

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 25, 2005  
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OR

\_\_TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

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

Michigan	38-1465835
-----	-----
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2801 East Beltline NE, Grand Rapids, Michigan	49525
-----	-----
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code (616) 364-6161	-----

NONE  
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(Former name or former address, if changed since last report.)

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

Indicate by checkmark whether the registrant is an accelerated filer (as defined  
by Rule 12b-2 of the Exchange Act). Yes X No  
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Indicate the number of shares of each of the issuer's classes of common stock,  
as of the latest practicable date:

Class	Outstanding as of June 25, 2005
-----	-----
Common stock, no par value	18,286,385

# TABLE OF CONTENTS

	PAGE NO.
	-----
PART I.	FINANCIAL INFORMATION.
Item 1.	Financial Statements.
	Consolidated Condensed Balance Sheets at June 25, 2005, December 25, 2004, and June 26, 2004.
	3-4
	Consolidated Condensed Statements of Earnings for the Three and Six Months Ended June 25, 2005 and June 26, 2004.
	5
	Consolidated Condensed Statements of Cash Flows for the Six Months Ended June 25, 2005 and June 26, 2004.
	6-7
	Notes to Consolidated Condensed Financial Statements.
	8-17
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.
	18-32
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.
	33
Item 4.	Controls and Procedures.
	34
PART II.	OTHER INFORMATION.
Item 1.	Legal Proceedings - NONE.
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.
	35
Item 3.	Defaults Upon Senior Securities - NONE.
Item 4.	Submission of Matters to a Vote of Security Holders.
	36
Item 5.	Other Information
	36
Item 6.	Exhibits.
	37

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

(in thousands, except share data)

	June 25, 2005	December 25, 2004	June 26, 2004
	-----	-----	-----
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 27,586	\$ 25,274	\$ 25,080
Accounts receivable, net.....	232,600	151,811	246,850
Inventories:			
Raw materials.....	134,699	116,104	123,411
Finished goods.....	113,130	96,817	104,044
	-----	-----	-----
	247,829	212,921	227,455
Other current assets.....	13,114	16,477	11,532
	-----	-----	-----
TOTAL CURRENT ASSETS.....	521,129	406,483	510,917
OTHER ASSETS .....	8,056	7,952	7,251
GOODWILL .....	127,756	123,845	126,775
OTHER INTANGIBLE ASSETS, net.....	6,617	7,807	5,973
PROPERTY, PLANT AND EQUIPMENT:			
Property, plant and equipment.....	398,729	380,632	363,557
Accumulated depreciation and amortization.....	(176,425)	(164,359)	(155,415)
	-----	-----	-----
PROPERTY, PLANT AND EQUIPMENT, NET.....	222,304	216,273	208,142
	-----	-----	-----
TOTAL ASSETS .....	\$ 885,862	\$762,360	\$859,058
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable.....	\$ 139,393	\$ 87,399	\$131,129
Accrued liabilities:			
Compensation and benefits.....	58,746	58,151	49,086
Other .....	31,696	16,282	25,941
Current portion of long-term debt and capital lease obligations.....	21,937	22,033	498
	-----	-----	-----
TOTAL CURRENT LIABILITIES.....	251,772	183,865	206,654
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS,			
less current portion.....	206,000	185,109	287,387
DEFERRED INCOME TAXES.....	18,061	18,476	16,423
MINORITY INTEREST.....	8,662	8,265	7,541
OTHER LIABILITIES.....	9,994	9,876	9,353
	-----	-----	-----
TOTAL LIABILITIES.....	494,489	405,591	527,358

UNIVERSAL FOREST PRODUCTS, INC.  
CONSOLIDATED CONDENSED BALANCE SHEETS - CONTINUED

	June 25, 2005	December 25, 2004	June 26, 2004
	-----	-----	-----
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, 18,286,385, 18,002,255 and 17,945,158.....	\$ 18,286	\$ 18,002	\$ 17,945
Additional paid-in capital.....	92,190	89,269	88,016
Deferred stock compensation.....	4,257	3,423	3,253
Deferred stock compensation in rabbi trust.....	(2,087)	(1,331)	(1,330)
Retained earnings.....	278,536	247,427	225,046
Accumulated other comprehensive earnings.....	1,622	1,525	406
	-----	-----	-----
Employee stock notes receivable.....	392,804	358,315	333,336
	(1,431)	(1,546)	(1,636)
	-----	-----	-----
TOTAL SHAREHOLDERS' EQUITY.....	391,373	356,769	331,700
	-----	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$885,862	\$762,360	\$859,058
	=====	=====	=====

See notes to consolidated condensed financial statements.

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

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 25, 2005	June 26, 2004	June 25, 2005	June 26, 2004
NET SALES .....	\$779,552	\$742,568	\$1,316,712	\$1,208,233
COST OF GOODS SOLD.....	678,310	649,747	1,148,241	1,059,051
GROSS PROFIT.....	101,242	92,821	168,471	149,182
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	59,505	55,996	109,356	99,836
EARNINGS FROM OPERATIONS.....	41,737	36,825	59,115	49,346
OTHER EXPENSE (INCOME):				
Interest expense.....	4,266	3,955	8,041	7,586
Interest income.....	(270)	(102)	(419)	(185)
Net gain on sale of real estate and interest in subsidiary.....	32	(575)	(1,240)	(944)
	4,028	3,278	6,382	6,457
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST.....	37,709	33,547	52,733	42,889
INCOME TAXES.....	14,237	12,645	19,996	16,289
EARNINGS BEFORE MINORITY INTEREST.....	23,472	20,902	32,737	26,600
MINORITY INTEREST.....	(682)	(1,146)	(718)	(1,277)
NET EARNINGS.....	\$ 22,790	\$ 19,756	\$ 32,019	\$ 25,323
EARNINGS PER SHARE - BASIC.....	\$ 1.24	\$ 1.09	\$ 1.75	\$ 1.41
EARNINGS PER SHARE - DILUTED.....	\$ 1.20	\$ 1.06	\$ 1.69	\$ 1.35
WEIGHTED AVERAGE SHARES OUTSTANDING.....	18,323	18,050	18,255	17,994
WEIGHTED AVERAGE SHARES OUTSTANDING WITH COMMON STOCK EQUIVALENTS.....	18,984	18,702	18,978	18,694

See notes to consolidated condensed financial statements.

