



**Universal Forest Products®**

# **Report to Shareholders**

**2015**



## Universal Forest Products®

“You all know,” said the Guide, “that security is mortals' greatest enemy.”

— C.S. Lewis, *The Pilgrim's Regress*

To our Shareholders:

What a way to mark our 60<sup>th</sup> year in business! In 2015, we grew annual sales to a record \$2.9 billion. We increased our earnings by 40 percent over 2014, posting record annual net earnings of \$80.5 million, or \$3.99 per diluted share. We attained \$250 million in annual new product sales—the goal we set to achieve by the end of 2016. And we almost hit our 2017 goal of attaining \$3 billion in annual sales.

We're proud of all that our people accomplished, but also mindful of the dangers of complacency: It can hurt a business faster than a weak economy. We don't intend to stand back and admire our successes; instead, we intend to learn from and build upon them. Because we want to break records again. It's that simple. And that difficult.

These are our 2015 results by market:

In our **retail business**, we grew gross sales 10.8 percent, to \$1.1 billion, with help from a 12 percent increase in unit sales. This came at a time when the Home Improvement Research Institute reported a 4.5 percent increase in home improvement sales. Our success in this market was bolstered by new product sales and improved product mix, which helped drive our growth with both big box and independent retail customers. We bring new product ideas to their doorsteps, and then we help them sell the products with sophisticated, effective marketing tools.

In this market, we sell everything from ProWood Dura Color® wood that's treated both with preservative and color ([www.prowoodlumber.com](http://www.prowoodlumber.com)), to a revolutionary decking product from our Deckorators® brand called Vault™ ([www.deckorators.com](http://www.deckorators.com)), and from the outdoor party games in our Belknap Hill Trading Post™ collection ([www.belknaphill.com](http://www.belknaphill.com)) to project panels made of plywood, MDF, chalkboard, pegboard and other materials for crafts or decorative accent projects in our Dimensions™ product line ([www.dimensionsdiy.com/en/products/project-panels.aspx](http://www.dimensionsdiy.com/en/products/project-panels.aspx)).

Our **construction business** grew a modest-yet-sustainable 1.4 percent over 2014, with gross sales at \$898.3 million, as we continued to be selective about the business we take and where we grow. In this market, we manufacture and supply lumber and engineered wood products to builders of commercial structures and single- and multi-family residential structures (both site-built and factory built). Commercial construction led our growth, and we saw single-digit growth in residential construction and factory built housing. We have been careful to grow our business with opportunities we believe will be both profitable and sustainable. We also worked to add new products and capabilities in this market, and have been pleased with our exclusive distribution of insulated structural sheathing called ThermalStar® LCi-SS™. This panel is being used for residential and light commercial construction, and has been exceptionally well-received for reducing time and cost on the job, and providing superior insulating capabilities.

Our healthy **industrial business** continued its double-digit sales growth in 2015, with annual gross sales increasing 13.5 percent over 2014, to \$896.6 million—at a time when total industrial production in the U.S. declined. We grew with existing customers, by expanding into new locations and offering additional products and services, and by adding 192 new customers during the year. That will be the recipe for our growth in the years to come.

There wasn't a magic potion for our record-setting 2015; our results were attributable to many things:

- clear vision and strategies
- more sales of value-added products
- more new product sales
- the addition of new customers and of new business with existing customers
- a growing geographic footprint by expanding into new regions in the U.S., and internationally with the purchase of Brisbane, Australia-based Integra Packaging
- outstanding customer relationships and business partners
- an extraordinary management team
- the efforts of the best, hardest-working employees in the business

We believe we're the best at what we do, but we also have a healthy respect for the competition, and we don't underestimate the innovation and hard work that occurs elsewhere. That drives us: We have no intention of taking the back seat anywhere we operate. Our competitive spirit is our lifeblood. It permeates our businesses: Our operators are determined (and incentivized) to be the best, most profitable manufacturers and suppliers in our industries. They're also strongly competitive with one another, and we regularly celebrate Universal operations that have the best financial performance, the best safety record, the healthiest workforce, and on and on. If we're breathing, we're competing!

We're excited about the year ahead, and we remain focused on our goals of achieving annual sales growth that's 4 to 6 percentage points greater than positive U.S. GDP growth, EBITDA margins of 5% to 6% of sales, and a Return on Invested Capital greater than our Weighted Average Cost of Capital.

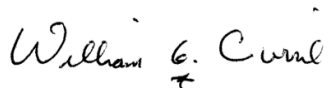
We keep our goals and challenges in front of us all the time, every day: How are we going to grow sales without adding cost at the same rate? How are we going to attract, train and retain the best people? How are we going to grow our profitability with customers who are keenly focused on their own bottom line? How are we going to succeed in new environments –geographically as well as in e-commerce? How are we going to operate efficiently in an increasingly burdensome regulatory environment, and in the face of so-called healthcare reform that has added millions of dollars to our cost of providing healthcare benefits for our people?

We're motivated by challenges like these: They help us define what we need to be successful in 2016, what the Universal of 2026 will look like, and what we need to do to get there.

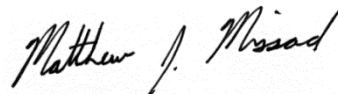
The coming year might well turn out to be the most unpredictable election year in history. Certainly, the campaigning has been anything but orthodox. We remain hopeful that the American people will select leaders who will embrace policies that permit businesses to thrive and enable companies like ours to continue to provide opportunities for employees to succeed in a free society and provide well for themselves and their families.

We remain grateful to those who work with us, who put their trust and investment in us, and who encourage us to be a bold, thoughtful American business true to our Midwestern values of integrity, respect, hard work and perseverance. We take no stakeholders, efforts or guidance for granted, and we work hard every day to continue to earn your trust and approval.

Cordially,



William G. Currie  
Chairman of the Board



Matthew J. Missad  
Chief Executive Officer

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**SELECTED FINANCIAL DATA***(In thousands, except per share and statistics data)*

	2015	2014	2013	2012	2011
<b>Consolidated Statement of Earnings Data</b>					
Net sales	\$ 2,887,071	\$ 2,660,329	\$ 2,470,448	\$ 2,054,933	\$ 1,822,336
Gross profit	399,904	325,342	280,552	225,109	199,727
Earnings before income taxes	131,002	95,713	70,258	41,064	8,787
Net earnings attributable to controlling interest	\$ 80,595	\$ 57,551	\$ 43,082	23,934	4,549
Diluted earnings per share	\$ 3.99	\$ 2.86	\$ 2.15	\$ 1.21	\$ 0.23
Dividends per share	\$ 0.820	\$ 0.610	\$ 0.410	\$ 0.400	\$ 0.400
<b>Consolidated Balance Sheet Data</b>					
Working capital <sup>(1)</sup>	\$ 444,057	\$ 397,546	\$ 357,299	\$ 338,389	\$ 225,399
Total assets	1,107,679	1,023,800	916,987	860,540	764,007
Total debt	85,895	98,645	84,700	95,790	52,470
Shareholders' equity	766,409	699,560	649,734	607,525	582,599
<b>Statistics</b>					
Gross profit as a percentage of					
net sales	13.9%	12.2%	11.4%	11.0%	11.0%
Net earnings attributable to controlling interest as a percentage of net sales					
	2.8%	2.2%	1.7%	1.2%	0.2%
Return on beginning equity <sup>(2)</sup>					
	11.5%	8.8%	7.1%	4.1%	0.8%
Current ratio <sup>(4)</sup>					
	3.17	3.27	3.59	3.95	2.70
Debt to equity ratio <sup>(5)</sup>					
	0.11	0.14	0.13	0.16	0.09
Book value per common share <sup>(3)</sup>					
	\$ 38.05	\$ 35.01	\$ 32.57	\$ 30.68	\$ 29.69

(1) Current assets less current liabilities.

(2) Net earnings attributable to controlling interest divided by beginning shareholders' equity.

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

(4) Current assets divided by current liabilities.

(5) Total debt divided by shareholders' equity.

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

Universal Forest Products, Inc. is a holding company with subsidiaries throughout North America and in Australia that supply wood, wood composite and other products to three robust markets: retail, construction and industrial. The Company is headquartered in Grand Rapids, Mich., and is celebrating its 60th year in business. For more information about Universal Forest Products, Inc., or its affiliated operations, go to [www.ufpi.com](http://www.ufpi.com).

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act, as amended, that are based on management's beliefs, assumptions, current expectations, estimates and projections about the markets we serve, the economy and the Company itself. Words like "anticipates," "believes," "confident," "estimates," "expects," "forecasts," "likely," "plans," "projects," "should," variations of such words, and similar expressions identify such forward-looking statements. These statements do not guarantee future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. The Company does not undertake to update forward-looking statements to reflect facts, circumstances, events, or assumptions that occur after the date the forward-looking statements are made. Actual results could differ materially from those included in such forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty. Among the factors that could cause actual results to differ materially from forward-looking statements are the following: fluctuations in the price of lumber; adverse or unusual weather conditions; adverse economic conditions in the markets we serve; government regulations, particularly involving environmental and safety regulations; and our ability to make successful business acquisitions. Certain of these risk factors as well as other risk factors and additional information are included in the Company's reports on Form 10-K and 10-Q on file with the Securities and Exchange Commission. We are pleased to present this overview of 2015.

**OVERVIEW**

Our results for 2015 were impacted by the following:

- Our sales increased 8.5% in 2015 due to an 11.5% increase in our unit sales, offset by a 3% decrease in overall selling prices. See "Historical Lumber Prices". Our unit sales increased to all three of our markets - retail, industrial, and construction - and were driven by a combination of acquisition and organic growth. Businesses we acquired contributed 4% to our unit sales growth in 2015. See Note C of the Notes to Consolidated Financial Statements.
- The Home Improvement Research Institute reported a 4.5% increase in home improvement sales in 2015. Comparatively, our unit sales to the retail market increased 12% in 2015.
- Our sales to the industrial market increased 13.5% in 2015, despite a decline in national industrial production of 3.4%.
- National housing starts increased approximately 11% in the period from December 2014 through November 2015, compared to the same period of the prior year (our sales trail housing starts by about a month). Comparatively, our unit sales to residential construction customers increased 4% in 2015.
- Shipments of HUD code manufactured homes were up 8.7% in the period from January through November 2015, compared to the same period of the prior year, and year over year modular home starts remained flat in the first nine months of 2015 (the last period reported). Comparatively, our unit sales to the manufactured housing market increased 2% in 2015.
- Our profitability improved to \$80.6 million in net earnings attributable to controlling interest from \$57.6 million last year primarily due to a combination of strong organic sales growth, businesses we acquired (see Note C of the Notes to Consolidated Financial Statements), favorable improvements in sales mix, and low lumber costs on products sold with fixed selling prices.

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**HISTORICAL LUMBER PRICES**

The following table presents the Random Lengths framing lumber composite price.

	Random Lengths Composite Average \$/MBF		
	2015	2014	2013
January	\$ 379	\$ 395	\$ 393
February	361	394	409
March	339	387	436
April	334	367	429
May	315	377	367
June	328	375	329
July	346	381	343
August	327	401	353
September	300	398	368
October	308	381	384
November	326	367	398
December	314	375	385
Annual average	\$ 331	\$ 383	\$ 383
Annual percentage change	(13.6)%	0.0%	

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 23% of our sales volume.

	Random Lengths SYP Average \$/MBF		
	2015	2014	2013
January	\$ 411	\$ 375	\$ 397
February	399	398	426
March	393	406	445
April	400	392	436
May	368	402	383
June	354	406	355
July	344	396	366
August	321	419	364
September	290	416	360
October	318	393	356
November	348	386	362
December	347	399	360
Annual average	\$ 358	\$ 399	\$ 384
Annual percentage change	(10.3)%	3.9%	

**IMPACT OF THE LUMBER MARKET ON OUR OPERATING RESULTS**

We experience significant fluctuations in the cost of commodity lumber products from primary producers ("Lumber Market"). We generally price our products to pass lumber costs through to our customers so that our profitability is based on the value-added



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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 approximately 60% of our material costs, and our material costs as a percentage of sales were 68.7%, 71.3%, and 73.2% in 2015, 2014, 2013, respectively.

Our gross margins are impacted by (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 retail building materials customers, as well as trusses, wall panels and other components sold to the residential 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 with our suppliers for these sales commitments. 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 we 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.

The greatest risk associated with changes in the trend of lumber prices is on the following products:

- Products with significant inventory levels with low turnover rates, whose selling prices are indexed to the Lumber Market. In other words, the longer the period of time these products remain in inventory, the greater the exposure to changes in the price of lumber. This would include treated lumber, which comprises approximately 18% of our total sales. This exposure is less significant with remanufactured lumber, trusses sold to the manufactured housing market, and other similar products, due to the higher rate of inventory turnover. We attempt to mitigate the risk associated with treated lumber through vendor consignment inventory programs. *(Please refer to the "Risk Factors" section of our annual report on form 10-K, filed with the United States Securities and Exchange Commission.)*
- Products with fixed selling prices sold under long-term supply arrangements, particularly those involving multi-family construction projects. We attempt to mitigate this risk through our purchasing practices by locking in costs.

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

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

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

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**BUSINESS COMBINATIONS AND ASSET PURCHASES**

We completed two business acquisitions during 2015 and five during 2014 and each was accounted for using the purchase method. The aggregate annual revenue of these acquisitions totaled \$92.4 million. These business combinations were not significant to our operating results individually or in aggregate, and thus pro forma results for 2015 and 2014 are not presented.

See Notes to Consolidated Financial Statements, Note C, "Business Combinations" for additional information.

