of 1,605 shares in exchange for employee stock notes receivable	2	60					(62)	0
Payments received on employee stock notes receivable							265	265
Balance at September 24, 2005	**$ 18,380**	**$ 96,710**	**$ 4,133**	**($2,087)**	**$ 297,707**	**$ 2,414**	**($1,343)**	**$ 415,914**

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

	Common Stock	Additional Paid-In Capital	Deferred Stock Compen-sation	Deferred Compen-sation Rabbi Trust	Retained Earnings	Accumulated Other Comprehensive 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					60,885			
Foreign currency translation adjustment						512		
Total comprehensive earnings								61,397
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				0
Issuance of 341,921 shares under employee stock plans	342	5,459						5,801
Issuance of 3,338 shares under stock grant programs	3	188						191
Issuance of 101,278 shares under deferred compensation plans	101	(101)						0
Received 1,367 shares for the exercise of stock options	(1)	(89)						(90)
Tax benefits from non-qualified stock options exercised		4,357						4,357
		691						691

Expense associated with share-based compensation arrangements								
Accrued expense under deferred compensation plans		2,984						2,984
Issuance of 3,222 shares in exchange for employee stock notes receivable	3	201					(204)	0
Payments received on employee stock notes receivable							255	255
Balance at September 30, 2006	**$ 18,851**	**$ 113,157**	**$ 0**	**$ 0**	**$ 372,728**	**$ 2,920**	**($1,253)**	**$ 506,403**

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 30, 2006	Nine Months Ended September 24, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 60,885	$ 51,190
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation	25,558	23,391
Amortization of intangibles	3,953	1,809
Expense associated with share-based compensation arrangements	691	
Expense associated with stock grant plans	191	149
Deferred income taxes	(871)	(886)
Minority interest	3,396	1,236
Net loss (gain) on sale or impairment of property, plant, and equipment	206	(561)
Changes in:		
Accounts receivable	(37,947)	(75,061)
Inventories	23,693	(10,712)
Accounts payable	771	43,103
Accrued liabilities and other	11,326	26,502
Excess tax benefits from share-based compensation arrangements	(3,959)	
NET CASH FROM OPERATING ACTIVITIES	87,893	60,160
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(27,600)	(31,768)
Acquisitions, net of cash received	(27,137)	(13,883)
Proceeds from sale of property, plant and equipment	506	2,373
Insurance proceeds	38	3,013
Collections of notes receivable	1,612	457
Advances on notes receivable	(2,473)	(887)
Other assets, net	6	752
NET CASH FROM INVESTING ACTIVITIES	(55,048)	(39,943)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net repayments under revolving credit facilities	(38,725)	(16,201)
Repayment of long-term debt	(1,201)	(1,674)
Proceeds from issuance of common stock	5,711	4,074
Distributions to minority shareholder	(1,569)	(749)
Investment received from minority shareholder		500
Dividends paid to shareholders	(1,035)	(910)
Excess tax benefits from share-based compensation arrangements	3,959	
Other	(16)	236

NET CASH FROM FINANCING ACTIVITIES	(32,876)	(14,724)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(31)	5,493
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	46,215	25,274
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 46,184	$ 30,767
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 9,309	$ 9,028
Income taxes	44,448	29,761

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UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS   CONTINUED

	Nine Months Ended	
	September 30, 2006	September 24, 2005
NON-CASH OPERATING ACTIVITIES:		
Accounts receivable exchanged for note receivable	$ 431	$ 765
Deferred purchase price of acquisition exchanged for current payable	53	994
Deferred purchase price of acquisition exchanged for long-term liability	721	
NON-CASH INVESTING ACTIVITIES:		
Property, plant & equipment exchanged for debt	$ 1,379	63
NON-CASH FINANCING ACTIVITIES:		
Common stock issued under deferred compensation plans	$ 2,225	$ 972

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 31, 2005.

Certain reclassifications have been made to the Financial Statements for 2005 to conform to the classifications used in 2006.

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.

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

The following table presents the balances of percentage-of-completion accounts:

	September 30, 2006	September 24, 2005
Cost and Earnings in Excess of Billings	$ 6,203	$ 3,950
Billings in Excess of Cost and Earnings	5,733	3,592

C. EARNINGS PER COMMON SHARE

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

	Three Months Ended 09/30/06			Three Months Ended 09/24/05		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net Earnings	$ 17,705			$ 19,171		
EPS Basic						
Income available to common stockholders	17,705	18,906	$ 0.94	19,171	18,465	$ 1.04
Effect of dilutive securities						
Options		488			728	
EPS Diluted						
Income available to common stockholders and assumed options exercised	$ 17,705	19,394	$ 0.91	$ 19,171	19,193	$ 1.00

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

	Nine Months Ended 09/30/06			Nine Months Ended 09/24/05		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net Earnings	$ 60,885			$ 51,190		
EPS Basic						
Income available to common stockholders	60,885	18,788	$ 3.24	51,190	18,325	$ 2.79
Effect of dilutive securities						
Options		580			725	
EPS Diluted						
Income available to common stockholders and assumed options exercised	$ 60,885	19,368	$ 3.14	$ 51,190	19,050	$ 2.69

No outstanding options were excluded from the computation of diluted EPS for the quarters and nine months ended September 30, 2006 or September 24, 2005.