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

(in thousands)

	Six Months Ended	
	June 25, 2005	June 26, 2004
<hr/>		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 32,019	\$ 25,323
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation.....	15,200	13,408
Amortization of intangibles.....	1,190	817
Deferred income taxes.....	(516)	366
Minority interest.....	718	1,277
Loss on sale of interest in subsidiary.....		193
Net gain on sale or impairment of property, plant, and equipment.....	(1,133)	(730)
Changes in:		
Accounts receivable.....	(80,206)	(110,873)
Inventories.....	(31,838)	(56,963)
Accounts payable.....	50,881	53,135
Accrued liabilities and other.....	17,264	21,234
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES.....	3,579	(52,813)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment.....	(21,985)	(16,607)
Acquisitions, net of cash received.....	(7,500)	(10,075)
Proceeds from sale of interest in subsidiary.....		4,679
Proceeds from sale of property, plant and equipment.....	2,318	3,287
Insurance proceeds.....	3,013	
Other assets, net.....	458	1,678
	<hr/>	<hr/>
NET CASH FROM INVESTING ACTIVITIES.....	(23,696)	(17,038)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under revolving credit facilities.....	21,140	83,062
Repayment of long-term debt.....	(454)	(6,117)
Proceeds from issuance of common stock.....	2,865	1,828
Distributions to minority shareholder.....	(369)	(125)
Dividends paid to shareholders.....	(910)	(897)
Repurchase of common stock.....		(129)
Other.....	157	(121)
	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES.....	22,429	77,501
	<hr/>	<hr/>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	2,312	7,650
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR.....	25,274	17,430
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 27,586	\$ 25,080
	=====	=====
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest.....	\$ 7,851	\$ 7,598
Income taxes.....	8,438	1,004

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

	Six Months Ended	
	June 25, 2005	June 26, 2004
NON-CASH OPERATING ACTIVITIES:		
Accounts receivable exchanged for note receivable.....	\$ 765	
Deferred purchase price of acquisition exchanged for current payable.....	994	
NON-CASH INVESTING ACTIVITIES:		
Insurance receivable exchanged for property, plant and equipment.....		\$ 3,143
Property, plant and equipment exchanged for long-term debt.....	\$ 63	
NON-CASH FINANCING ACTIVITIES:		
Common stock issued to trust under deferred compensation plan.....	\$ 761	\$ 716
Common stock issued under stock gift plan.....	26	30
Common stock issued under directors' stock grant plan.....	107	75
Stock exchanged for the exercise of stock options.....	2,194	

See notes to consolidated condensed financial statements.

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

A. BASIS OF PRESENTATION

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

In our opinion, the Financial Statements contain all material adjustments necessary to present fairly our consolidated financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. These Financial Statements should be read in conjunction with the annual consolidated financial statements, and footnotes thereto, included in our Annual Report to Shareholders on Form 10-K for the fiscal year ended December 25, 2004.

Certain reclassifications have been made to the Financial Statements for 2004 to conform to the classifications used in 2005.

B. REVENUE RECOGNITION

Earnings on construction contracts are reflected in operations either by the percentage-of-completion method or completed contract method depending on the nature of the business at individual operations. Under the percentage-of-completion method, revenues and related earnings on construction contracts are measured by the relationships of actual costs incurred related to the total estimated costs. Revisions in earnings estimates on the construction contracts are recorded in the accounting period in which the basis for the revisions become 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:

	June 25, 2005	June 26, 2004
	-----	-----
Cost and Earnings in Excess of Billings.....	\$ 2,386	\$ 1,853
Billings in Excess of Cost and Earnings.....	2,539	2,548



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

C. COMPREHENSIVE INCOME

Comprehensive income consists of net income and foreign currency translation adjustments. Comprehensive income was approximately \$22.8 million and \$19.5 million for the quarters ended June 25, 2005 and June 26, 2004, respectively. During the six months ended June 25, 2005 and June 26, 2004, comprehensive income was approximately \$32.1 million and \$24.3 million, respectively.

D. EARNINGS PER COMMON SHARE

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

	Three Months Ended 06/25/05			Three Months Ended 06/26/04		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
NET EARNINGS.....	\$22,790			\$19,756		
EPS - BASIC						
Income available to common stockholders.....	22,790	18,323	\$1.24 =====	19,756	18,050	\$1.09 =====
EFFECT OF DILUTIVE SECURITIES						
Options.....		661 -----			652 -----	
EPS - DILUTED						
Income available to common stockholders and assumed options exercised.....	\$22,790 =====	18,984 =====	\$1.20 =====	\$19,756 =====	18,702 =====	\$1.06 =====

	Six Months Ended 06/25/05			Six Months Ended 06/26/04		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
NET EARNINGS.....	\$32,019			\$25,323		
EPS - BASIC						
Income available to common stockholders.....	32,019	18,255	\$1.75 =====	25,323	17,994	\$1.41 =====
EFFECT OF DILUTIVE SECURITIES						
Options.....		723 -----			700 -----	
EPS - DILUTED						
Income available to						

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

common stockholders and assumed options exercised.....	\$32,019 =====	18,978 =====	\$1.69 =====	\$25,323 =====	18,694 =====	\$1.35 =====
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No outstanding options were excluded from the computation of diluted EPS for the quarter and six months ended June 25, 2005.

Options to purchase 40,000 shares of common stock at exercise prices ranging from \$31.11 to \$36.01 were outstanding at June 26, 2004, but were not included in the computation of diluted EPS for the quarter and six months ended June 26, 2004. The options' exercise prices were greater than the average market price of the common stock during the periods and, therefore, would be antidilutive.