**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 26, 2015	December 27, 2014	December 28, 2013
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	86.1	87.8	88.6
Gross profit	13.9	12.2	11.4
Selling, general, and administrative expenses	9.2	8.6	8.3
Loss contingency for anti-dumping duty assessments	—	0.1	0.1
Net loss (gain) on disposition of assets and other impairment charges	—	(0.1)	—
Earnings from operations	4.7	3.7	3.0
Other expense, net	0.2	0.1	0.2
Earnings before income taxes	4.5	3.6	2.8
Income taxes	1.6	1.3	1.0
Net earnings	2.9	2.3	1.9
Less net earnings attributable to noncontrolling interest	(0.2)	(0.2)	(0.1)
Net earnings attributable to controlling interest	2.8%	2.2%	1.7%

Note: Actual percentages are calculated and may not sum to total due to rounding.

**GROSS SALES**

We design, manufacture and market wood and wood-alternative products for national home centers and other retailers, structural lumber and other products for the manufactured housing industry, engineered wood components for residential and commercial construction, and specialty wood packaging, components and packing materials for various industries. Our strategic long-term sales objectives include:

- Diversifying our end market sales mix by increasing sales of specialty wood packaging to industrial users, increasing our penetration of the concrete forming market, increasing our sales of engineered wood components for custom home, multi-family, military and light commercial construction, and increasing our market share with independent retailers.
- Expanding geographically in our core businesses, domestically and internationally.
- Increasing sales of "value-added" products, which primarily consist of fencing, decking, lattice, and other specialty products sold to the 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.
- Developing new products and expanding our product offering for existing customers. New product sales were \$250.1 million in 2015 and \$186.2 million in 2014. (Certain prior year product reclassifications resulted in an increase in new product sales in 2014.)

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

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

Market Classification	Years Ended				
	December 26, 2015	% Change	December 27, 2014	% Change	December 28, 2013
Retail	\$ 1,132,178	10.8	\$ 1,022,037	9.7	\$ 931,815
Industrial	896,587	13.5	789,798	12.2	703,987
Construction	898,328	1.4	886,101	2.1	868,110
Total Gross Sales	2,927,093	8.5	2,697,936	7.8	2,503,912
Sales Allowances	(40,022)	6.4	(37,607)	12.4	(33,464)
Total Net Sales	\$ 2,887,071	8.5	\$ 2,660,329	7.7	\$ 2,470,448

Note: During 2015, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

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
2015 versus 2014	8.5%	(3.0)%	11.5%
2014 versus 2013	7.7%	— %	7.7%
2013 versus 2012	20.0%	12.0 %	8.0%

**Retail:**

Gross sales to the retail market increased almost 11% in 2015 compared to 2014 due to a 12% increase in unit sales, offset by a 1% decrease in selling prices. Within this market, sales to our big box customers increased 15% while our sales to other retailers increased 5%. We believe that our increase in unit sales was primarily due to a combination of significant share gains in existing product lines with certain large retailers, an improvement in consumer demand, and growth in our new product sales. Our large retail customers have reported good year over year same store sales growth.

Gross sales to the retail market increased almost 10% in 2014 compared to 2013 due to a 12% increase in overall unit sales, offset by a 2% decrease in selling prices. Within this market, sales to our big box customers increased 12% while our sales to other retailers increased 7%. We believe that our increase in unit sales was primarily due an improvement in consumer demand as our large retail customers reported year over year increases in their same store sales.

**Industrial:**

Gross sales to the industrial market increased 14% in 2015 compared to 2014, resulting from a 17% increase in overall unit sales, offset by a 3% decrease in selling prices. Businesses we acquired contributed 12% to our growth in unit sales. Our organic growth in unit sales of 5% was due to share gains achieved with several existing customers, as well as adding 168 new customers.

Gross sales to the industrial market increased 12% in 2014 compared to 2013, resulting from a 12% increase in overall unit sales while selling prices remained flat. We acquired three new operations, which contributed 2% to our growth in unit sales, and expanded our capacity at several existing locations to take advantage of market share growth opportunities. Our unit sales also increased as a result of adding 192 new customers during the year and improved demand from our existing customers.

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See Notes to Consolidated Financial Statements, Note C, "Business Combinations" for additional information concerning acquired businesses.

**Construction:**

Gross sales to the construction market increased about 1% in 2015 compared to 2014, due to a unit sales increase of 5%, offset by a 4% decrease in selling prices. Unit sales increased due to a 4% increase in units shipped to residential construction customers, a 15% increase in shipments to commercial construction customers, and a 2% increase in shipments to manufactured housing customers. Comparatively, year over year housing starts increased 11% nationally, the commercial construction market increased 11%, industry production of HUD-code homes increased 8.7%, and modular home starts remained flat for the first nine months of 2015 (the last period reported).

Gross sales to the construction market increased about 2% in 2014 compared to 2013, due to a unit sales increase of 1% and a 1% increase in selling prices. Unit sales increased due to a 29% increase in units shipped to commercial construction customers, offset by an 8% decrease in shipments to residential construction customers. Shipments to manufactured housing customers remained flat. Comparatively, year over year housing starts increased 9%, the commercial construction market increased 6%, industry production of HUD-code homes increased 6%, and modular home starts decreased 1% in 2014.

**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. Value-added products generally carry higher gross margins than our commodity-based products.

	Value-Added	Commodity-Based
2015	59.8%	40.2%
2014	58.5%	41.5%
2013	58.1%	41.9%

**COST OF GOODS SOLD AND GROSS PROFIT**

Our gross profit percentage increased from 12.2% in 2014 to 13.9% in 2015. Additionally, our gross profit dollars increased by almost \$75 million, or 23%, which exceeds our 11.5% increase in unit sales. The improvement in our profitability in 2015 is attributable to the following factors:

- Our growth in unit sales to the industrial market and a significant margin improvement on those sales contributed almost \$50 million to our gross profit improvement. The gross margin improvement is attributable to an improvement in our sales mix and benefiting from lower lumber costs relative to our fixed selling prices in the last six months of 2015. We estimate lower lumber costs contributed \$17 million to \$20 million to our overall improvement in gross profits.
- Approximately \$17 million of the increase is attributable to our growth in unit sales to the retail market and a slight improvement in margin on those sales. New product sales contributed to our margin improvement;
- Over \$9 million of our gross profit improvement was due to growth in sales and an improvement in margins on sales to the residential construction market. Margins improved primarily as a result of efforts to be more selective in the business that we take as market conditions have improved.

Our gross profit percentage increased from 11.4% in 2013 to 12.2% in 2014. Additionally, our gross profit dollars increased by almost \$45 million, or 16%, which exceeded our 8% increase in unit sales. The improvement in our profitability in 2014 was attributable to the following factors:

- Over \$20 million of the improvement reflects our efforts to be more selective in the business that we select on sales to the residential construction market, particularly in our framing operations, as well as operational efficiencies.
- Approximately \$12 million of the increase is attributable to our growth in unit sales to the retail market as well an improvement in margin on those sales due to a more favorable trend in lumber prices in 2014 compared to 2013.

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- Our growth in unit sales to the industrial and commercial construction markets, as well as improvements in our product mix to sell more higher margin products, contributed to gross profit increases of approximately \$17 million and \$6 million, respectively.
- The improvements above were offset to some extent by unfavorable cost variances as a result of inclement weather in our first and fourth quarters of 2014.

**SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative ("SG&A") expenses increased by approximately \$34.5 million, or 15%, in 2015 compared to 2014, while we reported an 11.5% increase in unit sales. The increase in SG&A was primarily due to a \$12 million increase in compensation and related expenses resulting from annual raises and hiring additional sales and design personnel to support sales growth, and a \$16 million increase in incentive compensation expense tied to profitability and return on investment.

Selling, general and administrative ("SG&A") expenses increased by approximately \$25.4 million, or 12.4%, in 2014 compared to 2013, while we reported an 8% increase in unit sales. The increase in SG&A was primarily due to a \$13 million increase in compensation and related expenses resulting from annual raises and hiring additional sales and design personnel to support sales growth, and an \$8 million increase in incentive compensation expense tied to profitability and return on investment.

**ANTI-DUMPING DUTY ASSESSMENTS**

We accrued \$1.6 million and \$0.9 million related to estimated anti-dumping duty assessments in 2014 and 2013, respectively, imposed by the US government on plywood and steel nails imported from China. Additionally, we recorded \$0.6 million for a Canadian anti-dumping duty in 2013 related to certain extruded aluminum products imported from China.

**NET LOSS (GAIN) ON DISPOSITION OF ASSETS AND OTHER IMPAIRMENT CHARGES**

The net gain on disposition and impairment of assets totaled \$3.4 million in 2014. Included within the \$3.4 million net gain was a gain on the sale of certain real estate totaling \$2.7 million completed by a 50% owned subsidiary of the Company. During 2014, we also recognized a net gain on the sale of other properties and equipment totaling \$1.9 million. These gains were offset by a \$1.2 million impairment loss recorded to reduce the value of one of our vacant properties.

**INTEREST, NET**

Net interest costs were higher in 2015 compared to 2014, due to a higher outstanding balance on our revolving line of credit throughout 2015 resulting in additional associated interest expense and the loss of interest income related to notes receivable collected in late 2014 and 2015.

Net interest costs were lower in 2014 compared to 2013, due to a lower outstanding balance on our revolving line of credit throughout 2014 resulting in less associated interest expense. Additionally, interest income increased by \$1.6 million due to certain investments made in notes receivable.

**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 35.0% in 2015 compared to 35.7% in 2014. The decrease in the 2015 tax rate is due to an increase in our domestic manufacturing deduction and a reduction in our estimated state tax rate.

Our effective tax rate increased to 35.7% in 2014 compared to 34.8% in 2013. The increase is due to the 2013 tax rate including additional research and development and certain other tax credits relating to 2012 that were retroactively approved by Congress in 2013.

**SEGMENT REPORTING**

The following table presents, for the periods indicated, our net sales and earnings from operations by reportable segment.

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

(in thousands)	Net Sales					
	December 26, 2015	December 27, 2014	December 28, 2013	2015 vs 2014	2014 vs 2013	
North	\$ 922,092	\$ 840,277	\$ 811,438	9.7%	3.6%	
South	656,550	611,700	568,237	7.3	7.6	
West	1,133,398	1,062,565	950,684	6.7	11.8	
All Other	175,031	145,787	140,089	20.1	4.1	
Total	\$ 2,887,071	\$ 2,660,329	\$ 2,470,448	8.5%	7.7%	

(in thousands)	Earnings from Operations					
	December 26, 2015	December 27, 2014	December 28, 2013	2015 vs 2014	2014 vs 2013	
North	\$ 53,879	\$ 32,988	\$ 21,167	63.3%	55.8%	
South	30,740	24,474	23,680	25.6	3.4	
West	70,220	53,575	42,003	31.1	27.6	
All Other	3,038	3,155	(1,850)	(3.7)	270.5	
Corporate <sup>1</sup>	(22,410)	(16,825)	(10,732)	(33.2)	(56.8)	
Total	\$ 135,467	\$ 97,367	\$ 74,268	39.1%	31.1%	

<sup>1</sup>Corporate primarily represents over (under) allocated administrative costs and certain incentive compensation expense.

North

Net sales attributable to the North reportable segment increased by 9.7% in 2015, due to an increase in sales to our retail, residential construction, and manufactured housing customers. These increases were offset by a decline in sales to our industrial customers.

Net sales attributable to the North reportable segment increased by 3.6% in 2014, due to an increase in sales to our retail, industrial, and commercial construction customers. These increases were offset by a decline in sales to our residential construction customers as we were more selective in the business that we pursued, particularly in our framing operations.

Earnings from operations for the North reportable segment increased in 2015 primarily due to the growth in our sales to retail and residential construction customers. Margin improvements were also achieved due to a more favorable product sales mix and a decline in lumber costs in the last six months of 2015 on products we sell with fixed selling prices.

Earnings from operations for the North reportable segment increased in 2014, compared to 2013, primarily due to the growth in our sales to the retail and industrial markets. These improvements were offset by unfavorable cost variances in our first and fourth quarters due to inclement weather.

South

Net sales attributable to the South reportable segment increased by 7.3% in 2015, primarily due to an increase in sales to our retail, industrial, and manufactured housing customers.

Net sales attributable to the South reportable segment increased by 7.6% in 2014, due to an increase in sales to our retail and industrial customers, offset by a decrease in sales to manufactured housing due to a vertical integration strategy implemented by one of our largest customers.

Earnings from operations for the South reportable segment increased in 2015 primarily due to the growth in our sales to the retail and industrial markets and margin improvements. These improvements were primarily due to a more favorable product sales mix and low lumber costs in the last six months of 2015 on products we sell with fixed selling prices.

**UNIVERSAL FOREST PRODUCTS, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
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Earnings from operations for the South reportable segment increased in 2014, primarily due to growth in our sales to retail and industrial customers, as well as a slight margin improvement. These factors were offset by a decline in sales to manufactured housing customers.

West

Net sales of the West reportable segment increased by 6.7% in 2015, due to an increase in sales to the retail, commercial construction, and industrial markets. Acquired businesses contributed to our growth in sales to the industrial market. These increases were offset by a decline in sales to manufactured housing and residential construction customers.

Net sales of the West reportable segment increased by 11.8% in 2014, due to an increase in sales to the commercial construction and industrial markets. Acquired businesses contributed to our growth in sales to the industrial market. These increases were offset by a decline in sales to manufactured housing customers.

Earnings from operations for the West reportable segment increased in 2015 primarily due to the growth in our sales to the retail and industrial markets and an improvement in margins. Our margins increased due to an improvement in our sales mix and lower lumber prices in the last six months of 2015 on products we sell with fixed selling prices.

