

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. FOR FISCAL YEAR ENDED DECEMBER 30, 2006.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the transition period of ____ to ____.

Commission File No.: 0-22684

UNIVERSAL FOREST PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Michigan

(State or other jurisdiction of incorporation or organization)

38-1465835

(I.R.S. Employer Identification No.)

2801 East Beltline, N.E., Grand Rapids, Michigan

(Address of principal executive offices)

49525

(Zip Code)

(616) 364-6161

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title Of Each Class

None

Name of Each Exchange on Which Registered

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 in the past 90 days. Yes No

Indicate by checkmark if disclosure of delinquent filers pursuant to Items 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-2 of the Act.) Yes No

As of July 1, 2006, 18,836,038 shares of the registrant's common stock, no par value, were outstanding. The aggregate market value of the common stock held by non-affiliates of the registrant (i.e. excluding shares held by executive officers, directors, and control persons as defined in Rule 405, 17 CFR 230.405) on that date was \$964,703,279 computed at the closing price of \$62.73 on that date.

As of February 3, 2007, 18,886,333 shares of the registrant's common stock, no par value, were outstanding.

Documents incorporated by reference:

- (1) Certain portions of the registrant's Annual Report to Shareholders for the fiscal year ended December 30, 2006 are incorporated by reference into Part I and II of this Report.
- (2) Certain portions of the registrant's Proxy Statement for its 2007 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

Exhibit Index located on page E-1.

Page 1 of 17

ANNUAL REPORT ON FORM 10-K
December 30, 2006
TABLE OF CONTENTS

PART I

| | |
|--|----|
| <u>Item 1. Business</u> | 3 |
| <u>Item 1A. Risk Factors</u> | 7 |
| <u>Item 1B. Unresolved Staff Comments</u> | 9 |
| <u>Item 2. Properties</u> | 9 |
| <u>Item 3. Legal Proceedings</u> | 9 |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u> | 9 |
| | |
| <u>Additional item: Executive Officers of the Registrant</u> | 10 |

PART II

| | |
|---|----|
| <u>Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u> | 11 |
| <u>Item 6. Selected Financial Data</u> | 12 |
| <u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 12 |
| <u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u> | 12 |
| <u>Item 8. Financial Statements and Supplemental Data</u> | 13 |
| <u>Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u> | 13 |
| <u>Item 9A. Controls and Procedures</u> | 13 |
| <u>Item 9B. Other Information</u> | 14 |

PART III

| | |
|--|----|
| <u>Item 10. Directors, Executive Officers and Corporate Governance</u> | 14 |
| <u>Item 11. Executive Compensation</u> | 14 |
| <u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters</u> | 14 |
| <u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u> | 15 |
| <u>Item 14. Principal Accountant Fees and Services</u> | 15 |

PART IV

| | |
|--|----|
| <u>Item 15. Exhibits and Financial Statement Schedules</u> | 15 |
| <u>Selected Portions of Annual Report to Shareholders</u> | |
| <u>Subsidiaries of the Registrant</u> | |
| <u>Consent of Ernst & Young LLP</u> | |
| <u>302 Certification of Chief Executive Officer</u> | |
| <u>302 Certificate of Chief Financial Officer</u> | |
| <u>906 Certification of Chief Executive Officer</u> | |
| <u>906 Certification of Chief Financial Officer</u> | |

PART I

Item 1. Business.

General Development of the Business.

Universal Forest Products, Inc. was organized as a Michigan corporation in 1955. We engineer, manufacture, treat, distribute and install lumber, composite wood, plastic and other building products to the do-it-yourself/retail (“DIY/retail”), site-built construction, manufactured housing, and industrial markets. We currently operate facilities throughout the United States, Canada, and Mexico.

Information relating to current developments in our business is incorporated by reference from our Annual Report to Shareholders for the fiscal year ended December 30, 2006 (“2006 Annual Report”) under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Selected portions of the 2006 Annual Report are filed as Exhibit 13 with this Form 10-K Report.

Financial Information About Industry Segments.

Statement of Financial Accounting Standards (“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. We have aggregated our Eastern and Western divisions into one reporting segment, consistent with SFAS 131. Our Consumer Products Division, which was formed in 2006, is included in “All Other”. Separate financial information about industry segments is incorporated by reference from Note P of the Consolidated Financial Statements presented under Item 8 herein.

Narrative Description of Business.

We presently 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. Each of these markets is discussed in the paragraphs which follow.

DIY/Retail Market. The customers comprising this market are primarily national home center retailers, retail-oriented regional lumberyards and contractor-oriented lumberyards. Generally, terms of sale are established for annual periods, and orders are placed with our regional facilities in accordance with established terms. One customer, The Home Depot, accounted for approximately 22% of our total net sales for fiscal 2006, 22% for 2005, and 25% for 2004.

Table of Contents

From time to time we enter into certain sales contracts with The Home Depot. The contracts are limited to the establishment of general sales terms and conditions, such as delivery, invoicing, warranties and other standard, commercial matters. Sales are made by the release of purchase orders to us for particular quantities of certain products. We also enter into marketing agreements and rebate agreements with The Home Depot. The marketing agreements provide a certain percentage of our sales revenue or a minimum dollar amount will be committed to generate sales for us and The Home Depot.

We currently supply customers in this market from many of our locations. These regional facilities are able to supply mixed truckloads of products which can be delivered to customers with rapid turnaround from receipt of an order. Freight costs are a factor in the ability to competitively service this market, especially with treated wood products because of their heavier weight. The close proximity of our regional facilities to the various outlets of these customers is a significant advantage when negotiating annual sales programs.

The products offered to customers in this market include dimensional lumber (both preserved and unpreserved) and various “value-added products,” some of which are sold under our trademarks. In addition to our conventional lumber products, we offer composite wood and plastic products. We also sell engineered wood products to this market, which include roof trusses, wall panels and engineered floor systems (see “Site-Built Construction Market” below).

We are not aware of any competitor that currently manufactures, treats and distributes a full line of both value-added and commodity products on a national basis. We face competition on individual products from several different producers, but the majority of these competitors tend to be regional in their efforts and/or do not offer a full line of outdoor lumber products. We believe the breadth of our product offering, geographic dispersion, customer relationships, close proximity of our plants to core customers, purchasing and manufacturing expertise and service capabilities provide significant competitive advantages in this market.

Site-Built Construction Market. We entered the site-built construction market through strategic business acquisitions beginning in 1997. The residential housing customers comprising this market are primarily large-volume, multi-tract builders and smaller volume custom builders. We also supply builders engaged in multi-family and commercial construction. Generally, terms of sale and pricing are determined based on quotes for each order.

We currently supply customers in this market from manufacturing facilities located in many different states and Canada. These facilities manufacture various engineered wood components used to frame residential or commercial projects, including roof and floor trusses, wall panels, Open Joist 2000®, I-joists and lumber packages. Freight costs are a factor in the ability to competitively service this market due to the space requirements of these products on each truckload.

We also provide framing services for customers in certain regional markets, in which we erect the wood structure. We believe that providing a comprehensive framing package, including

Table of Contents

installation, provides a competitive advantage. Terms of sale are based on a construction contract.

Competitors in this market include national and regional retail contractor yards who also manufacture components and provide framing services, as well as regional manufacturers of components. Our objective is to continue to increase our manufacturing capacity and framing capabilities for this market while developing a national presence. We believe our primary competitive advantages relate to the engineering and design capabilities of our regional staff, customer relationships, purchasing and manufacturing expertise, product quality and timeliness of delivery.

Manufactured Housing Market. The customers comprising the manufactured housing market are producers of mobile, modular and prefabricated homes and recreational vehicles. Products sold to customers in this market consist primarily of roof trusses, lumber cut and shaped to the customer's specification, plywood, particle board and dimensional lumber, all intended for use in the construction of manufactured housing. Sales are made by personnel located at each regional facility based on customer orders.

While no competitor operates in as widely-dispersed geographic areas as we do, we face competition from suppliers in many geographic regions. Our principal competitive advantages include our customer relationships, product knowledge, the strength of our engineering support services, the close proximity of our regional facilities to our customers, our purchasing and manufacturing expertise and our ability to provide national sales programs to certain customers.

Industrial Market. We define our industrial market as industrial manufacturers and agricultural customers who use pallets, specialty crates and wooden boxes for packaging, shipping and material handling purposes. Many of the products sold to this market may be produced from the by-product of other manufactured products, thereby allowing us to increase our raw material yields while expanding our business. Competition is fragmented and includes virtually every supplier of lumber convenient to the customer. We service this market with our dedicated local sales teams and national sales support efforts, combined with our competitive advantages in manufacturing, purchasing, and material utilization.

Suppliers. We are one of the largest domestic buyers of solid sawn lumber from primary producers (lumber mills). We use primarily Southern Yellow Pine in our pressure-treating operations and site-built component plants in the Southeastern United States, which we obtain from mills located throughout the states comprising the Sunbelt. Other species we use include "spruce-pine-fir" from various provinces in Canada; hemlock, Douglas fir and cedar from the Pacific Northwest; inland species of pine, plantation grown radiata and southern yellow pines from South America; and European spruce. There are numerous primary producers for all varieties we use, and we are not dependent on any particular source of supply. Our financial resources and size, in combination with our strong sales network and ability to remanufacture lumber, enable us to purchase a large percentage of a primary producer's output, (as opposed to only those dimensions or grades in immediate need), thereby lowering our average cost of raw

Table of Contents

materials and allowing us to obtain programs such as consigned inventory. We believe this represents a competitive advantage.

Intellectual Property. We own several patents and have several patents pending on technologies related to our business. In addition, we own numerous registered trademarks and claim common law trademark rights to several others. As we develop proprietary brands, we may pursue registration or other formal protection. While we believe our patent and trademark rights are valuable, the loss of a patent or any trademark would not be likely to have a material adverse impact on our competitive position.

Backlog. Due to the nature of our DIY/retail, manufactured housing and industrial businesses, backlog information is not meaningful. The maximum time between receipt of a firm order and shipment does not usually exceed a few days. Therefore, we would not normally have a backlog of unfilled orders in a material amount. The relationships with our major customers are such that we are either the exclusive supplier of certain products and/or certain geographic areas, or the designated source for a specified portion of the customer's requirements. In such cases, either we are able to forecast the customer's requirements or the customer may provide an estimate of its future needs. In neither case, however, will we receive firm orders until just prior to the anticipated delivery dates for the products in question.

On December 30, 2006 and December 31, 2005, we estimate that backlog orders associated with the site-built construction business approximated \$119.8 million and \$92.4 million, respectively. With respect to the former, we expect that these orders will be primarily filled within the current fiscal year.

Environmental. Information required for environmental disclosures is incorporated by reference from Note M of the Consolidated Financial Statements presented under Item 8 herein.

Seasonality. Information required for seasonality disclosures is incorporated by reference from Item 1A. Risk Factors under the caption "*Seasonality and weather conditions could adversely affect us.*"

Employees. At December 30, 2006, we had approximately 9,200 employees.

Financial Information About Geographic Areas.

The dominant portion of our operations and sales occur in the United States. Separate financial information about foreign and domestic operations and export sales is incorporated by reference from Note P of the Consolidated Financial Statements presented under Item 8 herein.

Available Information.

Our Internet address is www.ufpi.com. Through our Internet web site under "Financial" in the Investor Relations section, we make available free of charge, as soon as reasonably practical

[Table of Contents](#)

after such information has been filed with the SEC, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act. Also available through our Internet web site under “Corporate Governance” in the Investor Relations section is our Code of Ethics for Senior Financial Officers.

Reports to Security Holders.

Not applicable.

Enforceability of Civil Liabilities Against Foreign Persons.

Not applicable.

Item 1A. Risk Factors.

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

Our growth may be limited by the markets we serve. Our sales growth is dependent, in part, upon the growth of the markets we serve. If our markets do not achieve anticipated growth, or if we fail to maintain our market share, financial results could be impaired.

Our ability to achieve growth in sales and margins, particularly to the site-built construction market, is impacted by housing starts. If housing starts decline significantly, our financial results could be negatively impacted.

We are witnessing consolidation by our customers in each of the markets we serve. These consolidations will result in a larger portion of our sales being made to some customers and may limit the customer base we are able to serve.

A significant portion of our sales are concentrated with one customer. Our sales to The Home Depot comprised 22% of our total sales in 2006, 22% in 2005, and 25% in 2004.

Our growth may be limited by our ability to make successful acquisitions. A key component of our growth strategy is to complete business combinations. Business combinations involve inherent risks, including assimilation and successfully managing growth. While we conduct

Table of Contents

extensive due diligence and have taken steps to ensure successful assimilation, factors beyond our control could influence the results of these acquisitions.

We may be adversely affected by the impact of environmental and safety regulations. We are subject to the requirements of federal, state, and local environmental and occupational health and safety laws and regulations. There can be no assurance that we are at all times in complete compliance with all of these requirements. We have made and will continue to make capital and other expenditures to comply with environmental regulations. If additional laws and regulations are enacted in the future, which restrict our ability to manufacture and market our products, including our treated lumber products, it could adversely affect our sales and profits. If existing laws are interpreted differently, it could also increase our financial costs. Several states have proposed legislation to limit the uses and disposal of Chromated Copper Arsenate (“CCA”) treated lumber. (See Note M to the Consolidated Financial Statements.)

Seasonality and weather conditions could adversely affect us. Some aspects of our business are seasonal in nature and results of operations vary from quarter to quarter. Our treated lumber and outdoor specialty products, such as fencing, decking, and lattice, experience the greatest seasonal effects. Sales of treated lumber, primarily consisting of Southern Yellow Pine, also experience the greatest Lumber Market risk (see “Historical Lumber Prices” in Management’s Discussion and Analysis of Financial Condition and Results of Operations which is presented under Item 7 of this Form 10-K and is incorporated herein by reference). Treated lumber sales are generally at their highest levels between April and August. This sales peak, combined with capacity constraints in the wood treatment process, requires us to build our inventory of treated lumber throughout the winter and spring. (This also has an impact on our receivables balances, which tend to be significantly higher at the end of the second and third quarters.) Because sales prices of treated lumber products may be indexed to the Lumber Market at the time they are shipped, our profits can be negatively affected by prolonged declines in the Lumber Market during our primary selling season. To mitigate this risk, consignment inventory programs are negotiated with certain vendors that are intended to decrease our exposure to the Lumber Market by correlating the purchase price of the material with the related sell price to the customer. These programs include those materials which are most susceptible to adverse changes in the Lumber Market.

The majority of our products are used or installed in outdoor construction activities; therefore, short-term sales volume, our gross margins, and our profits can be negatively affected by adverse weather conditions, particularly in our first and fourth quarters. In addition, adverse weather conditions can negatively impact our productivity and costs per unit.

New preservatives will be developed to treat our products. The manufacturers of preservatives continue to develop new preservatives. All of our wood preservation facilities, except the one described below, utilize either Amine Copper Quaternary (“ACQ”), ProWood Micro or borates. In March 2005, one facility began using CCA to treat certain marine products and panel goods for which ACQ is not a suitable preservative. While we believe treated products are reasonably priced relative to alternative products such as composites or vinyl, consumer acceptance may be

[Table of Contents](#)

impacted which would in turn affect our future operating results. In addition, new preservatives could increase our cost of treating products in the future.

Market conditions for the supply of certain lumber products and inbound transportation may be limited. These conditions, which occur on occasion, have resulted in difficulties procuring desired quantities and receiving orders on a timely basis for all industry participants. We are not certain how these conditions may impact our short-term sales volumes and profitability. However, we attempt to mitigate the risks of these conditions by:

- Our pricing practices (see “Impact of the Lumber Market on Our Operating Results” in Management’s Discussion and Analysis of Financial Condition and Results of Operations which is presented under Item 7 of this Form 10-K and is incorporated herein by reference);
- Leveraging our size with mill and transportation suppliers to ensure they achieve supply and service requirements;
- Increasing our utilization of consigned inventory programs with mills; and
- Expanding our supply base of dedicated carriers.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Our corporate headquarters building is located in suburban Grand Rapids, Michigan. We currently have approximately 90 facilities located throughout the United States, Canada, and Mexico. Depending upon function and location, these facilities typically utilize office space, manufacturing space, treating space and covered storage.

We own all of our properties, free from any significant mortgage or other encumbrance, except for approximately 20 regional facilities which are leased. We believe all of these operating facilities are adequate in capacity and condition to service existing customer locations.

Item 3. Legal Proceedings.

Information regarding our legal proceedings is set forth in Note M of our Consolidated Financial Statements which are presented under Item 8 of this Form 10-K and are incorporated herein by reference.

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

Not applicable.

[Table of Contents](#)

Additional Item: Executive Officers of the Registrant.

The following table lists the names, ages, and positions of our executive officers as of February 1, 2007. Executive officers are elected annually by the Board of Directors at the first meeting of the Board following the annual meeting of shareholders.

