

UNIVERSAL FOREST PRODUCTS INC

Form 10-Q

October 25, 2007

Table of Contents

**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 September 29, 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 September 29, 2007

Common stock, no par value

19,009,416

TABLE OF CONTENTS

	Page No.
PART I. FINANCIAL INFORMATION.	
Item 1. Financial Statements.	
<u>Consolidated Condensed Balance Sheets at September 29, 2007, December 30, 2006, and September 30, 2006.</u>	3
<u>Consolidated Condensed Statements of Earnings for the Three and Nine Months Ended September 29, 2007 and September 30, 2006.</u>	4
<u>Consolidated Statements of Shareholders' Equity for the Nine Months Ended September 29, 2007 and September 30, 2006.</u>	5
<u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended September 29, 2007 and September 30, 2006.</u>	6-7
<u>Notes to Consolidated Condensed Financial Statements.</u>	8-17
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	18-31
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	32
<u>Item 4. Controls and Procedures.</u>	33
<u>PART II. OTHER INFORMATION.</u>	
Item 1. Legal Proceedings - NONE.	
Item 1A. Risk Factors - NONE.	
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	34
Item 3. Defaults Upon Senior Securities - NONE.	
Item 4. Submission of Matters to a Vote of Security Holders - NONE.	
<u>Item 5. Other Information.</u>	34
<u>Item 6. Exhibits.</u>	35
<u>Exhibit 31.A</u>	
<u>Exhibit 31.B</u>	
<u>Exhibit 32.A</u>	
<u>Exhibit 32.B</u>	

Table of Contents

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

(in thousands, except share data)

	September 29, 2007	December 30, 2006	September 30, 2006
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 46,747	\$ 51,108	\$ 46,184
Accounts receivable, net	191,023	148,242	227,428
Inventories:			
Raw materials	122,431	128,621	121,324
Finished goods	106,368	116,497	111,560
	228,799	245,118	232,884
Assets held for sale	25,411		
Other current assets	31,669	30,667	24,752
TOTAL CURRENT ASSETS	523,649	475,135	531,248
OTHER ASSETS	7,744	7,404	7,762
GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS	152,041	155,177	146,602
OTHER INTANGIBLE ASSETS, net	28,133	25,390	11,947
PROPERTY, PLANT AND EQUIPMENT:			
Property, plant and equipment	524,118	466,021	443,751
Accumulated depreciation and amortization	(240,939)	(215,686)	(211,323)
PROPERTY, PLANT AND EQUIPMENT, NET	283,179	250,335	232,428
TOTAL ASSETS	\$ 994,746	\$ 913,441	\$ 929,987
LIABILITIES AND SHAREHOLDERS EQUITY			
CURRENT LIABILITIES:			
Accounts payable	\$ 105,938	\$ 94,441	\$ 109,581
Accrued liabilities:			
Compensation and benefits	52,961	71,990	73,551
Other	33,036	25,111	32,809
Current portion of long-term debt and capital lease obligations	1,086	680	697
TOTAL CURRENT LIABILITIES	193,021	192,222	216,638
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	197,435	169,417	171,009
DEFERRED INCOME TAXES	27,010	12,697	13,089
MINORITY INTEREST	10,343	10,819	11,922

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OTHER LIABILITIES	15,815	13,544	10,926
TOTAL LIABILITIES	443,624	398,699	423,584
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, 19,009,416, 18,858,892 and 18,851,040			
	\$ 19,009	\$ 18,859	\$ 18,851
Additional paid-in capital	122,560	113,754	113,157
Retained earnings	406,761	380,931	372,728
Accumulated other comprehensive earnings	4,407	2,451	2,920
	552,737	515,995	507,656
Employee stock notes receivable	(1,615)	(1,253)	(1,253)
TOTAL SHAREHOLDERS EQUITY	551,122	514,742	506,403
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 994,746	\$ 913,441	\$ 929,987

See notes to consolidated condensed financial statements.