D. SALE OF ACCOUNTS RECEIVABLE

On March 8, 2006 we entered into a new accounts receivable sale agreement with a bank. The terms of this new agreement are substantially the same as the agreement that was in place in the first six months of 2005 and subsequently cancelled on October 25, 2005. Under the terms of these agreements:

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.

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

retained interest in other current assets. A summary of the transactions we completed for the first nine months of 2006 and 2005 are presented below (in thousands).

	Nine Months Ended September 30, 2006	Nine Months Ended September 24, 2005
Accounts receivable sold	$ 342,898	$ 346,844
Retained interest in receivables		(568)
Expense from sale	(1,519)	(1,214)
Servicing fee received	124	137
Discounts and sales allowances	0	(3,298)
Net cash received from sale	$ 341,503	$ 341,901

E. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	September 30, 2006		September 24, 2005	
	Assets	Accumulated Amortization	Assets	Accumulated Amortization
Non-compete agreements	$ 16,177	$ (8,640)	$ 10,512	$ (5,445)
Licensing agreements	2,510	(2,295)	3,684	(2,021)
Customer relationships	5,988	(1,831)	1,285	(386)
Backlog	694	(656)	190	(190)
Total	$ 25,369	$ (13,422)	$ 15,671	$ (8,042)

Estimated amortization expense for intangible assets as of September 30, 2006 for each of the five succeeding fiscal years is as follows (in thousands):

2006 Remaining	$ 1,306
2007	3,701
2008	3,227
2009	2,131
2010	1,158
Thereafter	424

The changes in the net carrying amount of goodwill and indefinite-lived intangible assets for the nine months ended September 30, 2006 and September 24, 2005 are as follows (in thousands):

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	Goodwill	Indefinite-Lived Intangible Assets
Balance as of December 31, 2005	$ 131,556	$ 0
Acquisitions	18,863	2,340
Final purchase price allocation of DecKorators	(5,925)	
Other, net	(232)	
Balance as of September 30, 2006	$ 144,262	$ 2,340
Balance as of December 25, 2004	$ 123,845	
Acquisition	5,604	
Other, net	270	
Balance as of September 24, 2005	$ 129,719	

F. BUSINESS COMBINATIONS

On August 18, 2006, one of our subsidiaries acquired the assets and assumed certain liabilities of GeoMatrix, Inc. (GeoMatrix) located in Troy, MI, a leading developer and supplier of plastic lattice and other proprietary plastic products. The purchase price was approximately $11.3 million, allocating $2.4 million to tangible net assets and $8.9 million to goodwill. The purchase price allocation for this acquisition is preliminary and will be revised as final estimates of intangible asset values are made in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. GeoMatrix had net sales in fiscal 2005 totaling approximately $19 million.

On July 10, 2006, one of our subsidiaries acquired a 50% membership interest in United Lumber & Reman, LLC (United), an industrial wood manufacturing plant located in Muscle Shoals, AL. The purchase price was approximately $4.9 million, allocating $1.7 million to tangible net assets and $3.2 million to goodwill. The purchase price allocation for this acquisition is preliminary and will be revised as final estimates of intangible asset values are made in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. United had net sales totaling approximately $26 million in 2005. We have consolidated this entity, including a respective minority interest, because we exercise control.

On June 5, 2006, one of our subsidiaries acquired the assets of Dura-Bilt Mfg. Co. (Dura-Bilt) located in Riverbank, CA, a roof and floor truss manufacturer for the site-built construction market in Northern California. The purchase price was approximately $9.2 million, consisting of $8.4 million paid on the date we closed the transaction and $0.8 million to be paid in the future, allocating $2.6 million to tangible net assets and $6.6 million to goodwill. The purchase price allocation for this acquisition is preliminary and will be revised

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as final estimates of intangible asset values are made in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. Dura-Bilt had net sales in fiscal 2005 totaling approximately $16 million.

On April 3, 2006, one of our subsidiaries, which at the time owned a 75% interest in Shawnlee Construction, LLC (Shawnlee), acquired an additional 5% interest for approximately $0.8 million, allocating $0.5 million to tangible assets, $0.1 million to customer relationship related intangibles, $0.1 million to a non-compete agreement and $0.1 million to goodwill. In addition, as previously agreed, we will purchase the remaining 20% in 5% increments over the next four years.

On January 9, 2006, one of our subsidiaries acquired the assets of Classic Truss Company, Inc. (Classic), a facility which supplies the site-built construction market in Fort Pierce, FL. The purchase price was approximately $2.1 million, allocating $1.7 million to tangible net assets and $0.4 million to a non-compete agreement. Classic had net sales in fiscal 2005 totaling approximately $6.0 million.