E. SALE OF ACCOUNTS RECEIVABLE

We have entered into an accounts receivable sale agreement with a bank. Under the terms of the agreement:

- We sell specific receivables to the bank at an agreed-upon price at terms ranging from one month to one year.
- We service the receivables sold and outstanding on behalf of the bank at a rate of 0.50% per annum.
- We receive an incentive servicing fee, which we account for as a retained interest in the receivables sold. Our retained interest is determined based on the fair market value of anticipated collections in excess of the Agreed Base Value of the receivables sold. Appropriate valuation allowances are recorded against the retained interest.
- The maximum amount of receivables, net of retained interest, which may be sold and outstanding at any point in time under this arrangement is \$50 million.

On June 25, 2005, \$54.1 million of receivables were sold and outstanding, and we recorded \$4.1 million of net retained interest in other current assets. On June 26, 2004, \$32.4 million of receivables were sold and outstanding, and we recorded \$2.4 million of net retained interest in other current assets. A summary of the transactions we completed for the first six months of 2005 and 2004 are presented below (in thousands).

	Six Months Ended June 25, 2005 -----	Six Months Ended June 26, 2004 -----
Accounts receivable sold.....	\$230,200	\$177,288
Retained interest in receivables.....	(2,595)	(2,432)
Expense from sale.....	(809)	(490)

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

Servicing fee received.....	95	106
Discounts and sales allowances.....	(1,926)	(1,545)
	-----	-----
Net cash received from sale.....	\$224,965	\$172,927
	=====	=====

F. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	June 25, 2005		June 26, 2004	
	Assets	Accumulated Amortization	Assets	Accumulated Amortization
	-----	-----	-----	-----
Non-compete agreements....	\$ 9,806	(\$4,997)	\$ 7,884	(\$3,533)
Licensing agreements.....	2,760	(1,936)	2,910	(1,288)
Customer relationships....	1,285	(301)		
Backlog.....	190	(190)		
	-----	-----	-----	-----
Total.....	\$14,041	(\$7,424)	\$10,794	\$(4,821)
	=====	=====	=====	=====

Estimated amortization expense for intangible assets as of June 25, 2005 for each of the five succeeding fiscal years is as follows (in thousands):

2005.....	\$1,015
2006.....	1,961
2007.....	1,446
2008.....	996
2009.....	480
Thereafter.....	719

The changes in the net carrying amount of goodwill for the six months ended June 25, 2005 and June 26, 2004 are as follows (in thousands):

Balance as of December 25, 2004.....	\$123,845
Acquisition.....	3,931
Other, net.....	(20)
	-----
Balance as of June 25, 2005.....	\$127,756
	=====
Balance as of December 27, 2003.....	\$125,028
Acquisition.....	4,381
Sale of interest in subsidiary.....	(2,169)
Other, net.....	(465)
	-----
Balance as of June 26, 2004.....	\$126,775
	=====

G. BUSINESS COMBINATIONS

On June 2, 2005, one of our subsidiaries acquired the assets of Maine Ornamental Woodworkers, Inc. ("Maine"), which manufactures, imports and distributes decorative caps used on decking and fencing posts, and is based in Winthrop, Maine and Bainbridge Island, Washington. The purchase price was approximately \$8.5 million, consisting of \$7.5 million paid on the date we closed the transaction and \$1.0 million to be paid by August 1, 2005, allocating \$4.6 million to tangible assets and \$3.9 million to goodwill. The purchase price allocation for this acquisition is preliminary and will be revised as final estimates of intangible asset values are made in accordance with SFAS 141, Business Combinations ("SFAS 141"). Maine 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 Construction LLC ("Shawnlee"), which provides framing services for multi-family construction, and is located in Plainville, MA. The purchase price was approximately \$4.8 million, allocating \$1.2 million to tangible assets and purchased intangibles, \$1.1 million to a noncompete 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 million. We have consolidated this entity, including a respective minority interest, because we exercise control.

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

H. EMPLOYEE STOCK NOTES RECEIVABLE

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

I. STOCK-BASED COMPENSATION

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

As permitted under SFAS No.123, Accounting for Stock-Based Compensation, ("SFAS 123"), we continue to apply the provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, which recognizes compensation expense under the intrinsic value method. Had compensation cost for the stock options granted and stock purchased under the Employee Stock Purchase Plan in the second quarter and first six months of 2005 and 2004 been determined under the fair value based method defined in SFAS 123, our net earnings and earnings per share would have been reduced to the following pro forma amounts (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	June 25, 2005	June 26, 2004	June 25, 2005	June 26, 2004
Net Earnings:				
As reported.....	\$ 22,790	\$ 19,756	\$ 32,019	\$ 25,323
Deduct: compensation expense				
- fair value method.....	(161)	(453)	(400)	(903)
Pro Forma.....	\$ 22,629	\$ 19,303	\$ 31,619	\$ 24,420
	=====	=====	=====	=====
EPS - Basic:				
As reported.....	\$ 1.24	\$ 1.09	\$ 1.75	\$ 1.41
Pro forma.....	\$ 1.24	\$ 1.07	\$ 1.73	\$ 1.36
EPS - Diluted:				
As reported.....	\$ 1.20	\$ 1.06	\$ 1.69	\$ 1.35
Pro forma.....	\$ 1.19	\$ 1.04	\$ 1.68	\$ 1.32

J. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

We are self-insured for environmental impairment liability through a wholly owned subsidiary, UFP Insurance Ltd., a licensed captive insurance company. We own and operate a number of facilities throughout the United States that chemically treat lumber products. In connection with the ownership and operation of these and other real properties, and the disposal or treatment of hazardous or toxic substances, we may, under various federal, state, and local environmental laws, ordinances, and regulations, be potentially liable for removal and remediation costs, as well as other potential costs, damages, and expenses. Insurance reserves, calculated with no discount rate, have been established to cover remediation activities at our Union City, GA; Stockertown, PA; Elizabeth City, NC; Auburndale, FL; Schertz, TX; and Janesville, WI wood preservation facilities. In addition, a small reserve was established for our Thornton, CA property to remove asbestos and certain lead containing materials which existed on the property at the time of purchase.