Earnings from operations for the West reportable segment increased in 2014 primarily due to the growth in our sales to the retail, industrial, and construction markets; the impact of a more favorable lumber market; and an improvement in our product mix such that we sold more higher margin, value-added products. These improvements were offset to some extent by unfavorable cost variances in our first and fourth quarters due to inclement weather, and a decline in sales to manufactured housing.

All Other

Net sales of all other segments increased 20.1% in 2015 primarily due to:

- An increase in sales by our Alternative Materials operations to retail customers. Our Alternative Materials operations primarily manufacturer, distribute, and sell composite decking, decorative post caps and balusters, and a variety of other deck accessories to retail customers.
- An increase in sales to the Industrial market by our Pinelli Universal partnership. Pinelli Universal manufactures moulding and millwork products out of its plant in Durango, Mexico.
- Our Integra Packaging partnership, acquired in 2015, which manufactures and distributes specialty packaging products.

Net sales of all other segments increased 4.1% in 2014 primarily due to:

- A 7% increase in sales to the Industrial market by our Pinelli Universal partnership.
- A 12% increase in sales by our Alternative Materials operations.

Earnings from operations for all other segments decreased slightly in 2015, primarily due to a gain on the sale of certain real estate in Mexico recorded in the third quarter of 2014 totaling \$2.7 million offset by margin improvements achieved by our Pinelli Universal partnership on its sales to industrial customers in 2015.

Earnings from operations for all other segments improved in 2014, primarily due to improved profitability of our Alternative Materials operations due, in part, to operational improvements, and our Pinelli Universal partnership, which recorded a \$2.7 million gain on the sale of certain real estate.

**OFF-BALANCE SHEET COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

We have no significant off-balance sheet commitments other than operating leases. The following table summarizes our contractual obligations as of December 26, 2015 (in thousands).

**UNIVERSAL FOREST PRODUCTS, INC.**  
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<u>Contractual Obligation</u>	Payments Due by Period				Total
	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years	
Long-term debt and capital lease obligations	\$ 1,145	\$ 48	\$ 2,702	\$ 82,000	\$ 85,895
Estimated interest on long-term debt and capital lease obligations	3,057	5,959	5,950	9,160	24,126
Operating leases	6,008	9,497	1,110	—	16,615
Capital project purchase obligations	3,324	—	—	—	3,324
<b>Total</b>	<b>\$ 13,534</b>	<b>\$ 15,504</b>	<b>\$ 9,762</b>	<b>\$ 91,160</b>	<b>\$ 129,960</b>

As of December 26, 2015, we also had \$25.4 million in outstanding letters of credit issued during the normal course of business, as required by some vendor contracts.

**LIQUIDITY AND CAPITAL RESOURCES**

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

	December 26, 2015	December 27, 2014	December 28, 2013
Cash from operating activities	\$ 168,796	\$ 73,120	\$ 54,440
Cash from investing activities	(46,817)	(67,063)	(43,603)
Cash from financing activities	(33,002)	(5,205)	(18,422)
Effect of exchange rate changes on cash	(1,221)	(852)	(62)
Net change in cash and cash equivalents	87,756	—	(7,647)
Cash and cash equivalents, beginning of year	—	—	7,647
Cash and cash equivalents, end of year	<b>\$ 87,756</b>	<b>\$ —</b>	<b>\$ —</b>

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. We are currently carrying less debt than we believe we could based on our internal targets. We have recently increased our semi-annual dividend rate, completed repurchases of our stock when the price is at a targeted level, increased our capital expenditures to expand our capacity to serve certain targeted markets, and completed several strategic business acquisitions.

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 typically 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 increased to 53 days in 2015 from 50 days in 2014. In 2015, we carried higher levels of safety stock inventory. In addition, adverse weather in the first quarter of 2015 resulted in weaker than expected unit sales and lower inventory turnover during that period.

Cash generated from operating activities was approximately \$168.8 million in 2015, which was comprised of net earnings of \$85.1 million, \$41.6 million of non-cash expenses, and a \$42.1 million decrease in working capital since the end of 2014. Working capital declined primarily due to reducing inventory to targeted levels and an increase in accrued liabilities resulting from a \$17 million increase in accrued compensation.



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Capital expenditures were \$43.5 million in 2015, and we have outstanding purchase commitments on existing capital projects totaling approximately \$3.3 million on December 26, 2015. We intend to fund capital expenditures and purchase commitments through our operating cash flows and amounts available under our revolving credit facility.

Cash flows used in investing activities also included:

- Cash advances on notes receivable of \$7.0 million, which was more than offset by \$11.4 million in collections, associated with our Mexican subsidiary; and
- Purchases of investments of \$7.9 million by our captive insurance subsidiary.

In 2015, cash flows used in financing activities included \$16.5 million of dividends paid to shareholders. Our Board of Directors approved semi-annual dividends of \$0.40 per share and \$0.42 per share, which were paid in June and December of 2015, respectively. In addition, we repaid the \$13.9 million outstanding balance on our revolving credit facility.

On December 26, 2015, we had no outstanding balance on our \$295 million revolving credit facility, which also supports letters of credit totaling approximately \$9.8 million on December 26, 2015 and December 27, 2014. The revolving credit facility is scheduled to mature in November of 2019. Financial covenants on this unsecured revolving credit facility and our unsecured senior notes include 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 26, 2015 and December 27, 2014.

**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 memorandums 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.

**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. The discounted cash flow analysis uses the following assumption: a business is worth today what it can generate in future cash flows; cash received today is worth more than an equal amount of cash received in the future; and future cash flows can be reasonably estimated. The discounted cash flow analysis is based on the present value of projected cash flows and residual values.

As of September 27, 2015, our assessment date, the fair values of each of the Company's operating segments substantially exceeded their carrying values.

	North	South	West	All Other
Excess Fair Value over Carrying Value	101.0%	29.7%	79.4%	39.4%

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If the carrying value of a long-lived asset is considered impaired, a level two analysis will be conducted and an impairment charge is recorded to adjust the asset to its fair value. Changes in forecasted operations and changes in discount rates can materially affect these estimates. In addition, we test goodwill annually for impairment or more frequently if changes in circumstances or the occurrence of other events suggest impairments exist. The test for impairment requires us to make several estimates about fair value, most of which are based on projected future cash flows and market valuation multiples. Changes in these estimates may result in the recognition of an impairment loss.

### **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 certain 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 26, 2015. Our accounting policies with respect to the reserves are as follows:

- General liability, automobile, and workers' compensation reserves are accrued based on third party actuarial valuations of the expected future liabilities.
- Health benefits are self-insured 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.

In addition to providing coverage for the Company, our wholly-owned insurance captive provides Excess Loss Insurance (primarily medical and prescription drug) to certain third parties. As of December 26, 2015, there were 21 such contracts in place. The contracts have specific and/or aggregate coverage loss limits based on the election of the third parties. Reserves associated with these contracts were \$2.0 million at December 26, 2015 and \$1.8 million at December 27, 2014, and are accrued based on third party actuarial valuations of the expected future liabilities.

### **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 income 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 income tax assets and liabilities.

Tax laws are complex and subject to different interpretations by taxpayers and respective government taxing authorities, which results in judgment in determining our tax expense and in evaluating our tax positions. Our tax positions are reviewed quarterly and adjusted as new information becomes available.

### **REVENUE RECOGNITION**

Revenue for product sales 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.

Performance on construction contracts is reflected in operations using percentage-of-completion accounting, under either the cost to cost or units of delivery methods, 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 per the contract. 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.

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Our construction contracts are generally entered into with a fixed price and completion of the projects can range from 6 to 18 months in duration. Therefore, our operating results are impacted by, among many other things, labor rates and commodity costs. During the year, we update our estimated costs to complete our projects using current labor and commodity costs and recognize losses to the extent that they exist.

**FORWARD OUTLOOK**

**GOALS**

The Company's goal is to achieve sales growth that exceeds positive GDP growth by 4 percent to 6 percent.

Our general long-term objectives also include:

- Achieving sales growth primarily through new product introduction, international business expansion, and gaining additional market share, particularly of our industrial and commercial construction markets;
- Increasing our profitability through cost reductions, productivity improvements as volume improves, and a more favorable mix of higher margin value-added products; and
- Earning a return on invested capital in excess of our weighted average cost of capital.

**RETAIL MARKET**

The Home Improvement Research Institute ("HIRI") anticipates growth in home improvement spending and has forecasted a 4.4% compounded annual growth rate until 2019.

We continue to compete for market share for certain retail customers and face intense pricing pressure from other suppliers to this market. Nevertheless, we were successful in our attempt to gain a greater share of our customers business in 2015 and were awarded many new stores and some additional product lines through 2016.

Our long-term goal is to achieve sales growth by:

- Increasing our market share of value-added and preservative-treated products, particularly with independent retail customers.
- Developing new, value-added products, such as our Eovations product line.
- Adding new products and customers through strategic business acquisitions or alliances.
- Increasing our emphasis on product innovation and product differentiation in order to counter commoditization trends and influences.

**INDUSTRIAL MARKET**

Our goal is to increase our sales of wood and alternative packaging products to a wide variety of industrial and OEM 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 growth opportunities as a result of our competitive advantages in manufacturing, purchasing, and material utilization. We plan to continue to obtain market share by expanding our manufacturing capabilities and product offerings and increasing the size of our dedicated industrial sales force. We also plan to pursue strategic acquisition opportunities.

**CONSTRUCTION MARKET**

The *National Association of Home Builders* forecasts a 3% decrease in manufactured home shipments in 2016 followed by a 14% increase in 2017. We will strive to maintain our market share of trusses produced for this market.

The *Mortgage Bankers Association of America* forecasts an 11% increase in national housing starts to an estimated 1.2 million starts in 2016. The *National Association of Home Builders* forecasts starts of 1.3 million, a 13% increase from 2015. We believe we are well-positioned to capture our share of any increase that may occur in housing starts in the regions we operate. However,

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due to our continued focus on profitability and our conservative approach to adding capacity to serve this market, our growth may continue to trail the market in future years.

**GROSS PROFIT**

We believe the following factors may impact our gross profits and margins in 2016:

- End market demand.
- Our ability to maintain market share and 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. However, if our customers are unwilling to pay for these advantages, our sales and gross margins may be reduced. Excess capacity exists for suppliers in each of our markets. As a result, we may experience pricing pressure in the future.
- Product mix.
- Fluctuations in the relative level of the Lumber Market and the trend in the market place of lumber. (See "Impact of the Lumber Market on our Operating Results.")
- Fuel and transportation costs.
- Our ability to continue to achieve productivity improvements as our unit sales increase and planned cost reductions through our continuous improvement and other initiatives.

**SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES**

In recent years, selling, general and administrative (SG&A) expenses have increased as we have added personnel needed to take advantage of growth opportunities and execute our initiatives designed to increase our sales of new products and improve our sales mix of higher margin, value-added products. We anticipate our trend of increases in these costs will continue in 2016, but it is an objective to reduce these costs as a percentage of sales (assuming lumber prices remain stable) as we grow as a result of fixed costs and through improved productivity of our people. In addition, bonus and other incentive expenses for all salaried and sales employees is based on profitability and the effective management of our assets and will continue to fluctuate based on our results.

On a long-term basis, we expect that our SG&A expenses will primarily be impacted by:

- Our growth in sales to the industrial market and, as industry conditions continue to improve, the residential construction market. Our sales to these markets require a higher ratio of SG&A costs due, in part, to product design requirements.
- Sales of new products which may require higher development, marketing, and advertising costs.
- Our incentive compensation programs which are tied to gross profits, pre-bonus earnings from operations, and return on investment.
- Our growth and success in achieving continuous improvement objectives designed to improve our productivity and leveraging our fixed costs.

**LIQUIDITY AND CAPITAL RESOURCES**

Our cash cycle will continue to be impacted in the future by our mix of sales by market. Sales to the residential and commercial construction and industrial markets require a greater investment in working capital (inventory and accounts receivable) than our sales to the retail and manufactured housing markets. Additionally, our investment in trade receivables and inventory will continue to be impacted by the level of lumber prices.

In 2016, management expects to spend between \$70 million and \$75 million on capital expenditures, incur depreciation of approximately \$40 million, and incur amortization and other non-cash expenses of approximately \$6 million. On December 26, 2015, we had outstanding purchase commitments on capital projects of approximately \$3.3 million. We intend to fund capital expenditures and purchase commitments through our operating cash flows and availability under our revolving credit facility which is considered sufficient to meet these commitments and working capital needs.

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We have no present plan to change our dividend policy, which was recently increased to a semi-annual rate of \$0.42 per share. Our dividend rates are reviewed and approved at our April and October board meetings and payments are made in June and December of each year.

We have a share repurchase program approved by our Board of Directors, and as of December 26, 2015, we have authorization to buy back approximately 2.9 million shares. In the past, we have repurchased shares in order to offset the effect of issuances resulting from our employee benefit plans and at opportune times when our stock price falls to predetermined levels.

## **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 26, 2015, based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) ("COSO"). Based on that evaluation, management has concluded that as of December 26, 2015, our internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which follows our report.

Universal Forest Products, Inc.