On November 14, 2005, one of our subsidiaries acquired the assets of DecKorators, Inc. (DecKorators) which designs, imports, markets and distributes decorative balusters and accessories for residential decks and porches, and is located in Crestwood and St. Louis, MO. The purchase price was approximately $7.7 million, consisting of $7.0 million paid on the date we closed the transaction and $0.7 million paid in January 2006, allocating $0.8 million to tangible net assets, $2.9 million to non-compete agreements, $0.9 million to customer relationship related intangibles, $2.3 million to trade name and related intangibles and $0.8 to goodwill. DecKorators had net sales in fiscal 2004 totaling approximately $9.1 million.

On June 27, 2005, one of our subsidiaries, which at the time owned a 50% interest in Shawnlee, acquired an additional 25% interest for approximately $3.5 million, allocating $1.2 million to tangible assets, $0.8 million to customer relationship related intangibles, $0.7 million to a non-compete agreement, $0.2 million to backlog and $0.6 million to goodwill. We agreed to purchase the remaining 25% in 5% increments over the next five years. In addition, Shawnlee acquired the assets of Shepardville Construction, Inc. (Shepardville) and AW Construction, LLC (AW), which install interior products for commercial and multi-family construction. The purchase price was approximately $2.0 million, allocating $0.9 million to tangible assets, $0.8 million to customer relationship related intangibles, and $0.3 million to backlog. Shepardville had net sales in fiscal 2004 totaling approximately $4.8 million. AW had net sales in 2004 totaling approximately $7.9 million.

On June 2, 2005, one of our subsidiaries acquired the assets of Maine Ornamental Woodworkers, Inc. (Maine Ornamental), which manufactures, imports and distributes decorative caps used on decking and fence posts, and is based in Winthrop, ME and Bainbridge Island, WA. The purchase price was approximately $8.4 million, consisting of $7.5 million paid on the date we closed the transaction and $0.9 million paid in August 2005, allocating

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

$4.4 million to tangible net assets, $1.7 million to non-compete agreements, $2.1 million to customer relationship related intangibles and $0.2 million to goodwill. Maine Ornamental had net sales in fiscal 2004 totaling approximately $12.4 million.

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

G. 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.

H. STOCK-BASED COMPENSATION

Prior to January 1, 2006, we accounted for our stock option plans and our Employee Stock Purchase Plan using the intrinsic value method of accounting provided under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, (APB 25) and related Interpretations, as permitted by Financial Accounting Standards Board (FASB) Statement No. 123, *Accounting for Stock-Based Compensation*, (SFAS 123) under which no compensation expense was recognized for stock option grants and issuance of stock pursuant to the Employee Stock Purchase Plan. Accordingly, share-based compensation was included as a pro forma disclosure in the financial statement footnotes and continues to be provided for periods prior to fiscal 2006.

Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment*, (SFAS 123(R)) using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the first nine months of 2006 includes: a) compensation cost for all share-based payments granted through December 31, 2005, but for which the requisite service period had not been completed as of December 31, 2005, based on the grant date fair market value estimated in accordance with the original provisions of SFAS 123, and b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

As a result of adopting SFAS 123(R) on January 1, 2006, our earnings before income taxes and net earnings for the third quarter of 2006, are $169,000 and $115,000 lower, respectively, than if we had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the third quarter of 2006 are $0.01 and $0.01 lower, respectively, than if we had continued to account for share-based compensation under APB 25.

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

As a result of adopting SFAS 123(R) on January 1, 2006, our earnings before income taxes and net earnings for the first nine months of 2006, are $691,000 and $470,000 lower, respectively, than if we had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the first nine months of 2006 are $0.03 and $0.02 lower, respectively, than if we had continued to account for share-based compensation under APB 25.

Prior to the adoption of SFAS 123(R), we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Condensed Statement of Cash Flows. SFAS 123(R) requires the cash flows resulting from the tax benefits resulting from the tax deductions in excess of the compensation cost recognized for those options (excess tax benefits from share-based compensation arrangements) to be classified as financing cash flows. The $3,959,000 excess tax benefit from share-based compensation arrangements classified as a financing cash inflow for the first nine months of 2006 would have been classified as an operating cash inflow if we had not adopted SFAS 123(R).

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 Director Retainer Stock Plan, the Directors Stock Grant Plan, and the Conditional Share Grant Agreement.

Stock Option Plans

On April 28, 1999, our shareholders approved the Long Term Stock Incentive Plan (the 1999 Plan) to succeed the 1997 Long Term Stock Incentive Plan (the 1997 Plan). The 1999 Plan reserves a maximum of 1,000,000 shares, plus 406,029 shares remaining under the 1997 Plan, plus an annual increase of no more than 200,000 shares which may be added on the date of the annual meeting of shareholders each year. The term of the 1999 Plan is ten years. The 1999 Plan provides for the granting of stock options, reload options, stock appreciation rights, restricted stock, performance shares and other stock-based rewards. To date, we have only issued options under this plan. Vesting requirements for awards under this plan will vary by individual grant and are time-based vesting. The contractual life of all of the options granted under this plan will be no greater than 15 years.

The fair value of each option award is estimated as of the date of grant using the Black-Scholes option pricing model. Expected volatility assumptions used were based on historical volatility of our stock. We utilize historical data to estimate option exercise and employee termination behavior within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The risk-free rate for the expected term of the option award was based on the U.S. Treasury yield curve in effect at the time of the grant. No new option awards were granted in the first nine months of 2006 and therefore no specific valuation assumptions are presented.