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|-------------------|------------|--|
| William G. Currie | 59 | Executive Chairman, Universal Forest Products, Inc. |
| Michael B. Glenn | 55 | Chief Executive Officer, Universal Forest Products, Inc. |
| C. Scott Greene | 51 | President, Universal Forest Products Eastern Division, Inc. |
| Robert K. Hill | 59 | President, Universal Forest Products Western Division, Inc. |
| Robert D. Coleman | 52 | Executive Vice President Manufacturing, Universal Forest Products, Inc. |
| Matthew J. Missad | 46 | Executive Vice President and Secretary, Universal Forest Products, Inc. |
| Michael R. Cole | 40 | Chief Financial Officer and Treasurer, Universal Forest Products, Inc. |
| Ronald G. Klyn | 49 | Chief Information Officer, Universal Forest Products, Inc. |
| Joseph F. Granger | 41 | Executive Vice President of Sales and Marketing, Universal Forest Products, Inc. |

William G. Currie joined us in 1971. From 1983 to 1990, Mr. Currie was President of Universal Forest Products, Inc., and he was the President and Chief Executive Officer of The Universal Companies, Inc. from 1989 until the merger to form Universal Forest Products, Inc. in 1993. On January 1, 2000, Mr. Currie also became Vice Chairman of the Board. On April 19, 2006, Mr. Currie became Executive Chairman.

Michael B. Glenn has been employed by us since 1974. In June of 1989, Mr. Glenn was elected Senior Vice President of our Southwest Operations, and on December 1, 1997, became President of Universal Forest Products Western Division, Inc. Effective January 1, 2000, Mr. Glenn was promoted to President and Chief Operating Officer. On July 1, 2006, Mr. Glenn became Chief Executive Officer.

C. Scott Greene joined us in February of 1991. In November of 1996 he became General Manager of Operations for our Florida Region, and in January of 1999 became Vice President of Marketing for Universal Forest Products, Inc. During early 2000, Mr. Greene became President of Universal Forest Products Eastern Division, Inc.

Robert K. Hill has been with us since 1986. In March of 1993, Mr. Hill was elected Senior Vice President of our Far West Operations. On December 1, 1997, Mr. Hill became the Executive Vice President of Operations of Universal Forest Products Western Division, Inc., and on January 1, 2000, became President of that Division.

Robert D. Coleman, has been an employee since 1979. Mr. Coleman was promoted to Senior Vice President of our Midwest Operations in September 1993. On December 1, 1997, Mr. Coleman became the Executive Vice President of Manufacturing of the Universal Forest

Table of Contents

Products Eastern Division, Inc. On January 1, 1999, Mr. Coleman was named the Executive Vice President of Manufacturing.

Matthew J. Missad has been employed since 1985. Mr. Missad has served as General Counsel and Secretary since December 1, 1987, and Vice President Corporate Compliance since August 1989. In February 1996, Mr. Missad was promoted to Executive Vice President.

Michael R. Cole, CPA, CMA, joined us in November of 1993. In January of 1997, Mr. Cole was promoted to Director of Finance, and on January 1, 2000 was made Vice President of Finance and Treasurer. On July 19, 2000, Mr. Cole became Chief Financial Officer.

Ronald G. Klyn joined us in May of 1993 as Information Services Manager. In October of 1999, Mr. Klyn was promoted to Chief Information Officer.

Joseph F. Granger has been with us since 1988. In 1997 he became Vice President of the Atlantic Region, in 2002 he became Regional Vice President of the Southeast Region, and on January 1, 2007, he became Executive Vice President of Sales and Marketing.

PART II

The following information items in this Part II, which are contained in the 2006 Annual Report, are specifically incorporated by reference into this Form 10-K Report. These portions of the 2006 Annual Report that are specifically incorporated by reference are filed as Exhibit 13 with this Form 10-K Report.

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities.

(a) The information relating to market, holders and dividends is incorporated by reference from the 2006 Annual Report under the caption "Price Range of Common Stock and Dividends."

There were no recent sales of unregistered securities.

(b) Not applicable.

(c) There were no issuer purchases of equity securities during the fourth quarter.

| <u>Fiscal Month</u> | <u>(a)</u> | <u>(b)</u> | <u>(c)</u> | <u>(d)</u> |
|---|------------|------------|------------|------------|
| October 1 - November 4, 2006 ⁽¹⁾ | | | | 1,499,976 |
| November 5 - December 2, 2006 | | | | 1,499,976 |
| December 3 - 30, 2006 | | | | 1,499,976 |

Table of Contents

-
- (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 December 30, 2006, the cumulative total of authorized shares available for repurchase is 1.5 million shares.

Item 6. Selected Financial Data.

The information required by this Item is incorporated by reference from the 2006 Annual Report under the caption "Selected Financial Data."

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information required by this item is incorporated by reference from the 2006 Annual Report under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 7A. 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.

On December 30, 2006, the estimated fair value of our long-term debt, including the current portion, was \$172.6 million, which was \$2.5 million greater than the carrying value. The estimated fair value is based on rates anticipated to be available to us for debt with similar terms and maturities. The estimated fair value of notes payable included in current liabilities and the revolving credit facility approximated the carrying values.

Table of Contents

Expected cash flows over the next five years related to debt instruments are as follows:

| <i>(\$US equivalents, in thousands)</i> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>Thereafter</u> | <u>Total</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| Long-term Debt: | | | | | | | |
| Fixed Rate (\$US) | | \$ 78,500 | \$ 15,000 | | | \$ 40,000 | \$ 133,500 |
| Average interest rate | | 6.98% | 5.63% | | | 6.16% | |
| Variable Rate (\$US) | \$ 680 | \$ 712 | \$ 16,130 | \$ 249 | \$ 256 | \$ 18,570 | \$ 36,597 |
| Average interest rate(1) | 5.68% | | | | | | |

(1) Average of rates at December 30, 2006.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item is incorporated by reference from the 2006 Annual Report under the following captions:

“Management’s Annual Report on Internal Control Over Financial Reporting”
“Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting”
“Report of Independent Registered Public Accounting Firm”
“Consolidated Balance Sheets”
“Consolidated Statements of Earnings”
“Consolidated Statements of Shareholders’ Equity”
“Consolidated Statements of Cash Flows”
“Notes to Consolidated Financial Statements”

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

- (1) 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 year ended December 30, 2006 (the “Evaluation Date”), have concluded that, as of such date, our disclosure controls and procedures were effective.
- (2) Management’s Annual Report on Internal Control Over Financial Reporting. Management’s Annual Report on Internal Control Over Financial Reporting is included in the 2006 Annual Report under the caption “Management’s Annual Report on Internal Control Over Financial Reporting” and is incorporated herein by reference. Our accounting firm’s attestation on that Report is also included in the 2006 Annual Report in

Table of Contents

the caption “Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting” and is incorporated herein by reference.

- (3) Changes in Internal Controls. During the fourth quarter ended December 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.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information relating to executive officers is included in this report in the last Section of Part I under the caption “Additional Item: Executive Officers of the Registrant.” Information relating to our directors, compliance with Section 16(a) of the Securities and Exchange Act of 1934 and various corporate governance matters is incorporated by reference from our definitive Proxy Statement for the year ended December 30, 2006 for the 2007 Annual Meeting of Shareholders, as filed with the Commission (“2007 Proxy Statement”), under the captions “Election of Directors,” “Corporate Governance and Board Matters,” and “Section 16(a) Beneficial Ownership Reporting Compliance.” Information relating to our code of ethics is included in this report in Part I, Item 1 under the caption “Available Information”.

Item 11. Executive Compensation.

Information relating to director and executive compensation is incorporated by reference from the 2007 Proxy Statement under the caption “Executive Compensation.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

Information relating to security ownership of certain beneficial owners and management is incorporated by reference from our 2007 Proxy Statement under the captions “Ownership of Common Stock” and “Securities Ownership of Management.”

Table of Contents

Information relating to securities authorized for issuance under equity compensation plans as of December 30, 2006, is as follows:

| | Number of shares to be issued upon exercise of outstanding options | Weighted average exercise price of outstanding options | Number of shares remaining available for future issuance under equity compensation plans [excluding shares reflected in column (a)] |
|--|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | 1,036,284 | \$ 20.18 | 948,062 |
| Equity compensation plans not approved by security holders | none | | |

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information relating to certain relationships and related transactions, and director independence is incorporated by reference from the 2007 Proxy Statement under the captions "Election of Directors", "Affirmative Determination Regarding Director Independence and Other Matters" and "Related Party Transactions."

Item 14. Principal Accountant Fees and Services.

Information relating to the types of services rendered by our Independent Auditors and the fees paid for these services is incorporated by reference from our 2007 Proxy Statement under the caption "Independent Public Accountants – Fees and Services."

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) 1. Financial Statements. The following Management's Annual Report, Reports of Independent Registered Public Accounting Firm and Consolidated Financial Statements are incorporated by reference, under Item 8 of this report, from the 2006 Annual Report:

Management's Annual Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 30, 2006 and December 31, 2005

Table of Contents

Consolidated Statements of Earnings for the Years Ended December 30, 2006, December 31, 2005 and December 25, 2004

Consolidated Statements of Shareholders' Equity for the Years Ended December 30, 2006, December 31, 2005 and December 25, 2004

Consolidated Statements of Cash Flows for the Years Ended December 30, 2006, December 31, 2005 and December 25, 2004

Notes to Consolidated Financial Statements

2. Financial Statement Schedules. All schedules required by this Form 10-K Report have been omitted because they were inapplicable, included in the Consolidated Financial Statements or Notes to Consolidated Financial Statements, or otherwise not required under instructions contained in Regulation S-X.

3. Exhibits. Reference is made to the Exhibit Index which is included in this Form 10-K Report.

(b) Reference is made to the Exhibit Index which is included in this Form 10-K Report.

(c) Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: February 27, 2007

UNIVERSAL FOREST PRODUCTS, INC.

By: /s/ Michael B. Glenn
Michael B. Glenn, Chief Executive Officer

and

/s/ Michael R. Cole
**Michael R. Cole, Chief Financial Officer
and Treasurer**

[Table of Contents](#)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on this 27th day of February, 2007, by the following persons on behalf of us and in the capacities indicated.

Each Director whose signature appears below hereby appoints Matthew J. Missad and Michael R. Cole, and each of them individually, as his attorney-in-fact to sign in his name and on his behalf as a Director, and to file with the Commission any and all amendments to this report on Form 10-K to the same extent and with the same effect as if done personally.

/s/ Peter F. Secchia

Peter F. Secchia, Director

/s/ Dan M. Dutton

Dan M. Dutton, Director

/s/ John W. Garside

John W. Garside, Director

/s/ Gary F. Goode

Gary F. Goode, Director

/s/ Louis A. Smith

Louis A. Smith, Director

/s/ William G. Currie

William G. Currie, Director

/s/ John M. Engler

John M. Engler, Director

/s/ Michael B. Glenn

Michael B. Glenn, Director

/s/ Mark A. Murray

Mark A. Murray, Director

EXHIBIT INDEX

| <u>Exhibit #</u> | <u>Description</u> |
|------------------|---|
| 3 | Articles of Incorporation and Bylaws. (a) Registrant's Articles of Incorporation were filed as Exhibit 3(a) to a Registration Statement on Form S-1 (No. 33-69474) and the same is incorporated herein by reference. (b) Registrant's Bylaws were filed as Exhibit 3(b) to a Registration Statement on Form S-1 (No. 33-69474) and the same is incorporated herein by reference. |
| 4 | Instruments Defining the Rights of Security Holders. (a) Specimen form of Stock Certificate for Common Stock was filed as Exhibit 4(a) to a Registration Statement on Form S-1 (No. 33-69474) and the same is incorporated herein by reference. |
| 10 | Material Contracts. *(a)(3) Consulting Agreement with Peter F. Secchia, dated December 31, 2002, and Assignment dated January 1, 2003 was filed as Exhibit 10(a)(3) to a Form 10-K, Annual Report for the year ended December 28, 2002 and the same is incorporated herein by reference. *(a)(4) Nondisclosure and Non-Compete Agreement with Peter F. Secchia, dated December 31, 2002 was filed as Exhibit 10(a)(4) to a Form 10-K, Annual Report for the year ended December 28, 2002 and the same is incorporated herein by reference. *(a)(5) Conditional Share Grant Agreement with William G. Currie dated April 17, 2002 was filed as Exhibit 10(a)(5) to a Form 10-K, Annual Report for the year ended December 28, 2002 and the same is incorporated herein by reference. *(a)(6) Form of Conditional Share Grant Agreement utilized under the Company's Long Term Stock Incentive Plan, was filed as Exhibit 10(a) to a Form 10-Q Quarterly Report for the quarter ended September 25, 2004 and the same is incorporated herein by reference. (b) Form of Indemnity Agreement entered into between the Registrant and each of its directors was filed as Exhibit 10(b) to a Registration Statement on Form S-1 (No. 33-69474) and the same is incorporated herein by reference. |

Table of Contents

| <u>Exhibit #</u> | <u>Description</u> |
|------------------|--|
| *(e)(1) | Form of Executive Stock Option Agreement was filed as Exhibit 10(e)(1) to a Registration Statement on Form S-1 (No. 33-69474) and the same is incorporated herein by reference. |
| *(e)(2) | Form of Officers' Stock Option Agreement was filed as Exhibit 10(e)(2) to a Registration Statement on Form S-1 (No. 33-69474) and the same is incorporated herein by reference. |
| *(f) | Salaried Employee Bonus Plan was filed as Exhibit 10(f) to a Registration Statement on Form S-1 (No. 33-69474) and the same is incorporated herein by reference. |
| (i)(4) | Series 2004-A, Credit Agreement dated December 20, 2004 was filed as Exhibit 10(i) to a Form 8-K Current Report dated December 21, 2004 and the same is incorporated herein by reference. |
| (i)(5) | First Amendment dated February 12, 2007 relating to Series 2004-A, Credit Agreement dated December 20, 2004 was filed as Exhibit 10(i) to a Form 8-K Current Report dated February 15, 2007 and the same is incorporated herein by reference. |
| (j)(1) | Series 1998-A, Senior Note Agreement dated December 21, 1998 was filed as Exhibit 10(j)(1) to a Form 10-K Annual Report for the year ended December 26, 1998, and the same is incorporated herein by reference. |
| (j)(2) | Series 2002-A, Senior Note Agreement dated December 18, 2002 was filed as Exhibit 10(j)(2) to a Form 10-K Annual Report for the year ended December 28, 2002 and the same is incorporated herein by reference. |
| (k)(1) | Program for Accounts Receivable Transfer ("PARTS") Agreement dated September 22, 2003 was filed as Exhibit 10(k)(1) to a Form 10-Q Quarterly Report for the quarter ended September 27, 2003 and the same is incorporated herein by reference. |
| (k)(2) | Deposit Account Control Agreement dated September 22, 2003, completed pursuant to the PARTS Agreement, was filed as Exhibit 10(k)(2) to a Form 10-Q, Quarterly Report for the quarter ended September 27, 2003 and the same is incorporated herein by reference. |
| (k)(3) | Program for Accounts Receivable Transfer ("PARTS") Agreement dated November 12, 2004 was filed as Exhibit 10(k) to a Form 8-K Current Report dated November 15, 2004 and the same is incorporated herein by reference. |

Table of Contents

| <u>Exhibit #</u> | <u>Description</u> |
|------------------|--|
| (k)(4) | Program for Accounts Receivable Transfer (“PARTS”) Agreement dated March 7, 2006 was filed as Exhibit 10(k)(4) to a Form 10-K Annual Report for the year ended December 31, 2005 and the same is incorporated herein by reference. |
| 13 | Selected portions of the Company’s Annual Report to Shareholders for the fiscal year ended December 30, 2006. |
| 14 | Code of Ethics for Senior Financial Officers |
| (a) | Code of Ethics for Chief Financial Officer was filed as Exhibit 14(a) to a Form 10-K, Annual Report for the year ended December 25, 2004 and the same is incorporated herein by reference. |
| (b) | Code of Ethics for Vice President of Accounting and Administration was filed as Exhibit 14(a) to a Form 10-K, Annual Report for the year ended December 25, 2004 and the same is incorporated herein by reference. |
| (c) | Code of Ethics for Vice President of Accounting was filed as Exhibit 14(c) to a Form 10-K, Annual Report for the year ended December 31, 2005 and the same is incorporated herein by reference. |
| 21 | Subsidiaries of the Registrant. |
| 23 | Consent of Ernst & Young LLP. |
| 31 | Certifications. |
| (a) | Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). |
| (b) | Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). |
| 32 | Certifications. |
| (a) | Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). |
| (b) | Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). |

* Indicates a compensatory arrangement.