Table of Contents

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

(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
NET SALES	\$ 678,398	\$ 672,873	\$ 2,000,541	\$ 2,165,329
COST OF GOODS SOLD	596,233	574,048	1,743,151	1,851,775
GROSS PROFIT	82,165	98,825	257,390	313,554
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	58,783	65,970	192,623	201,272
EARNINGS FROM OPERATIONS	23,382	32,855	64,767	112,282
OTHER EXPENSE (INCOME):				
Interest expense	4,367	3,214	13,457	10,757
Interest income	(494)	(875)	(1,634)	(1,656)
Net (gain) loss on sale of real estate	9		(324)	(63)
	3,882	2,339	11,499	9,038
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	19,500	30,516	53,268	103,244
INCOME TAXES	7,383	11,322	19,633	38,963
EARNINGS BEFORE MINORITY INTEREST	12,117	19,194	33,635	64,281
MINORITY INTEREST	(778)	(1,489)	(1,610)	(3,396)
NET EARNINGS	\$ 11,339	\$ 17,705	\$ 32,025	\$ 60,885
EARNINGS PER SHARE BASIC	\$ 0.59	\$ 0.94	\$ 1.68	\$ 3.24
EARNINGS PER SHARE DILUTED	\$ 0.59	\$ 0.91	\$ 1.65	\$ 3.14

WEIGHTED AVERAGE SHARES OUTSTANDING	19,097	18,906	19,070	18,788
WEIGHTED AVERAGE SHARES OUTSTANDING WITH COMMON STOCK EQUIVALENTS	19,361	19,394	19,419	19,368

See notes to consolidated condensed financial statements.

Table of Contents

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 Compensation	Deferred Compensation 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				
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)						
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)		
Payments received on employee stock notes receivable							255		255
Balance at September 30, 2006	\$ 18,851	\$ 113,157	\$	\$	\$ 372,728	\$ 2,920	\$ (1,253)	\$ 506,403	
Balance at December 30, 2006	\$ 18,859	\$ 113,754	\$	\$	\$ 380,931	\$ 2,451	\$ (1,253)	\$ 514,742	
Comprehensive earnings:									
Net earnings					32,025				
Foreign currency translation adjustment						1,956			
Total comprehensive earnings									33,981
Cash dividends \$.055 per share					(1,047)				(1,047)
Issuance of 210,495 shares under employee stock plans	211	3,475							3,686
Issuance of 3,490 shares under stock grant programs	3	157							160
Issuance of 67,373 shares under deferred compensation plans	67	(67)							
Repurchase of 125,100 shares	(125)				(5,148)				(5,273)

Received 15,866 shares for the exercise of stock options	(16)	(766)					(782)
Tax benefits from non-qualified stock options exercised		1,537					1,537
Expense associated with share-based compensation arrangements		391					391
Accrued expense under deferred compensation plans		3,587					3,587
Issuance of 10,132 shares in exchange for employee stock notes receivable	10	492				(502)	
Payments received on employee stock notes receivable						140	140
Balance at September 29, 2007	\$ 19,009	\$ 122,560	\$	\$	\$ 406,761	\$ 4,407	\$ (1,615) \$ 551,122

See notes to consolidated condensed financial statements.

Table of Contents

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

(in thousands)