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The following summary presents information regarding outstanding options as of September 30, 2006 and changes during the nine months then ended with regard to options under all stock option plans:

	Stock Under Option	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	1,384,879	$ 19.08		
Exercised	(328,845)	$ 15.60		
Forfeited or expired	(14,195)	$ 21.07		
Outstanding at September 30, 2006	1,041,839	$ 20.15	4.99	$ 30,132,159
Vested or expected to vest at September 30, 2006	808,511	$ 20.13	5.21	$ 23,414,985
Exercisable at September 30, 2006	232,313	$ 16.96	4.06	$ 7,455,566

The total intrinsic value of options exercised during the first nine months of 2006 was $16,754,000.

Employee Stock Purchase Plan

In April 1994, our shareholders approved the Employee Stock Purchase Plan (Stock Purchase Plan) and Director Retainer Stock Plan (Stock Retainer Plan). In April 2002, our shareholders approved the 2002 Employee Stock Purchase Plan (2002 Stock Purchase Plan) to succeed the Stock Purchase Plan. The plans allow eligible employees to purchase shares of our stock at a share price equal to 85% of fair market value on the purchase date.

For the nine months ending September 30, 2006, 13,076 shares were issued under this plan. The weighted average fair value of employee stock purchase rights pursuant to this plan was $8.62 per share. The fair value of the stock purchase rights was calculated as the difference between the stock price and the employee purchase price.

Director Retainer Stock Plan

The Stock Retainer Plan allows eligible members of the Board of Directors to defer their retainer fees and receive shares of our stock at the time of their retirement, disability or death. The number of shares to be received is equal to the amount of the retainer fee deferred multiplied by 110% divided by the fair market value of a share of our stock at the time of deferral, is increased for dividends declared and may only be distributed in kind. We recognized the fair market value of the shares issued under this plan, calculated using the number of shares issued and the stock price on the issuance date, as expense and recorded the related obligation in shareholders equity. We recognized approximately $186,000 in expense for shares issued under this program in the first nine months of 2006.

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Directors Stock Grant Program

In January 1997, we instituted a Directors Stock Grant Program. In lieu of a cash increase in the amount of Director fees, each outside Director receives 100 shares of stock for each board meeting attended up to a maximum of 400 shares per year. In the first nine months of 2006, we recognized the fair market value of the shares issued under this plan, calculated using the number of shares issued and the stock price on the issuance date, as an expense totaling approximately $142,000.

Conditional Share Grant Agreement

On April 17, 2002, under the 1999 Plan, a Conditional Share Grant Agreement was executed which will grant our Chief Executive Officer 10,000 shares of common stock immediately upon the satisfaction of the terms and conditions set forth in the Agreement. We recognize the fair value of the award estimated as of the date of grant using the Black-Scholes option pricing model. We recognized approximately $106,000 in expense for shares issuable under this program in the first nine months of 2006.

All Share-Based Payment Arrangements

The total share-based compensation cost and the related total income tax benefit that has been recognized in results of operations was approximately $1.0 million and $346,000, respectively for the first nine months of 2006.

As of September 30, 2006, there was $1.6 million of total unrecognized compensation cost related to share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of 2.38 years.

Cash received from option exercises and share issuances under the Stock Purchase Plan was $5,711,000 during the first nine months of fiscal 2006. The actual tax benefit realized for the tax deductions from option exercises totaled $4,357,000 during that period.

Pro Forma Net Earnings

The following table provides pro forma net earnings and earnings per share had we applied the fair value method of SFAS 123 for the third quarter and first nine months of 2005 (in thousands, except per share data):

UNIVERSAL FOREST PRODUCTS, INC.
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	Three Months Ended September 24, 2005	Nine Months Ended September 24, 2005
Net Earnings:		
As reported	$ 19,171	$ 51,190
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(141)	(542)
Pro Forma	$ 19,030	$ 50,648
EPS Basic:		
As reported	$ 1.04	$ 2.79
Pro forma	$ 1.03	$ 2.76
EPS Diluted:		
As reported	$ 1.00	$ 2.69
Pro forma	$ 0.99	$ 2.67

I. 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 Union City, GA; Stockertown, PA; Elizabeth City, NC; Auburndale, FL; Schertz, TX; and Janesville, WI wood preservation facilities. In addition, a small 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 $1.7 million on September 30, 2006 and $1.7 million on September 24, 2005, representing the estimated costs to complete future remediation efforts without reduction for 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 or borates. In March 2005, one

UNIVERSAL FOREST PRODUCTS, INC.
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facility began using CCA to treat certain marine products and panel goods for which ACQ is not a suitable preservative.

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 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 results of the EPA study are consistent with a prior Consumer Products Safety Commission (CPSC) study which reached a similar conclusion. The EPA and CPSC studies with respect to sealants are ongoing, and additional reports are expected in the near future.

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 a purported class action lawsuit currently pending in Illinois State Court. The purported class action lawsuit seeks unspecified damages from this customer, based on generalized claims under a purported theory of violation of individual state Consumer Protection Act statutes. This case was previously dismissed without prejudice. The claim was restated and filed, and the circuit court denied class certification for this case in December 2005. The plaintiff has appealed. 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 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 September 30, 2006, 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.