Universal Forest Products, Inc.
Financial Information

Table of Contents

| | |
|---|----|
| Selected Financial Data | 14 |
| Management's Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| Management's Annual Report on Internal Control Over Financial Reporting | 30 |
| Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting | 31 |
| Report of Independent Registered Public Accounting Firm | 32 |
| Consolidated Balance Sheets as of December 30, 2006 and December 31, 2005 | 33 |
| Consolidated Statements of Earnings for the Years Ended December 30, 2006, December 31, 2005, and December 25, 2004 | 34 |
| Consolidated Statements of Shareholders' Equity for the Years Ended December 30, 2006, December 31, 2005, and December 25, 2004 | 35 |
| Consolidated Statements of Cash Flows for the Years Ended December 30, 2006, December 31, 2005, and December 25, 2004 | 36 |
| Notes to Consolidated Financial Statements | 38 |
| Price Range of Common Stock and Dividends | 57 |
| Stock Performance Graph | 58 |
| Directors and Executive Officers | 59 |
| Shareholder Information | 60 |

Selected Financial Data

(In thousands, except per share and statistics data)

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|-------------|-------------|-------------|-------------|-------------|
| Consolidated Statement of Earnings Data | | | | | |
| Net sales | \$2,664,572 | \$2,691,522 | \$2,453,281 | \$1,898,830 | \$1,639,899 |
| Gross profit | 381,682 | 359,256 | 296,253 | 257,986 | 230,410 |
| Earnings before income taxes and minority interest | 112,135 | 110,772 | 83,059 | 65,792 | 62,115 |
| Net earnings | 70,125 | 67,373 | 48,603 | 40,119 | 36,637 |
| Diluted earnings per share | \$ 3.62 | \$ 3.53 | \$ 2.59 | \$ 2.18 | \$ 1.97 |
| Dividends per share | \$ 0.110 | \$ 0.105 | \$ 0.100 | \$ 0.095 | \$ 0.090 |
| Weighted average shares outstanding with common stock equivalents | 19,370 | 19,106 | 18,771 | 18,379 | 18,619 |
| Consolidated Balance Sheet Data | | | | | |
| Working capital ⁽¹⁾ | \$ 282,913 | \$ 298,027 | \$ 222,618 | \$ 190,400 | \$ 185,256 |
| Total assets | 913,441 | 876,920 | 762,360 | 686,931 | 638,874 |
| Total debt and capital lease obligations | 170,097 | 209,497 | 207,142 | 213,186 | 243,572 |
| Shareholders' equity | 514,742 | 431,852 | 356,769 | 305,104 | 264,804 |
| Statistics | | | | | |
| Gross profit as a percentage of net sales | 14.3% | 13.3% | 12.1% | 13.6% | 14.1% |
| Net earnings as a percentage of net sales | 2.6% | 2.5% | 2.0% | 2.1% | 2.2% |
| Return on beginning equity ⁽²⁾ | 16.2% | 18.9% | 15.9% | 15.2% | 13.6% |
| Current ratio | 2.47 | 2.46 | 2.21 | 2.33 | 2.64 |
| Debt to equity ratio | 0.33 | 0.49 | 0.58 | 0.70 | 0.92 |
| Book value per common share ⁽³⁾ | \$ 27.29 | \$ 23.47 | \$ 19.82 | \$ 17.13 | \$ 14.93 |

(1) Current assets less current liabilities.

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

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

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

We advise you to read the issues discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with our Consolidated Financial Statements and the Notes to the Consolidated Financial Statements included in this Annual Report for the year ended December 30, 2006. We also encourage you to read our Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission. That report includes "Risk Factors" that you should consider in connection with any decision to buy or sell our securities. We are pleased to present this overview of 2006.

Overview

Our results for 2006 were highlighted by:

- Our organic sales growth in the site-built construction and industrial markets as we increased our market share in each. In the third quarter of 2006 our results were impacted by a decline in housing starts that worsened in our fourth quarter. The decline in housing starts is a result of an excess supply of single-family homes in many regions of the country. We currently anticipate a decline in housing starts in 2007 compared to 2006 as the industry works through this excess supply.
- Our unit sales to the do-it-yourself/retail ("DIY/retail") market declined primarily due to a decrease in consumer spending combined with a decline in housing starts and existing home sales. The effect of these market conditions was partially offset by market share gains with "big box" customers.
- Our unit sales to the manufactured housing market decreased due to adverse industry conditions as HUD code production decreased approximately 20%, partially due to FEMA orders in the fourth quarter of 2005 related to Hurricanes Katrina and Rita. We were able to gain market share this year which helped mitigate part of the impact of these difficult industry conditions.
- Lumber prices were approximately 16% lower on average compared to the same period of 2005. This resulted in lowering our overall selling prices (see "Impact of the Lumber Market on Our Operating Results" below) and working capital requirements.
- The 6% increase in gross profit dollars we achieved surpassed our 3% increase in units shipped. Our improved profitability was primarily due to a combination of:
 - Increased sales of higher margin, value-added products to 56.8% of total sales from 52.7% of total sales last year.
 - Improved profitability on sales to our industrial market.
 - Cost efficiencies we achieved through our company-wide innovation program.
- A decrease in interest-bearing debt to \$170.1 million from \$209.5 million, in spite of nearly \$71.8 million invested in acquisitions to drive future growth, due to strong cash flows.
- We completed several strategic business combinations which are highlighted under the caption "Business Combinations and Asset Purchases".
- We recently announced our new five year growth plan entitled "GO (Growth and Opportunity) 2010" which is discussed under the caption "Forward Outlook".

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.

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)

Historical Lumber Prices

The following table presents the Random Lengths framing lumber composite price for the years ended December 30, 2006, December 31, 2005, and December 25, 2004.

| | Random Lengths Composite Average \$/MBF | | |
|--------------------------|--|--------|--------|
| | 2006 | 2005 | 2004 |
| January | \$ 382 | \$ 381 | \$ 341 |
| February | 377 | 420 | 376 |
| March | 368 | 422 | 382 |
| April | 369 | 407 | 431 |
| May | 341 | 386 | 456 |
| June | 326 | 405 | 423 |
| July | 309 | 381 | 426 |
| August | 296 | 360 | 473 |
| September | 292 | 395 | 441 |
| October | 274 | 373 | 378 |
| November | 276 | 359 | 355 |
| December | 288 | 365 | 376 |
| Annual average | \$ 325 | \$ 388 | \$ 405 |
| Annual percentage change | (16.2%) | (4.2%) | 30.6% |

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

| | Random Lengths SYP Average \$/MBF | | |
|--------------------------|--------------------------------------|--------|--------|
| | 2006 | 2005 | 2004 |
| January | \$ 496 | \$ 446 | \$ 410 |
| February | 503 | 489 | 436 |
| March | 514 | 501 | 487 |
| April | 510 | 511 | 532 |
| May | 488 | 500 | 535 |
| June | 444 | 538 | 498 |
| July | 409 | 536 | 479 |
| August | 394 | 503 | 503 |
| September | 387 | 501 | 473 |
| October | 363 | 463 | 429 |
| November | 365 | 436 | 394 |
| December | 396 | 462 | 408 |
| Annual average | \$ 439 | \$ 491 | \$ 465 |
| Annual percentage change | (10.6%) | 5.6% | 17.1% |

Impact of the Lumber Market on Our Operating Profits

We experience significant fluctuations in the cost of commodity lumber products from primary producers ("Lumber Market"). We generally price our products to pass lumber costs through to our customers so 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.

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)

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 market. 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 and 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 16% 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.
- 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 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.

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)

Business Combinations and Asset Purchases

All of the transactions mentioned below are considered business combinations. See Note B to the Consolidated Financial Statements for further details. Each business combination has been accounted for using the purchase method.

| Company Name | Acquisition Date | Business Description |
|--|--|---|
| Banks Lumber ("Banks") | November 17, 2006 | Manufactures roof trusses and cut-to-size structural lumber for manufactured housing and recreational vehicle (RV) manufacturers nationwide. The company currently has continuing operations in Elkhart, IN, Edwardsburg, MI, Morristown, TN, Auburndale, FL and Hillsboro, TX. |
| GeoMatrix, Inc. ("GeoMatrix") | August 18, 2006 | Develops and distributes plastic lattice products and other proprietary plastic products. |
| United Lumber and Reman, LLC ("United") | July 10, 2006 | Manufactures industrial wood products and is 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. |
| 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. |
| DeckKorators, Inc. ("DeckKorators") | 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. |

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)

| Company Name | Acquisition Date | Business Description |
|---|------------------|--|
| 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 and Eliot, ME and Bainbridge Island, WA. |
| Slaughter Industries ("Slaughter") | March 15, 2004 | Distributes lumber products and manufactures engineered wood components for site-built construction. Located in Dallas, TX. |
| Midwest Building Systems, Inc. ("Midwest") | January 30, 2004 | Manufactures engineered wood components for site-built construction. Located in Indianapolis, IN. |

Results of Operations

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

| | Years Ended | | |
|--|----------------------|----------------------|----------------------|
| | December 30, 2006 | December 31, 2005 | December 25, 2004 |
| Net sales | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 85.7 | 86.7 | 87.9 |
| Gross profit | 14.3 | 13.3 | 12.1 |
| Selling, general and administrative expenses | 9.7 | 8.8 | 8.2 |
| Gain on insurance settlement | | | (0.0) |
| Earnings from operations | 4.6 | 4.5 | 3.9 |
| Interest, net | (0.4) | (0.5) | (0.6) |
| Net gain on sale of real estate and interest in subsidiary | 0.0 | 0.1 | 0.1 |
| Earnings before income taxes and minority interest | 4.2 | 4.1 | 3.4 |
| Income taxes | 1.5 | 1.5 | 1.3 |
| Earnings before minority interest | 2.7 | 2.6 | 2.1 |
| Minority interest | (0.1) | (0.1) | (0.1) |
| Net earnings | 2.6% | 2.5% | 2.0% |

Gross 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.
- 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.

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)

- Maximizing unit sales growth while achieving return on investment goals.

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

| Market Classification | Years Ended | | | | |
|-------------------------|----------------------|-------------|----------------------|-------------|----------------------|
| | December 30, 2006 | % Change | December 31, 2005 | % Change | December 25, 2004 |
| DIY/retail | \$ 962,240 | (5.0) | \$ 1,012,531 | 1.0 | \$ 1,002,427 |
| Site-Built Construction | 811,923 | 7.7 | 753,791 | 17.8 | 640,053 |
| Manufactured Housing | 382,203 | (13.1) | 440,036 | 14.3 | 384,935 |
| Industrial | 550,669 | 4.3 | 527,946 | 14.6 | 460,526 |
| Total Gross Sales | 2,707,035 | (1.0) | 2,734,304 | 9.9 | 2,487,941 |
| Sales allowances | (42,463) | | (42,782) | | (34,660) |
| Total Net Sales | \$ 2,664,572 | (1.0) | \$ 2,691,522 | 9.7 | \$ 2,453,281 |

Note: During 2006, we reviewed our customer lists and made certain reclassifications. Historical information has been restated to reflect these reclassifications.

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

| | % Change | | |
|------------------|----------|-------------------|----------|
| | in Sales | in Selling Prices | in Units |
| 2006 versus 2005 | -1% | -4% | +3% |
| 2005 versus 2004 | +10% | +2% | +8% |
| 2004 versus 2003 | +29% | +18% | +11% |

In 2006, we estimate that our unit sales increased by 2% as a result of business acquisitions and new plants, our unit sales decreased by 1% as a result of closed facilities, and our unit sales out of existing facilities increased by 2%. 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.")

In 2005, we estimate that our unit sales increased by 1% as a result of business combinations and new plants, while our unit sales out of existing facilities increased by 7%.

Changes in our sales by market are discussed below.

DIY/Retail:

Gross sales to the DIY/retail market decreased 5% in 2006 compared to 2005, as a result of a 3% decrease in units shipped and a 2% decrease in overall selling prices due to the Lumber Market. Our decline in unit sales was a result of a 5% decline in unit sales out of existing and closed facilities, offset by a 2% increase in unit sales attributable to our business acquisitions of DeckOrators and GeoMatrix. Our unit sales out of existing facilities declined due in part to decreases in consumer spending and housing starts. These decreases were partially offset by market share gains we realized with our "big box" customers.

Gross sales to the DIY/retail market increased 1% in 2005 compared to 2004, due to the higher Lumber Market for SYP. Our unit sales declined 3% comparing the two periods, due, in part, to our strategy to walk away from certain business that did not meet profitability expectations and to better balance our business by growing our other markets faster than the DIY/retail market. This unit sales decline was offset slightly by our acquisition of Maine Ornamental.

Site-Built Construction:

Gross sales to the site-built construction market increased 8% in 2006 compared to 2005, due to an increase in unit sales as selling prices remained relatively flat. Unit sales increased 1% as a result of acquisitions and new facilities combined with 7% organic growth out of several existing facilities. Our growth was 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 wall panels in some regions. In addition, our multi-family framing operation in the Northeast achieved significant increases in sales and

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)

gained market share. A dramatic decline in housing starts beginning in the third quarter and continuing through the fourth quarter of 2006 negatively impacted our unit sales of engineered trusses and offset part of the positive results mentioned above.

Gross sales to the site-built construction market increased 18% in 2005 compared to 2004, primarily due to an estimated 17% increase in unit sales. Unit sales increased as a result of acquisitions and new facilities combined with 13% organic growth out of several existing facilities, particularly those in our Carolina, Southern California and Texas regions.

Manufactured Housing:

Gross sales to the manufactured housing market decreased 13% in 2006 compared to 2005. The decrease resulted from a 5% decrease in units shipped and an 8% decrease in selling prices due to the Lumber Market. Our decline in unit sales resulted from a significant decline in industry production. Industry production of HUD code homes decreased 20% in 2006, including a 50% decline in the fourth quarter due to hurricane-related sales last year. Modular home production declined 20% in 2006. We were able to mitigate part of the impact of these difficult market conditions by increasing our market share through organic growth and the acquisition of Banks in November 2006.

Gross sales to the manufactured housing market increased 14% in 2005 compared to 2004, due to organic sales growth. An increase in units shipped primarily resulted from achieving increased market share with modular home producers and an increase in manufactured housing production in the fourth quarter due to Hurricanes Katrina and Rita. Industry production for HUD code homes increased 12% in 2005, including a 43% increase in the fourth quarter of 2005.

Industrial:

Gross sales to industrial customers increased 4% in 2006 compared to 2005, due to an estimated 12% increase in units shipped, partially offset by an 8% decrease in selling prices due to the Lumber Market. Our unit sales increase was the result of organic growth out of several existing facilities. Since December 2005 we have added nearly 1,200 new accounts and have been successful at increasing our sales with existing customers. 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.

Gross sales to industrial customers increased 15% in 2005 compared to 2004, due to an estimated 14% increase in units shipped. Units shipped increased as a result of organic growth out of several existing plants, particularly those in our Southeast, West Central, and Southwest regions. We've added almost 1,000 new accounts since December 2004 and we have been successful at significantly increasing our sales with existing accounts.

Value-Added and Commodity-Based Sales:

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

| | <u>Value-Added</u> | <u>Commodity-Based</u> |
|------|--------------------|------------------------|
| 2006 | 56.8% | 43.2% |
| 2005 | 52.7% | 47.3% |
| 2004 | 50.7% | 49.3% |

Value-added sales increased 7% in 2006 compared to 2005, primarily due to increased sales of framing services to the site-built market and increased sales of fence fundamentals and deck necessities to the DIY/retail market. Commodity-based sales decreased 10% primarily due to a decrease in unit sales of treated lumber to the DIY/retail market, lumber packages to the site-built construction market and the decline in the level of the Lumber Market.

Value-added sales increased 14% in 2005 compared to 2004, primarily due to increased sales of engineered wood components and industrial packaging products. Commodity-based sales increased 5% primarily due to increased sales of lumber packages to site-built construction customers.

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)

Cost of Goods Sold and Gross Profit

Gross profit as a percentage of net sales increased to 14.3% in 2006 compared to 13.3% in 2005 due, in part, to the lower level of the Lumber Market in 2006. Our gross profit dollars increased by 6% in 2006, while our units shipped increased by 3%. Our improved profitability was primarily due to a combination of:

- Increased sales of higher margin, value-added products.
- Improved profitability on sales to our industrial market.
- Cost efficiencies we achieved through our company-wide innovation program.

Gross profit as a percentage of net sales increased to 13.3% in 2005 compared to 12.1% in 2004 and our gross profit dollars increased by almost 21% in 2005, while our units shipped increased by 8%. Our improved profitability was primarily due to a combination of:

- Improved results from certain under-performing operations, including the down-sizing of one of our western framing operations.
- Improved profitability on sales of engineered wood components.
- Increased sales of higher margin products, such as engineered wood components used in site-built and modular housing and industrial packaging.
- Walking away from certain business with our largest customer that did not meet profitability expectations.
- Cost efficiencies we achieved through our company-wide innovation program and organic sales growth.

Selling, General, and Administrative Expenses

SG&A expenses increased 10% in 2006, which compares unfavorably with our 3% increase in unit sales. Business acquisitions and new plants added \$12.9 million in SG&A expenses, which represents approximately 50% of the overall increase. The remaining increase was primarily due to increases in compensation and benefit expenses, travel-related expenses, professional services and stock based compensation expense. These amounts were partially offset by a decline in bad debt expense and liability insurance expense.

SG&A expenses increased 17% in 2005, which compares unfavorably with our 8% increase in unit sales. This increase was primarily due to increased headcount to support our site-built construction and industrial businesses, greater health care costs, certain taxes, amortization of intangible assets associated with recent acquisitions, and incentive compensation tied to operating profits and return on investment.

Stock-Based Compensation

See Notes to Consolidated Financial Statements, Note I, "Stock-Based Compensation".

Gain on Insurance Settlement

In April 2004, our plant in Thorndale, Ontario was destroyed by a fire. In accordance with Financial Interpretation No. ("FIN") 30, *Accounting for Involuntary Conversions of Non-Monetary Assets to Monetary Assets*, we have written off the net book value of the destroyed inventory and property totaling \$3.6 million. The insured value of the property exceeded its net book value by approximately \$1.4 million, which was recorded as a gain on insurance settlement. As of December 25, 2004, we collected \$2.0 million of insurance proceeds and the remaining insurance receivable totaled approximately \$3.0 million and was recorded in other current assets. This receivable was collected in 2005.