February 24, 2016

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Universal Forest Products, Inc.  
Grand Rapids, Michigan

We have audited the internal control over financial reporting of Universal Forest Products, Inc. and subsidiaries (the "Company") as of December 26, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, 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 by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 26, 2015, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 26, 2015 of the Company and our report dated February 24, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP

Grand Rapids, Michigan  
February 24, 2016

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Universal Forest Products, Inc.  
Grand Rapids, Michigan

We have audited the accompanying consolidated balance sheets of Universal Forest Products, Inc. and subsidiaries (the "Company") as of December 26, 2015 and December 27, 2014, and the related consolidated statements of earnings and comprehensive income, shareholders' equity, and cash flows for the years then ended. 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, such consolidated financial statements present fairly, in all material respects, the financial position of Universal Forest Products, Inc. and subsidiaries as of December 26, 2015 and December 27, 2014, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 26, 2015, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Grand Rapids, Michigan  
February 24, 2016



## **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 sheet of Universal Forest Products, Inc. and subsidiaries as of December 28, 2013, and the related consolidated statements of earnings and comprehensive income, shareholders' equity, and cash flows for the fiscal year in the period ended December 28, 2013. These financial statements are the responsibility of 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 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 also 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 28, 2013, and the consolidated results of their operations and their cash flows for the fiscal year in the period ended December 28, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Grand Rapids, Michigan

February 26, 2014, except for Note N, as to which the date is February 24, 2016

**UNIVERSAL FOREST PRODUCTS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	December 26, 2015	December 27, 2014
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 87,756	\$ —
Investments	6,743	—
Restricted cash	586	405
Accounts receivable, net	222,964	195,912
Inventories:		
Raw materials	168,548	183,770
Finished goods	136,370	156,278
Total inventories	304,918	340,048
Refundable income taxes	7,784	11,934
Deferred income taxes	—	6,284
Other current assets	17,481	18,423
TOTAL CURRENT ASSETS	648,232	573,006
DEFERRED INCOME TAXES	1,312	1,079
OTHER ASSETS	8,298	9,565
GOODWILL	180,990	183,062
INDEFINITE-LIVED INTANGIBLE ASSETS	2,340	2,340
OTHER INTANGIBLE ASSETS, NET	15,357	6,479
PROPERTY, PLANT AND EQUIPMENT:		
Land and improvements	118,701	114,157
Building and improvements	180,066	175,340
Machinery and equipment	303,081	284,981
Furniture and fixtures	21,682	23,397
Construction in progress	4,515	6,523
PROPERTY, PLANT AND EQUIPMENT, GROSS	628,045	604,398
Less accumulated depreciation and amortization	(376,895)	(356,129)
PROPERTY, PLANT AND EQUIPMENT, NET	251,150	248,269
<b>TOTAL ASSETS</b>	<b>\$ 1,107,679</b>	<b>\$ 1,023,800</b>

See notes to consolidated financial statements.

**UNIVERSAL FOREST PRODUCTS, INC.  
CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	December 26, 2015	December 27, 2014
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Cash overdraft	\$ —	\$ 621
Accounts payable	95,041	89,105
Accrued liabilities:		
Compensation and benefits	78,877	62,143
Other	29,112	23,591
Current portion of long-term debt	1,145	—
<b>TOTAL CURRENT LIABILITIES</b>	<b>204,175</b>	<b>175,460</b>
LONG-TERM DEBT	84,750	98,645
DEFERRED INCOME TAXES	23,838	30,933
OTHER LIABILITIES	28,507	19,202
<b>TOTAL LIABILITIES</b>	<b>341,270</b>	<b>324,240</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Controlling interest shareholders' equity:		
Preferred stock, no par value; shares authorized 1,000,000; issued and outstanding, none	\$ —	\$ —
Common stock, \$1 par value; shares authorized 40,000,000; issued and outstanding, 20,141,709 and 19,984,451	20,142	19,984
Additional paid-in capital	171,562	162,483
Retained earnings	565,636	502,334
Accumulated other comprehensive earnings	(4,585)	1,348
Employee stock notes receivable	—	(455)
Total controlling interest shareholders' equity	752,755	685,694
Noncontrolling interest	13,654	13,866
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>766,409</b>	<b>699,560</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,107,679</b>	<b>\$ 1,023,800</b>

See notes to consolidated financial statements.

**UNIVERSAL FOREST PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME**

(in thousands, except per share data)

	Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
NET SALES	\$ 2,887,071	\$ 2,660,329	\$ 2,470,448
COST OF GOODS SOLD	2,487,167	2,334,987	2,189,896
GROSS PROFIT	399,904	325,342	280,552
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	264,265	229,775	204,390
ANTI-DUMPING DUTY ASSESSMENTS	—	1,600	1,526
NET LOSS (GAIN) ON DISPOSITION OF ASSETS AND IMPAIRMENT CHARGES	172	(3,400)	368
EARNINGS FROM OPERATIONS	135,467	97,367	74,268
INTEREST EXPENSE	5,133	4,267	4,851
INTEREST INCOME	(294)	(2,235)	(640)
EQUITY IN EARNINGS OF INVESTEE	(374)	(378)	(201)
	4,465	1,654	4,010
EARNINGS BEFORE INCOME TAXES	131,002	95,713	70,258
INCOME TAXES	45,870	34,149	24,454
NET EARNINGS	85,132	61,564	45,804
LESS NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(4,537)	(4,013)	(2,722)
NET EARNINGS ATTRIBUTABLE TO CONTROLLING INTEREST	\$ 80,595	\$ 57,551	\$ 43,082
EARNINGS PER SHARE - BASIC	3.99	2.87	2.16
EARNINGS PER SHARE - DILUTED	3.99	2.86	2.15
OTHER COMPREHENSIVE INCOME:			
OTHER COMPREHENSIVE LOSS	(7,257)	(3,116)	(784)
COMPREHENSIVE INCOME	77,875	58,448	45,020
LESS COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	(3,213)	(3,015)	(2,730)
COMPREHENSIVE INCOME ATTRIBUTABLE TO CONTROLLING INTEREST	\$ 74,662	\$ 55,433	\$ 42,290

See notes to consolidated financial statements.

**UNIVERSAL FOREST PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(in thousands, except share and per share data)

	Controlling Interest Shareholders' Equity						Total
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulat-ed Other Comprehen- sive Earnings	Employees Stock Notes Receivable	Noncontrolling Interest	
<b>Balance at December 29, 2012</b>	<b>\$ 19,800</b>	<b>\$ 149,805</b>	<b>\$ 426,887</b>	<b>\$ 4,258</b>	<b>\$ (982)</b>	<b>\$ 7,757</b>	<b>\$ 607,525</b>
Net earnings			43,082			2,722	45,804
Foreign currency translation adjustment				(792)		8	(784)
Capital contribution from noncontrolling interest						84	84
Distributions to noncontrolling interest						(1,460)	(1,460)
Cash dividends - \$0.410 per share			(8,166)				(8,166)
Issuance of 76,492 shares under employee stock plans	76	2,068					2,144
Issuance of 30,808 shares under stock grant programs	31	20	9				60
Issuance of 43,914 shares under deferred compensation plans	44	(44)					—
Tax benefits from non-qualified stock options exercised		290					290
Expense associated with share-based compensation arrangements		1,874					1,874
Accrued expense under deferred compensation plans		2,219					2,219
Note receivable adjustment	(3)	(103)			106		—
Payments received on employee stock notes receivable					144		144
<b>Balance at December 28, 2013</b>	<b>\$ 19,948</b>	<b>\$ 156,129</b>	<b>\$ 461,812</b>	<b>\$ 3,466</b>	<b>\$ (732)</b>	<b>\$ 9,111</b>	<b>\$ 649,734</b>

See notes to consolidated financial statements

**UNIVERSAL FOREST PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(in thousands, except share and per share data)

	Controlling Interest Shareholders' Equity						Total
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulat-ed Other Comprehen- sive Earnings	Employees Stock Notes Receivable	Noncontrolling Interest	
Net earnings			57,551			4,013	61,564
Foreign currency translation adjustment				(2,118)		(998)	(3,116)
Noncontrolling interest associated with business acquisitions						3,650	3,650
Distributions to noncontrolling interest						(1,910)	(1,910)
Cash dividends - \$0.210 & \$0.400 per share - semiannually			(12,205)				(12,205)
Issuance of 15,639 shares under employee stock plans	16	525					541
Issuance of 77,970 shares under stock grant programs	78	1,125	13				1,216
Issuance of 49,337 shares under deferred compensation plans	49	(49)					—
Repurchase of 105,012 shares	(105)		(4,761)				(4,866)
Tax benefits from non-qualified stock options exercised		319					319
Expense associated with share-based compensation arrangements		1,919					1,919
Accrued expense under deferred compensation plans		2,515					2,515
Note receivable adjustment	(2)		(76)		78		—
Payments received on employee stock notes receivable					199		199
<b>Balance at December 27, 2014</b>	<b>\$ 19,984</b>	<b>\$ 162,483</b>	<b>\$ 502,334</b>	<b>\$ 1,348</b>	<b>\$ (455)</b>	<b>\$ 13,866</b>	<b>\$ 699,560</b>

See notes to consolidated financial statements

**UNIVERSAL FOREST PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(in thousands, except share and per share data)

	Controlling Interest Shareholders' Equity						Total
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulat-ed Other Comprehen- sive Earnings	Employees Stock Notes Receivable	Noncontrolling Interest	
Net earnings			80,595			4,537	85,132
Foreign currency translation adjustment				(5,892)		(1,324)	(7,216)
Unrealized gain (loss) on investment				(41)			(41)
Noncontrolling interest associated with business acquisitions						1,019	1,019
Distributions to noncontrolling interest						(3,188)	(3,188)
Purchase of noncontrolling interest						(1,256)	(1,256)
Cash dividends - \$0.400 & \$0.420 per share - semiannually			(16,507)				(16,507)
Issuance of 30,213 shares under employee stock plans	31	1,044					1,075
Issuance of 75,604 shares under stock grant programs	76	1,836					1,912
Issuance of 65,054 shares under deferred compensation plans	65	(65)					—
Repurchase of 13,613 shares	(14)		(786)		304		(496)
Tax benefits from non-qualified stock options exercised		370					370
Expense associated with share-based compensation arrangements		1,846					1,846
Accrued expense under deferred compensation plans		4,048					4,048
Payments received on employee stock notes receivable					151		151
<b>Balance at December 26, 2015</b>	<b>\$20,142</b>	<b>\$171,562</b>	<b>\$565,636</b>	<b>\$(4,585)</b>	<b>\$—</b>	<b>\$13,654</b>	<b>\$766,409</b>

See notes to consolidated financial statements

**UNIVERSAL FOREST PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net earnings	\$ 85,132	\$ 61,564	\$ 45,804
Adjustments to reconcile net earnings attributable to controlling interest to net cash from operating activities:			
Depreciation	37,710	33,913	31,091
Amortization of intangibles	3,531	2,410	2,473
Expense associated with share-based compensation arrangements	1,846	1,919	1,874
Excess tax benefits from share-based compensation arrangements	(33)	(14)	(112)
Expense associated with stock grant plans	109	94	58
Loss reserve on notes receivable	—	—	15
Deferred income taxes	(1,369)	4,926	4,453
Equity in earnings of investee	(374)	(378)	(201)
Net (gain) loss on sale or impairment of property, plant and equipment	172	(3,400)	297
Changes in:			
Accounts receivable	(26,007)	(9,710)	(17,886)
Inventories	34,139	(49,575)	(42,287)
Accounts payable and cash overdraft	4,798	15,390	7,835
Accrued liabilities and other	29,142	15,981	21,026
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>168,796</b>	<b>73,120</b>	<b>54,440</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(43,522)	(45,305)	(40,023)
Proceeds from sale of property, plant and equipment	2,843	9,005	1,778
Acquisitions, net of cash received	(2,505)	(34,641)	(11,478)
Purchase of remaining noncontrolling interest in subsidiary	(1,256)	—	—
Advances on notes receivable	(6,994)	(6,201)	(2,673)
Collections on notes receivable	11,446	9,926	2,814
Purchases of investments	(7,858)	—	—
Proceeds from sale of investments	1,115	—	—
Cash restricted as to use	(181)	315	6,111
Other, net	95	(162)	(132)
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>(46,817)</b>	<b>(67,063)</b>	<b>(43,603)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Borrowings under revolving credit facilities	297,711	211,770	251,801
Repayments under revolving credit facilities	(311,271)	(197,825)	(262,891)
Debt issuance costs	(54)	(724)	(46)
Proceeds from issuance of common stock	1,074	541	2,144
Distributions to noncontrolling interest	(3,188)	(1,910)	(1,460)
Dividends paid to shareholders	(16,507)	(12,205)	(8,166)
Repurchase of common stock	(800)	(4,866)	—
Excess tax benefits from share-based compensation arrangements	33	14	112
Other, net	—	—	84



NET CASH FROM FINANCING ACTIVITIES	(33,002)	(5,205)	(18,422)
Effect of exchange rate changes on cash	(1,221)	(852)	(62)
NET CHANGE IN CASH AND CASH EQUIVALENTS	87,756	—	(7,647)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	0	0	7,647
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 87,756	\$ 0	\$ 0

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:

Interest paid	\$ 5,118	\$ 4,334	\$ 4,883
Income taxes paid	42,767	38,475	14,427
NON-CASH INVESTING ACTIVITIES			
Accounts receivable exchanged for notes receivable	\$ —	\$ 2,768	1,635
Notes receivable exchanged for property	389	3,000	3,900
NON-CASH FINANCING ACTIVITIES:			
Common stock issued under deferred compensation plans	\$ 3,461	\$ 2,567	1,800
Property exchanged for notes receivable	300	—	—
Acquisition earnout and noncompete adjustment prior to final purchase accounting	14,195	—	—

See notes to consolidated financial statements

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

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**OPERATIONS**

We design, manufacture and market wood and wood-alternative products for large home centers and other retailers, structural lumber, engineered wood components, framing services, and other products for the construction market, and specialty wood packaging, components, packing materials, and other wood-based products for various industries.