Including amounts from our wholly owned captive insurance company, we have reserved approximately \$1.8 million on June 25, 2005 and \$1.9 million on June 26, 2004, representing

the estimated costs to complete future remediation efforts and has 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 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 reviewing the report and is expected to issue further clarifications. The results of the EPA study are consistent with a prior Consumer Products Safety Commission (CPSC) study which reached a similar conclusion.

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. Such lawsuits are currently pending in Illinois and New Jersey. The purported class action lawsuits seek unspecified damages from this customer, based on generalized claims under a purported theory of inherent defect, failure to properly warn, or 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. 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

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

potential loss related to the contingencies above. However, potential liabilities of this nature are not conducive to precise estimates and are subject to change. To the extent we are required to defend these actions, we intend to do so vigorously and will monitor these facts on an ongoing basis.

In addition, on June 25, 2005, we were parties either as plaintiff or a defendant to a number of lawsuits and claims arising through the normal course of our business. In the opinion of management, our consolidated financial statements will not be materially affected by the outcome of these contingencies and claims.

On June 25, 2005, we had outstanding purchase commitments on capital projects of approximately \$6.9 million.

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

In certain cases, through our partnerships with framing companies, or through joint bid agreements, we enter into contracts to supply building materials and installation for site-built construction projects. In some of these instances we are required to post payment and performance bonds to insure the owner that the products and installation services are completed in accordance with our contractual obligations. We have agreed to indemnify the surety for claims made against the bonds. Historically, we have not had any claims for indemnity from our sureties. As of June 25, 2005, we had approximately \$11.8 million in outstanding payment and performance bonds which expire during the next nine to twenty-one months. In addition, approximately \$18.2 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 \$1.4 million.

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 E, "Sale of Accounts Receivable.")

On June 25, 2005, we had outstanding letters of credit totaling \$34.6 million, primarily related to certain insurance contracts and industrial development revenue bonds, as further described below.

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

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 \$16.3 million for these types of insurance arrangements. We have reserves recorded on our balance sheet, in accrued liabilities, that reflect our expected future liabilities under these insurance arrangements.

We are required to provide irrevocable letters of credit in favor of the bond trustees for all of the industrial development revenue bonds that we have issued. These letters of credit guarantee principal and interest payments to the bondholders. We currently have irrevocable letters of credit outstanding totaling approximately \$18.3 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.

Our 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.

We did not enter into any new guarantee arrangements during the second quarter of 2005 which would require us to recognize a liability on our balance sheet.

K. SALE OF REAL ESTATE

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

In January 2004, we sold our 60% ownership in Nascor Incorporated, a Calgary, Alberta-based manufacturer of engineered wood components and licensor of I-joist 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.



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

L. INCOME TAXES

The American Jobs Creation Act of 2004 ("Act") that was signed into law by the President on October 22, 2004 provides for a special one-time tax deduction of 85% of certain foreign earnings that are repatriated (as defined by the Act). In order to qualify for the deduction, the earnings must be reinvested in the United States pursuant to a domestic reinvestment plan established by the company's chief executive officer and approved by its board of directors. Certain other criteria in the Act must be satisfied as well. Once a decision is reached to remit foreign earnings, the impact must be recorded in the period in which the decision is made.

On May 10, 2005, the Internal Revenue Service and United States Department of the Treasury issued guidance concerning the calculation of tax on a distribution under Section 965 of the Internal Revenue Code. Based on this guidance, we have decided to repatriate approximately \$2.2 million of undistributed foreign earnings under the Act, which resulted in related income tax expense of \$0.2 million. We have not provided for United States income taxes on the remaining undistributed earnings of foreign subsidiaries totaling approximately \$7.3 million. Recording deferred income taxes on these undistributed earnings is not required because these earnings have been deemed to be permanently reinvested. These amounts would be subject to possible United States taxation only if remitted as dividends.

M. SUBSEQUENT EVENT

On June 27, 2005, one of our subsidiaries, which currently owns a 50% interest in Shawnlee, acquired an additional 25% interest for approximately \$3.5 million, and agreed to purchase the remaining 25% over the next five years. Shawnlee had net sales in fiscal 2004 totaling approximately \$27.0 million.

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. Shepardville had net sales in fiscal 2004 totaling approximately \$4.8 million. AW had net sales in fiscal 2004 totaling approximately \$7.9 million.

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

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

OVERVIEW

We are pleased to report strong results for the second quarter of 2005, which was highlighted by:

- Our significant growth in unit sales to the site-built construction, industrial, and manufactured housing markets. Our unit sales to the do-it-yourself/retail (DIY/retail) market declined due to our sales strategy with our largest customer and efforts to diversify our customer base.
- A 15.4% increase in net earnings for the quarter which surpassed our 5% increase in unit sales. Our enhanced profitability was primarily due to the down-sizing of one of our Western framing operations and increased sales of higher margin value-added products.
- Improved cash flows from operating activities due, in part, to an increase in our sale of receivables program and improvements in our receivables cycle.
- We acquired the assets and assumed certain liabilities of Maine Ornamental in June 2005 for \$8.5 million.
- A decrease in our leverage ratio to 36.8% at the end of June 2005 from 46.5% last year as a result of strong cash flows and working capital management.

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. Based on anticipated growth in the business for the balance of 2005 and on current market and economic conditions, we raised our annual target range for net earnings growth to 15% - 20% for this year (from 10% - 15% originally targeted at the beginning of the year, excluding the effect of the after-tax insurance gain we recognized in 2004) and re-affirmed our annual target range for units sales growth of 7% - 12%.

In addition, in fiscal July 2005, we acquired an additional 25% membership interest in Shawnlee Construction LLC ("Shawnlee") for approximately \$3.5 million, a company in which we already owned a 50% membership interest, and agreed to purchase the remaining 25% over the next five years. In addition, Shawnlee agreed to purchase the assets and assume certain liabilities of Shepardville Construction, Inc. and AW Construction LLC for \$2 million.