	Nine Months Ended	
	September 29, 2007	September 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 32,025	\$ 60,885
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation	29,105	25,558
Amortization of intangibles	6,402	3,953
Expense associated with share-based compensation arrangements	391	691
Expense associated with stock grant plans	160	191
Deferred income taxes	(255)	(871)
Minority interest	1,610	3,396
Gain on sale of interest in subsidiary	(140)	
Net gain on sale or impairment of property, plant and equipment	32	206
Changes in:		
Accounts receivable	(30,298)	(37,947)
Inventories	34,736	23,693
Accounts payable	12,874	771
Accrued liabilities and other	(5,483)	11,326
Excess tax benefits from share-based compensation arrangements	(745)	(3,959)
NET CASH FROM OPERATING ACTIVITIES	80,414	87,893
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(26,909)	(27,600)
Acquisitions, net of cash received	(57,087)	(27,137)
Proceeds from sale of interest in subsidiary	400	
Proceeds from sale of property, plant and equipment	3,551	506
Collections of notes receivable	151	1,612
Advances on notes receivable	(122)	(2,473)
Other, net	(6)	44
NET CASH FROM INVESTING ACTIVITIES	(80,022)	(55,048)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) under revolving credit facilities	27,204	(38,725)
Repayment of long-term debt	(28,200)	(1,201)
Proceeds from issuance of common stock	3,321	5,711
Distributions to minority shareholders	(1,225)	(1,569)
Dividends paid to shareholders	(1,047)	(1,035)
Repurchase of common stock	(5,273)	
Excess tax benefits from share-based compensation arrangements	745	3,959
Other, net	(278)	(16)

NET CASH FROM FINANCING ACTIVITIES	(4,753)	(32,876)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,361)	(31)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	51,108	46,215
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 46,747	\$ 46,184
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:		
Cash paid (refunded) during the period for:		
Interest	\$ 11,357	\$ 9,309
Income taxes	9,875	44,448

Table of Contents

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

	Nine Months Ended	
	September 29, 2007	September 30, 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		\$ 1,379
Stock acquired through employees stock notes receivable	\$ 502	204
NON-CASH FINANCING ACTIVITIES:		
Common stock issued under deferred compensation plans	\$ 3,588	\$ 2,984
Stock received for the exercise of stock options, net	418	
See notes to consolidated condensed financial statements		

Table of Contents

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 becomes 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):

	September 29, 2007	September 30, 2006
Cost and Earnings in Excess of Billings	\$ 8,114	\$ 6,203
Billings in Excess of Cost and Earnings	6,910	5,733

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 09/29/07			Three Months Ended 09/30/06		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net Earnings	\$ 11,339			\$ 17,705		
EPS Basic						
Income available to common stockholders	11,339	19,097	\$ 0.59	17,705	18,906	\$ 0.94
Effect of dilutive securities						
Options		264			488	
EPS Diluted						
Income available to common stockholders and assumed options exercised	\$ 11,339	19,361	\$ 0.59	\$ 17,705	19,394	\$ 0.91

Table of Contents

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

	Nine Months Ended 09/29/07			Nine Months Ended 09/30/06		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net Earnings	\$ 32,025			\$ 60,885		
EPS Basic						
Income available to common stockholders	32,025	19,070	\$ 1.68	60,885	18,788	\$ 3.24
Effect of dilutive securities						
Options		349			580	
EPS Diluted						
Income available to common stockholders and assumed options exercised	\$ 32,025	19,419	\$ 1.65	\$ 60,885	19,368	\$ 3.14

No outstanding options were excluded from the computation of diluted EPS for the quarters and nine months ended September 29, 2007 or September 30, 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 September 29, 2007 \$54.1 million of receivables were sold and outstanding, and we recorded \$4.1 million of retained interest in other current assets. On September 30, 2006, no receivables were sold and outstanding. A summary of the transactions we completed for the first nine months of 2007 and 2006 are presented below (in thousands).

Table of Contents

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

	Nine Months Ended September 29, 2007	Nine Months Ended September 30, 2006
Accounts receivable sold	\$ 495,247	\$ 342,898
Retained interest in receivables	(1,982)	
Expense from sale	(2,182)	(1,519)
Servicing fee received	174	124
Net cash received from sale	\$ 491,257	\$ 341,503

E. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	September 29, 2007		September 30, 2006	
	Assets	Accumulated Amortization	Assets	Accumulated Amortization
Non-compete agreements	\$ 26,505	(\$10,718)	\$ 16,177	(\$8,640)
Licensing agreements			2,510	(2,295)
Customer relationships	14,883	(5,006)	5,988	(1,831)
Patents	2,980	(511)		
Backlog			694	(656)
Total	\$ 44,368	(\$16,235)	\$ 25,369	(\$13,422)