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

On September 30, 2006, we had outstanding purchase commitments on capital projects of approximately $9.5 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 September 30, 2006, we had approximately $23.8 million in outstanding payment and performance bonds, which expire during the next two years. In addition, approximately $14.6 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 $2.2 million.

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

On September 30, 2006, we had outstanding letters of credit totaling $39.2 million, primarily related to certain insurance contracts and industrial development revenue bonds, as further described below.

In lieu of cash deposits, we provide irrevocable letters of credit in favor of our insurers to guarantee our performance under certain insurance contracts. We currently have irrevocable letters of credit outstanding totaling approximately $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.

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

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 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 September 30, 2006.

We did not enter into any new guarantee arrangements during the third quarter of 2006 which would require us to recognize a liability on our balance sheet.

J. SALE OF REAL ESTATE

On January 3, 2005, we sold real estate located in Stockton, CA for $2.3 million and recorded a pre-tax gain totaling approximately $1.2 million.

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

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

OVERVIEW

Our results for the third quarter of 2006 were highlighted by the following:

- Our unit sales out of existing facilities decreased by 4% this quarter, while we experienced a 2% increase in sales growth as a result of acquisitions and new operations.

- Lumber prices were approximately 21% lower compared to the same period of 2005. This primarily impacted our overall selling prices (see Impact of the Lumber Market on Our Operating Results below) and working capital requirements.

- We faced adverse industry conditions in our D-I-Y/retail, site-built construction and manufactured housing markets, which impacted our unit sales. We were able to mitigate the impact of these adverse conditions by gaining share in each one of our markets.

- Our operating profits decreased almost 7% compared to the same period of 2005 as a result of a 2% decline in unit sales combined with a 3% increase in selling, general, and administrative expenses.

- We improved our cash flows from operating activities due to a combination of improvements in our cash cycle, a 23% increase in our year-to-date earnings and non-cash expenses, a lower Lumber Market which reduced working capital requirements this year, and very strong sales levels and, therefore, greater working capital requirements last year.

- A reduction in interest-bearing debt to $171.7 million from $190.7 million due to strong operating cash flows.

- Our purchase of a 50% membership interest in United Lumber & Reman, LLC in Muscle Shoals, AL in July 2006 and our purchase of the assets and assumption of certain liabilities of GeoMatrix, Inc. in Troy, MI in August 2006.

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

In summary, we remain optimistic about the future of our business, markets and strategies, and our employees remain focused on adding value for our customers, executing our strategies and meeting our goals. We have revised our annual net earnings and unit sales growth targets to a range of 1% to 5% each for 2006 based on the following recent developments:

- A continued significant decline in housing starts;
- A soft D-I-Y/retail market as a result of a decline in consumer spending;
- A weak manufactured housing and modular market; and
- The impact of FEMA orders in 2005 in the wake of hurricanes.

We continue to pursue acquisition opportunities and believe that acquisitions will, as they have in the past, play an important role in our long-term growth strategy.

HISTORICAL LUMBER PRICES

The following table presents the Random Lengths framing lumber composite price for the nine months ended September 30, 2006 and September 24, 2005:

	Random Lengths Composite Average $/MBF	
	2006	2005
January	$ 382	$381
February	377	420
March	368	422
April	369	407
May	341	386
June	326	405
July	309	381
August	296	360
September	292	395
Third quarter average	$ 299	$379
Year-to-date average	$ 340	$395
Third quarter percentage change from 2005	(21.1%)	
Year-to-date percentage change from 2005	(13.9%)	

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

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

	Random Lengths SYP Average $/MBF	
	2006	2005
January	$ 496	$446
February	503	489
March	514	501
April	510	511
May	488	500
June	444	538
July	409	536
August	394	503
September	387	501
Third quarter average	$ 397	$513
Year-to-date average	$ 461	$503
Third quarter percentage change from 2005	(22.6%)	
Year-to-date percentage change from 2005	(8.4%)	

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 generally comprise up to 80% 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.

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

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:

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 almost eighteen percent 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.

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

	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 2006 and fiscal 2005, which were accounted for using the purchase method. (See Note F, Business Combinations.)

Company Name	Acquisition Date	Business Description
GeoMatrix, Inc. (GeoMatrix)	August 18, 2006	A developer and distributor of plastic lattice products and other proprietary plastic products located in Troy, MI.
United Lumber & Reman, LLC (United)	July 10, 2006	An industrial wood manufacturing plant located in Muscle Shoals, AL. Acquired a 50% membership interest.
Dura-Bilt Mfg Co. (Dura-Bilt)	June 5, 2006	Designs and manufactures roof and floor trusses for site-built construction. The company is located in Riverbank, CA.
Shawnlee Construction, LLC (Shawnlee)	April 3, 2006, June 27, 2005 and April 2, 2004	Provides framing services for multi-family construction in the northeast. Located in Plainville, MA. Purchased initial 50% membership interest on April 2, 2004, an additional 25% membership interest on June 27, 2005, and an additional 5% membership interest on April 3, 2006.