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

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 to the site-built construction market is somewhat dependent on 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 24% of our total sales in the first six months of 2005, down from 28% for the first six months of 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 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

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

legislation to limit the uses and disposal of Chromated Copper Arsenate ("CCA") treated lumber. (See Note J, "Commitments, Contingencies and Guarantees.")

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 ("SYP"), also experience the greatest Lumber Market risk (see "Historical Lumber Prices"). 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.

WE CONVERTED TO A NEW PRESERVATIVE TO TREAT OUR PRODUCTS. The manufacturers of CCA preservative voluntarily discontinued the registration of CCA for certain residential applications as of December 31, 2003. As a result, all of our wood preservation facilities, except the one described below, have been converted to an alternate preservative, either Amine Copper Quaternary ("ACQ") or borates. The cost of ACQ is more than four times higher than the cost of CCA. We estimate the new preservative has increased the cost and sales price of our treated products by approximately 10% to 15%. 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 impacted which would in turn affect our future operating results. (See Note J, "Commitments, Contingencies and Guarantees.")

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 these conditions present by:

UNIVERSAL FOREST PRODUCTS, INC.

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

- - Our pricing practices (see "Impact of the Lumber Market on Our Operating Results");
- - 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.

When analyzing this report to assess our future performance, please recognize the potential impact of the various factors set forth above.

HISTORICAL LUMBER PRICES

The following table presents the Random Lengths framing lumber composite price for the six months ended June 25, 2005 and June 26, 2004:

	Random Lengths Composite	
	Average \$/MBF	
	-----	
	2005	2004
	----	----
January.....	\$381	\$341
February.....	420	376
March.....	422	382
April.....	407	431
May.....	386	456
June.....	405	423
Second quarter average..	\$399	\$437
Year-to-date average....	\$404	\$402
Second quarter percentage decrease from 2004....	(8.7%)	
Year-to-date percentage increase from 2004....	0.5%	

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

UNIVERSAL FOREST PRODUCTS, INC.

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

	Random Lengths SYP Average \$/MBF	
	2005	2004
January.....	\$446	\$410
February.....	489	436
March.....	501	487
April.....	511	532
May.....	500	535
June.....	538	498
Second quarter average..	\$516	\$522
Year-to-date average....	\$498	\$483
Second quarter percentage decrease from 2004....	(1.2%)	
Year-to-date percentage increase from 2004....	3.1%	

IMPACT OF THE LUMBER MARKET ON OUR OPERATING RESULTS

We generally price our products to pass lumber costs through to our customers so that our profitability is based on the value-added manufacturing, distribution, engineering, and other services we provide. As a result, our sales levels (and working capital requirements) are impacted by the lumber costs of our products.

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

UNIVERSAL FOREST PRODUCTS, INC.

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

trends in the price of component lumber products, we attempt to lock in costs for these sales commitments with our suppliers. Also, the time period and quantity limitations generally allow us to re-price our products for changes in lumber costs from our suppliers.

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

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

- Products that have significant inventory levels with low turnover rates, whose selling prices are indexed to the Lumber Market. This would include treated lumber, which comprises almost twenty-five percent of our total sales. 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 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. (See "Risk Factors - Seasonality and weather conditions could adversely affect us.")
- Products with fixed selling prices sold under long-term supply arrangements, particularly those involving multi-family construction projects. We attempt to mitigate this risk through our purchasing practices by locking in costs.

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

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

UNIVERSAL FOREST PRODUCTS, INC.

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

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

BUSINESS COMBINATIONS

We completed the following business combinations in fiscal 2005 and fiscal 2004, which were accounted for using the purchase method. (See Note G, "Business Combinations.")

Company Name	Acquisition Date	Business Description
Shepardville Construction Inc. and AW Construction LLC	June 27, 2005	Installs interior products such as base boards, crown moldings, window sills and casing, doors, and cabinets for commercial and multi-family construction projects. Located in Warwick, RI and Wolcott, CT.
Maine Ornamental Woodworkers, Inc.	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.
Shawnlee Construction LLC		Provides framing services for multi-family construction in the Northeast. Located in Plainville, MA.
- - Purchased a 50% interest	April 2, 2004	
- - Purchased an additional 25% interest and agreed to purchase the remaining 25% interest over 5 years	June 27, 2005	
Slaughter Industries	March 15, 2004	Distributes lumber products and manufactures engineered wood components for site-built construction. Located in Dallas, TX.



UNIVERSAL FOREST PRODUCTS, INC.

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

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Midwest Building Systems, January 30, 2004 Manufacturer of engineered wood  
Inc. components for site-built  
construction. Located in  
Indianapolis, IN.  
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RESULTS OF OPERATIONS

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

	For the Three Months Ended		For the Six Months Ended	
	June 25, 2005	June 26, 2004	June 25, 2005	June 26, 2004
Net sales .....	100.0%	100.0%	100.0%	100.0%
Cost of goods sold .....	87.0	87.5	87.2	87.7
	-----	-----	-----	-----
Gross profit .....	13.0	12.5	12.8	12.3
Selling, general, and administrative expenses .....	7.6	7.5	8.3	8.3
	-----	-----	-----	-----
Earnings from operations .....	5.4	5.0	4.5	4.0
Interest, net .....	0.5	0.5	0.6	0.6
Net gain on sale of real estate and interest in subsidiary .....	(0.0)	(0.1)	(0.1)	(0.2)
	-----	-----	-----	-----
	0.5	0.4	0.5	0.4
	-----	-----	-----	-----
Earnings before income taxes and minority interest .....	4.9	4.6	4.0	3.6
Income taxes .....	1.8	1.7	1.5	1.4
	-----	-----	-----	-----
Earnings before minority interest .....	3.1	2.9	2.5	2.2
Minority interest .....	(0.2)	(0.2)	(0.1)	(0.1)
	-----	-----	-----	-----
Net earnings .....	2.9%	2.7%	2.4%	2.1%
	=====	=====	=====	=====

NET SALES

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

UNIVERSAL FOREST PRODUCTS, INC.