The estimated amortization expense for intangible assets as of September 29, 2007 for each of the five succeeding fiscal years is as follows (in thousands):

2007 remaining	\$ 2,526
2008	8,646
2009	6,718
2010	5,696
2011	3,611
Thereafter	936

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

The changes in the net carrying amount of goodwill and indefinite-lived intangible assets for the nine months ended September 29, 2007 and September 30, 2006 are as follows (in thousands):

	Goodwill	Indefinite- Lived Intangible Assets
Balance as of December 30, 2006	\$ 152,837	\$ 2,340
Acquisitions	1,408	
Final or Preliminary purchase price allocations	(5,422)	
Other, net	878	
Balance as of September 29, 2007	\$ 149,701	\$ 2,340
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

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 affiliates facilities in 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 affiliate s facility in Thornton, CA to remove asbestos and certain lead containing materials which existed on the property at the time of purchase.

Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Including amounts from our wholly owned captive insurance company, we have reserved approximately \$4.0 million on September 29, 2007 and \$1.7 million on September 30, 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 not accrued for any potential loss related to the contingencies above. However, potential liabilities of this nature are not conducive to precise estimates and are subject to change.

In addition, on September 29, 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.

Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

On September 29, 2007, we had outstanding purchase commitments on capital projects of approximately \$3.6 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 29, 2007, we had approximately \$32.2 million in outstanding payment and performance bonds, which expire during the next two years. In addition, approximately \$6.4 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 \$2.4 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 29, 2007, we had outstanding letters of credit totaling \$36.8 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 \$16.1 million related to our outstanding industrial development revenue bonds. These letters of credit have varying terms but may be renewed at the option of the issuing banks.

Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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 \$0.1 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 \$0.5 million. As a result, this amount is recorded in other long-term liabilities on September 29, 2007.

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

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. During the third quarter and nine months ending September 29, 2007, we had additional unrecognized tax benefits of \$0.9 million. If recognized, the effective tax rate would be affected by the unrecognized tax benefits.

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

We recognize interest and penalties related to unrecognized tax benefits, which are included in Income Taxes. Interest and penalties accrued as of September 29, 2007 are insignificant. Interest and penalties recorded during the quarter ended September 29, 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 million to \$3.6 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.

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 nine months of 2007 and 2006 are presented below (in thousands).

	Nine Months Ended 09/29/07			Nine Months Ended 09/30/06		
	Eastern and Western Divisions	All Other	Total	Eastern and Western Divisions	All Other	Total
Net sales to Outside customers	\$ 1,905,482	\$ 95,059	\$ 2,000,541	\$ 2,098,667	\$ 66,662	\$ 2,165,329
Intersegment Net sales	0	21,308	21,308	0	16,254	16,254
Segment Operating profit	56,692	8,075	64,767	103,991	8,291	112,282

Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

K. ASSETS HELD FOR SALE

We acquired vacant land as part of the acquisition of Aljoma Lumber Company. When we acquired Banks Lumber, we closed one of their operations and consolidated it with one of our existing operations. A letter of intent has been signed for both properties and we expect to complete each sale within the next twelve months. Based on preliminary estimates of fair market value, we expect the net selling prices to be approximately \$24.0 million and \$1.4 million, respectively, and to receive payment in cash.

Table of Contents

**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 2007 were impacted by the following:

Our overall unit sales increased 4%, as sales out of existing facilities and operations we closed decreased by 6% this quarter and we experienced a 10% increase in unit sales as a result of acquisitions and new operations.

Lumber prices were 4% 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 saw double-digit sales increases in our manufactured housing, DIY/retail and industrial markets as we gained market share in all of these markets primarily due to recent acquisitions. These sales increases were offset by the steep decline in sales to our site-built customers.