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

Classic Truss Company, Inc. (Classic)	January 9, 2006	Manufactures and distributes engineered wood components for site-built construction. The company is located in Fort Pierce, FL.
DecKorators, Inc. (DecKorators)	November 14, 2005	Provides decorative balusters and accessories for residential decks and porches to independent dealers and certain big box home improvement retailers. The company has locations in Crestwood and St. Louis, MO.
Shepardville Construction, Inc. and AW Construction, LLC (Shepardville and AW)	June 27, 2005	Installs interior products such as base boards, crown moldings, window sills and casings, doors, and cabinets for commercial and multi-family construction projects. Located in Warwick, RI and Wolcott, CT. These entities were merged on January 1, 2006.
Maine Ornamental Woodworkers, Inc. (Maine Ornamental)	June 2, 2005	Provides decorative post caps for fencing and decking applications to two-step distributors and certain big box home improvement retailers. The company has locations in Winthrop, ME and Bainbridge Island, WA.

RESULTS OF OPERATIONS

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

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2006	Sept. 24, 2005	Sept. 30, 2006	Sept. 24, 2005
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	85.3	86.3	85.5	86.9
Gross profit	14.7	13.7	14.5	13.1
Selling, general, and administrative expenses	9.8	8.8	9.3	8.5

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

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2006	Sept. 24, 2005	Sept. 30, 2006	Sept. 24, 2005
Earnings from operations	4.9	4.9	5.2	4.6
Interest, net	0.4	0.5	0.4	0.6
Net gain on sale of real estate	0.0	0.0	0.0	(0.1)
	0.4	0.5	0.4	0.5
Earnings before income taxes and minority interest	4.5	4.4	4.8	4.1
Income taxes	1.7	1.7	1.8	1.5
Earnings before minority interest	2.8	2.7	3.0	2.6
Minority interest	(0.2)	(0.0)	(0.2)	(0.1)
Net earnings	2.6%	2.7%	2.8.%	2.5%

NET SALES

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

Diversifying our end market sales mix by increasing sales of specialty wood packaging to industrial users and engineered wood components and framing services to the site-built construction market. Engineered wood components include roof trusses, wall panels, and floor systems.

Increasing sales of value-added products and framing services. Value-added product sales consist of fencing, decking, lattice, and other specialty products sold to the DIY/retail market, specialty wood packaging, engineered wood components, and wood alternative products. 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 net sales (in thousands) and percentage change in net sales by market classification.

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

	For the Three Months Ended			For the Nine Months Ended		
Market Classification	Sept. 30, 2006	% Change	Sept. 24, 2005	Sept. 30, 2006	% Change	Sept. 24, 2005
DIY/Retail	$ 236,825	(14.9)%	$ 278,416	$ 799,310	(0.2)%	$ 801,155
Site-Built Construction	205,363	0.5	204,344	642,964	18.7	541,878
Manufactured Housing	91,157	(12.4)	104,089	296,409	(3.6)	307,466
Industrial	139,528	3.6	134,648	426,646	10.0	387,710
Total	$ 672,873	(6.7)	$ 721,497	$ 2,165,329	6.2	$ 2,038,209

Note: In the second quarter of 2006, we reviewed the classification of our customers and made certain reclassifications. Prior year information has been restated to reflect these reclassifications.

Net sales in the third quarter of 2006 decreased 7% compared to the third quarter of 2005. We estimate that our unit sales increased by 2% as a result of business acquisitions and new plants, while our unit sales out of existing facilities decreased by 4%. Our overall selling prices decreased by an estimated 5% comparing the two periods. 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.)

Net sales in the first nine months of 2006 increased 6% compared to the first nine months of 2005 resulting from an estimated increase in units shipped of approximately 8%, while overall selling prices decreased by 2%. We estimate that our unit sales increased 2% as a result of business acquisitions and new plants, while our unit sales out of existing facilities increased by 6%.

DIY/Retail:

Net sales to the DIY/retail market decreased 15% in the third quarter of 2006 compared to 2005. This was comprised of a 2% increase in unit sales attributable to our acquisitions of DecKorators, and GeoMatrix and our agreement to distribute eon® decking, offset by an 11% decrease in unit sales out of existing plants. Our unit sales declined as a result of decreases in consumer spending and housing starts. The decline in housing starts primarily impacted our sales to retail contractor yards. The impact of these adverse market conditions were offset by market share gains we realized with our big box D-I-Y retail customers. The regions in which we experienced our greatest decline in unit sales were the Northeast and Midwest. Our overall selling prices decreased 6% as a decline in prices of SYP was partially offset by a shift in sales mix toward more value-added and wood alternative products.

Net sales to the DIY/retail market were flat in the first nine months of 2006 compared to 2005, as a result of a 1% increase in units shipped offset by a 1% decrease in overall selling prices. The increase in units shipped is attributable to business acquisitions and new plants.