Interest, Net

Net interest costs were lower in 2006 compared to 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. The overall decline in interest expense is also attributable to our decreased borrowings under our revolving credit facility.

Net interest costs were slightly lower in 2005 compared to 2004 due to increased investment income on investments held by our wholly-owned insurance captive. Interest expense increased slightly as a decline in our average debt level was offset by higher borrowing rates on our variable rate debt.

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)

Sale of Real Estate and Interest in Subsidiary

On November 9, 2006 we sold real estate located in Riverside, CA for \$0.6 million and recorded a pre-tax gain totaling approximately \$0.6 million.

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.

We entered into the following transactions in 2004:

- In January 2004, we sold our 60% ownership in Nascor Incorporated, a Calgary, Alberta-based manufacturer of engineered wood components and licensor of I-joint manufacturing technology. The total sales price we collected was \$4.7 million and we recorded a pre-tax accounting loss of approximately \$193,000.
- In March 2004, we sold a plant in Bend, OR and recognized a pre-tax gain of approximately \$562,000 on the sale in the first quarter and an additional \$207,000 in the second quarter as we collected the note receivable issued to us on the sale.
- In June 2004, we sold a plant in Modesto, CA and recognized a pre-tax gain of approximately \$368,000.
- In December 2004, we sold real estate in Elkhart, IN and Thornton, CA and recognized a net pre-tax gain of \$426,000.

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 34.6% in 2006 compared to 37.1% in 2005 primarily due to a \$4.5 million estimated benefit from federal research & development tax credits for 2001 — 2006 combined with a decline in our effective state income tax rate due to tax credits received in 2006, partially offset by a \$1.1 million expense to establish a valuation allowance against a net operating loss carry forward for our Canadian subsidiary.

Our effective tax rate decreased to 37.1% in 2005 compared to 37.9% in 2004 as a result of the new manufacturing deduction allowed in 2005 under the Jobs Creation Act and income taxes accrued on the sale of Nascor Incorporated in 2004.

Off-Balance Sheet Transactions and Contractual Obligations

We have no significant off-balance sheet transactions other than operating leases. The following table summarizes our contractual obligations as of December 30, 2006 (in thousands).

| Contractual Obligation | Payments Due by Period | | | | Total |
|--------------------------------------|------------------------|------------------|-----------------|-----------------|------------------|
| | Less than 1 Year | 1 - 3 Years | 3 - 5 Years | After 5 Years | |
| Long-term debt | \$ 680 | \$110,342 | \$ 505 | \$58,570 | \$170,097 |
| Estimated interest on long-term debt | 10,381 | 15,184 | 6,345 | 10,733 | 42,643 |
| Operating leases | 13,788 | 19,718 | 8,971 | 543 | 43,020 |
| Capital project purchase obligations | 6,069 | | | | 6,069 |
| Total | \$ 30,918 | \$145,244 | \$15,821 | \$69,846 | \$261,829 |

As of December 30, 2006, we also had \$39.2 million in outstanding letters of credit issued during the normal course of business, as required by some vendor contracts.

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)

Liquidity and Capital Resources

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

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|------------------|------------------|------------------|
| Cash from operating activities | \$ 152,322 | \$ 74,132 | \$ 50,234 |
| Cash from investing activities | (111,705) | (55,409) | (37,256) |
| Cash from financing activities | (35,724) | 2,218 | (5,134) |
| Net change in cash and cash equivalents | 4,893 | 20,941 | 7,844 |
| Cash and cash equivalents, beginning of year | 46,215 | 25,274 | 17,430 |
| Cash and cash equivalents, end of year | <u>\$ 51,108</u> | <u>\$ 46,215</u> | <u>\$ 25,274</u> |

In general, we financed our growth in the past through a combination of operating cash flows, our revolving credit facility, industrial development bonds (when circumstances permit), and issuances of long-term notes payable at times when interest rates are favorable. We have not issued equity to finance 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.

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 receivable program) decreased to 40 days in 2006 from 41 days in 2005 as we were able to extend our payables cycle.

Cash flows from operating activities improved by approximately \$78 million in 2006 compared to 2005, primarily due to the following:

- A reduction in working capital requirements due to the decline in the Lumber Market;
- At the end of 2006 we had \$29 million of receivables sold and outstanding under our accounts receivable sale arrangement, compared to the end of 2005 when we did not have this arrangement in place;
- Lower working capital requirements at the end of 2006 compared to the end of 2005 due to a decline in business as a result of difficult market conditions.

Cash used for investing activities increased by approximately \$56 million in 2006 compared to 2005 which was comprised of the following noteworthy changes:

- A \$51.1 million increase in amounts spent for business acquisitions, which totaled \$71.8 million in 2006. Business acquisitions consisted of approximately \$2.1 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, \$4.5 million used to acquire a 50% membership interest in United, \$11.3 million used to acquire the assets of GeoMatrix, and \$44.7 million used to acquire the assets of Banks;
- A \$3.2 million increase in capital expenditures;
- And a \$3 million decrease in the collection of insurance proceeds.

Cash flows from financing activities primarily consisted of cash paid to reduce the amount outstanding under our revolving credit facility. On December 30, 2006, we had \$15.8 million outstanding on our \$250 million revolving credit facility. The revolving credit facility supports letters of credit totaling approximately \$36.7 million on December 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 December 30, 2006.

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 Financial Statements, Note M, "Commitments, Contingencies, and Guarantees".

Critical Accounting Policies

In preparing our consolidated financial statements, we follow accounting principles generally accepted in the United States. These principles require us to make certain estimates and apply judgments that affect our financial position and results of operations. We continually review our accounting policies and financial information disclosures. Following is a summary of our more significant accounting policies that require the use of estimates and judgments in preparing the financial statements.

Accounts Receivable Allowances

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

Self-Insurance Reserves

We are primarily self-insured for certain employee health benefits, and have self-funded retentions for general liability, automobile liability, property and workers' compensation. We are fully self-insured for environmental liabilities. The general liability, automobile liability, property, workers' compensation, and environmental liabilities are managed through a wholly-owned insurance captive; the related assets and liabilities of which are included in the consolidated financial statements as of December 30, 2006. Our accounting policies with respect to the reserves are as follows:

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

Revenue Recognition

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

Long-Lived Assets and Goodwill

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

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)

Recently Issued Accounting Standards

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

Forward Outlook

The following section contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements are based on the beliefs and assumptions of management, together with information available to us when the statements were made. Future results could differ materially from those included in such forward-looking statements as a result of, among other things, the factors set forth in the "Risk Factors" section of our Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission and certain economic and business factors which may be beyond our control. Investors are cautioned that all forward-looking statements involve risks and uncertainties.

"GO 2010"

We recently announced our new five year growth plan entitled "GO (Growth and Opportunity) 2010", which includes goals to be achieved by the end of our fiscal year 2010:

- Increasing sales to \$4 billion.
- Improving productivity by 10%, which will be measured through a variety of statistics such as sales per employee and operating profit per employee.
- Improving inventory turnover and our cash cycle by 10%.
- Achieving 100% customer satisfaction.
- Increasing opportunities for all employees.

The plan focuses on growing the business through organic and acquisition growth, driving waste out of our processes through a new program called Continuous Improvement — The Universal Way ("Continuous Improvement"), and changes to the organizational structure intended to cultivate growth and opportunity for the organization and its employees.

We anticipate growth in our business in 2007. Key assumptions with respect to our 2007 outlook include:

- A difficult housing market for the first half of 2007, which improves later in the year as the excess supply of new single-family homes subsides.
- Stable or modest gains in home improvement expenditures driven by the continued growth of aging housing stock, continued increases in all-time home ownership rates, and strong home sales in recent years.
- A continued oversupply of lumber relative to demand, resulting in low prices.
- Opportunities for market share gains in site-built construction, industrial business, and DIY/retail, including consumer products.
- The complete integration of strategic business acquisitions that occurred in 2006, such as Banks Lumber, and the acquisition of Aljoma Lumber, Inc. ("Aljoma") completed in February 2007. See Notes to Consolidated Financial Statements, Note R, "Subsequent Events".

Although we anticipate challenges in some of our markets in the first six months of 2007, we are targeting unit sales growth of 10% to 15%, including the impact of acquisitions we completed in 2006 and the Aljoma acquisition we completed in 2007. We are also targeting net earnings growth of 5% to 10% over 2006, excluding the estimated \$4.5 million federal research & development tax credit and the \$1.1 million deferred tax valuation allowance mentioned under the caption "Income Taxes".

DIY/Retail Market

The Home Improvement Research Institute forecasts an increase in home improvement product sales of 1.3% to \$315 billion in 2007. A slower pace of growth is forecasted due to a slow down in consumer spending and a continued decline in housing market activity in 2007.

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)

In 2007, we believe our unit sales will increase primarily due to additional market share gained with certain "big box" home improvement retailers and additional unit sales from recent acquisitions, offset somewhat by a decline in housing activity. On a long-term basis, it is our goal to achieve sales growth by:

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

Site-Built Construction Market

The *National Association of Home Builders* forecasts a 13.8% decline in housing starts to an estimated 1.56 million starts in 2007 as the industry continues to recover from excess inventory levels of single-family homes.

In 2007, we believe the decline in single family housing starts will adversely impact our sales. Our strategy during this downturn is to continue to gain market share as a result of:

- Our cost advantages over smaller competitors.
- Sales of wall panels and our Open Joist™ product lines, which help our customers reduce costs compared to products and methods of construction currently used.
- Continuing to offer framing services.
- Completing business acquisitions in regions where we do not have a presence.

On a long-term basis, we anticipate growth in our sales to the site-built construction market primarily as a result of market share gains achieved through:

- Acquisitions of component manufacturers and framing services providers. We believe the trend whereby customers prefer to purchase a combination of components and framing services will continue. Therefore, our acquisition strategy includes targeted markets for framing operations.
- Greater customer acceptance of engineered wood components, because of the benefits these products provide builders over traditional carpentry methods employed on the job site.
- Industry consolidation toward large production-oriented builders, which tend to prefer the use of engineered products and who desire suppliers with a national presence.

We expect that business acquisitions will play a major role in our future growth in this market.

Manufactured Housing Market

The Manufactured Housing Institute has made a preliminary forecast of a slight decrease in shipments of HUD code homes in 2007. It is our goal to maintain our current market share of trusses produced for this market, which increased as a result of our acquisition of Banks Lumber in November 2006.

Sales of modular homes are expected to gain share in 2007 as a result of more developers adopting the controlled building environment of modular construction as a method of cost control. In addition, these consumers are expected to continue to experience more favorable lending rates compared to HUD code homes. It is our goal to maintain our market share of trusses produced for the modular market as a

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)

result of our strong relationships with modular builders, design services and proprietary products, and successful integration of Banks Lumber.

Industrial Market

One of our key strategic objectives is to increase our sales of wood packaging products to industrial users. We believe the vast amount of hardwood and softwood lumber consumed for industrial applications, combined with the highly fragmented nature of this market provides us with significant growth opportunities as a result of our competitive cost advantages in manufacturing, purchasing, and material utilization. To take advantage of these opportunities, we plan to continue to obtain market share through an internal growth strategy utilizing our current manufacturing capabilities and dedicated industrial sales force. On a long-term basis, we also plan to evaluate strategic acquisition opportunities.

Gross Profit

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

- We have a long-term goal of continuing to increase our ratio of value-added sales to total sales, which in turn should increase gross margins. Our acquisition and internal sales growth strategies will help us continue to make progress toward this objective. However, achievement of this goal is dependent, in part, upon certain factors that are beyond our control.
- Our ability to increase sales and maintain gross margins on products sold to our largest customers. We believe our level of service, geographic diversity, and quality of products provides an added value to our customers. If our customers are unwilling to pay for these advantages, our sales and gross margins may be reduced.
- In the first half of 2007 we will experience challenging market conditions. These conditions will continue to result in more intense price competition and/or a reduction in sales of some products, particularly those for site-built construction.
- Fluctuations in the relative level of the Lumber Market and the trend in the market price of lumber impact our gross margins. (See "Impact of the Lumber Market on our Operating Results.")
- Our ability to gain market share and the relative strength of our end markets will impact our sales prices, capacity utilization, and profitability.
- Our ability to continue to achieve cost reductions through our Continuous Improvement initiative.

Selling, General, and Administrative Expenses

SG&A costs have increased at a rate greater than our unit sales in recent years due, in part, to acquisitions of engineered wood component manufacturers, which have extensive engineering and design costs, our growth in sales to the industrial market, and certain investments in technology. However, we strive to achieve economies of scale in other administrative departments as sales growth objectives are met. We believe our Continuous Improvement initiative will help us achieve this goal.

Liquidity and Capital Resources

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

Management expects to spend \$40 million on capital expenditures in 2007 and incur depreciation and amortization of intangible assets of approximately \$46 million. Besides "maintenance" capital expenditures totaling approximately \$35 million, we currently plan to spend an additional \$5 million to expand the business. On December 30, 2006, we had outstanding purchase commitments on capital projects of approximately \$6.1 million.

We have no present intention to change our dividend policy, which is currently \$0.055 per share paid semi-annually.

Our Board of Directors has approved a share repurchase program under which we have authorization to buy back approximately 1.5 million shares as of December 30, 2006. In the past, we have repurchased shares in order to offset the effect of issuances resulting from our employee benefit plans and at times when our stock price falls to a pre-determined level.

Universal Forest Products, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)

We are obligated to pay amounts due on long-term debt totaling approximately \$0.7 million in 2007.

On February 12, 2007, we amended and increased the size of our unsecured revolving credit facility to \$300 million, which includes amounts reserved for letters of credit. The facility is also used to fund seasonal working capital requirements and growth, including acquisitions. We believe our peak seasonal working capital requirements may consume up to \$100 million of this availability through June of 2007 and then decrease for the balance of the year in line with historical trends. We plan to finance our capital requirements for the year through operating cash flows, the use of our sale of receivables program, and use of our revolving credit facility.

On February 12, 2007, one of our subsidiaries acquired all of the common shares of Aljoma Lumber, Inc. located in Medley, FL, a leading manufacturer of pressure-treated wood and industrial products that serves Southern Florida and the Caribbean islands. The purchase price of the common shares of Aljoma was approximately \$53.5 million.

Management's Annual Report on Internal Control Over Financial Reporting

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

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

We assessed the effectiveness of our internal control over financial reporting as of December 30, 2006. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on our assessment, management has concluded that as of December 30, 2006, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on management's assessment of our internal control over financial reporting. Their report immediately follows our report.

Universal Forest Products, Inc.
February 27, 2007

**Report of Independent Registered Public Accounting Firm
on Internal Control Over Financial Reporting**

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

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, that Universal Forest Products, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 30, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Universal Forest Products, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Universal Forest Products, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 30, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Universal Forest Products, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 30, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Universal Forest Products, Inc. and subsidiaries as of December 30, 2006 and December 31, 2005, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 30, 2006 of Universal Forest Products, Inc. and subsidiaries and our report dated February 12, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP

Grand Rapids, Michigan
February 12, 2007

Report of Independent Registered Public Accounting Firm

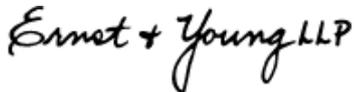
The Board of Directors and Shareholders of Universal Forest Products, Inc.

We have audited the accompanying consolidated balance sheets of Universal Forest Products, Inc. and subsidiaries as of December 30, 2006 and December 31, 2005, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Universal Forest Products, Inc. and subsidiaries at December 30, 2006 and December 31, 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 30, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Universal Forest Products, Inc. and subsidiaries' internal control over financial reporting as of December 30, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 12, 2007 expressed an unqualified opinion thereon.

The logo for Ernst & Young LLP, featuring the company name in a stylized, cursive script font.

Grand Rapids, Michigan
February 12, 2007

Consolidated Balance Sheets
(In thousands, except share data)

| | December 30, 2006 | December 31, 2005 |
|--|----------------------|----------------------|
| Assets | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 51,108 | \$ 46,215 |
| Accounts receivable, net | 148,242 | 185,080 |
| Inventories: | | |
| Raw materials | 128,621 | 144,361 |
| Finished goods | 116,497 | 109,408 |
| | 245,118 | 253,769 |
| Other current assets | 9,363 | 11,956 |
| Prepaid income taxes | 15,239 | |
| Deferred income taxes | 6,065 | 5,158 |
| TOTAL CURRENT ASSETS | 475,135 | 502,178 |
| OTHER ASSETS | 7,404 | 7,887 |
| GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS | 155,177 | 131,556 |
| OTHER INTANGIBLE ASSETS, NET | 25,390 | 10,966 |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Land and improvements | 71,366 | 64,534 |
| Building and improvements | 153,369 | 139,200 |
| Machinery, equipment and office furniture | 234,741 | 204,924 |
| Construction in progress | 6,545 | 3,817 |
| | 466,021 | 412,475 |
| Less accumulated depreciation and amortization | (215,686) | (188,142) |
| PROPERTY, PLANT AND EQUIPMENT, NET | 250,335 | 224,333 |
| TOTAL ASSETS | \$ 913,441 | \$ 876,920 |
| Liabilities and Shareholders' Equity | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 94,441 | \$ 106,716 |
| Accrued liabilities: | | |
| Compensation and benefits | 71,990 | 69,528 |
| Income taxes | | 1,604 |
| Other | 25,111 | 25,845 |
| Current portion of long-term debt and capital lease obligations | 680 | 458 |
| TOTAL CURRENT LIABILITIES | 192,222 | 204,151 |
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion | 169,417 | 209,039 |
| DEFERRED INCOME TAXES | 12,697 | 12,914 |
| MINORITY INTEREST | 10,819 | 8,577 |
| OTHER LIABILITIES | 13,544 | 10,387 |
| TOTAL LIABILITIES | 398,699 | 445,068 |
| 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 18,858,892 and 18,402,648 | 18,859 | 18,403 |
| Additional paid-in capital | 113,754 | 97,372 |
| Deferred stock compensation | | 4,212 |
| Deferred stock compensation rabbi trust | | (2,117) |
| Retained earnings | 380,931 | 312,878 |
| Accumulated other comprehensive earnings | 2,451 | 2,408 |
| | 515,995 | 433,156 |
| Employee stock notes receivable | (1,253) | (1,304) |
| TOTAL SHAREHOLDERS' EQUITY | 514,742 | 431,852 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 913,441 | \$ 876,920 |

See notes to consolidated financial statements.