Single-family housing starts fell approximately 28% comparing July through September 2007 to the same period of 2006 as a result of an excess supply of homes, tighter credit conditions, and an increase in foreclosures associated with sub-prime lending practices.

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.

Our gross profits decreased almost 17% compared to the same period of 2006 due to a combination of lower unit sales out of existing facilities and fixed manufacturing costs and intense pricing pressure in the site-built market.

Table of Contents

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

In spite of difficult market conditions, we generated over \$80 million in operating cash flow in the first nine months of 2007 which was used to fund acquisitions and capital expenditures.

Outlook

With the continued impact of the weak housing market on many sectors of the economy and our prediction that recovery in housing market conditions won't begin until 2009, and based on current economic conditions, we are revising our annual net sales target to a range of \$2.48 billion to \$2.52 billion and our net earnings target to a range of \$32.0 million to \$35.0 million in 2007. This implies the following targets for the fourth quarter of 2007: net sales of \$480.0 million to \$520.0 million and net earnings of break-even to \$3.0 million. By comparison, net sales and net earnings for the fourth quarter of 2006 were \$499.2 million and \$9.2 million, respectively. Excluding certain nonrecurring tax adjustments¹, net earnings were approximately \$5.8 million in the fourth quarter of 2006.

¹In the fourth quarter of 2006, we recognized a \$4.5 million estimated benefit from federal research & development tax credits for 2001-2006, partially offset by a \$1.1 million expense to establish a valuation allowance against net operating loss carry forward from our Canadian subsidiary. Net of these two nonrecurring tax adjustments, we would have recorded net earnings of \$5.8 million.

These targets are based on the following assumptions:

Continued challenging conditions in site-built construction;

Manufactured housing production remains stable for the remainder of the year;

We continue to achieve market share gains in DIY/retail, industrial, and site-built;

Weak consumer spending continues to challenge the DIY/retail market;

No events occur that result in asset impairment charges; and

The lumber market continues at present levels for the balance of the year.

(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 nine months ended September 29, 2007 and September 30, 2006:

	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
July	299	309
August	290	296
September	276	292

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Third quarter average	\$	288	\$	299
Year-to-date average	\$	290	\$	340
Third quarter percentage change from 2006		(3.7%)		
Year-to-date percentage change from 2006		(14.7%)		

Table of Contents

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	
	2007	2006
January	\$ 414	\$ 496
February	405	503
March	396	514
April	397	510
May	390	488
June	410	444
July	412	409
August	374	394
September	347	387
Third quarter average	\$ 378	\$ 397
Year-to-date average	\$ 394	\$ 461
Third quarter percentage change from 2006	(4.8%)	
Year-to-date percentage Change from 2006	(14.5%)	

Table of Contents

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

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:

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.)*

Table of Contents

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

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.

Company Name	Acquisition Date	Business Description
Deck Images Purchase price: \$0.9 million 2006 sales: \$1.9 million	July 10, 2007	Manufacture and distribute aluminum railing systems. Located in Hastings, MN.
Shawnlee Construction, LLC (Shawnlee) 2007 Purchase price: \$1.4 million 2006 Purchase price: \$0.8 million	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.

Table of Contents

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

Company Name	Acquisition Date	Business Description
Perfection Trusses, Inc. (Perfection) Purchase price: \$1.3 million 2006 sales: \$3.9 million	March 5, 2007	Manufacture and distribute roof and floor trusses to the Eastern Florida market. The company is located in Vero Beach, FL.
Aljoma Lumber Company (Aljoma) Purchase price: \$53.5 million 2006 sales: \$225 million	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.
Banks Lumber (Banks) Purchase price: \$46.7 million 2006 sales: \$147.0 million	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.
GeoMatrix, Inc. (GeoMatrix) Purchase price: \$11.5 million 2005 sales: \$19.0 million	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) Purchase price: \$4.9 million 2005 sales: \$26.0 million	July 10, 2006	An industrial wood manufacturing plant located in Muscle Shoals, AL. Acquired a 50% membership interest.
Dura-Bilt Mfg. Co. (Dura-Bilt) Purchase price: \$9.2 million 2005 sales: \$16.0 million	June 5, 2006	Designs and manufactures roof and floor trusses for site-built construction. The company is located in Riverbank, CA.
Classic Truss Company, Inc. (Classic) Purchase price: \$2.1 million 2005 sales: \$6.0 million	January 9, 2006	Manufactures and distributes engineered wood components for site-built construction. The company is located in Fort Pierce, FL.

Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS CONTINUED
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. 29, 2007	Sept. 30, 2006	Sept. 29, 2007	Sept. 30, 2006
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	87.9	85.3	87.1	85.5
Gross profit	12.1	14.7	12.9	14.5
Selling, general, and administrative expenses	8.7	9.8	9.6	9.3
Earnings from operations	3.4	4.9	3.3	5.2
Interest, net	0.5	0.4	0.6	0.4
Net gain on sale of real estate	(0.0)	0.0	(0.0)	0.0
	0.5	0.4	0.6	0.4
Earnings before income taxes and minority interest	2.9	4.5	2.7	4.8
Income taxes	1.1	1.7	1.0	1.8
Earnings before minority interest	1.8	2.8	1.7	3.0
Minority interest	(0.1)	(0.2)	(0.1)	(0.2)
Net earnings	1.7%	2.6%	1.6%	2.8%

Table of Contents

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

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 Nine Months Ended		
	Sept. 29, 2007	% Change	Sept. 30, 2006	Sept. 29, 2007	% Change	Sept. 30, 2006
DIY/Retail	\$ 268,023	11.2%	\$ 241,034	\$ 825,041	1.6%	\$ 812,338
Site-Built Construction	158,940	(24.0)	209,015	459,751	(29.6)	653,445
Industrial	156,549	10.2	142,009	452,442	4.3	433,601
Manufactured Housing	109,656	18.2	92,778	303,157	0.6	301,241
Total Gross Sales	\$ 693,168	1.2	\$ 684,836	\$ 2,040,391	(7.3)	\$ 2,200,625
Sales allowances	(14,770)	23.5	(11,963)	(39,850)	12.9	(35,296)
Total Net Sales	\$ 678,398	0.8%	\$ 672,873	\$ 2,000,541	(7.6%)	\$ 2,165,329

Gross sales in the third quarter of 2007 increased 1% compared to the third quarter of 2006. We estimate that our unit sales increased by 4% and overall selling prices decreased by an estimated 3% 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 6%. Our overall selling prices fluctuate as a result of the Lumber Market (see Historical Lumber Prices) and were negatively impacted by pricing pressure in the site-built market.

Gross sales in the first nine months of 2007 decreased 7% compared to the first nine months of 2006 resulting from an estimated decrease in units shipped of approximately 1%, while overall selling prices decreased by 6%. We estimate that our unit sales increased 9% as a result of business acquisitions and new plants, while our unit sales out of existing and closed facilities decreased by 10%.

Table of Contents

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

Changes in our sales by market are discussed below.

DIY/Retail:

Gross sales to the DIY/retail market increased 11% in the third quarter of 2007 compared to 2006 primarily due to a 10% increase in overall unit sales. Unit sales growth was the result of our acquisition of Aljoma, while sales out of existing facilities and closed operations were relatively 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 19% (8% due to acquisitions and 11% due to existing facilities) for the quarter while our sales to other retailers whose business is more closely correlated with housing starts was off 6%. 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 increased 2% in the first nine months of 2007 compared to 2006, as a result of a 6% increase in units shipped and a 4% 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 3%. As discussed above, we achieved market share gains with big box retail customers. Our sales to these customers increased 11% for the first nine month of 2007 while our sales to other retailers whose business is more closely correlated with housing starts were off 20%.