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

Site-Built Construction:

Net sales to the site-built construction market were flat in the third quarter of 2006 compared to 2005. We estimate that our unit sales out of existing facilities decreased by 1%, which was offset by a 1% increase in unit sales as a result of business acquisitions and new plants. Housing starts declined dramatically in the third quarter, which adversely impacted our business, particularly our sales of trusses and other components. However, we were able to offset the impact of these adverse market conditions due, in part, to market share gains we realized as a result of increased sales of wall panels and turn-key framing services and components and increased sales to the multi-family market.

Net sales to the site-built construction market increased 19% in the first nine months of 2006 compared to 2005, due to an estimated 18% increase in unit sales and a 1% increase in overall selling prices. Unit sales increased 1% as a result of business acquisitions and new plants, and 17% as a result of organic growth out of several existing plants. Our growth has been a result of strong housing and multi-family construction activities in certain regions during the first six months of 2006 and greater market penetration by offering turn-key framing and lumber packages in addition to engineered wood components in some regions.

Manufactured Housing:

Net sales to the manufactured housing market decreased 12% in the third quarter of 2006 compared to the same period of 2005, due to a 4% decrease in unit sales combined with an 8% decrease in overall selling prices due to the Lumber Market. Our decline in unit sales was a result of a decline in industry production, offset by an increase in market share. The industry has most recently reported declines in production of HUD code and modular homes of 13% and 7%, respectively.

Net sales to the manufactured housing market decreased 4% in the first nine months of 2006 compared to the same period of 2005. This decrease resulted from a 3% increase in unit sales offset by a 7% decrease in selling prices. Our increase in unit sales was a result of an increase in market share, offset by a decline in industry production.

Industrial:

Net sales to the industrial market increased 4% in the third quarter of 2006 compared to the same period of 2005, due to an estimated 11% increase in units shipped, partially offset by a 7% decrease in selling prices. We estimate that our unit sales increased 6% as a result of organic growth out of several existing plants and increased 5% as a result of business acquisitions and new plants. Since the end of the third quarter of 2005 we have added nearly 1,000 new accounts and we have been successful at increasing our sales with existing accounts. We believe our unit sales and market share continue to grow significantly due to our dedicated local sales teams and national sales support efforts, combined with our competitive advantages in manufacturing, purchasing, and material utilization.

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

Net sales to the industrial market increased 10% in the first nine months of 2006 compared to the same period of 2005, due to an estimated 15% increase in units shipped, partially offset by a 5% decrease in selling prices. Unit sales increased primarily for the reasons mentioned in the paragraph above.

Value-Added and Commodity-Based Sales:

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

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2006	Sept. 24, 2005	Sept. 30, 2006	Sept. 24, 2005
Value-Added	56.5%	52.6%	56.3%	51.7%
Commodity-Based	43.5%	47.4%	43.7%	48.3%

Value-added sales increased less than 1% in the third quarter of 2006 compared to 2005. Commodity-based sales decreased 14% comparing the third quarter of 2006 with the same period of 2005, primarily due to a decrease in unit sales of treated lumber and lower prices due to the Lumber Market for SYP.

Value-added sales increased 16% in the first nine months of 2006 compared to 2005, primarily due to increased sales of engineered wood components, framing services, and industrial packaging products. Commodity-based sales decreased approximately 4% during the first nine months of 2006 due to a decrease in unit sales and a decrease in selling prices due to the Lumber Market for SYP.

COST OF GOODS SOLD AND GROSS PROFIT

Our gross profit percentage increased to 14.7% from 13.7% for the same quarter last year primarily due to the lower level of the Lumber Market in 2006. Gross profit dollars comparing the third quarter of 2006 with the same period of 2005 were flat even though we estimate that our unit sales decreased by 2%. We experienced a decline in gross profit dollars in the third quarter of 2006 compared to the same quarter last year on our sales to the D-I-Y/retail and manufactured housing markets due to the downward trend in the Lumber Market during the quarter. These declines were offset by an increase in gross profits on our sales to the industrial market for the quarter.

Gross profits increased approximately 17% comparing the first nine months of 2006 with the same period of 2005, which exceeded our 8% increase in unit sales. Our improved profitability comparing these two periods was primarily due to a combination of:

- Increased sales of higher margin, value-added products;
- Improved profitability on sales to our industrial market;

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

Economies of scale realized from our organic sales growth during the first six months of 2006; and

Cost efficiencies we have achieved through our company-wide innovation program.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses increased by approximately 3% in the third quarter of 2006 compared to the same period of 2005, which was higher than our 2% decrease in unit sales, primarily due to compensation and benefits, travel-related expenses, depreciation, and amortization expense associated with intangible assets. These amounts were partially offset by a decline in incentive compensation expense which is tied to profitability and return on investment.

SG&A expenses increased by 16% in the first nine months of 2006 compared to the same period of 2005, which exceeded our 8% increase in unit sales, primarily due to compensation and benefit costs, incentive compensation, travel-related expenses, depreciation, and amortization expense associated with intangible assets.

STOCK-BASED COMPENSATION

See Notes to Consolidated Condensed Financial Statements, Note H, Stock-Based Comepensation.

INTEREST, NET

Net interest costs were lower in the third quarter and first nine months of 2006 compared to the same periods of 2005 due to a combination of increased income on investments held by our wholly-owned insurance captive and a decline in interest expense, in spite of higher borrowing rates on our variable rate debt, because of decreased borrowings under our revolving credit facility.