Consolidated Statements of Earnings

(In thousands, except per share data)

| | Year Ended | | |
|---|----------------------|----------------------|----------------------|
| | December 30, 2006 | December 31, 2005 | December 25, 2004 |
| NET SALES | \$ 2,664,572 | \$ 2,691,522 | \$ 2,453,281 |
| COST OF GOODS SOLD | 2,282,890 | 2,332,266 | 2,157,028 |
| GROSS PROFIT | 381,682 | 359,256 | 296,253 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 258,591 | 235,651 | 201,335 |
| GAIN ON INSURANCE SETTLEMENT | | | (1,391) |
| EARNINGS FROM OPERATIONS | 123,091 | 123,605 | 96,309 |
| OTHER EXPENSE (INCOME): | | | |
| Interest expense | 14,053 | 15,171 | 14,904 |
| Interest income | (2,443) | (1,098) | (284) |
| Net gain on sale of real estate and interest in subsidiary | (654) | (1,240) | (1,370) |
| | 10,956 | 12,833 | 13,250 |
| EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST | 112,135 | 110,772 | 83,059 |
| INCOME TAXES | 38,760 | 41,050 | 31,462 |
| EARNINGS BEFORE MINORITY INTEREST | 73,375 | 69,722 | 51,597 |
| MINORITY INTEREST | (3,250) | (2,349) | (2,994) |
| NET EARNINGS | \$ 70,125 | \$ 67,373 | \$ 48,603 |
| EARNINGS PER SHARE — BASIC | \$ 3.73 | \$ 3.67 | \$ 2.70 |
| EARNINGS PER SHARE — DILUTED | \$ 3.62 | \$ 3.53 | \$ 2.59 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 18,820 | 18,374 | 18,032 |
| WEIGHTED AVERAGE SHARES OUTSTANDING WITH COMMON STOCK EQUIVALENTS | 19,370 | 19,106 | 18,771 |

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(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 27, 2003 | \$ 17,814 | \$ 85,189 | \$ 2,447 | \$ (615) | \$ 200,745 | \$ 1,396 | \$ (1,872) | \$ 305,104 |
| Comprehensive earnings: | | | | | | | | |
| Net earnings | | | | | 48,603 | | | |
| Foreign currency translation adjustment | | | | | | 129 | | |
| Total comprehensive earnings | | | | | | | | 48,732 |
| Cash dividends — \$.100 per share | | | | | (1,796) | | | (1,796) |
| Issuance of 170,677 shares under employee stock plans | 170 | 2,845 | | | | | | 3,015 |
| Issuance of 4,036 shares under stock grant programs | 4 | 127 | | | | | | 131 |
| Issuance of 22,528 shares under deferred compensation plans | 23 | 693 | | (716) | | | | 0 |
| Received 4,695 shares for the exercise of stock options | (5) | (150) | | | | | | (155) |
| Received 4,050 shares to payoff notes receivable | (4) | | | | (125) | | | (129) |
| Tax benefits from non-qualified stock options exercised | | 559 | | | | | | 559 |
| Accrued expense under deferred compensation plans | | | 976 | | | | | 976 |
| Issuance of 195 shares in exchange for employee stock notes receivable | | 6 | | | | | (6) | 0 |
| Payments received on employee stock notes receivable | | | | | | | 332 | 332 |
| 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 | | | | | 67,373 | | | |
| Foreign currency translation adjustment | | | | | | 883 | | |
| Total comprehensive earnings | | | | | | | | 68,256 |
| Cash dividends — \$.105 per share | | | | | (1,922) | | | (1,922) |
| Issuance of 411,245 shares under employee stock plans | 411 | 4,781 | | | | | | 5,192 |
| Issuance of 3,713 shares under stock grant programs | 4 | 158 | | | | | | 162 |
| 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 | | 4,021 | | | | | | 4,021 |
| Accrued expense under deferred compensation plans | | | 1,005 | (30) | | | | 975 |
| Issuance of 1,605 shares in exchange for employee stock notes receivable | 2 | 60 | | | | | (62) | 0 |
| Payments received on employee stock notes receivable | | | | | | | 304 | 304 |
| 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 | | | | | 70,125 | | | |
| Foreign currency translation adjustment | | | | | | 43 | | |
| Total comprehensive earnings | | | | | | | | 70,168 |
| Cash dividends — \$.110 per share | | | | | (2,072) | | | (2,072) |
| Reversal of deferred compensation upon adoption of SFAS 123(R) | | 2,095 | (4,212) | 2,117 | | | | 0 |
| Issuance of 349,644 shares under employee stock plans | 350 | 5,678 | | | | | | 6,028 |
| Issuance of 3,467 shares under stock grant programs | 3 | 194 | | | | | | 197 |
| 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 | | 4,376 | | | | | | 4,376 |
| Expense associated with share-based compensation arrangements | | 972 | | | | | | 972 |
| Accrued expense under deferred compensation plans | | 3,056 | | | | | | 3,056 |
| 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 December 30, 2006 | \$ 18,859 | \$ 113,754 | \$ 0 | \$ 0 | \$ 380,931 | \$ 2,451 | \$ (1,253) | \$ 514,742 |

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)

| | Year Ended | | |
|--|----------------------|----------------------|----------------------|
| | December 30, 2006 | December 31, 2005 | December 25, 2004 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net earnings | \$ 70,125 | \$ 67,373 | \$ 48,603 |
| Adjustments to reconcile net earnings to net cash from operating activities: | | | |
| Depreciation | 33,771 | 31,311 | 28,453 |
| Amortization of intangibles | 5,751 | 3,485 | 2,383 |
| Notes receivable written off to expense | | 816 | |
| Expense associated with share-based compensation arrangements | 972 | | |
| Expense associated with stock grant plans | 197 | 162 | 131 |
| Deferred income taxes | (1,100) | (7,377) | 790 |
| Tax benefits from non-qualified stock options exercised | | 4,021 | 559 |
| Minority interest | 3,250 | 2,349 | 2,994 |
| Loss on sale of interest in subsidiary | | | 193 |
| Gain on insurance settlement | | | (1,391) |
| Net (gain) loss on sale or impairment of property, plant and equipment | 141 | (553) | (710) |
| Changes in: | | | |
| Accounts receivable | 41,912 | (28,742) | (16,107) |
| Inventories | 22,262 | (36,501) | (42,817) |
| Accounts payable | (14,576) | 16,998 | 7,371 |
| Accrued liabilities and other | (6,385) | 20,790 | 19,782 |
| Excess tax benefits from share-based compensation arrangements | (3,998) | | |
| NET CASH FROM OPERATING ACTIVITIES | 152,322 | 74,132 | 50,234 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of property, plant and equipment | (43,504) | (40,233) | (40,722) |
| Acquisitions, net of cash received | (71,814) | (20,747) | (10,075) |
| Proceeds from sale of interest in subsidiary | | | 4,679 |
| Proceeds from sale of property, plant, and equipment | 1,245 | 2,712 | 5,226 |
| Advances on notes receivable | | (887) | (308) |
| Collection of notes receivable | 1,614 | 820 | 2,560 |
| Insurance proceeds | | 3,057 | 2,000 |
| Other, net | 754 | (131) | (616) |
| NET CASH FROM INVESTING ACTIVITIES | (111,705) | (55,409) | (37,256) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Net borrowings (repayments) of revolving credit facilities | (37,700) | 23,827 | 1,223 |
| Repayment of long-term debt | (3,228) | (23,407) | (6,392) |
| Proceeds from issuance of common stock | 5,938 | 4,487 | 2,860 |
| Distributions to minority shareholder | (2,586) | (1,217) | (1,123) |
| Investment received from minority shareholder | | 500 | |
| Dividends paid to shareholders | (2,072) | (1,922) | (1,796) |
| Excess tax benefits from share-based compensation arrangements | 3,998 | | |
| Repurchase of common stock | | | (129) |
| Other, net | (74) | (50) | 223 |
| NET CASH FROM FINANCING ACTIVITIES | (35,724) | 2,218 | (5,134) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 4,893 | 20,941 | 7,844 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 46,215 | 25,274 | 17,430 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 51,108 | \$ 46,215 | \$ 25,274 |

Consolidated Statements of Cash Flows (continued)

(In thousands)

| | Year Ended | | |
|--|----------------------|----------------------|----------------------|
| | December 30, 2006 | December 31, 2005 | December 25, 2004 |
| SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION: | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 14,637 | \$ 14,179 | \$ 15,087 |
| Income taxes | 52,335 | 43,303 | 29,181 |
| NON-CASH OPERATING ACTIVITIES: | | | |
| Accounts receivable exchanged for note receivable | 431 | 765 | |
| 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 long-term debt | 1,379 | 63 | |
| Insurance receivable in exchange for property, plant and equipment | | | 1,455 |
| Note receivable exchanged for property, plant and equipment | 550 | | |
| Note receivable exchanged for management fees to former subsidiary | | | 520 |
| Stock acquired through employees' stock notes receivable | 204 | 62 | 6 |
| NON-CASH FINANCING ACTIVITIES: | | | |
| Common stock issued under deferred compensation plans | 2,225 | 972 | 716 |
| Stock received for the exercise of stock options, net | | 1,200 | 4 |

See notes to consolidated financial statements.

Universal Forest Products, Inc.
Notes to Consolidated Financial Statements

A. Summary of Significant Accounting Policies

Operations

We engineer, manufacture, treat, distribute and install lumber, composite wood, plastic, and other building products for the do-it-yourself/retail ("DIY/retail"), site-built construction, manufactured housing, and industrial markets. Our principal products include preservative-treated wood, remanufactured lumber, lattice, fence panels, deck components, specialty packaging, engineered trusses, wall panels, and other building products.

Principles of Consolidation

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

Minority Interest in Subsidiaries

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

Fiscal Year

Our fiscal year is a 52 or 53 week period, ending on the last Saturday of December. Unless otherwise stated, references to 2006, 2005, and 2004 relate to the fiscal years ended December 30, 2006, December 31, 2005, and December 25, 2004, respectively. Fiscal years 2006 and 2004 were comprised of 52 weeks, 2005 was comprised of 53 weeks.

Fair Value Disclosures of Financial Instruments

The estimated fair values of financial instruments have been determined in accordance with Statement of Financial Accounting Standards ("SFAS") No. 107, *Disclosures about Fair Value of Financial Instruments*. Significant differences in fair market values and recorded values are disclosed in Note D. The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The fair value estimates presented herein are based on pertinent information available to management as of December 30, 2006. Although we are not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly-liquid investments purchased with an original maturity of three months or less. Cash equivalents totaled approximately \$28.1 million and \$32.7 million as of December 30, 2006 and December 31, 2005, respectively.

As a result of our cash management system, checks issued but not presented to our bank for payment create negative cash balances. These negative balances are included in accounts payable and accrued liabilities and totaled \$20.8 million and \$25.1 million as of December 30, 2006 and December 31, 2005, respectively.

Accounts Receivable

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

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

Accounts Receivable Allowances

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

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

| | Balance at Beginning of Period | Additions Charged to Costs and Expenses | Uncollectible Accounts Written Off | Recovery of Amounts Previously Written Off | Balance at End of Period |
|--|--------------------------------------|--|--|---|--------------------------------|
| Year Ended December 30, 2006: | | | | | |
| Allowance for possible losses on accounts receivable | \$ 3,396 | \$ 23,787 | (\$ 23,975) | \$ 368 | \$ 3,576 |
| Year Ended December 31, 2005: | | | | | |
| Allowance for possible losses on accounts receivable | \$ 2,943 | \$ 29,173 | (\$ 29,531) | \$ 811 | \$ 3,396 |
| Year Ended December 25, 2004: | | | | | |
| Allowance for possible losses on accounts receivable | \$ 1,891 | \$ 24,126 | (\$ 23,796) | \$ 722 | \$ 2,943 |

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

Inventories

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

Property, Plant, and Equipment

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

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

Foreign Currency Translation

Our foreign operations use the local currency as their functional currency. Accordingly, assets and liabilities are translated at exchange rates as of the balance sheet date and revenues and expenses are translated using weighted average rates, with translation adjustments included as a separate component of shareholders' equity. The net realized gain or loss on foreign currency transactions were not material in any year presented.

Self-Insurance Reserves

We are primarily self-insured for certain employee health benefits, and have self-funded retentions for general liability, automobile liability, property and workers' compensation. We are fully self-insured for environmental liabilities. The general liability, automobile liability, property, workers' compensation, and environmental liabilities are managed through a wholly-owned insurance captive; the related assets and liabilities of which are included in the consolidated financial statements as of December 30, 2006 and December 31, 2005. Our policy is to accrue amounts equal to actuarially determined or internally computed liabilities. The actuarial and internal valuations are based on historical information along with certain assumptions about future events. Changes in assumptions for such matters as legal actions, medical cost trends, and changes in claims experience could cause these estimates to change in the future.

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

Income Taxes

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

Revenue Recognition

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

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

The following table presents the balances of percentage-of-completion accounts on December 30, 2006 and December 31, 2005 which are included in other current assets and accrued liabilities: other, respectively (in thousands):

| | 2006 | 2005 |
|---|---------|---------|
| Cost and Earnings in Excess of Billings | \$4,829 | \$9,052 |
| Billings in Excess of Cost and Earnings | 6,236 | 7,495 |

Shipping and Handling of Product

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

Earnings Per Share

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

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):

| | 2006 | | | 2005 | | | 2004 | | |
|---|-----------------------|-------------------------|------------------------|-----------------------|-------------------------|------------------------|-----------------------|-------------------------|------------------------|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Net Earnings | \$ 70,125 | | | \$ 67,373 | | | \$ 48,603 | | |
| EPS — Basic | | | | | | | | | |
| Income available to common stockholders | 70,125 | 18,820 | \$ 3.73 | 67,373 | 18,374 | \$ 3.67 | 48,603 | 18,032 | \$ 2.70 |
| Effect of Dilutive Securities | | | | | | | | | |
| Options | | 550 | | | 732 | | | 739 | |
| EPS — Diluted | | | | | | | | | |
| Income available to common stockholders and assumed options exercised | 70,125 | 19,370 | \$ 3.62 | \$ 67,373 | 19,106 | \$ 3.53 | \$ 48,603 | 18,771 | \$ 2.59 |

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

No outstanding options were excluded from the computation of diluted EPS as of December 30, 2006 or December 31, 2005.

Options to purchase 15,000 shares of common stock at an exercise price of \$36.01 were outstanding as of December 25, 2004, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common stock during the period and, therefore, would be antidilutive.

Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment and Disposal of Long-Lived Assets*, we evaluate the recoverability of our long-lived assets by determining whether unamortized balances could be recovered through undiscounted future operating cash flows over the remaining lives of the assets. If the sum of the expected future cash flows was less than the carrying value of the assets, an impairment loss would be recognized for the excess of the carrying value over the fair value. The estimated fair value is determined by discounting the expected future cash flows at a rate that is required for a similar investment with like risks.

Use of Accounting Estimates

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

Reclassifications

Certain prior year information has been reclassified to conform to the current year presentation.

Recently Issued Accounting Standards

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*-an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. This Interpretation is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are in process of calculating the effects and expect the adoption of FIN 48 will not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). This new standard establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair market value. SFAS No. 157 also expands financial statement disclosure requirements about a company's use of fair value measurements, including the effect of such measures on earnings. We are required to adopt this new accounting guidance at the beginning of the fiscal year ending December 31, 2008. While we are currently evaluating the provisions of SFAS No. 157, the adoption is not expected to have a material impact on our consolidated financial statements.

B. Business Combinations and Asset Purchases

All of the transactions mentioned below are considered business combinations under the provision of SFAS No. 141, *Business Combinations* and Emerging Issues Task Force Issue 98-3, *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business* ("EITF 98-3"). Each business combination has been accounted for as a purchase. Accordingly, in each instance, the purchase price was allocated to the assets acquired, liabilities assumed, and identifiable intangible assets as applicable based on their fair market values at the date of acquisition. Any excess of the purchase price over the fair value of the acquired assets, including identifiable intangible assets, and assumed liabilities was recorded as goodwill in each transaction. The results of operations of each business combination are included in our consolidated financial statements since the date it was acquired.