**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 any entity which we own 50% or more and exercise control. Intercompany transactions and balances have been eliminated.

**NONCONTROLLING INTEREST IN SUBSIDIARIES**

Noncontrolling interest in results of operations of consolidated subsidiaries represents the noncontrolling shareholders' share of the income or loss of various consolidated subsidiaries. The noncontrolling interest reflects the original investment by these noncontrolling 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 2015, 2014, and 2013 relate to the fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013, respectively. Fiscal years 2015, 2014, and 2013 were comprised of 52 weeks.

**FAIR VALUE DISCLOSURES OF FINANCIAL INSTRUMENTS**

We follow ASC Topic 820, *Fair Value Measurements and Disclosures*, which provides a consistent definition of fair value, focuses on exit price, prioritizes the use of market-based inputs over entity-specific inputs for measuring fair value and establishes a three-tier hierarchy for fair value measurements. This topic requires fair value measurements to be classified and disclosed in one of the following three categories:

- Level 1 — Financial instruments with unadjusted, quoted prices listed on active market exchanges.
- Level 2 — Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. Financial instrument values are determined using prices for recently traded financial instruments with similar underlying terms and direct or indirect observational inputs, such as interest rates and yield curves at commonly quoted intervals.
- Level 3 — Financial instruments not actively traded on a market exchange and there is little, if any, market activity. Values are determined using significant unobservable inputs or valuation techniques.

**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.

Restricted cash consists of amounts required to be held for loss funding totaling \$0.6 and \$0.4 million as of December 26, 2015 and December 27, 2014, respectively.

**INVESTMENTS**

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

Investments are deemed to be "available for sale" and are, accordingly, carried at fair value being the quoted market value. Unrealized investment gains or losses, net of deferred taxes, are reported as a separate component of comprehensive income or loss until sold.

**ACCOUNTS RECEIVABLE AND ALLOWANCES**

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.

We base our allowances related to receivables on historical credit and collections experience, and the specific identification of other potential problems, including the general 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.

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

	Beginning Balance	Additions Charged to Costs and Expenses	Deductions*	Ending Balance
Year Ended December 26, 2015:				
Allowance for possible losses on accounts receivable	\$ 2,390	\$ 20,538	\$ (20,256)	\$ 2,672
Year Ended December 27, 2014:				
Allowance for possible losses on accounts receivable	\$ 2,060	\$ 18,871	\$ (18,541)	\$ 2,390
Year Ended December 28, 2013:				
Allowance for possible losses on accounts receivable	\$ 2,550	\$ 17,114	\$ (17,604)	\$ 2,060

\* Includes accounts charged off, discounts given to customers and actual customer returns and allowances.

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

Accounts receivable retainage amounts related to long term construction contracts totaled \$6.5 million and \$6.0 million as of December 26, 2015 and December 27, 2014, respectively. All amounts are expected to be collected within 18 months. Concentration of accounts receivable related to our largest customer totaled \$39.1 million and \$26.5 million as of December 26, 2015 and December 27, 2014, respectively.

**NOTES RECEIVABLE AND ALLOWANCES**

We have written agreements to receive repayment of funds borrowed from us, consisting of principal as well as any accrued interest, at a specified future date. We record a valuation allowance relating to these agreements for the portion that is expected to be uncollectible. The current portion of notes receivable, net of allowance, totaled \$2.0 million and \$5.2 million at December 26, 2015 and December 27, 2014, respectively and are included in "Other Current Assets". The long-term portion of notes receivable, net of allowance, totaled \$2.4 million and \$3.0 million at December 26, 2015 and December 27, 2014, respectively and are included in "Other Assets".

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

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

	Beginning Balance	Additions	Deductions	Ending Balance
Year Ended December 26, 2015: Allowance for possible losses on Notes receivable	\$ 826	\$ —	\$ (826)	\$ —
Year Ended December 27, 2014: Allowance for possible losses on Notes receivable	\$ 1,025	\$ 1,599	\$ (1,798)	\$ 826
Year Ended December 28, 2013: Allowance for possible losses on Notes receivable	3,226	\$ 887	(3,088)	\$ 1,025

**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 weighted average 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. We have inventory on consignment at customer locations valued at \$11.7 million as of December 26, 2015 and \$12.9 million as of December 27, 2014. During 2015, management decided to discontinue certain product lines in our Gulf region which resulted in a \$2.5 million inventory write-down.

**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	10 to 32 years
Machinery, equipment and office furniture	2 to 8 years

**LONG-LIVED ASSETS**

In accordance with ASC 360, *Property, Plant, and Equipment* ("ASC 360"), when an indicator of potential impairment exists, 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.

**GOODWILL**

Our annual testing date for evaluating goodwill and indefinite-lived intangible asset impairment is the first day of the Company's fourth fiscal quarter for all reporting units. Additionally, the Company reviews various triggering events throughout the year to ensure that a mid-year impairment analysis is not required. The reasonableness of our segment values determined in our valuation is measured against our market capitalization at the measurement date.

**FOREIGN CURRENCY**

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. Gains and losses arising from re-measuring foreign currency transactions are included in earnings.

**INSURANCE RESERVES**

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

Our wholly-owned insurance captive, Ardellis Insurance Ltd. (“Ardellis”), was incorporated on April 21, 2001 under the laws of Bermuda and is licensed as a Class 3 insurer under the Insurance Act 1978 of Bermuda.

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 certain environmental liabilities are managed through Ardellis; the related assets and liabilities of which are included in the consolidated financial statements as of December 26, 2015 and December 27, 2014. 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.

In addition to providing coverage for the Company, Ardellis provides Excess Loss Insurance (primarily medical and prescription drug) to certain third parties. As of December 26, 2015, Ardellis had 21 such contracts in place. The contracts have aggregate coverage loss limits based on the election of the third parties. Reserves associated with these contracts were \$2.0 million at December 26, 2015 and \$1.8 million at December 27, 2014, and are accrued based on third party actuarial valuations of the expected future liabilities.

### **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 income 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 income tax assets and liabilities. The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-17 - *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, on November 2, 2015, which simplifies the accounting for deferred tax assets and deferred tax liabilities. In accordance with this standard, the Company has early adopted the presentation of deferred income taxes, which requires all deferred tax assets and deferred tax liabilities to be classified as noncurrent as opposed to the former US GAAP Standard which requires entities to split their deferred tax assets and deferred tax liabilities between current and noncurrent based on the balance sheet classification of the related asset or liability. At the end of 2015 and prospectively, the deferred tax assets and deferred tax liabilities were classified as noncurrent.

### **DEBT**

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03 - *Simplifying the Presentation of Debt Issuance Costs* on April 7, 2015 and effective for fiscal years beginning after December 15, 2015. The ASU requires the presentation of debt issuance costs in the balance sheet as a direct deduction from the recognized debt liability rather than as an asset and amortization of the costs is reported as interest expense. In accordance with ASU 2015-03, the Company will comply with this ASU during the first interim reporting period of 2016.

### **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 percentage-of-completion accounting, under either the cost to cost or units of delivery methods, 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.

Our construction contracts are generally entered into with a fixed price and completion of the projects can range from 6 to 18 months in duration. Therefore, our operating results are impacted by, among many other things, labor rates and commodity

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

costs. During the year, we update our estimated costs to complete our projects using current labor and commodity costs and recognized losses to the extent that they exist.

The following table presents the balances of percentage-of-completion accounts on December 26, 2015 and December 27, 2014 which are included in other current assets and other accrued liabilities, respectively (in thousands):

	2015	2014
Cost and Earnings in Excess of Billings	\$ 3,624	\$ 5,244
Billings in Excess of Cost and Earnings	4,978	4,682

**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**

The computation of earnings per share ("EPS") is as follows (in thousands):

	December 26, 2015	December 27, 2014	December 28, 2013
Numerator:			
Net earnings attributable to controlling interest	\$ 80,595	\$ 57,551	\$ 43,082
Adjustment for earnings allocated to non-vested restricted common stock	(1,059)	(718)	(412)
Net earnings for calculating EPS	<u>\$ 79,536</u>	<u>\$ 56,833</u>	<u>\$ 42,670</u>
Denominator:			
Weighted average shares outstanding	20,184	20,081	19,952
Adjustment for non-vested restricted common stock	(265)	(250)	(191)
Shares for calculating basic EPS	<u>19,919</u>	<u>19,831</u>	<u>19,761</u>
Effect of dilutive stock options	36	23	54
Shares for calculating diluted EPS	<u><u>19,955</u></u>	<u><u>19,854</u></u>	<u><u>19,815</u></u>
Net earnings per share:			
Basic	\$ 3.99	\$ 2.87	\$ 2.16
Diluted	\$ 3.99	\$ 2.86	\$ 2.15

No options were excluded from the computation of diluted EPS for 2015, 2014, or 2013.

**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.

**B. FAIR VALUE**

We apply the provisions of ASC 820, *Fair Value Measurements and Disclosures*, to assets and liabilities measured at fair value. Assets and liabilities measured at fair value are as follows:

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

(in thousands)	December 26, 2015			December 27, 2014		
	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Total
Money market funds	\$ 78,210	—	\$ 78,210	\$ 62	—	\$ 62
Bond funds	—	238	238	—	—	—
Domestic stock funds	—	3,130	3,130	—	—	—
Mutual funds:						
Domestic stock funds	3,523	—	3,523	208	—	208
International stock funds	237	—	237	68	—	68
Target funds	230	—	230	198	—	198
Bond funds	172	—	172	157	—	157
<b>Total mutual funds</b>	<b>4,162</b>	<b>—</b>	<b>4,162</b>	<b>693</b>	<b>—</b>	<b>693</b>
Assets at fair value	<u>\$ 82,372</u>	<u>\$ 3,368</u>	<u>\$ 85,740</u>	<u>\$ 693</u>	<u>—</u>	<u>\$ 693</u>

We maintain money market, mutual funds, bonds, and/or stocks in our non-qualified deferred compensation plan and our wholly owned licensed captive insurance company. These funds are valued at prices quoted in an active exchange market and are included in "Cash and Cash Equivalents", "Investments", and "Other Assets". We have elected not to apply the fair value option under ASC 825, Financial Instruments, to any of our financial instruments except for those expressly required by U.S. GAAP.

We do not maintain any Level 3 assets or liabilities that would be based on significant unobservable inputs.

In accordance with our investment policy, our wholly-owned captive, Ardellis Insurance Ltd. ("Ardellis"), maintains an investment portfolio, totaling \$6.7 million as of December 26, 2015, consisting of mutual funds, domestic and international stocks, and fixed income bonds.

Ardellis' available for sale investment portfolio consists of the following:

	Cost	Unrealized Gain/Loss	Fair Value
Fixed Income	\$ 3,362	\$ (12)	\$ 3,350
Equity	3,438	(45)	3,393
<b>Total</b>	<u>\$ 6,800</u>	<u>\$ (57)</u>	<u>\$ 6,743</u>

Our Fixed Income investments consist of short, intermediate, and long term bonds, as well as fixed blend bonds. Within the fixed income investments, we maintain a specific mixture of US treasury notes, US agency mortgage backed securities, private label mortgage backed securities, and various corporate securities. Our equity investments consist of small, mid, and large cap growth and value funds, as well as international equity. The gross unrealized gains and losses were de minimus thus reporting net pre-tax effect unrealized loss of \$57,000. Carrying amounts above are recorded in the investments line item within the balance sheet as of December 26, 2015. During 2015, Ardellis reported a net realized gain of \$35,600, which was recorded in interest income on the statement of earnings.

**C. BUSINESS COMBINATIONS**

We completed the following business combinations in fiscal 2015 and 2014, which were accounted for using the purchase method (in thousands).

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

Company Name	Acquisition Date	Purchase Price	Intangible Assets	Net Tangible Assets	Operating Segment	Business Description
Rapid Wood Mfg., LLC (“Rapid Wood”)	February 2, 2015	\$1,638 (asset purchase)	\$789	\$849	West	A supplier of lumber products to the region’s manufactured housing and recreational vehicle industries based in Caldwell, Idaho. Rapid Wood had annual sales of \$2.3 million.
Integra Packaging Proprietary, Ltd (“Integra Packaging”)	January 16, 2015	\$1,102 (51.94% stock purchase)	\$1,406 (The Company portion of Intangible Assets \$730 or 51.94%)	\$715 (The Company portion of Net Tangible Assets \$372 or 51.94%)	All Other	An Australian-based manufacturer and distributor of industrial wood specialty packaging products. Integra Packaging had annual sales of \$12.4 million.
Bigs Packaging and Lumber, LLC (“Bigs Packaging”)	November 13, 2014	\$20,000 (asset purchase) + \$13,212 earnout accrual + \$983 noncompete accrual	\$25,294	\$8,901	West	A Texas-based manufacturer of industrial wood and packaging solutions. Bigs Packaging had annual sales of \$50.0 million.
Packnet Ltd (“Packnet”)	November 24, 2014	\$7,506 (80% asset purchase)	\$7,885 (The Company portion of Intangible Assets \$6,308 or 80%)	\$1,498 (The Company portion of Net Tangible Assets \$1,198 or 80%)	West	A supplier of industrial packaging and services based in Eagan, MN. Packnet had annual sales of \$9.0 Million.
High Level Components, LLC (“High Level”)	March 31, 2014	\$2,944 (asset purchase)	\$—	\$3,232	North	A building component manufacturer based in Locust, NC. High Level had annual sales of \$6.8 million.
Upshur Forest Products, LLC (“Upshur”)	March 28, 2014 (majority interest) June 25, 2015 (minority interest)	\$3,548 (asset purchase)	\$1,577	\$1,971	West	A sawmill located in Gilmer, TX. Upshur had annual sales of \$8.9 million.
Container Systems, Inc. (“CSI”)	March 14, 2014	\$2,417 (asset purchase)	\$—	\$2,417	South	A manufacturer of crates and containers for industrial applications and the moving-and-storage industry, located in Franklinton, NC. CSI had annual sales of \$3.0 million.