NET GAIN ON SALE OF REAL ESTATE

On January 3, 2005, we sold real estate located in Stockton, CA for $2.3 million and recorded a pre-tax gain totaling approximately $1.2 million.

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 third quarter of 2006 from 37.9% in the same period of 2005. The decrease in the effective rate was due to a permanent tax difference resulting from greater income generated by our non-wholly owned joint ventures. Our effective rate decreased to 37.7% in the first nine months of 2006 from 37.9% in the same period of 2005.

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

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):

	Sept. 30, 2006	Sept. 24, 2005
Cash from operating activities	$ 87,893	$ 60,160
Cash from investing activities	(55,048)	(39,943)
Cash from financing activities	(32,876)	(14,724)
Net change in cash and cash equivalents	(31)	5,493
Cash and cash equivalents, beginning of period	46,215	25,274
Cash and cash equivalents, end of period	$ 46,184	$ 30,767

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 September 24, 2005 balances in the accompanying unaudited consolidated condensed balance sheets.

Due to the seasonality of our business and the effects of the Lumber Market, we believe our cash cycle (days sales outstanding plus days supply of inventory less days payables outstanding) is a good indicator of our working capital management. Our cash cycle (excluding the impact of our sale of receivables program) decreased to 38 days in the first nine months of 2006 from 41 days in the first nine months of 2005, due to a 2 day decrease in our days supply of inventory, and a 1 day increase in our payables cycle.

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UNIVERSAL FOREST PRODUCTS, INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Cash flow from operating activities improved by $28 million comparing the first nine months of 2006 with the same period of 2005, primarily due to the improvements in our cash cycle mentioned above, a 23% increase in our year-to-date earnings and non-cash expenses, a lower Lumber Market which reduced working capital requirements this year, and very strong sales levels and, therefore, greater working capital requirements last year. In addition, our improvement in operating cash flow was partially reduced as a result of not utilizing our sale of receivables program at the end of September 2006. At the end of September 2005, we had approximately $25 million sold and outstanding under that program, net of our retained interest.

Cash used for investing activities increased by $15 million in the first nine months of 2006 compared to the same period of 2005, which was comprised of the following noteworthy changes:

- A $4.2 million decrease in capital expenditures as a result of canceling certain projects in 2006 that were originally planned in the beginning of the year.
- A $13.3 million increase in amounts spent for business acquisitions, consisting of approximately $2.1 million used to acquire the assets of Classic, $8.4 million used to acquire the assets of Dura-Bilt, approximately $0.8 million used to acquire another 5% interest in Shawnlee, $4.9 million used to acquire a 50% membership interest in United, and $11.3 million used to acquire the assets of GeoMatrix.
- A $3.0 million decrease in the collection of insurance proceeds.

We currently plan to spend approximately $45 million on capital expenditures in 2006, which includes outstanding purchase commitments on existing capital projects totaling approximately $9.5 million on September 30, 2006. We intend to fund capital expenditures and purchase commitments through a combination of operating cash flows and availability under our revolving credit facility.

Cash used for financing activities increased by $18 million in the first nine months of 2006 as a result of our strong operating cash flow, which in turn were used to pay down outstanding balances on our revolving credit facility.

On September 30, 2006, we had $15.5 million outstanding on our $250 million revolving credit facility. The revolving credit facility also supports letters of credit totaling approximately $36.7 million on September 30, 2006. 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 September 30, 2006.

ENVIRONMENTAL CONSIDERATIONS AND REGULATIONS

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

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

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 31, 2005.

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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 September 30, 2006 (the Evaluation Date), have concluded that, as of such date, our disclosure controls and procedures were effective.

(b) Changes in Internal Controls. During the third quarter ended September 30, 2006, 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)
July 2, 2006 August 5, 2006[1]				
August 6, 2006 September 2, 2006				
September 3, 2006 September 30, 2006				

(a) Total number of shares purchased.

(b) Average price paid per share.

(c) Total number of shares purchased as part of publicly announced plans or programs.

(d) Maximum number of shares that may yet be purchased under the plans or programs.

(1) On November 14, 2001, the Board of Directors approved a share repurchase program (which succeeded a previous program) allowing us to repurchase up to 2.5 million shares of our

common stock. As of September 30, 2006, cumulative total authorized shares available for repurchase is 1.5 million shares.

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UNIVERSAL FOREST PRODUCTS, INC.
PART II. OTHER INFORMATION

Item 5. Other Information.

In the third quarter of 2006, the Audit Committee did not approve any non-audit services to be provided by our independent auditors, Ernst & Young LLP, for 2006.

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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(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).
31(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(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).
32(b)	Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

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UNIVERSAL FOREST PRODUCTS, INC.
SIGNATURES

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

		UNIVERSAL FOREST PRODUCTS, INC.
Date: October 25, 2006	By:	/s/ Michael B. Glenn
		Michael B. Glenn
	Its:	Chief Executive Officer
Date: October 25, 2006	By:	/s/ Michael R. Cole
		Michael R. Cole
	Its:	Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Description
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