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

- - Diversifying our end market sales mix by increasing sales of specialty wood packaging to industrial users and engineered wood components and framing services to the site-built construction market. Engineered wood components include roof trusses, wall panels, and floor systems.
- - Increasing sales of "value-added" products and framing services. Value-added product sales consist of fencing, decking, lattice, and other specialty products sold to the DIY/retail market, specialty wood packaging, engineered wood components, and "wood alternative" products. Wood alternative products consist primarily of composite wood and plastics. Although we consider the treatment of dimensional lumber with certain chemical preservatives a value-added process, treated lumber is not presently included in the value-added sales totals.
- - Maximizing unit sales growth while achieving return on investment goals.

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

Market Classification	For the Three Months Ended			For the Six Months Ended		
	June 25, 2005	% Change	June 26, 2004	June 25, 2005	% Change	June 26, 2004
DIY/Retail .....	\$ 345,977	(0.4)	\$ 347,381	\$ 525,026	(0.5)	\$ 527,678
Site-Built Construction .....	187,236	10.3	169,697	338,290	19.0	284,274
Manufactured Housing .....	107,617	6.3	101,245	202,898	14.7	176,973
Industrial .....	138,722	11.7	124,245	250,498	14.2	219,308
Total .....	\$ 779,552	5.0	\$ 742,568	\$1,316,712	9.0	\$1,208,233
	=====		=====	=====		=====

Note: In the second quarter of 2005, we reviewed the classification of our customers and made certain reclassifications. Prior year information has been restated to reflect these reclassifications.

Net sales in the second quarter of 2005 increased 5% compared to the second quarter of 2004 resulting from an increase in units shipped out of existing facilities. While changes in selling prices varied within market classifications, overall selling prices remained flat comparing the two periods.

Net sales in the first six months of 2005 increased 9% compared to the first six months of 2004 resulting from an estimated increase in units shipped of approximately 5%, while overall selling prices increased by 4%. Overall selling prices increased 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.") We estimate that our unit sales increased by 2% as a result of business acquisitions and new plants, while our unit sales out of existing facilities increased by 3%.

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

DIY/Retail:

Net sales to the DIY/retail market remained flat in the second quarter of 2005 compared to 2004, as a result of a 2% decline in units shipped offset by a slight increase in overall selling prices. Unit sales declined as a result of turning down business with our largest customer that did not meet our margin requirements.

Net sales to the DIY/retail market decreased 1% in the first six months of 2005 compared to 2004, as a result of a 5% decline in units shipped offset by an increase in overall selling prices due to the Lumber Market for SYP. Unit sales declined as a result of turning down business with our largest customer that did not meet our margin requirements and the effects of a delayed spring in the Northeast and Midwest.

Site-Built Construction:

Net sales to the site-built construction market increased 10% in the second quarter of 2005 compared to 2004, primarily due to an estimated 13% increase in unit sales. Unit sales increased as a result of organic growth out of several existing plants, particularly those in our Texas region. These plants have executed a strategy to increase sales and profits by selling lumber packages to customers to whom we currently sell engineered wood components.

Net sales to the site-built construction market increased 19% in the first six months of 2005 compared to 2004, primarily due to an estimated 15% increase in unit sales. Unit sales increased as a result of acquisitions and new plants, combined with organic growth out of several existing plants, particularly those in our Carolina, Florida, and Texas regions, totaling approximately 9%.

Manufactured Housing:

Net sales to the manufactured housing market increased 6% in the second quarter of 2005 compared to the same period of 2004, primarily due to an estimated 10% increase in units shipped. Units shipped increased as a result of additional sales of panel goods to a large national customer and increased shipments to modular home producers. Industry production for HUD code homes remained flat in the second quarter of 2005.

Net sales to the manufactured housing market increased 15% in the first six months of 2005 compared to the same period of 2004. This increase resulted primarily from an increase in selling prices due to the higher Lumber Market and a change in sales mix toward more complex trusses that require more engineering costs in the first quarter of 2005, and an estimated 11% increase in units shipped for the reasons mentioned in the paragraph above. Industry production for HUD code homes increased 4% in the first six months of 2005.

UNIVERSAL FOREST PRODUCTS, INC.

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

Industrial:

Net sales to the industrial market increased 12% in the second quarter of 2005 compared to the same period of 2004, primarily due to an estimated 10% increase in units shipped. Unit sales increased as a result of organic growth out of several existing plants, particularly those in our Southeast and West Central regions. We've added almost 200 new accounts since July of 2004 and we have been successful at significantly increasing our sales with existing accounts. We believe our unit sales and market share continue to grow significantly due to our dedicated local sales teams and national sales support efforts, combined with our competitive advantages in manufacturing, purchasing, and material utilization.

Net sales to the industrial market increased 14% in the first six months of 2005 compared to the same period of 2004, primarily due to an estimated 12% increase in units shipped. Unit sales increased for the reasons mentioned in the paragraph above.

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

	Three Months Ended		Six Months Ended	
	June 25, 2005	June 26, 2004	June 25, 2005	June 26, 2004
Value-Added .....	49.9%	47.3%	51.3%	49.3%
Commodity-Based .....	50.1%	52.7%	48.7%	50.7%

Value-added sales increased 11% in the second quarter of 2005 compared to 2004, primarily due to increased sales of engineered wood components and industrial packaging products. Commodity-based sales remained flat comparing the second quarter of 2005 with the same period of 2004.

Value-added sales increased 14% in the first six months of 2005 compared to 2004, primarily due to increased sales of engineered wood components, turn-key framing services, and industrial packaging products. Commodity-based sales increased 5% during the first six months of 2005 primarily due to the higher Lumber Market for SYP and a 1% increase in unit sales.