On November 17, 2006, one of our subsidiaries acquired the assets and assumed certain liabilities of Banks Lumber ("Banks") including plants located in Elkhart, IN; Morristown, TN; Auburndale, FL; Hillsboro, TX; Edwardsburg, MI and Stanfield, NC. Banks is a leading manufacturer of roof trusses and cut-to-size structural lumber for manufactured housing and recreational vehicle (RV) manufacturers nationwide. The purchase price was approximately \$46.7 million, allocating \$20.9 million to tangible net assets, \$1.4 million in specifically identified intangibles and \$24.4 million to goodwill. The purchase price allocation for this acquisition is

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

preliminary and will be revised as final estimates of real estate and intangible asset values are made in accordance with SFAS No. 141, *Business Combinations*. Banks had net sales in fiscal 2005 totaling approximately \$147.0 million.

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 \$11.5 million, allocating \$2.4 million to tangible net assets and \$9.1 million to non-compete agreements. 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 SFAS No. 141, *Business Combinations*. GeoMatrix had net sales in fiscal 2005 totaling approximately \$19.0 million.

On July 10, 2006, one of our subsidiaries acquired a 50% interest in United Lumber & Reman LLC ("United"), an industrial wood manufacturing plant located in Muscle Shoals, Alabama. The purchase price was approximately \$4.9 million, allocating \$2.2 million to tangible net assets and \$2.7 million to non-compete agreements. 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 SFAS No. 141, *Business Combinations*. United had net sales totaling approximately \$26.0 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, allocating \$2.6 million to tangible net assets, \$0.9 million to non-compete agreements, \$3.1 million to customer relationship related intangibles and \$2.6 million to goodwill. Dura-Bilt had net sales in fiscal 2005 totaling approximately \$16.0 million.

On April 3, 2006, one of our subsidiaries, which at the time owned a 75% interest in Shawnlee Construction, LLC ("Shawnlee"), which provides framing services for multi-family construction, and is located in Plainville, MA, acquired an additional 5% interest for approximately \$0.8 million, allocating \$0.4 million to tangible assets, \$0.2 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. We have consolidated this entity, including a respective minority interest, because we exercise control.

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 DeckKorators, Inc. ("DeckKorators") 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, 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 million to goodwill. DeckKorators 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 a backlog and \$0.6 million to goodwill. In addition, we agreed to purchase the remaining 25% 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 a 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, allocating \$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.

On April 2, 2004, one of our subsidiaries acquired a 50% interest in Shawnlee. The purchase price was approximately \$4.8 million, allocating \$1.2 million to tangible assets and purchased intangibles, \$1.1 million to a non-compete agreement, \$1.3 million to customer relationship related intangibles, \$0.2 million to a backlog, and \$1.0 million to goodwill. Shawnlee had net sales in fiscal 2003 totaling approximately \$20.0 million.

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

On March 15, 2004, one of our subsidiaries acquired the assets of Slaughter Industries, owned by International Paper Company ("Slaughter"), a facility which supplies the site-built construction market in Dallas, TX. The purchase price was approximately \$3.9 million, which was allocated to the fair value of tangible net assets. Slaughter had net sales in fiscal 2003 totaling approximately \$48.0 million.

On January 30, 2004, one of our subsidiaries acquired the assets of Midwest Building Systems, Inc. ("Midwest"), a facility which serves the site-built construction market in Indianapolis, IN. The purchase price was approximately \$1.5 million, which was allocated to the fair value of tangible net assets. Midwest had net sales in fiscal 2003 totaling approximately \$7.0 million.

The acquisitions in 2006, 2005 and 2004 were not significant to our operating results individually nor in the aggregate, and thus pro forma results are not presented.

C. Goodwill and Other Intangible Assets

We account for goodwill and other intangible assets in accordance with the provisions of SFAS No. 142 *Goodwill and Other Intangible Assets*. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually or when a triggering event occurs. We tested for impairment in the fourth quarter by utilizing the discounted cash flow method, which resulted in no impairment.

On December 31, 2002, the Chairman of the Board retired as an employee of Universal Forest Products, Inc., and we entered into a non-compete agreement with him which provides for monthly payments of \$12,500 for a term of seven years. The present value of these payments has been recorded in Other liabilities.

The following amounts were included in other intangible assets, net as of December 30, 2006 and December 31, 2005 (in thousands):

| | 2006 | | 2005 | |
|------------------------|-----------------|--------------------------|-----------------|--------------------------|
| | Assets | Accumulated Amortization | Assets | Accumulated Amortization |
| Non-compete agreements | \$28,318 | \$ (9,649) | \$12,399 | \$ (6,190) |
| Licensing agreements | 2,510 | (2,395) | 2,510 | (1,995) |
| Customer relationships | 9,088 | (2,507) | 4,882 | (867) |
| Backlog | 693 | (668) | 644 | (417) |
| Total | \$40,609 | \$ (15,219) | \$20,435 | \$ (9,469) |

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

| | |
|------------------------|---------------|
| Non-compete agreements | 5 to 11 years |
| Licensing agreements | 3 to 5 years |
| Customer relationship | 5 years |
| Backlog | 1 year |

Amortization expense for intangibles totaled \$5.8 million, \$3.5 million and \$2.4 million in 2006, 2005, and 2004, respectively. The estimated amortization expense for intangibles for each of the five succeeding fiscal years is as follows (in thousands):

| | |
|--------------|-----------------|
| 2007 | \$ 6,797 |
| 2008 | 6,087 |
| 2009 | 4,991 |
| 2010 | 4,019 |
| 2011 | 2,320 |
| Thereafter | 1,176 |
| Total | \$25,390 |

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

The changes in the net carrying amount of goodwill and indefinite-lived intangible assets for the years ended December 30, 2006 and December 31, 2005, are as follows (in thousands):

| | <u>Goodwill</u> | <u>Indefinite-Lived Intangible Assets</u> |
|----------------------------------|------------------|---|
| Balance as of December 25, 2004 | \$123,845 | \$ 0 |
| Acquisitions | 7,461 | |
| Other, net | 250 | |
| Balance as of December 31, 2005 | <u>\$131,556</u> | <u>\$ 0</u> |
| Acquisitions | 31,097 | 2,340 |
| Final purchase price allocations | (9,915) | |
| Other, net | 99 | |
| Balance as of December 30, 2006 | <u>\$152,837</u> | <u>\$ 2,340</u> |

D. Debt

On December 20, 2004, we completed a five-year, \$250 million unsecured revolving credit facility, which includes amounts reserved for letters of credit. Cash borrowings are charged interest based upon an index equal to the Eurodollar rate (in the case of borrowings in US Dollars) or the bankers' acceptance rate quoted (in the case of borrowings in Canadian Dollars), plus a margin (ranging from 42.5 to 107.5 basis points, based upon our financial performance). We are also charged an annual facility fee on the entire amount of the lending commitment (ranging from 12.5 to 30 basis points, based upon our performance), and a usage premium (ranging from 7.5 to 12.5 basis points, based upon our performance) at times when borrowings exceed \$125 million. The average borrowing rate on this facility was 4.9% and 3.4% in 2006 and 2005, respectively. The amount outstanding on the revolving credit facility is included in the long-term debt summary below.

Outstanding letters of credit extended on our behalf aggregated \$39.2 million on December 30, 2006, which includes approximately \$18.5 million related to industrial development revenue bonds. Outstanding letters of credit extended on our behalf aggregated \$38.1 million on December 31, 2005, which includes approximately \$18.3 million related to industrial development revenue bonds. Letters of credit have terms ranging from one to three years, and include an automatic renewal clause. The letters of credit are charged an annual interest rate ranging from 42.5 to 107.5 basis points, based upon our financial performance.

Long-term debt and capital lease obligations are summarized as follows on December 30, 2006 and December 31, 2005 (amounts in thousands):

| | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|
| Series 1998-A Senior Notes Tranche B, due on December 21, 2008, interest payable semi-annually at 6.98% | \$59,500 | \$59,500 |
| Series 1998-A Senior Notes Tranche C, due on December 21, 2008, interest payable semi-annually at 6.98% | 19,000 | 19,000 |
| Series 2002-A Senior Notes Tranche A, due on December 18, 2009, interest payable semi-annually at 5.63% | 15,000 | 15,000 |
| Series 2002-A Senior Notes Tranche B, due on December 18, 2012, interest payable semi-annually at 6.16% | 40,000 | 40,000 |
| Revolving credit facility totaling \$250 million due on December 18, 2009, interest due monthly at a floating rate (5.00% on December 30, 2006) | 15,883 | 53,434 |
| Series 1998 Industrial Development Revenue Bonds, due on December 1, 2018, interest payable monthly at a floating rate (3.79% on December 30, 2006) | 1,300 | 1,300 |
| Series 1999 Industrial Development Revenue Bonds, due on July 1, 2029, interest payable monthly at a floating rate (3.75% on December 30, 2006) | 2,400 | 2,400 |
| Series 1999 Industrial Development Revenue Bonds, due on August 1, 2029, interest payable monthly at a floating rate (3.58% on December 30, 2006) | 3,300 | 3,300 |
| Series 2000 Industrial Development Revenue Bonds, due on October 1, 2020, interest payable monthly at a floating rate (3.74% on December 30, 2006) | 2,700 | 2,700 |
| Series 2000 Industrial Development Revenue Bonds, due on November 1, 2020, interest payable monthly at a floating rate (3.75% on December 30, 2006) | 2,400 | 2,400 |
| Series 2001 Industrial Development Revenue Bonds, due on November 1, 2021, interest payable monthly at a floating rate (3.74% on December 30, 2006) | 2,500 | 2,500 |

Universal Forest Products, Inc.
Notes to Consolidated Financial Statements (continued)

| | <u>2006</u> | <u>2005</u> |
|---|------------------|------------------|
| Series 2002 Industrial Development Revenue Bonds, due on December 1, 2022, interest payable monthly at a floating rate (3.73% on December 30, 2006) | 3,700 | 3,700 |
| Capital lease obligations, interest imputed at 5.4% | 902 | 2,106 |
| Other | <u>1,512</u> | <u>2,157</u> |
| | 170,097 | 209,497 |
| Less current portion | <u>680</u> | <u>458</u> |
| Long-term portion | <u>\$169,417</u> | <u>\$209,039</u> |

Financial covenants on the unsecured revolving credit facility and unsecured notes include a minimum net worth requirement, minimum interest coverage tests, and a maximum leverage ratio. The agreements also restrict the amount of additional indebtedness we may incur and the amount of assets which may be sold. We were within all of our lending requirements on December 30, 2006.

On December 30, 2006, the principal maturities of long-term debt and capital lease obligations are as follows (in thousands):

| | |
|------------|------------------|
| 2007 | \$ 680 |
| 2008 | 79,212 |
| 2009 | 31,130 |
| 2010 | 249 |
| 2011 | 256 |
| Thereafter | <u>58,570</u> |
| | <u>\$170,097</u> |

On December 30, 2006, the estimated fair value of our long-term debt, including the current portion, was \$172.6 million, which was \$2.5 million greater than the carrying value. The estimated fair value is based on rates anticipated to be available to us for debt with similar terms and maturities.

E. Leases

Leased property included in the balance sheet on December 30, 2006 and December 31, 2005 is as follows (in thousands):

| | <u>2006</u> | <u>2005</u> |
|-------------------------------|----------------|----------------|
| Land and improvements | \$ 0 | \$ 211 |
| Buildings and improvements | 0 | 1,909 |
| Machinery and equipment | <u>1,363</u> | <u>51</u> |
| | 1,363 | 2,171 |
| Less accumulated amortization | <u>(207)</u> | <u>(214)</u> |
| | <u>\$1,156</u> | <u>\$1,957</u> |

We lease certain real estate under operating and capital lease agreements with original terms ranging from one to ten years. We are required to pay real estate taxes and other occupancy costs under these leases. Certain leases carry renewal options of five to fifteen

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

years. We also lease motor vehicles, equipment, and aircraft under operating lease agreements for periods of one to ten years. Future minimum payments under non-cancelable leases on December 30, 2006 are as follows (in thousands):

| | <u>Capital Leases</u> | <u>Operating Leases</u> | <u>Total</u> |
|---|---------------------------|-----------------------------|-----------------|
| 2007 | \$ 469 | \$13,788 | \$14,257 |
| 2008 | 481 | 11,170 | 11,651 |
| 2009 | | 8,548 | 8,548 |
| 2010 | | 6,179 | 6,179 |
| 2011 | | 2,792 | 2,792 |
| Thereafter | | 543 | 543 |
| Total minimum lease payments | <u>\$ 950</u> | <u>\$43,020</u> | <u>\$43,970</u> |
| Less imputed interest | (48) | | |
| Present value of minimum lease payments | <u>\$ 902</u> | | |

Rent expense was approximately \$25.8 million, \$21.9 million, and \$19.3 million in 2006, 2005, and 2004, respectively.

F. Deferred Compensation

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

We also maintain a non-qualified deferred compensation plan (the "Plan") for the benefit of senior management employees who may elect to defer a portion of their annual bonus payments. The Plan provides investment options similar to our 401(k) plan, including our stock. The investment in our stock is funded by the issuance of shares to a Rabbi trust, and may only be distributed in kind. Assets held by the Plan totaled approximately \$4.0 million and \$3.2 million on December 30, 2006 and December 31, 2005, respectively, and are included in "Other Assets." Related liabilities totaled \$8.3 million and \$6.6 million on December 30, 2006 and December 31, 2005, respectively, and are included in "Other Liabilities" and "Shareholders' Equity." Assets of the Plan are recorded at fair market value. The related liabilities are recorded at fair market value, with the exception of obligations associated with investments in our stock which are recorded at the market value on the date of deferral.

G. Sale of Accounts Receivable

On March 8, 2006, we entered into an accounts receivable sale arrangement 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 canceled 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 accounted 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.

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

On December 30, 2006, \$29.1 million of receivables were sold and outstanding, and we recorded \$2.2 million of retained interest in other current assets. On December 31, 2005 no receivables were sold and outstanding. A summary of the transactions we completed in 2006, 2005, and 2004 is presented below (in thousands).

| | 2006 | 2005 | 2004 |
|----------------------------------|-------------------|-------------------|-------------------|
| Accounts receivable sold | \$ 460,859 | \$ 401,431 | \$ 309,743 |
| Retained interest in receivables | (6,649) | (2,594) | (1,613) |
| Expense from sale | (1,847) | (1,214) | (631) |
| Servicing fee received | 150 | 137 | 126 |
| Net cash received from sale | <u>\$ 452,513</u> | <u>\$ 397,760</u> | <u>\$ 307,625</u> |

H. Common Stock

On June 1, 1993, our shareholders approved the Incentive Stock Option Plan (the "Plan") for our officers. Options for the purchase of all 1,200,000 shares of our common stock authorized under the Plan have been granted. The Plan provides that the options are exercisable only if the officer is employed by us at the time of exercise and holds at least seventy-five percent of the individuals' shares held on April 1, 1993. The Plan also requires the option shares to be held for periods of six months to three years. The remaining options are exercisable within thirty days of the anniversary of the Plan in 2007 and 2008, respectively.

In January 1994, the Employee Stock Gift Program was approved by the Board of Directors which allows us to gift shares of stock to eligible employees based on length of service. We gifted shares of stock under this Plan in 2006, 2005, and 2004, and recognized the market value of the shares at the date of issuance as an expense totaling approximately \$55,000, \$55,000, and \$56,000, respectively.

In April 1994, our shareholders approved the Employee Stock Purchase Plan ("Stock Purchase 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. In 2006, 2005, and 2004, shares were issued under this Plan for amounts totaling approximately \$811,000, \$511,000, and \$411,000, respectively. The weighted average discounted fair value of these shares was \$48.36, \$36.92, and \$26.34, respectively. Upon adoption of FASB Statement No. 123(R), *Share-Based Payment*, ("SFAS 123(R)"), we have expensed the fair value associated with these awards, which approximates the discount.

In April 1994, our shareholders approved the Directors' Retainer Stock Plan ("Stock Retainer Plan"). 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 have accrued, in shareholders' equity approximately \$818,000 and \$559,000 on December 30, 2006 and December 31, 2005, respectively, for obligations incurred under this Plan. There were no distributions in 2006 or 2004. In 2005, shares were issued as part of a distribution from the Plan for amounts totaling approximately \$184,000.

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 2006, 2005, and 2004, we issued shares and recognized the market value of the shares on the date of issuance as an expense totaling approximately \$142,000, \$107,000, and \$75,000, respectively.

On April 28, 1999, our shareholders approved the Long Term Stock Incentive Plan (the "1999 Plan"). The 1999 Plan reserves a maximum of 1,000,000 shares, 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 1999 Plan provides for the granting of stock options, reload options, stock appreciation rights, restricted stock, performance shares and other stock-based awards. The term of the 1999 Plan is ten years. No options were granted in 2006 and 2005. In 2004, we granted stock options for 100,000 shares.

On April 17, 2002, under the 1999 Plan, a Conditional Share Grant Agreement was executed which will grant our former Chief Executive Officer 10,000 shares of common stock immediately upon the satisfaction of the terms and conditions set forth in the Agreement. We have accrued in shareholders' equity approximately \$112,000 and \$221,000 on December 30, 2006 and December 31, 2005 respectively, for this grant.