The intangible assets for each acquisition were finalized and allocated to their respective identifiable intangible asset and goodwill accounts during 2015.

At December 26, 2015, the amounts assigned to major intangible classes for the business combinations mentioned above are as follows (in thousands):



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

	Non- Compete Agreements	Customer Relationships	Goodwill	Goodwill - Tax Deductible
Rapid Wood	\$ —	\$ —	\$ 789	\$ 789
Integra Packaging	85	467	854	—
Bigs Packaging	2,500	4,580	18,214	12,082
Packnet	—	—	7,885	7,885
Upshur	1,577	—	—	—

The business combinations mentioned above were not significant to our operating results individually or in aggregate, and thus pro forma results for 2015 and 2014 are not presented.

**D. NET LOSS (GAIN) ON DISPOSITION OF ASSETS AND IMPAIRMENT CHARGES**

The net gain on disposition and impairment of assets totaled \$3.4 million in 2014. Included within the \$3.4 million net gain was a gain on the sale of certain real estate totaling \$2.7 million completed by a 50% owned subsidiary of the Company. During 2014, we also recognized a net gain on the sale of other properties and equipment totaling \$1.9 million. These gains were offset by a \$1.2 million impairment loss recorded to reduce the value of one of our vacant properties.

**E. GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets of acquired businesses. Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to impairment tests at least annually in accordance with ASC 350, Intangibles-Goodwill and Other. We review the carrying amounts of goodwill and other non-amortizable intangibles by reporting unit to determine if such assets may be impaired. As the carrying amount of these assets are recoverable based upon a discounted cash flow and market approach analysis, no impairment was recognized.

The changes in the net carrying amount of goodwill by reporting segment for the years ended December 26, 2015 and December 27, 2014, are as follows (in thousands):

	North	South	West	All Other	Total
Balance as of December 28, 2013	44,983	43,625	62,176	9,362	160,146
Acquisitions	—	—	22,916	—	22,916
Balance as of December 27, 2014	44,983	43,625	85,092	9,362	183,062
2015 Acquisitions	—	—	789	618	1,407
2014 Final Purchase Accounting	—	—	(1,328)	—	(1,328)
Other	(1,730)	—	—	(421)	(2,151)
Balance as of December 26, 2015	\$ 43,253	\$ 43,625	\$ 84,553	\$ 9,559	\$ 180,990

Indefinite-lived intangible assets totaled \$2.3 million as of December 26, 2015 and December 27, 2014 related to the Consumer Products segment.

The following amounts were included in other amortizable intangible assets, net as of December 26, 2015 and December 27, 2014 (in thousands):

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

	2015		2014	
	Assets	Accumulated Amortization	Assets	Accumulated Amortization
Non-compete agreements	\$ 5,496	\$ (1,725)	\$ 2,917	\$ (1,019)
Customer relationships	19,194	(10,140)	9,480	(8,027)
Licensing agreements	4,589	(2,524)	4,589	(2,065)
Patents	3,563	(3,096)	3,464	(2,860)
<b>Total</b>	<b>\$ 32,842</b>	<b>\$ (17,485)</b>	<b>\$ 20,450</b>	<b>\$ (13,971)</b>

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 15 years
Customer relationship	5 to 15 years
Licensing agreements	10 years

Amortization expense of intangibles totaled \$3.5 million, \$2.4 million and \$2.5 million in 2015, 2014 and 2013, respectively. The estimated amortization expense for intangibles for each of the five succeeding fiscal years is as follows (in thousands):

2016	\$ 2,373
2017	2,070
2018	1,812
2019	1,528
2020	1,117
Thereafter	6,457
<b>Total</b>	<b>\$ 15,357</b>

**F. DEBT**

On December 17, 2012, we entered into an unsecured Note Purchase Agreement (the "Agreement") under which we issued our 3.89% Series 2012 A Senior Notes, due December 17, 2022, in the aggregate principal amount of \$35 million and our 3.98% Series 2012 B Senior Notes, due December 17, 2024, in the aggregate principal amount of \$40 million. Proceeds from the sale of the Series A Senior Notes and Series B Senior Notes were used to repay amounts due on our existing Series 2002-A Senior Notes, Tranche B totaling \$40 million and our revolving credit facility.

On November 3, 2014, the Company entered into a five-year, \$295 million unsecured revolving credit facility with a syndicate of U.S. banks led by JPMorgan Chase Bank, N.A., as administrative agent and Wells Fargo Bank, N.A., as syndication agent. The facilities include up to \$45 million which may be advanced in the form of letters of credit, and up to \$100 million (U.S. dollar equivalent) which may be advanced in Canadian dollars, Australian dollars, pounds Sterling, Euros and such other foreign currencies as may subsequently be agreed upon among the parties. This facility replaced our \$265 million unsecured revolving credit facility. Cash borrowings are charged interest based upon an index selected by the Company, plus a margin that is determined based upon the index selected and upon the financial performance of the Company and certain of its subsidiaries. The Company is charged a facility fee on the entire amount of the lending commitment, at a per annum rate ranging from 15 to 32.5 basis points, also determined based upon the Company's performance. The facility fee is payable quarterly in arrears.

Outstanding letters of credit extended on our behalf on December 26, 2015 and December 27, 2014 aggregated \$25.4 million and \$26.3 million; respectively, which includes approximately \$9.8 million related to industrial development revenue bonds. Letters of credit have one year terms and include an automatic renewal clause. The letters of credit related to industrial development revenue bonds are charged an annual interest rate of 110 basis points, based upon our financial performance. The letters of credit related to workers' compensation are charged an annual interest rate of 75 basis points

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

Long-term debt obligations are summarized as follows on December 26, 2015 and December 27, 2014 (amounts in thousands):

	2015	2014
Series 2012 Senior Notes Tranche A, due on December 17, 2022, interest payable semi-annually at 3.89%	\$ 35,000	\$ 35,000
Series 2012 Senior Notes Tranche B, due on December 17, 2024, interest payable semi-annually at 3.98%	40,000	40,000
Revolving credit facility totaling \$295 million due on November 3, 2019, interest payable monthly at a floating rate (1.11% on December 27, 2014)	—	13,945
Series 1999 Industrial Development Revenue Bonds, due on August 1, 2029, interest payable monthly at a floating rate (0.17% on December 26, 2015 and 0.24% on December 27, 2014)	3,300	3,300
Series 2000 Industrial Development Revenue Bonds, due on October 1, 2020, interest payable monthly at a floating rate (0.26% on December 26, 2015 and 0.23% on December 27, 2014)	2,700	2,700
Series 2002 Industrial Development Revenue Bonds, due on December 1, 2022, interest payable monthly at a floating rate (0.25% on December 26, 2015 and 0.23% on December 27, 2014)	3,700	3,700
Foreign Affiliate Debt	1,195	—
	85,895	98,645
Less current portion	1,145	—
Long-term portion	\$ 84,750	\$ 98,645

Financial covenants on the unsecured revolving credit facility and unsecured notes include 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 among other industry standard covenants. We were within all of our lending requirements on December 26, 2015 and December 27, 2014.

On December 26, 2015, the principal maturities of long-term debt and capital lease obligations are as follows (in thousands):

2016	\$ 1,145
2017	29
2018	19
2019	2
2020	2,700
Thereafter	82,000
Total	\$ 85,895

On December 26, 2015, the estimated fair value of our long-term debt, including the current portion, was \$85.6 million, which was \$0.3 million less 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.

**G. LEASES**

We lease certain real estate under operating 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 years. We also lease motor vehicles, equipment, and an aircraft under operating lease agreements for periods of one to ten years. Future minimum payments under non-cancelable operating leases on December 26, 2015 are as follows (in thousands):

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

	Operating Leases
2016	\$ 6,008
2017	4,295
2018	3,250
2019	1,952
2020	1,068
Thereafter	42
<b>Total minimum lease payments</b>	<b>\$ 16,615</b>

Rent expense was approximately \$6.3 million, \$5.2 million, and \$5.2 million in 2015, 2014, and 2013, respectively.

**H. 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 these 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 totaled \$2.3 million and \$2.0 million on December 26, 2015 and December 27, 2014, respectively, and are included "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 and salaries. 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 \$0.8 million and \$0.7 million on December 26, 2015 and December 27, 2014 respectively, and are included in "Other Assets." Related liabilities totaled \$13.3 million and \$9.7 million on December 26, 2015 and December 27, 2014, respectively, and are included in "Other Liabilities" and "Shareholders' Equity." Assets associated with 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.

**I. COMMON STOCK**

In April 2002, our shareholders approved the 2002 Employee Stock Purchase Plan ("Stock Purchase Plan") to succeed the Employee Stock Purchase Plan originally approved in 1994. In April 2008, our shareholders authorized additional shares to be allocated to the Stock Purchase Plan and extended the term of the Stock Purchase Plan to 2018. The plan allows eligible employees to purchase shares of our stock at a share price equal to 85% of fair market value on the purchase date. We have expensed the fair value of the compensation associated with these awards, which approximates the discount. The amount of expense is nominal.

In April 1994, our shareholders approved the Directors' Retainer Stock Plan ("Stock Retainer Plan"). In April 2007, our shareholders authorized additional shares to be issued pursuant to this 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. The number of shares is increased by the amount of dividends paid on the Company's common stock. We recognized expense for this plan of \$0.6 million in 2015, \$0.6 million in 2014, and \$0.4 million in 2013.

On April 15, 2010, our shareholders approved an amended and restated Long Term Stock Incentive Plan (the "LTSIP"). The LTSIP reserves 1,000,000 shares, plus a balance of unused shares from prior plans of approximately 1.6 million shares, plus an annual increase of no more than 200,000 shares per year which may be added on the dates of our annual shareholder meetings. The LTSIP provides for the grant of stock options, stock appreciation rights, restricted stock, performance shares and other stock-based awards.

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

A summary of the transactions under the stock option plans is as follows:

	Stock Under Option	Weighted- Average Exercise Price Per Share	Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 29, 2012	110,106	30.13	1.64	845,915
Exercised	(77,632)	29.49		1,221,004
Forfeited or expired	—	—		
Outstanding at December 28, 2013	32,474	31.65	1.55	661,674
Exercised	(8,737)	30.64		163,830
Forfeited or expired	—	—		—
Outstanding at December 27, 2014	23,737	32.03	1.00	493,304
Exercised	(23,737)	30.64		559,510
Forfeited or expired	—	—		—
Outstanding at December 26, 2015	—	—	0.00	—
Vested or expected to vest at December 26, 2015	—	—		
Exercisable at December 26, 2015	—	\$ —	0.00	\$ —

There is no unrecognized compensation expense remaining for stock options in 2015 and 2014 and the amounts are nominal in 2013.

A summary of the nonvested restricted stock awards granted under the LTSIP is as follows:

	Restricted Awards	Weighted- Average Grant Date Fair Value	Unrecognized Compensation Expense (in millions)	Weighted- Average Period to Recognize Expense
Nonvested at December 29, 2012	186,609	32.22	3.2	2.68 years
Granted	36,481	40.58		
Vested	(9,955)	40.58		
Forfeited	(6,715)	31.96		
Nonvested at December 28, 2013	206,420	32.52	2.9	2.00 years
Granted	62,555	55.30		
Vested	(9,446)	55.30		
Forfeited	(2,443)	36.13		
Nonvested at December 27, 2014	257,086	36.39	1.7	1.81 years
Granted	76,321	54.01		
Vested	(121,642)	38.61		
Forfeited	(3,849)	48.85		
Nonvested at December 26, 2015	207,916	\$ 40.97	\$ 5.2	2.53 years

Under the Stock Purchase Plan and LTSIP, we recognized share-based compensation expense of \$1.8 million, \$1.9 million, and \$1.9 million and the related total income tax benefits of \$0.9 million, \$0.9 million, and \$0.4 million in 2015, 2014 and 2013, respectively.

In 2015, 2014 and 2013, cash received from option exercises and share issuances under our plans was \$1.1 million, \$0.5 million and \$2.1 million, respectively. The actual tax benefit realized in 2015, 2014 and 2013 for the tax deductions from option exercises totaled \$0.4 million, \$0.3 million and \$0.3 million, respectively.

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

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. On October 14, 2010, our Board authorized an additional 2 million shares to be repurchased under our share repurchase program. We repurchased 105,012 and 13,613 shares under this program in 2014 and 2015, respectively. As of December 26, 2015, the cumulative total authorized shares available for repurchase is approximately 2.9 million shares.

**J. 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 wholly-owned subsidiaries. Amounts contributed to the plan are made at the discretion of the Board of Directors. We matched 25% of employee contributions in 2015 and 2014, on a discretionary basis, totaling \$2.4 million and \$2.0 million, respectively. The basis for matching contributions may not exceed the lesser of 6% of the employee's annual compensation or the IRS limitation.

On July 14, 2011, the compensation committee of the board of directors approved a retirement plan for officers whereby we will pay, upon retirement, benefits totaling 150% of the officer's highest base salary in the three years immediately preceding separation from service plus health care benefits for a specified period of time if certain eligibility requirements are met. Approximately \$5.8 million and \$5.0 million are accrued in "Other Liabilities" for this plan at December 26, 2015 and December 27, 2014, respectively.