COST OF GOODS SOLD AND GROSS PROFIT

Gross profits increased approximately 9% comparing the second quarter of 2005 with the same period of 2004, which exceeded our 5% increase in unit sales. Our improved profitability this quarter was due to a combination of:

- - The down-sizing of one of our Western framing operations;
- - Improving our margins on sales of engineered wood components as a result of anticipating an increase in lumber prices and improving our ability to lock in costs with vendors;

UNIVERSAL FOREST PRODUCTS, INC.

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

- - Increasing our sales of higher margin value-added products;
- - And attaining certain cost efficiencies.

Gross profit as a percentage of net sales increased in the first six months of 2005 compared to the same period of 2004, in spite of a higher Lumber Market. See "Impact of the Lumber Market on our Operating Results." Gross profits increased approximately 13% comparing the first six months of 2005 with the same period of 2004, which exceeded our 5% increase in unit sales. Our improved profitability comparing these two periods was primarily due to the factors mentioned in the paragraph above.

In the third quarter of 2004, one of our multi-family framing subsidiaries in the West commenced certain new construction projects. Based on the nature of these projects, calculating precise estimates was difficult except to determine we would not recognize a loss. Accordingly, we developed and maintained a range of total estimated gross profit for these projects. The low end of our range consistently resulted in an estimated breakeven gross profit, which we used under the percentage of completion method of accounting. These projects were substantially complete on June 25, 2005 and we recognized approximately \$400,000 of gross profit during the quarter.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses increased by 6% in the second quarter of 2005 compared to the same period of 2004, which was slightly higher than our 5% increase in unit sales, primarily due to increases in wages, health care expenses, and incentive compensation tied to operating profits and return on investment. Consequently, SG&A expenses as a percentage of sales increased to 7.6% in the second quarter of 2005 compared to 7.5% in the same period of 2004.

Selling, general and administrative ("SG&A") expenses increased by 10% in the first six months of 2005 compared to the same period of 2004, which compared unfavorably with our 5% increase in unit sales, primarily due to increases in wages, incentive compensation, and employee benefit costs. SG&A expenses as a percentage of sales were 8.3% in the first six months of 2005 and 2004, primarily due to the impact of the higher Lumber Market on our selling prices.

INTEREST, NET

Net interest costs increased in the second quarter and first six months of 2005 compared to the same periods of 2004, primarily due to an increase in short-term borrowing rates on our variable rate debt.

NET GAIN ON SALE OF REAL ESTATE

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

UNIVERSAL FOREST PRODUCTS, INC.

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

INCOME TAXES

Effective tax rates differ from statutory federal income tax rates, primarily due to provisions for state and local income taxes and permanent tax differences. Our effective tax rate increased to 37.8% in the second quarter of 2005 from 37.7% in the same period of 2004, and decreased to 37.9% in the first six months of 2005 from 38.0% in the same period of 2004. Anticipated rate reductions in 2005 associated with the new manufacturing deduction allowed under the Jobs Creation Act and income taxes accrued on the sale of Nascor Incorporated in 2004 have been substantially offset by:

- - An anticipated increase in our state and local income tax rate in 2005;
- - Our decision to repatriate income from one of our Canadian subsidiaries in the second quarter of 2005;
- - Certain new unfavorable permanent tax differences resulting from the Jobs Creation Act;
- - And a decline in income of certain of our non-wholly owned partnerships.

OFF-BALANCE SHEET TRANSACTIONS

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

LIQUIDITY AND CAPITAL RESOURCES

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

	June 25, 2005	June 26, 2004
	-----	-----
Cash from operating activities .....	\$ 3,579	(\$52,813)
Cash from investing activities .....	(23,696)	(17,038)
Cash from financing activities .....	22,429	77,501
	-----	-----
Net change in cash and cash equivalents .....	2,312	7,650
Cash and cash equivalents, beginning of period .....	25,274	17,430
	-----	-----
Cash and cash equivalents, end of period .....	\$ 27,586	\$ 25,080
	=====	=====

In general, we financed our growth in the past through a combination of operating cash flows, our revolving credit facility, industrial development bonds (when circumstances permit), and issuance of long-term notes payable at times when interest rates are favorable. We have not issued equity to finance growth except in the case of a large acquisition. We manage our capital structure by attempting to maintain a targeted ratio of debt to equity and debt to operating cash flow. 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.

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

Seasonality has a significant impact on our working capital from March to August which generally results in negative or modest cash flows from operations in our first and second quarters. Conversely, we experience a substantial decrease in working capital from September to February which results in significant cash flow from operations in our third and fourth quarters. For comparative purposes, we have included the June 26, 2004 balances in the accompanying unaudited consolidated condensed balance sheets.

Due to the seasonality of our business and the effects of the Lumber Market, we believe our cash cycle (days sales outstanding plus days supply of inventory less days payables outstanding) is a good indicator of our working capital management. Our cash cycle increased to 45 days in the first six months of 2005 from 42 days in the first six months of 2004, primarily due to an increase in our days supply of inventory offset slightly by a faster receivables cycle. Inventory levels, relative to sales, increased in the first quarter as a result of opportunistic buying by our purchasing offices, which anticipated rising lumber prices and attempted to lock in margins on products with fixed selling prices.

Cash flows from operating activities improved by approximately \$56 million in the first six months of 2005 compared to the same period of 2004, primarily due to:

- - An increase in our sale of receivables program;
- - A faster receivables cycle due to additional resources and efforts we have recently devoted to this area;
- - And a substantial increase in our working capital requirements last year due to a 32% increase in the lumber market from the beginning of the year to June 2004.

Cash used for investing activities increased by almost \$7 million in the first six months of 2005 compared to the same period of 2004, primarily due to an increase in capital expenditures as a result of projects in Thorndale, ON; Thornton, CA; Berlin, NJ; and Grand Rapids, MI in 2005. We expect to spend approximately \$44 million on capital expenditures in 2005, which includes outstanding purchase commitments on capital projects totaling approximately \$6.9 million on June 25, 2005. We intend to fund capital expenditures and purchase commitments through a combination of operating cash flows and availability under our revolving credit facility.