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

As of December 30, 2006, a total of 2,058,146 shares are reserved for issuance under the plans mentioned above.

On November 14, 2001, the Board of Directors approved a share repurchase program (which succeeded a previous program) allowing us to repurchase up to 2,500,000 shares of our common stock. In 2004, we repurchased 4,050 shares under these programs. As of December 30, 2006, cumulative total authorized shares available for repurchase is approximately 1.5 million shares.

Common stock activity for 2006, 2005 and 2004 was as follows:

| | Note | 2006 | 2005 | 2004 |
|---|------|------------|------------|------------|
| Shares issued under plan: | | | | |
| Employee Stock Purchase | H | 16,763 | 13,839 | 15,594 |
| Stock option | I | 332,881 | 397,406 | 155,083 |
| Employee stock plans | | 349,644 | 411,245 | 170,677 |
| Stock gift | H | 967 | 1,213 | 1,736 |
| Directors' Stock Grant | H | 2,500 | 2,500 | 2,300 |
| Stock grant plans | | 3,467 | 3,713 | 4,036 |
| Deferred compensation | F | 101,278 | 21,144 | 22,528 |
| Directors' Stock Retainer | H | | 11,930 | |
| Deferred compensation plans | | 101,278 | 33,074 | 22,528 |
| Stock notes receivable | J | 3,222 | 1,605 | 195 |
| Shares received for exercise of stock options | | (1,367) | (49,244) | (4,695) |
| Stock repurchase | H | | | (4,050) |
| | | 456,244 | 400,393 | 188,691 |
| Beginning common stock outstanding | | 18,402,648 | 18,002,255 | 17,813,564 |
| Ending common stock outstanding | | 18,858,892 | 18,402,648 | 18,002,255 |

I. 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 SFAS 123(R) using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 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 2006, are \$998,000 and \$670,000 lower, respectively, than if we had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for 2006 are \$0.04 and \$0.03 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 Statements 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 \$3,998,000 excess tax benefit from share-based

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

compensation arrangements classified as a financing cash inflow for 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 plans, the 2002 Employee Stock Purchase Plan, the Directors' Retainer Stock Plan, the Directors' Stock Grant Program and the Employee Stock Gift Program.

Stock Option Plans

To date, other than the Conditional Share Grant Agreement, 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 is no greater than 15 years.

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

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

| | Stock Under Option | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|--------------------------|--|---|---------------------------------|
| Outstanding at December 27, 2003 | 1,995,516 | \$ 16.83 | | |
| Granted | 100,000 | \$ 30.64 | | |
| Exercised | (155,083) | \$ 16.86 | | |
| Forfeited or expired | (63,174) | \$ 21.01 | | |
| Outstanding at December 25, 2004 | 1,877,259 | \$ 17.42 | | |
| Exercised | (397,406) | \$ 11.78 | | |
| Forfeited or expired | (94,974) | \$ 16.81 | | |
| Outstanding at December 31, 2005 | 1,384,879 | \$ 19.08 | | |
| Exercised | (332,881) | \$ 15.56 | | |
| Forfeited or expired | (15,714) | \$ 20.87 | | |
| Outstanding at December 30, 2006 | <u>1,036,284</u> | <u>\$ 20.18</u> | <u>4.74</u> | <u>\$ 27,429,247</u> |
| Vested or expected to vest at December 30, 2006 | <u>808,007</u> | <u>\$ 20.96</u> | <u>4.97</u> | <u>\$ 20,671,803</u> |
| Exercisable at December 30, 2006 | <u>228,277</u> | <u>\$ 17.02</u> | <u>3.81</u> | <u>\$ 6,757,444</u> |

The total intrinsic value of options exercised during 2006 was \$16,888,000.

Employee Stock Purchase Plan

For 2006, 16,763 shares were issued under this plan. The weighted average fair value of employee stock purchase rights pursuant to this plan was \$8.26 per share. The fair value of the stock purchase rights approximated the difference between the stock price and the employee purchase price.

Directors' Retainer Stock Plan

We recognized the fair market value of the shares issued under this plan, calculated using the number of shares issued and the stock price on the issuance date, as expense and recorded the related obligation in shareholders' equity. We recognized approximately \$259,000 in expense for shares issued under this program in 2006.

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

Directors' Stock Grant Program

In 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

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 \$112,000 in expense for shares issuable under this program in 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 \$1.4 million and \$481,000, respectively in 2006.

As of December 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 3.06 years.

Cash received from option exercises and share issuances under the Stock Purchase Plan was \$5.9 million during 2006. The actual tax benefit realized for the tax deductions from option exercises totaled \$4.4 million 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 2005 and 2004 (in thousands, except per share data):

| | 2005 | 2004 |
|--|----------|----------|
| Net Earnings: | | |
| As Reported | \$67,373 | \$48,603 |
| Deduct: Compensation expense — fair value method | (734) | (1,866) |
| Pro Forma | \$66,639 | \$46,737 |
| EPS — Basic: | | |
| As Reported | \$ 3.67 | \$ 2.70 |
| Pro Forma | \$ 3.63 | \$ 2.59 |
| EPS — Diluted: | | |
| As Reported | \$ 3.53 | \$ 2.59 |
| Pro Forma | \$ 3.50 | \$ 2.51 |

No options were granted in 2005. The fair value of each option granted in 2004 is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions.

| | 2004 |
|-------------------------|-----------|
| Risk Free Interest Rate | 4.6% |
| Expected Life | 6.0 years |
| Expected Volatility | 27.42% |
| Expected Dividend Yield | 0.40% |

J. Employees' Stock Notes Receivable

Notes were obtained by us from certain officers for the purchase of our common stock. Interest on all of the outstanding notes range from fixed rates of five to eleven percent per annum and a variable rate of the prime rate less 10% (minimum 6%, maximum 12%). Each loan is evidenced by a promissory note from the participating officer, and is secured by all of the shares purchased with the loan proceeds. As of August 1, 2002, we no longer issue notes to executive officers under this program.

On March 31, 2006, we sold 3,222 shares of common stock to various employees in exchange for notes receivable totaling approximately \$205,000. Interest on the note is fixed at 4.7% per annum. The loan is evidenced by a promissory note from the participating employee, and is secured by all of the shares purchased with the loan proceeds.

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

On March 31, 2005, we sold 1,605 shares of common stock to various employees in exchange for notes receivable totaling approximately \$62,000. Interest on the note is fixed at 4.5% per annum. The loan is evidenced by a promissory note from the participating employee, and is secured by all of the shares purchased with the loan proceeds.

On March 31, 2004, we sold 195 shares of common stock to an employee in exchange for a note receivable totaling approximately \$6,000. Interest on the note is fixed at 4.8% per annum. The loan is evidenced by a promissory note from the participating employee, and is secured by all of the shares purchased with the loan proceeds.

All loans are recourse loans. On December 30, 2006, payments on the notes are due as follows (in thousands):

| | |
|------------|----------------|
| 2007 | \$ 79 |
| 2008 | 97 |
| 2009 | 183 |
| 2010 | 204 |
| 2011 | 180 |
| Thereafter | 510 |
| | <u>\$1,253</u> |

K. Retirement Plans

We have a profit sharing and 401(k) plan for the benefit of substantially all of our employees, excluding the employees of certain non-wholly owned subsidiaries. Amounts contributed to the plan are made at the discretion of the Board of Directors. We matched 50% of employee contributions in 2006, 2005, and 2004, on a discretionary basis, totaling \$3.9 million, \$3.7 million, and \$3.3 million, respectively. The basis for matching contributions may not exceed the lesser of 6% of the employee's annual compensation or the IRS limitation.

L. Income Taxes

Income tax provisions for the years ended December 30, 2006, December 31, 2005, and December 25, 2004 are summarized as follows (in thousands):

| | 2006 | 2005 | 2004 |
|--------------------|------------------|------------------|------------------|
| Currently Payable: | | | |
| Federal | \$ 32,288 | \$ 38,250 | \$ 26,385 |
| State and local | 4,947 | 5,717 | 3,728 |
| Foreign | 2,649 | 4,342 | 486 |
| | <u>39,884</u> | <u>48,309</u> | <u>30,599</u> |
| Net Deferred: | | | |
| Federal | (2,454) | (3,947) | (712) |
| State and local | (220) | (344) | 8 |
| Foreign | 1,550 | (2,968) | 1,567 |
| | <u>(1,124)</u> | <u>(7,259)</u> | <u>863</u> |
| | <u>\$ 38,760</u> | <u>\$ 41,050</u> | <u>\$ 31,462</u> |

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

| | 2006 | 2005 | 2004 |
|---------|-------------------|-------------------|------------------|
| U.S. | \$ 105,662 | \$ 105,733 | \$ 76,035 |
| Foreign | 6,473 | 5,039 | 7,024 |
| Total | <u>\$ 112,135</u> | <u>\$ 110,772</u> | <u>\$ 83,059</u> |

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

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

| | 2006 | 2005 | 2004 |
|---|--------------|--------------|--------------|
| Statutory federal income tax rate | 35.0% | 35.0% | 35.0% |
| State and local taxes (net of federal benefits) | 2.5 | 3.2 | 2.9 |
| Effect of minority owned interest in earnings of partnerships | (0.6) | (0.3) | (0.9) |
| Manufacturing deduction | (0.8) | (0.8) | |
| Research & development tax credits | (4.1) | | |
| Change in valuation allowance | 1.0 | | |
| Other, net | 1.6 | | 0.9 |
| Effective income tax rate | <u>34.6%</u> | <u>37.1%</u> | <u>37.9%</u> |

For the year ended December 30, 2006, the effective tax rate was favorably impacted by the federal research & development ("R&D") tax credits for 2001 — 2006, all of which were recognized in 2006. During 2006, we completed a project to identify eligible expenditures for purposes of claiming R&D tax credits, for which amended tax returns for 2001 — 2005 will be filed.

In accordance with the provisions of the American Jobs Creation Act of 2004, we recognized income tax charges of \$0.1 million in 2005 related to the repatriation of \$2.3 million of undistributed foreign earnings.

Temporary differences which give rise to deferred tax assets and (liabilities) on December 30, 2006 and December 31, 2005 are as follows (in thousands):

| | 2006 | 2005 |
|---------------------------------------|-------------------|-------------------|
| Employee benefits | \$ 7,064 | \$ 6,337 |
| Foreign subsidiary net operating loss | 1,991 | 702 |
| Accrued expenses | 1,188 | 487 |
| Other, net | 3,782 | 3,427 |
| Gross deferred tax assets | 14,025 | 10,953 |
| Valuation allowance | (1,088) | |
| Deferred tax assets | 12,937 | 10,953 |
| Depreciation | (11,983) | (11,555) |
| Intangibles | (6,176) | (5,626) |
| Inventory | (634) | (18) |
| Other, net | (776) | (1,510) |
| Deferred tax liabilities | \$ (19,569) | \$ (18,709) |
| Net deferred tax liability | <u>\$ (6,632)</u> | <u>\$ (7,756)</u> |

The 2006 valuation allowance consists of a net operating loss carryforward we have related to a wholly-owned subsidiary, Universal Forest Products of Canada, Inc. We do not anticipate realizing a future benefit from this loss carryforward, therefore, we established an allowance for the entire amount of the future benefit. This carryforward will expire at the end of 2026.

M. 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 Stockertown, PA; Elizabeth City, NC; Auburndale, FL; and

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

Janesville, WI wood preservation facilities. In addition, a reserve was established for our Thornton, CA property to remove asbestos and certain lead containing materials which existed on the property at the time of purchase.

Including amounts from our wholly owned captive insurance company, we have reserved approximately \$1.6 million and \$1.7 million on December 30, 2006 and December 31, 2005, respectively, 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 or borates. In March 2005, one 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 results of the EPA study are consistent with a prior Consumer Products Safety Commission (CPSC) study which reached a similar conclusion. The EPA did refer a question on the use of sealants to a scientific advisory panel. The panel issued a report which provides guidance to the EPA on the use of various sealants but does not mandate their use. The EPA is expected to issue a final report at the end of 2007.

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

We have been requested by a customer to defend it from purported class action lawsuits. One such lawsuit is currently pending in Illinois. 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. To date, none of these cases have been certified as a class action. The Illinois case was previously dismissed without prejudice. Based on an alleged violation of the Consumer Protection Act, the claim has been restated and filed. The case does not allege personal injury or property damage. The judge in this case denied class certification for this case in December 2005. 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 December 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.

We had outstanding purchase commitments on capital projects of approximately \$6.1 million and \$2.9 million on December 30, 2006 and December 31, 2005, respectively.

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 December 30, 2006, we had approximately \$26.5 million in outstanding performance bonds which expire during the next two years. In addition, approximately \$15.3 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 \$2.3 million.

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

Under our sale of accounts receivable agreement, we guarantee that Universal Forest Products RMS, LLC, as accounts servicer, will remit collections on receivables sold to the bank. (See Note G.)

We had outstanding letters of credit totaling \$39.2 million and \$38.1 million on December 30, 2006 and December 31, 2005, respectively, 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 (see Note D). 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.

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 (see Note D).

Our treating operations currently include 30 "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 all contamination 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 has been recorded as a liability and recorded in other long-term liabilities on December 30, 2006 in accordance with FIN 47.

N. Sale of Real Estate and Interest in Subsidiary

In October 2006, we sold real estate in Riverside, CA for \$620,000 and recorded a pre-tax gain of approximately \$591,000.

In January 2005, we sold real estate in Stockton, CA for \$2.3 million and recorded a pre-tax gain of approximately \$1.2 million.

In December 2004, we sold real estate in Elkhart, IN and Thornton, CA and recognized a net pre-tax gain of \$426,000.

In June 2004, we sold a plant in Modesto, CA and recognized a pre-tax gain of approximately \$368,000.

In March 2004, we sold a plant in Bend, OR and recognized a pre-tax gain of approximately \$562,000 on the sale in the first quarter and an additional \$207,000 in the second quarter as we collected the note receivable issued to us on the sale.

In January 2004, we sold our 60% ownership in Nascor Incorporated, a Calgary, Alberta-based manufacturer of engineered wood components and licensor of I-joint manufacturing technology. The total sales price we collected was \$4.7 million and we recorded a pre-tax accounting loss of approximately \$193,000.

O. Gain on Insurance Settlement

In April 2004, our plant in Thorndale, Ontario was destroyed by a fire. In accordance with FIN 30, *Accounting for Involuntary Conversions of Non-Monetary Assets to Monetary Assets*, we wrote off the net book value of the destroyed inventory and property totaling \$3.6 million. The insured value of the property exceeded its net book value by approximately \$1.4 million, which was recorded as a gain on insurance settlement. As of December 25, 2004, we had collected \$2.0 million of insurance proceeds. In 2005, we collected the remaining insurance proceeds of \$3.0 million.

P. 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

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

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.

| | <u>Eastern and Western Divisions</u> | <u>All Other</u> | <u>Total</u> |
|--------------------------------|--|----------------------|--------------|
| Net sales to outside customers | \$ 2,605,087 | \$ 59,485 | \$ 2,664,572 |
| Intersegment net sales | 0 | 17,974 | 17,974 |
| Interest expense | 14,040 | 13 | 14,053 |
| Amortization expense | 3,071 | 2,680 | 5,751 |
| Depreciation expense | 31,081 | 2,690 | 33,771 |
| Segment operating profit | 118,288 | 4,803 | 123,091 |
| Segment assets | 831,160 | 82,281 | 913,441 |
| Capital expenditures | 40,908 | 2,596 | 43,504 |

In 2006, 2005, and 2004, 22%, 22%, and 25% of net sales, respectively, were to a single customer.

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

| | <u>2006</u> | | <u>2005</u> | | <u>2004</u> | |
|---------------|---------------------|---|---------------------|---|---------------------|---|
| | <u>Net Sales</u> | <u>Long-Lived Tangible Assets</u> | <u>Net Sales</u> | <u>Long-Lived Tangible Assets</u> | <u>Net Sales</u> | <u>Long-Lived Tangible Assets</u> |
| United States | \$ 2,590,951 | \$ 234,362 | \$ 2,621,443 | \$ 207,334 | \$ 2,373,289 | \$ 194,480 |
| Foreign | 73,621 | 23,377 | 70,079 | 24,886 | 79,992 | 29,745 |
| Total | <u>\$ 2,664,572</u> | <u>\$ 257,739</u> | <u>\$ 2,691,522</u> | <u>\$ 232,220</u> | <u>\$ 2,453,281</u> | <u>\$ 224,225</u> |

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

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

| | <u>Value-Added</u> | <u>Commodity-Based</u> |
|------|--------------------|------------------------|
| 2006 | 56.8% | 43.2% |
| 2005 | 52.7% | 47.3% |
| 2004 | 50.7% | 49.3% |

Value-added product sales consist of fencing, decking, lattice, and other specialty products sold to the DIY/retail market, industrial packaging, engineered wood components used in site-built construction, 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. Commodity-based product sales consist primarily of remanufactured lumber and preservative treated lumber.

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

Universal Forest Products, Inc.