Site-Built Construction:

Gross sales to the site-built construction market decreased 24% in the third quarter of 2007 compared to 2006 due to an 8% decrease in unit sales out of existing plants, a 4% decline due to our decision to exit the Las Vegas framing market, and a 12% decrease in our average selling prices primarily due to intense pricing pressure with other suppliers. We continue to be negatively impacted by difficult housing market conditions, particularly in regional markets such as Southern California, Colorado and Florida. National single family housing starts were off a reported 28% from July through September of 2007.

Gross sales to the site-built construction market decreased 30% in the first nine months of 2007 compared to 2006, due to an estimated 16% decrease in unit sales out of existing plants, a 4% decline due to our decision to exit the Las Vegas framing market, and an estimated 11% decrease in selling prices primarily due to intense pricing pressure. Single-family housing starts have fallen approximately 28% in 2007 compared to 2006 as a result of an excess supply of homes, tighter credit conditions, and an increase in foreclosures associated with sub-prime lending practices.

Industrial:

Gross sales to the industrial market increased 10% in the third quarter of 2007 compared to the same period of 2006, due to an 8% increase in unit sales and a 2% increase in selling prices. Acquisitions and our continued focus on adding new customers, including concrete forming, helped us mitigate the effect of a decline in sales to certain of our customers that supply the housing market.

Table of Contents

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

Gross sales to the industrial market increased 4% in the first nine months of 2007 compared to the same period of 2006, due to an estimated 7% increase in units shipped offset by a 3% 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 18% in the third quarter of 2007 compared to the same period of 2006, due to a 20% increase in unit sales offset by a 2% decrease in overall selling prices due to the Lumber Market. Our acquisition of Banks contributed unit sales growth of 29% for the quarter, while unit sales from existing facilities decreased 9%. 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 8% in July and August. The modular market originally forecasted a flat year, but the second quarter results reported a decline in production of 18% and we believe this trend continued into the third quarter.

Gross sales to the manufactured housing market increased 1% in the first nine months of 2007 compared to the same period of 2006. This increase resulted from a 9% increase in unit sales offset by an 8% decrease in selling prices. We estimate that our unit sales increased 23% as a result of acquisitions, while unit sales from existing and closed facilities decreased 14% due to the continued decline in industry production.

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. 29, 2007	Sept. 30, 2006	Sept. 29, 2007	Sept. 30, 2006
Value-Added	59.4%	62.3%	60.7%	62.5%
Commodity-Based	40.6%	37.7%	39.3%	37.5%

Note: In the third 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.

Value-added sales decreased 3.5% in the third quarter of 2007 compared to 2006, primarily due to decreased sales of engineered wood components to the site-built construction market. Commodity-based sales increased 9% comparing the third quarter of 2007 with the same period of 2006, primarily due to an increase in unit sales of treated lumber and panelized lumber products resulting from market share gains with big box retail customers and our acquisition of Aljoma.

Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

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

Value-added sales decreased 10% in the first nine months of 2007 compared to 2006, primarily due to decreased sales of engineered wood components and lumber packages to the site-built construction market, offset partially by increased sales of fencing, decking, lattice and other specialty products sold to the DIY/retail market. Commodity-based sales decreased approximately 3% during the first nine months of 2007 primarily 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 12.1% from 14.7% and gross profit dollars decreased almost 17% comparing the third 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.

Sales incentives offered to customers to gain market share.

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 12.9% from 14.5%, and gross profit dollars decreased approximately 18% comparing the first nine 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 \$7 million, or 11%, in the third quarter of 2007 compared to the same period of 2006 in spite of a 4% increase in unit sales. Existing facilities and operations we closed this year decreased SG&A expenses approximately \$10.7 million, while business acquisitions added \$3.7 million in SG&A expenses. The decreases in SG&A expenses at our existing facilities were primarily due to decreases in accrued bonus expense, which is tied to operating profits and return on investment, a decline in wages due to a reduction in headcount, and a decrease in amortization expense related to intangible assets.