Additionally, in 2005 we:

- - Acquired the assets and assumed certain liabilities of Maine Ornamental in June 2005 for \$8.5 million, consisting of \$7.5 million paid on the date of we closed the transaction and \$1.0 million to be paid by August 1, 2005.
- - Sold our plant in Stockton, CA for \$2.3M and completed a new facility in Thornton, CA to which this operation was moved.

UNIVERSAL FOREST PRODUCTS, INC.

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

- - Collected the remaining portion of our insurance receivable totaling \$3.0 million associated with the fire in 2004 at our Thorndale, ON plant.

Cash provided by financing activities decreased \$55 million in the first six months of 2005 compared to the same period of 2004, primarily due to decreased borrowings needed under our revolving credit facility to finance operating and investing activities discussed above.

On June 25, 2005, we had \$50 million outstanding on our \$250 million revolving credit facility, which we believe was entirely comprised of seasonal working capital requirements. The revolving credit facility also supports letters of credit totaling approximately \$32.2 million on June 25, 2005. Financial covenants on the unsecured revolving credit facility and unsecured notes include a minimum net worth requirement, minimum interest coverage tests, and a maximum leverage ratio. The agreements also restrict the amount of additional indebtedness we may incur and the amount of assets which may be sold. We were within all of our lending requirements on June 25, 2005.

ENVIRONMENTAL CONSIDERATIONS AND REGULATIONS

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

CRITICAL ACCOUNTING POLICIES

In preparing our consolidated financial statements, we follow accounting principles generally accepted in the United States. These principles require us to make certain estimates and apply judgments that affect our financial position and results of operations. We continually review our accounting policies and financial information disclosures. There have been no material changes in our policies or estimates since December 25, 2004.



Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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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.

Item 4. Controls and Procedures.

- - - - -

- (a) Evaluation of Disclosure Controls and Procedures. With the participation of management, our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15e and 15d - 15e) as of the quarter ended June 25, 2005 (the "Evaluation Date"), have concluded that, as of such date, our disclosure controls and procedures were effective.
- (b) Changes in Internal Controls. During the second quarter ended June 25, 2005, 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.

## PART II. OTHER INFORMATION

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

(a)	Date of Sale	Class of Stock	Number of Shares	Purchasers	Consideration Exchanged
Stock Option Exercises	Various	Common	120,000	Eligible Officers	\$690,000

(b) None.

(c) Issuer purchases of equity securities.

Fiscal Month	(a)	(b)	(c)	(d)
March 27, 2005 - April 30, 2005(1) ..	57,506	\$38.36	57,506	1,493,380
May 1 - May 28, 2005 .....				1,493,380
May 29 - June 25, 2005 .....				1,493,380

(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 October 21, 1998, the Board of Directors approved a share repurchase program (which succeeded a previous program) allowing us to repurchase up to 1.8 million shares of our common stock. On October 18, 2000 and November 14, 2001, the Board of Directors authorized an additional 1 million shares and 2.5 million shares, respectively, to be repurchased under the program. As of June 25, 2005, cumulative total authorized shares available for repurchase is 1.5 million shares.

PART II. OTHER INFORMATION

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

The following matters were voted upon at our Annual Meeting of Shareholders on April 20, 2005:

(1) Election of the following Director for a one year term expiring in 2006:

	For -----	Withheld -----
Louis A. Smith	15,706,230	420,703

Election of the following Directors for three year terms expiring in 2008:

Gary F. Goode	15,499,864	627,069
Mark A. Murray	15,980,041	146,892

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

William G. Currie  
 Dan M. Dutton  
 John M. Engler  
 John W. Garside  
 Peter F. Secchia

Item 5. Other Information.

In the second quarter of 2005, the Audit Committee approved non-audit services to be provided by our independent auditors, Ernst & Young LLP, totaling \$17,500 for 2005.

PART II. OTHER INFORMATION

Item 6. Exhibits.

- - - - -

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

- 31(a) Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- 31(b) Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- 32(a) Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- 32(b) Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

UNIVERSAL FOREST PRODUCTS, INC.

SIGNATURES

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

UNIVERSAL FOREST PRODUCTS, INC.

Date: July 27, 2005  
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By:/s/ William G. Currie  
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William G. Currie  
Its: Vice Chairman of the Board and  
Chief Executive Officer

Date: July 27, 2005  
-----

By:/s/ Michael R. Cole  
-----

Michael R. Cole  
Its: Chief Financial Officer

## EXHIBIT INDEX

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

UNIVERSAL FOREST PRODUCTS, INC.

CERTIFICATION

I, William G. Currie, certify that:

1. I have reviewed this report on Form 10-Q of Universal Forest Products, Inc.;
2. Based on my knowledge, this quarterly 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 the registrant's board of directors (or persons performing the equivalent function):

- 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: July 27, 2005

/s/ William G. Currie

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William G. Currie  
Chief Executive Officer

UNIVERSAL FOREST PRODUCTS, INC.

CERTIFICATION

I, Michael R. Cole, certify that:

1. I have reviewed this report on Form 10-Q of Universal Forest Products, Inc.;
2. Based on my knowledge, this quarterly 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 the registrant's board of directors (or persons performing the equivalent function):

- 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: July 27, 2005

/s/ Michael R. Cole

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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, William G. Currie, 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 quarterly report on Form 10-Q for the quarterly period ended June 25, 2005, 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 quarterly report on Form 10-Q for the quarterly period ended June 25, 2005 fairly presents, in all material respects, the financial condition and results of operations of Universal Forest Products, Inc.

UNIVERSAL FOREST PRODUCTS, INC.

Date: July 27, 2005

By: /s/ William G. Currie

-----  
William G. Currie

Its: Chief Executive Officer

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 quarterly report on Form 10-Q for the quarterly period ended June 25, 2005, 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 quarterly report on Form 10-Q for the quarterly period ended June 25, 2005 fairly presents, in all material respects, the financial condition and results of operations of Universal Forest Products, Inc.

UNIVERSAL FOREST PRODUCTS, INC.

Date: July 27, 2005

By: /s/ Michael R. Cole

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Michael R. Cole

Its: Chief Financial Officer