Notes to Consolidated Financial Statements (continued)

| | Years Ended | | |
|---|----------------------|----------------------|----------------------|
| | December 30, 2006 | December 31, 2005 | December 25, 2004 |
| Value-Added Sales | | | |
| Fencing | \$ 176,761 | \$ 155,297 | \$ 141,443 |
| Decking | 66,656 | 46,593 | 38,444 |
| Lattice | 27,614 | 17,763 | 21,048 |
| Outdoor preservative treated products | 27,825 | 18,964 | 14,673 |
| Wood alternative products | 44,731 | 43,192 | 33,819 |
| Engineered wood components and other building materials | 740,879 | 769,000 | 665,611 |
| Turn-key framing and installed sales | 199,384 | 128,250 | 122,447 |
| Packaging | 103,344 | 84,306 | 58,394 |
| Specialty lumber products | 93,845 | 94,928 | 86,119 |
| Other | 56,261 | 81,309 | 79,259 |
| Total Value-Added Sales | <u>1,537,300</u> | <u>1,439,602</u> | <u>1,261,257</u> |
| Commodity-Based Sales | | | |
| Dimensional lumber | 475,079 | 519,076 | 457,413 |
| Preservative treated lumber | 432,084 | 487,928 | 496,600 |
| Plywood and OSB | 250,952 | 275,802 | 258,095 |
| Other | 11,620 | 11,896 | 14,576 |
| Total Commodity-Based Sales | <u>1,169,735</u> | <u>1,294,702</u> | <u>1,226,684</u> |
| Total Gross Sales | 2,707,035 | 2,734,304 | 2,487,941 |
| Sales allowances | (42,463) | (42,782) | (34,660) |
| Total Net Sales | <u>\$ 2,664,572</u> | <u>\$ 2,691,522</u> | <u>\$ 2,453,281</u> |

Q. Quarterly Financial Information (Unaudited)

The following table sets forth selected financial information for all of the quarters, each consisting of 13 weeks (except fourth quarter of 2005 which consisted of 14 weeks) during the years ended December 30, 2006 and December 31, 2005 (in thousands, except per share data):

| | First | | Second | | Third | | Fourth | |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Net sales | \$665,609 | \$537,160 | \$826,847 | \$779,552 | \$672,873 | \$721,497 | \$499,243 | \$653,313 |
| Gross profit | 94,311 | 67,229 | 120,418 | 101,242 | 98,825 | 99,062 | 68,128 | 91,723 |
| Net earnings | 15,866 | 9,229 | 27,314 | 22,790 | 17,705 | 19,171 | 9,240 | 16,183 |
| Basic earnings per share | 0.85 | 0.51 | 1.45 | 1.24 | 0.94 | 1.04 | 0.49 | 0.87 |
| Diluted earnings per share | 0.82 | 0.49 | 1.41 | 1.20 | 0.91 | 1.00 | 0.48 | 0.84 |

R. Subsequent Events

On February 12, 2007, one of our subsidiaries acquired all of the common shares of Aljoma Lumber, Inc. ("Aljoma") located in Medley, FL, a leading manufacturer of pressure-treated wood and industrial products that serves Southern Florida and the Caribbean islands. The purchase price of the common shares of Aljoma was approximately \$53.5 million.

On February 12, 2007, we amended and increased the size of our unsecured revolving credit facility to \$300 million, which includes amounts reserved for letters of credit.

Price Range of Common Stock and Dividends

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

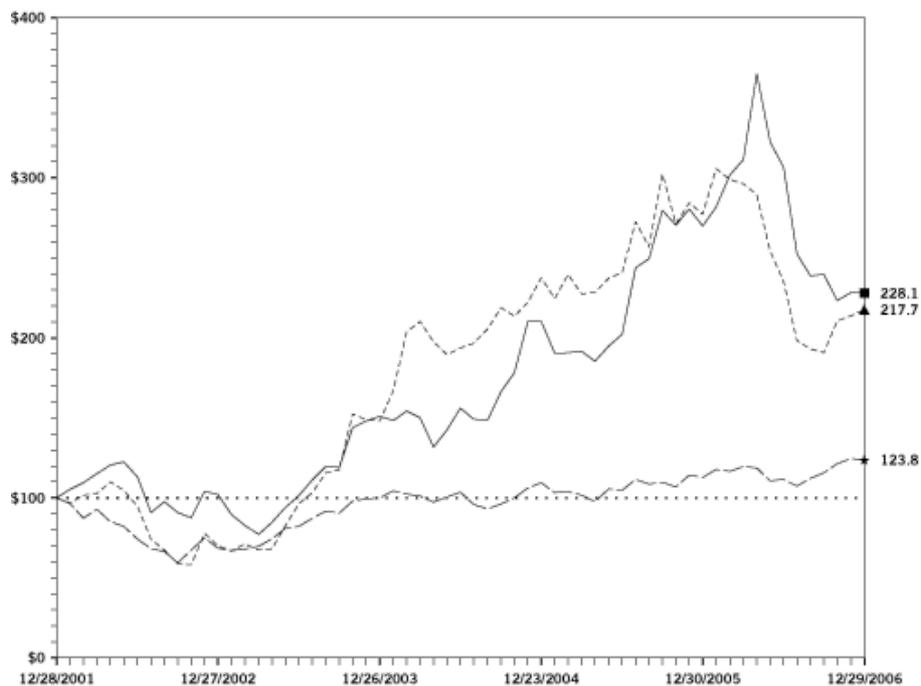
| Fiscal 2006 | High | Low | Fiscal 2005 | High | Low |
|--------------------|-------------|------------|--------------------|-------------|------------|
| Fourth Quarter | 52.39 | 43.61 | Fourth Quarter | 61.69 | 50.34 |
| Third Quarter | 64.16 | 46.89 | Third Quarter | 58.97 | 39.78 |
| Second Quarter | 80.28 | 58.02 | Second Quarter | 42.86 | 37.10 |
| First Quarter | 64.94 | 53.39 | First Quarter | 44.55 | 37.03 |

There were approximately 1,100 shareholders of record as of January 31, 2007.

In 2006, we paid dividends on our common stock of \$.055 per share in June and December. In 2005, we paid dividends on our common stock of \$.050 per share in June and \$.055 per share in December. We intend to continue with our current semi-annual dividend policy for the foreseeable future.

Stock Performance Graph

The following graph depicts the cumulative total return on our common stock compared to the cumulative total return on the indices for The Nasdaq Stock Market (all U.S. companies) and an industry peer group we selected. The graph assumes an investment of \$100 on December 28, 2001, and reinvestment of dividends in all cases.



| | 12/2001 | 12/2002 | 12/2003 | 12/2004 | 12/2005 | 12/2006 |
|--------------------------------------|---------|---------|---------|---------|---------|---------|
| ■ Universal Forest Products, Inc. | 100.0 | 102.1 | 150.9 | 210.3 | 269.8 | 228.1 |
| * Nasdaq Stock Market (US Companies) | 100.0 | 68.5 | 100.0 | 109.6 | 112.7 | 123.8 |
| ▲ Self-Determined Peer Group | 100.0 | 70.1 | 148.1 | 237.5 | 277.2 | 217.7 |

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

BlueLinx Holdings, Inc.
 Builders First Source
 Building Materials Holding Co.

Champion Enterprises, Inc.
 Louisiana Pacific Corp.

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

Georgia Pacific Corp, which was formerly considered a peer group company, was purchased by Koch Industries in 2006 and is no longer a public company. Patrick Industries, which was also formerly considered a peer group company, was deemed to be too small.

Directors and Executive Officers

BOARD OF DIRECTORS

Peter F. Secchia
Chairman Emeritus
Universal Forest Products, Inc.

William G. Currie
Executive Chairman
Universal Forest Products, Inc.

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

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

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

John W. Garside
President and Treasurer
Woodruff Coal Company

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

Mark A. Murray
President
Meijer, Inc.

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

EXECUTIVE OFFICERS

William G. Currie
Executive Chairman

Michael B. Glenn
Chief Executive Officer

Michael R. Cole
Chief Financial Officer and Treasurer

Robert D. Coleman
Executive Vice President Manufacturing

C. Scott Greene
President
Universal Forest Products Eastern Division, Inc.

Robert K. Hill
President
Universal Forest Products Western Division, Inc.

Ronald G. Klyn
Chief Information Officer

Matthew J. Missad
Executive Vice President and Secretary

Joseph F. Granger
Executive Vice President of Sales and Marketing

Shareholder Information

ANNUAL MEETING

The annual meeting of Universal Forest Products, Inc., will be held at 8:30 a.m. on April 18, 2007, at 2880 East Beltline Lane NE, Grand Rapids, MI 49525.

SHAREHOLDER INFORMATION

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

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

SECURITIES COUNSEL

Varnum, Riddering, Schmidt & Howlett Grand Rapids, MI

INDEPENDENT ACCOUNTANTS

Ernst & Young LLP
Grand Rapids, MI

TRANSFER AGENT/ SHAREHOLDER INQUIRIES

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

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

UNIVERSAL FOREST PRODUCTS®, INC., CORPORATE HEADQUARTERS

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

UNIVERSAL FOREST PRODUCTS®, INC., AND ITS AFFILIATES

Locations:

Arlington, TX
Ashburn, GA
Auburn, NY
Auburndale, FL (2)
Belchertown, MA
Berlin, NJ
Blanchester, OH
Bunn, NC
Burlington, NC
Chaffee, NY
Chandler, AZ
Chesapeake, VA
Clinton, NY
Conway, SC
Crestwood, MO
Dallas, NC
Dallas, TX
Denver, CO
Durango, Durango, Mexico
Earlysville, VA
Eatonton, GA
Eduardsburg, MI
Eliot, ME
Elizabeth City, NC
Elkhart, IN (2)
Emlenton, PA
Englewood, CO
Fishersville, VA
Folkston, GA
Fontana, CA
Ft. Pierce, FL
Georgetown, DE
Gordon, PA
Grandview, TX
Grand Rapids, MI

Granger, IN
Gulfport, MS
Haleyville, AL
Hamilton, OH
Harrisonville, MO
Hillsboro, TX
Houston, TX
Hudson, NY
Indianapolis, IN
Jacksonville, FL
Janesville, WI
Jefferson, GA
Kyle, TX
Lacolle, Quebec, Canada
Lafayette, CO
Lancaster, PA
Lansing, MI
Las Vegas, NV (2)
Liberty, NC
Lodi, OH
London, Ontario, Canada
Minneota, MN
Morristown, TN
Moultrie, GA
Muscle Shoals, AL
Naugatuck, CT
New London, NC
New Waverly, TX
New Windsor, MD
Ocala, FL
Ooltewah, TN
Parker, PA
Pearisburg, VA
Plainville, MA
Prairie du Chien, WI
Ranson, WV
Riverbank, CA
Riverside, CA
Saginaw, TX
Salisbury, NC
San Antonio, TX
San Diego, CA
Sanford, NC
Santee, SC
Schertz, TX
Sidney, NY
Silsbee, TX
Springfield, IL
Stanfield, NC
Stockertown, PA
Tampa, FL
Tecate, Baja California, Mexico
Thornton, CA
Union City, GA
Warrens, WI
Westville, IN
White Bear Lake, MN
White Pigeon, MI
Windsor, CO
Woodburn, OR

LIST OF REGISTRANT'S SUBSIDIARIES AND AFFILIATES

1. Advanced Component Systems LLC, a Michigan Limited Liability Company.
2. Aljoma Holding Company, LLC, a Michigan Limited Liability Company.
3. Aljoma Lumber, Inc., a Florida Corporation.
4. Atlantic Building Professionals, LLC, a Michigan Limited Liability Company.
5. D&L Framing, LLC, a Nevada Limited Liability Company (50% owned).
6. D&R Framing Contractors, L.L.C., a Michigan Limited Liability Company (50% owned).
7. Euro-Pacific Building Materials, Inc., an Oregon Corporation.
8. Euro-Pacific International Corp., an Oregon Corporation.
9. Gulf Coast Components, LLC, a Michigan Limited Liability Company.
10. Indianapolis Real Estate LLC, a Michigan Limited Liability Company.
11. Maine Ornamental, LLC, a Michigan Limited Liability Company.
12. Midwest Framing, LLC, a Michigan Limited Liability Company.
13. Norpac Construction, L.L.C., a Nevada Limited Liability Company (75% owned).
14. Pinelli Universal, S. de R.L. de C.V., a Mexican Corporation (50% owned).
15. Pinelli Universal TKT, S. de R.L. de C.V., a Mexican Corporation (75% owned).
16. Shawnlee Construction LLC, a Michigan Limited Liability Company (80% owned).
17. Shepardville Construction, LLC, a Michigan Limited Liability Company (80% owned).
18. TKT Real Estate, S. de R.L. de C.V., a Mexican Corporation (50% owned).
19. Treating Services of Minnesota, LLC, a Michigan Limited Liability Company.
20. Tresstar, LLC, a Michigan Limited Liability Company.
21. U.F.P. Mexico Holdings, S. de R.L. de C.V., a Mexican Corporation.
22. UFP Framing LLC, a Michigan Limited Liability Company.
23. UFP Framing of Florida, LLC, a Michigan Limited Liability Company.
24. UFP Insurance Ltd., an exempted company organized under the laws of Bermuda.
25. UFP Real Estate, Inc., a Michigan Corporation.
26. UFP Transportation, Inc., a Michigan Corporation.
27. UFP Ventures, Inc., a Michigan Corporation.
28. UFP Ventures II, Inc., a Michigan Corporation.
29. United Lumber & Reman, LLC, a Michigan Limited Liability Corporation (50% owned).
30. Universal Consumer Products, Inc., a Michigan Corporation.
31. Universal Forest Products Eastern Division, Inc., a Michigan Corporation.
32. Universal Forest Products Eastern Purchasing, Inc., a Michigan Corporation.
33. Universal Forest Products Holding Company, Inc., a Michigan Corporation.
34. Universal Forest Products of Canada, Inc., a Canadian Corporation.
35. Universal Forest Products of Modesto L.L.C., a Michigan Limited Liability Company.
36. Universal Forest Products Reclamation Center, Inc., a Michigan Corporation.
37. Universal Forest Products RMS, LLC, a Michigan Limited Liability Company.
38. Universal Forest Products Texas Limited Partnership, a Michigan Limited Partnership.
39. Universal Forest Products Western Division, Inc., a Michigan Corporation.
40. Universal Forest Products Western Purchasing, LLC, a Michigan Limited Liability Company.
41. Universal Truss, Inc., a Michigan Corporation.
42. Western Building Professionals, LLC, a Michigan Limited Liability Company.
43. Western Building Professionals of California, Inc., a Michigan Corporation.
44. Western Building Professionals of California II Limited Partnership, a Michigan Limited Partnership.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Form 10-K of Universal Forest Products, Inc. and subsidiaries of our reports dated February 12, 2007, with respect to the consolidated financial statements of Universal Forest Products, Inc. and subsidiaries, Universal Forest Products, Inc. and subsidiaries management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Universal Forest Products, Inc. and subsidiaries, included in the 2006 Annual Report to Shareholders of Universal Forest Products, Inc. and subsidiaries.

We also consent to the incorporation by reference in the Registration Statement File Numbers 33-81128, 33-81116, 33-81450, 333-60630 and 333-88056 on Form S-8 and Registration File Number 333-75278 on Form S-3 of our reports dated February 12, 2007, with respect to the consolidated financial statements of Universal Forest Products, Inc. and subsidiaries, Universal Forest Products, Inc. and subsidiaries management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Universal Forest Products, Inc. and subsidiaries, incorporated by reference in the Form 10-K of Universal Forest Products, Inc. and subsidiaries for the year ended December 30, 2006.

/s/ Ernst & Young LLP
ERNST & YOUNG LLP

Grand Rapids, Michigan
February 12, 2007

Universal Forest Products, Inc.

Certification

I, Michael B. Glenn, certify that:

1. I have reviewed this report on Form 10-K of Universal Forest Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2007

/s/ Michael B. Glenn

Michael B. Glenn
Chief Executive Officer

Universal Forest Products, Inc.

Certification

I, Michael R. Cole, certify that:

1. I have reviewed this report on Form 10-K of Universal Forest Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2007

/s/ Michael R. Cole

Michael R. Cole
Chief Financial Officer

**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):

I, Michael B. Glenn, Chief Executive Officer of Universal Forest Products, Inc., certify, to the best of my knowledge and belief, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) that:

(1) The report on Form 10-K for the year ended December 30, 2006, which this statement accompanies, fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in this report on Form 10-K for the period ended December 30, 2006 fairly presents, in all material respects, the financial condition and results of operations of Universal Forest Products, Inc.

UNIVERSAL FOREST PRODUCTS, INC.

Date: February 27, 2007

By: /s/ Michael B. Glenn

Michael B. Glenn

Its: Chief Executive Officer

The signed original of this written statement required by Section 906, or any other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Universal Forest Products, Inc. and will be retained by Universal Forest Products, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**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):

I, Michael R. Cole, Chief Financial Officer of Universal Forest Products, Inc., certify, to the best of my knowledge and belief, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) that:

(1) The report on Form 10-K for the period ended December 30, 2006, which this statement accompanies, fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in this report on Form 10-Q for the period ended December 30, 2006 fairly presents, in all material respects, the financial condition and results of operations of Universal Forest Products, Inc.

UNIVERSAL FOREST PRODUCTS, INC.

Date: February 27, 2007

By: /s/ Michael R. Cole

Michael R. Cole

Its: Chief Financial Officer

The signed original of this written statement required by Section 906, or any other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Universal Forest Products, Inc. and will be retained by Universal Forest Products, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.