SG&A expenses decreased by 4% in the first nine months of 2007 compared to the same period of 2006, primarily due to a reduction in accrued bonus expense, offset by SG&A expenses of acquired operations.

INTEREST, NET

Net interest costs were higher in the third quarter and first nine months 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.

Table of Contents

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

INCOME TAXES

Effective tax rates differ from statutory federal income tax rates, primarily due to provisions for state and local income taxes and permanent tax differences. Our effective tax rate increased to 37.9% in the third quarter of 2007 from 37.1% in the same period of 2006. The increase in the effective rate was primarily due to an adjustment in September of 2006 to lower our estimated tax provision for the year.

Our effective tax rate decreased to 36.9% in the first nine months of 2007 from 37.7% in the same period of 2006 primarily due to an increase in the U.S. manufacturing deduction allowed, a research and development tax credit and a permanent tax difference resulting from one of our joint ventures, offset by a valuation allowance provided on a deferred tax asset of one of our foreign subsidiaries.

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):

	Sept. 29, 2007	Sept. 30, 2006
Cash from operating activities	\$ 80,414	\$ 87,893
Cash from investing activities	(80,022)	(55,048)
Cash from financing activities	(4,753)	(32,876)
Net change in cash and cash equivalents	(4,361)	(31)
Cash and cash equivalents, beginning of period	51,108	46,215
Cash and cash equivalents, end of period	\$ 46,747	\$ 46,184

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.

Table of Contents

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

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 30, 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 43 days in the first nine months of 2007 from 38 days in the first nine months of 2006, due to a 4 day increase in our days supply of inventory and a 1 day increase in our days of sales outstanding. Our days supply of inventory primarily increased because we planned for higher sales volumes in the first and second quarter 2007 than has occurred due to market conditions, but we significantly improved our days supply of inventory in the third quarter.

Our cash flow from operating activities was approximately \$80 million in the first nine months of 2007 in spite of difficult market conditions due, in part, to a \$25 million increase in our sale of receivables program. We used our cash flow from operations to fund capital expenditures and business acquisitions in the first nine months of 2007.

Cash used for investing activities increased by \$25 million in the first nine months of 2007 compared to the same period of 2006, which was primarily due to a \$30 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 \$4 million on September 29, 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 used in financing activities was almost \$5 million in the first nine months of 2007 primarily due to purchases we made of our common stock. We have authorization from our Board of Directors to purchase up to 1.4 million additional shares.

On September 29, 2007, we had \$47 million outstanding on our \$300 million revolving credit facility. The revolving credit facility also supports letters of credit totaling approximately \$34 million on September 29, 2007. Financial covenants on the unsecured revolving credit facility and unsecured notes include a minimum net worth requirement, minimum interest and fixed charge coverage tests, and a maximum leverage ratio. The agreements also restrict the amount of additional indebtedness we may incur and the amount of assets which may be sold. We were within all of our lending requirements on September 29, 2007.

Table of Contents

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

Table of Contents

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.

Table of Contents

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 29, 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 third quarter ended September 29, 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.

Table of Contents

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 1, 2007 – August 4, 2007 ⁽¹⁾	35,000	\$ 41.45	35,000	1,404,010
August 5, 2007 – September 1, 2007	45,000	\$ 38.13	45,000	1,359,010
September 2, 2007 – September 29, 2007				1,359,910

(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 29,
2007,
cumulative total
authorized
shares available
for repurchase is
1.4 million
shares.

Item 5. Other Information.

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

Table of Contents

**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).

Table of Contents

**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, 2007

By: /s/ Michael B. Glenn

Michael B. Glenn
Its: Chief Executive Officer

Date: October 25, 2007

By: /s/ Michael R. Cole

Michael R. Cole
Its: Chief Financial Officer

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
31	Certifications. <ul style="list-style-type: none">(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. <ul style="list-style-type: none">(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).