**K. INCOME TAXES**

Income tax provisions for the years ended December 26, 2015, December 27, 2014, and December 28, 2013 are summarized as follows (in thousands):

	2015	2014	2013
Currently Payable:			
Federal	\$ 34,672	\$ 18,664	\$ 12,683
State and local	6,643	4,852	3,381
Foreign	5,599	5,619	3,928
	<u>46,914</u>	<u>29,135</u>	<u>19,992</u>
Net Deferred:			
Federal	(1,104)	4,128	3,696
State and local	96	1,079	600
Foreign	(36)	(193)	166
	<u>(1,044)</u>	<u>5,014</u>	<u>4,462</u>
	<u>\$ 45,870</u>	<u>\$ 34,149</u>	<u>\$ 24,454</u>

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

	2015	2014	2013
U.S.	\$ 115,231	\$ 79,365	\$ 59,334
Foreign	15,771	16,348	10,924
Total	<u>\$ 131,002</u>	<u>\$ 95,713</u>	<u>\$ 70,258</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:

	2015	2014	2013
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local taxes (net of federal benefits)	3.6	4.1	4.2
Effect of noncontrolling owned interest in earnings of partnerships	(0.3)	(0.2)	(0.3)
Manufacturing deduction	(2.4)	(2.0)	(2.0)
Tax credits, including foreign tax credit	(1.6)	(1.9)	(2.5)
Change in uncertain tax positions reserve	0.3	(0.2)	0.6
Other permanent differences	0.7	0.6	0.6
Other, net	(0.3)	0.3	(0.8)
Effective income tax rate	<u>35.0%</u>	<u>35.7%</u>	<u>34.8%</u>

Temporary differences which give rise to deferred income tax assets and (liabilities) on December 26, 2015 and December 27, 2014 are as follows (in thousands):

	2015	2014
Employee benefits	\$ 10,996	\$ 8,189
Net operating loss carryforwards	1,256	1,045
Foreign subsidiary capital loss carryforward	478	574
Other tax credits	3,518	3,034
Inventory	1,264	488
Reserves on receivables	1,213	1,086
Accrued expenses	5,311	4,186
Other, net	4,728	3,790
Gross deferred income tax assets	<u>28,764</u>	<u>22,392</u>
Valuation allowance	(1,454)	(1,371)
Deferred income tax assets	<u>27,310</u>	<u>21,021</u>
Depreciation	(25,795)	(23,907)
Intangibles	(20,765)	(18,056)
Other, net	(3,276)	(2,629)
Deferred income tax liabilities	<u>(49,836)</u>	<u>(44,592)</u>
Net deferred income tax liability	<u>\$ (22,526)</u>	<u>\$ (23,571)</u>

The valuation allowance consists of a capital loss carryforward we have for a wholly-owned subsidiary, Universal Forest Products of Canada, Inc., as well as various subsidiary net operating losses and credit carryforwards within certain state jurisdictions. Based upon the business activity and the nature of the assets of these subsidiaries, our ability to realize a future benefit from these carryforwards is in doubt, therefore we have established an allowance against the amount of the future benefit. The capital loss has an unlimited carryforward and therefore will not expire unless there is a change in control of the subsidiary.

**L. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES**

ASC 740, *Income Taxes* (“ASC 740”) clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, and disclosure requirements.

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

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	2015	2014	2013
Gross unrecognized tax benefits beginning of year	\$ 1,793	\$ 1,923	\$ 1,531
Increase in tax positions for prior years	—	—	230
Increase in tax positions for current year	754	556	481
Settlements with taxing authorities	—	—	—
Lapse in statute of limitations	(338)	(686)	(319)
Gross unrecognized tax benefits end of year	<u>\$ 2,209</u>	<u>\$ 1,793</u>	<u>\$ 1,923</u>

Our effective tax rate would have been affected by the unrecognized tax benefits had this amount been recognized as a reduction to income tax expense.

We recognized interest and penalties for unrecognized tax benefits in our provision for income taxes. The liability for unrecognized tax benefits included accrued interest and penalties of \$0.2 million, \$0.2 million and \$0.2 million at December 26, 2015, December 27, 2014, and December 28, 2013, respectively.

We file income tax returns in the United States and in various state, local and foreign jurisdictions. The federal and a majority of state and foreign jurisdictions are no longer subject to income tax examinations for years before 2012. A number of routine state and local examinations are currently ongoing. Due to the potential for resolution of state examinations, and the expiration of various statutes of limitation, and new positions that may be taken, it is reasonably possible that the amounts of unrecognized tax benefits could change in the next twelve months.

**M. COMMITMENTS, CONTINGENCIES, AND GUARANTEES**

We are self-insured for environmental impairment liability, including certain liabilities which are insured through a wholly owned subsidiary, Ardellis 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. Environmental reserves, calculated with no discount rate, have been established to cover remediation activities at wood preservation facilities in Stockertown, PA; Elizabeth City, NC; Auburndale, FL; and Medley, FL. In addition, a reserve was established for our facility in Thornton, CA to remove certain lead containing materials which existed on the property at the time of purchase.

On a consolidated basis, we have reserved approximately \$3.5 million on December 26, 2015 and December 27, 2014, representing the estimated costs to complete future remediation efforts. These amounts have not been reduced by an insurance receivable.

Many of our wood treating operations utilize "Subpart W" drip pads, defined as hazardous waste management units by the Environmental Protection Agency. The rules regulating drip pads require that the pad be "closed" at the point that it is no longer intended to be used for wood treating operations or to manage hazardous waste. Closure involves identification and disposal of contaminants which are required to be removed from the facility. The cost of closure is dependent upon a number of factors including, but not limited to, identification and removal of contaminants, cleanup standards that vary from state to state, and the time period over which the cleanup would be completed. Based on our present knowledge of existing circumstances, it is considered probable that these costs will approximate \$0.6 million. As a result, this amount is recorded in other long-term liabilities on December 26, 2015.

In February 2014, one of our operations was served with a federal grand jury subpoena from the Southern District of New York. The subpoena was issued in connection with an investigation being conducted by the US Attorney's Office for the Southern District of New York. The subpoena requested documents relating to a developer and construction projects for which our operation had provided materials and labor. Following receipt of the subpoena, the Audit Committee of the Company's Board of Directors retained outside counsel to conduct an internal investigation and respond to the subpoena. The Company cooperated in all respects with the US Attorney's Office, complied with this subpoena and voluntarily provided additional information. As a result of the internal investigation, in April 2014, two Company employees were terminated for violating the Company's Code of



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

Conduct and Business Ethics. In May 2015, those ex-employees were indicted by the grand jury . The Company has not been named as a target and continues to cooperate with the US Attorney's Office in this matter; however, because of the duration and unique nature of this proceeding, any potential, adverse financial implications to the Company are uncertain.

As of December 26, 2015 and December 27, 2014, we have an accrual balance of \$1.6 million, respectively, related to anti-dumping duty assessments imposed on steel nails imported from China.

In addition, on December 26, 2015, 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 December 26, 2015, we had outstanding purchase commitments on capital projects of approximately \$3.3 million.

We provide a variety of warranties for products we manufacture. Historically, warranty claims have not been material. We distribute products manufactured by other companies, some of which are no longer in business. While we do not warrant these products, we have received claims as a distributor of these products when the manufacturer no longer exists or has the ability to pay. Historically, these costs have not had a material affect on our consolidated financial statements.

As part of our operations, we supply building materials and labor to site-built construction projects or we jointly bid on contracts with framing companies for such projects. In some instances we are required to post payment and performance bonds to insure the project owner 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. As of December 26, 2015, we had approximately \$0.2 million in outstanding payment and performance bonds, for projects in process, which should expire during the next two years. In addition, approximately \$12.4 million in payment and performance bonds are outstanding for completed projects which are still under warranty.

On December 26, 2015 we had outstanding letters of credit totaling \$25.4 million, primarily related to certain insurance contracts and industrial development revenue bonds described further 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 \$15.6 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 have been issued. These letters of credit guarantee principal and interest payments to the bondholders. We currently have irrevocable letters of credit outstanding totaling approximately \$9.8 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 2012 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.

**N. SEGMENT REPORTING**

ASC 280, Segment Reporting (“ASC 280”), 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.

The Company operates manufacturing, treating and distribution facilities throughout North America, but primarily in the United States. The Company manages the operations of its individual locations primarily through a geographic reporting structure under which each location is included in a region and regions are included in divisions. The exceptions to this geographic reporting and management structure are (a) the Company's Alternative Materials Division, which offers a portfolio of non-wood products and distributes those products nation-wide and (b) the Company's distribution unit (referred to as UFPD) which distributes a variety of products to the manufactured housing industry.

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

Due to changes in management structure, we revised our operating segments at the beginning of fiscal 2015. Our operating segments currently consist of the North, South, West, Alternative Materials, International, Corporate, and All Other. Our previous operating segments, immediately prior to the current fiscal year, consisted of Eastern, Western, Site-Built, Corporate, and All Other. The Company's new North and South reporting segments represent the segregation of the former Eastern segment with the following adjustments:

- The Site-Built unit previously was a separate operating and reportable segment; however the recent management structure reorganization resulted in the Site-Built unit reporting through (and is now apart of) the North segment.
- UFPD which previously was included in the All Other segment, is now included as part of the North segment.

With respect to the facilities in the north, south, and west segments, these facilities generally supply the three markets the Company serves nationally - Retail, Industrial, and Construction. Also, substantially all of our facilities support customers in the immediate geographical region surrounding the facility.

Prior year amounts have been reclassified to our new segments. Our Alternative Materials and International divisions have been included in the "All Other" column of the table below. The "Corporate" column includes unallocated administrative costs and certain incentive compensation expense.

	2015					
	North	South	West	All Other	Corporate	Total
Net sales to outside customers	\$ 922,092	\$ 656,550	\$ 1,133,398	\$ 175,031	\$ —	\$ 2,887,071
Intersegment net sales	51,796	29,940	58,412	13,673	—	153,821
Interest expense	—	296	516	52	4,269	5,133
Amortization expense	267	9	2,467	788	—	3,531
Depreciation expense	7,901	6,255	13,033	3,707	6,814	37,710
Segment earnings from operations	53,879	30,740	70,220	3,038	(22,410)	135,467
Segment assets	291,614	185,818	369,077	98,004	163,166	1,107,679
Capital expenditures	9,622	6,138	13,356	6,698	7,708	43,522

	2014					
	North	South	West	All Other	Corporate	Total
Net sales to outside customers	\$ 840,277	\$ 611,700	\$ 1,062,565	\$ 145,787	\$ —	\$ 2,660,329
Intersegment net sales	37,624	20,224	47,737	12,783	—	118,368
Interest expense	—	323	39	—	3,905	4,267
Amortization expense	331	10	1,358	711	—	2,410
Depreciation expense	7,060	5,700	11,029	4,082	6,042	33,913
Segment earnings from operations	32,988	24,474	53,575	3,155	(16,825)	97,367
Segment assets	303,213	201,245	351,557	85,661	82,124	1,023,800
Capital expenditures	10,887	8,875	11,984	3,879	9,680	45,305

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

	2013					
	North	South	West	All Other	Corporate	Total
Net sales to outside customers	\$ 811,438	\$ 568,237	\$ 950,684	\$ 140,089	\$ —	\$ 2,470,448
Intersegment net sales	46,103	17,689	38,176	11,798	—	113,766
Interest expense	—	356	48	—	4,447	4,851
Amortization expense	331	8	1,416	718	—	2,473
Depreciation expense	6,541	4,762	9,830	4,288	5,670	31,091
Segment earnings from operations	21,167	23,680	42,003	(1,850)	(10,732)	74,268
Segment assets	287,382	178,008	300,443	79,510	71,644	916,987
Capital expenditures	8,390	6,010	11,069	6,285	8,269	40,023

In 2015, 2014, and 2013, 19%, 17%, and 17% of net sales, respectively, were to a single customer.

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

	2015		2014		2013	
	Net Sales	Long-Lived Tangible Assets	Net Sales	Long-Lived Tangible Assets	Net Sales	Long-Lived Tangible Assets
United States	\$ 2,811,359	\$ 244,040	\$ 2,596,278	\$ 242,156	\$ 2,410,313	\$ 233,237
Foreign	75,712	15,408	64,051	15,678	60,135	16,260
Total	<u>\$ 2,887,071</u>	<u>\$ 259,448</u>	<u>\$ 2,660,329</u>	<u>\$ 257,834</u>	<u>\$ 2,470,448</u>	<u>\$ 249,497</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.

	Value-Added	Commodity- Based
2015	59.8%	40.2%
2014	58.5%	41.5%
2013	58.1%	41.9%

Value-added product sales consist of fencing, decking, lattice, and other specialty products sold to the retail building materials 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. Commodity-based product sales consist primarily of remanufactured lumber and preservative treated lumber.

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

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

	Years Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
<u>Value-Added Sales</u>			
Trusses – residential, modular and manufactured housing	\$ 299,111	\$ 273,605	\$ 238,093
Fencing	149,526	143,252	120,765
Decking and railing – composite, wood and other	177,787	141,121	131,102
Turn-key framing and installed sales	129,803	121,434	159,811
Industrial packaging and components	374,030	298,335	251,224
Engineered wood products (eg. LVL; i-joist)	67,804	61,970	60,335
Manufactured brite and other lumber	59,804	73,261	64,465
Wall panels	46,496	43,751	36,908
Outdoor DIY products (eg. stakes; landscape ties)	56,846	51,710	47,251
Construction and building materials (eg. door packages; drywall)	200,901	191,426	162,362
Lattice – plastic and wood	47,392	40,943	38,959
Manufactured brite and other panels	57,999	69,622	80,335
Siding, trim and moulding	45,215	32,323	29,157
Hardware	17,123	17,265	16,295
Manufactured treated lumber	13,611	12,071	11,183
Manufactured treated panels	5,353	6,042	5,882
Other	281	248	106
Total Value-Added Sales	<u>\$ 1,749,082</u>	<u>\$ 1,578,379</u>	<u>\$ 1,454,233</u>
<u>Commodity-Based Sales</u>			
Non-manufactured brite and other lumber	458,023	454,695	421,071
Non-manufactured treated lumber	423,543	389,487	349,156
Non-manufactured brite and other panels	253,678	232,821	239,641
Non-manufactured treated panels	31,789	33,146	30,450
Other	10,978	9,402	9,361
Total Commodity-Based Sales	<u>\$ 1,178,011</u>	<u>\$ 1,119,551</u>	<u>\$ 1,049,679</u>
Total Gross Sales	<u>\$ 2,927,093</u>	<u>\$ 2,697,930</u>	<u>\$ 2,503,912</u>
Sales allowances	(40,022)	(37,601)	(33,464)
Total Net Sales	<u>\$ 2,887,071</u>	<u>\$ 2,660,329</u>	<u>\$ 2,470,448</u>

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

**O. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

The following table sets forth selected financial information for all of the quarters, each consisting of 13 weeks during the years ended December 26, 2015 and December 27, 2014 (in thousands, except per share data):

	First		Second		Third		Fourth	
	2015	2014	2015	2014	2015	2014	2015	2014
Net sales	\$633,025	\$553,998	\$838,171	\$772,752	\$762,275	\$713,489	\$653,600	\$620,090
Gross profit	79,582	66,012	112,443	96,988	110,706	89,586	97,173	72,756
Net earnings	10,804	7,668	26,884	22,449	26,883	20,492	20,561	10,955
Net earnings attributable to controlling interest	10,162	7,216	25,976	21,789	25,556	19,234	18,901	9,312
Basic earnings per share	0.51	0.36	1.29	1.08	1.26	0.96	0.93	0.46
Diluted earnings per share	0.51	0.36	1.28	1.08	1.26	0.96	0.93	0.46

## 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 2015	High	Low	Fiscal 2014	High	Low
Fourth Quarter	77.91	57.68	Fourth Quarter	53.36	40.70
Third Quarter	64.53	50.82	Third Quarter	50.27	42.71
Second Quarter	58.05	52.98	Second Quarter	57.32	46.18
First Quarter	54.48	49.34	First Quarter	58.52	47.63

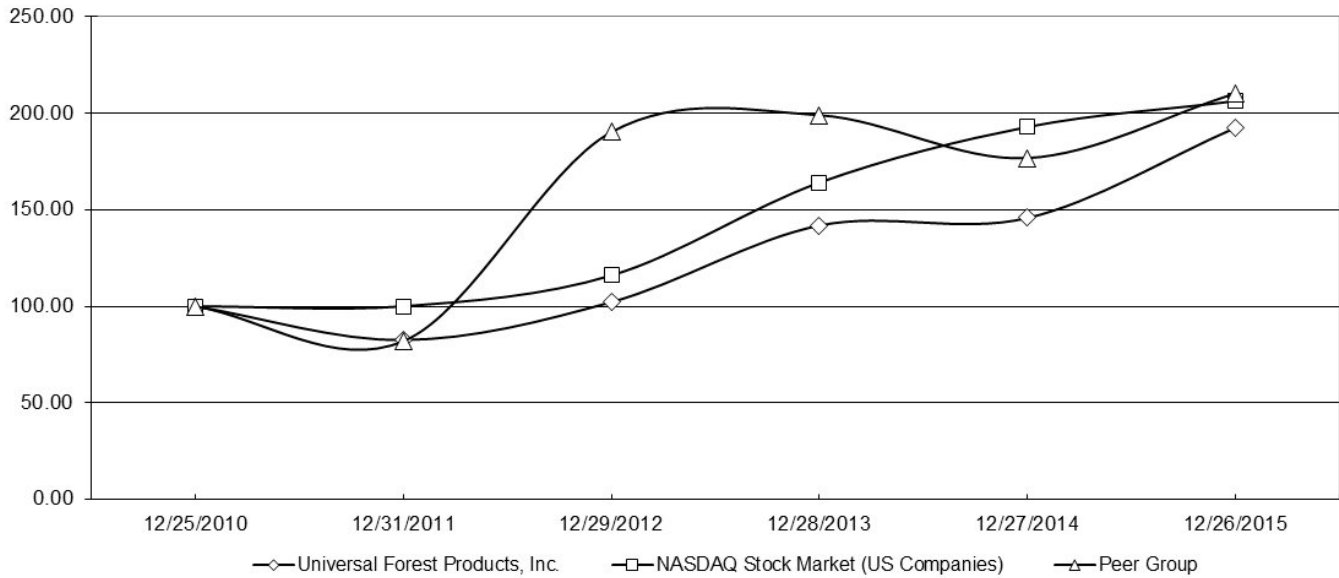
There were approximately 1,200 shareholders of record as of January 30, 2016.

We paid dividends on our common stock of \$0.40 and \$0.42 per share in June and December 2015, respectively. In June and December 2014, we paid dividends of \$0.21 and \$0.40 per share, respectively. 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 25, 2010, and reinvestment of dividends in all cases.

Comparison of 5 Year Cumulative Total Return  
Assumes Initial Investment of \$100  
December 2015



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

Bluelinx Holdings Inc.  
Builders FirstSource, 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.

## Directors and Executive Officers

### BOARD OF DIRECTORS

William G. Currie  
Chairman of the Board  
Universal Forest Products, Inc.

Matthew J. Missad  
Chief Executive Officer  
Universal Forest Products, Inc.

John M. Engler  
President  
Business Roundtable

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

Mark A. Murray  
Vice Chairman  
Meijer, Inc.

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

Thomas W. Rhodes  
President and Chief Executive Officer  
TWR Enterprises, Inc.

Bruce A. Merino

Mary E. Tuuk  
Chief Compliance Officer  
Meijer, Inc.

Brian C. Walker  
Chief Executive Officer  
Herman Miller, Inc.

Michael G. Wooldridge  
Partner  
Varnum, LLP

### EXECUTIVE OFFICERS

Matthew J. Missad  
Chief Executive Officer

Patrick M. Webster  
President and Chief Operating Officer

Michael R. Cole  
Chief Financial Officer and Treasurer

Allen T. Peters  
President  
UFP Western Division, Inc.

Patrick Benton  
Executive Vice President  
UFP Eastern Division – North

Jonathan West  
Executive Vice President  
UFP Eastern Division - South

Robert D. Coleman  
Executive Vice President Manufacturing

C. Scott Greene  
Executive Vice President Marketing

Donald L. James  
Executive Vice President  
National Sales

Michael F. Mordell  
Executive Vice President  
Purchasing



## **Shareholder Information**

### **ANNUAL MEETING**

The annual meeting of Universal Forest Products, Inc. will be held at 8:30 a.m. on April 20, 2016, 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](http://www.ufpi.com)

### **SECURITIES COUNSEL**

Varnum, LLP  
Grand Rapids, MI

### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Deloitte & Touche 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.  
6201 15<sup>th</sup> Ave  
Brooklyn, NY 11219  
Telephone: (800) 937-5449

### **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:

Ashburn, GA	Liberty, NC
Athena, OR	Locust, NC
Auburn, NY	McMinnville, OR
Auburndale, FL	Magna, UT
Bay City, MI	Medley, FL
Belchertown, MA	Merciditas, Puerto Rico
Berlin, NJ	Minneota, MN
Blanchester, OH	Morristown, TN
Bomaderry, NSW, Australia	Moultrie, GA
Brisbane, QLD, Australia	Muscle Shoals, AL
Burlington, NC	Naugatuck, CT
Caldwell, ID	New Hartford, NY
Chaffee, NY	New London, NC
Chandler, AZ	New Waverly, TX
Chesapeake, VA	New Windsor, MD
Chino, CA	Ooltewah, TN
Church Hill, TN	Parker, PA
Conway, SC	Pearisburg, VA
Cordele, GA	Phil Campbell, AL
Dallas, TX	Plainville, MA
Durango, Mexico	Portland, OR
Eagan, MN	Poulsbo, WA
Eaton, CO	Prairie du Chien, WI
Eatonton, GA	Ranson, WV
Elizabeth City, NC	Riverside, CA
Elkhart, IN	Saginaw, TX
Embalaje, MX	Salina, KS
Folkston, GA	Salisbury, NC
Franklinton, NC	San Antonio, TX
Gilmer, TX	Sauk Rapids, MN
Gordon, PA	Selma, AL
Grandview, TX	Schertz, TX
Grand Rapids, MI	Sidney, NY
Granger, IN	Snohomish, WA
Greene, ME	Stanfield, NC
Haleyville, AL	Stockertown, PA
Hamilton, OH	Thornton, CA
Harrisonville, MO	Turlock, CA
Hillsboro, TX	Union City, GA
Hudson, NY	Warrens, WI
Hutchinson, MN	Waycross, GA
Kearneysville, WV	Wenatchee, WA
Kyle, TX	White Bear Lake, MN
Janesville, WI	White Pigeon, MI
Jefferson, GA	Windsor, CO
Lacolle, Quebec, Canada	Woodburn, OR
Lafayette, CO	Yakima, WA

**LIST OF REGISTRANT'S SUBSIDIARIES AND AFFILIATES**

Aljoma Holding Company, LLC	Michigan	UFP International Employment Services, LLC	Michigan
Aljoma Lumber, Inc.	Florida	UFP ISF, LLC	Michigan
Ardellis Insurance Ltd.	Bermuda	UFP Janesville, LLC	Michigan
Caliper Building Systems, LLC	Michigan	UFP Kyle, LLC	Michigan
CA Truss, Inc.	Michigan	UFP Lafayette, LLC	Michigan
D&R Framing Contractors, LLC	Michigan	UFP Lansing, LLC	Michigan
Discount Building Products, LLC	Michigan	UFP Magna, LLC	Utah
Eovations, LLC	Michigan	UFP McMinville, LLC	Michigan
Integra International Pty Ltd	Michigan	UFP Mexico Embalaje y Distribution, S. de R.L. de C. V.	Mexico
International Wood Industries, Inc.	California	UFP Mid-Atlantic, LLC	Michigan
Landura, LLC	Texas	UFP Millry, LLC	Michigan
Maine Ornamental, LLC	Michigan	UFP Minneota, LLC	Michigan
Metaworld Technologies, LLC	Michigan	UFP Morristown, LLC	Michigan
Mid-Atlantic Framing, LLC	Michigan	UFP Moultrie, LLC	Michigan
North Atlantic Framing, LLC	Michigan	UFP National Enterprises, Inc.	Michigan
Pinelli Universal TKT, S de R.L. de C.V.	Mexico	UFP New London, LLC	Michigan
Pinelli Universal, S de R.L. de C.V.	Mexico	UFP New Waverly, LLC	Michigan
PR Distribution, LLC	Puerto Rico	UFP New Windsor, LLC	Michigan
Shawnlee Construction, L.L.C.	Michigan	UFP New York, LLC	Michigan
Shepardville Construction, LLC	Michigan	UFP North Atlantic, LLC	Michigan
TKT Real State, S. de R.L. de C.V.	Mexico	UFP Northeast, LLC	Michigan
Treating Services of Minnesota, LLC	Michigan	UFP Parker, LLC	Michigan
Tresstar, LLC	Michigan	UFP Purchasing, Inc.	Michigan
Universal Forest Products Education Foundation	Michigan	UFP Ranson, LLC	Michigan
Universal Forest Products Foundation	Michigan	UFP RE Acquisition, LLC	Michigan
U.F.P. Mexico Holdings, S. de R.L.	Mexico	UFP Riverside, LLC	Michigan
UFP Albuquerque, LLC	Mexico	UFP Saginaw, LLC	Michigan
UFP Altoona, LLC	Pennsylvania	UFP Salisbury, LLC	Michigan
UFP Ashburn, LLC	Michigan	UFP San Antonio, LLC	Michigan
UFP Atlantic, LLC	Michigan	UFP Sauk Rapids, LLC	Michigan
UFP Atlantic Division, LLC	Michigan	UFP Schertz, LLC	Michigan
UFP Auburndale, LLC	Michigan	UFP Shawnee, LLC	Oklahoma
UFP Australia Ptd Ltd	Australia	UFP Southeast, LLC	Michigan
UFP Australia Real Estate Pty Ltd	Michigan	UFP Southwest, LLC	Michigan

UFP Belchertown, LLC	Michigan	UFP Stockertown, LLC	Michigan
UFP Berlin, LLC	Michigan	UFP Thorndale Partnership	Canada
UFP Blanchester, LLC	Michigan	UFP Thornton, LLC	Michigan
UFP Caldwell, LLC	Idaho	UFP Transportation, Inc.	Michigan
UFP Chandler, LLC	Michigan	UFP Union City, LLC	Michigan
UFP Dallas, LLC	Michigan	UFP Ventures II, Inc.	Michigan
UFP Distribution, LLC	Michigan	UFP Warranty Corporation	Michigan
UFP Eagan, LLC	Michigan	UFP Warrens, LLC	Michigan
UFP East Central, LLC	Michigan	UFP Washington, LLC	Michigan
UFP Eastern Division, Inc.	Michigan	UFP West Central, LLC	Michigan
UFP Eaton LLC	Michigan	UFP Western Division, Inc.	Michigan
UFP Eatonton, LLC	Michigan	UFP White Bear Lake, LLC	Michigan
UFP Elizabeth City, LLC	Michigan	UFP Windsor, LLC	Michigan
UFP Far West, LLC	Michigan	UFP Woodburn, LLC	Michigan
UFP Folkston, LLC	Michigan	United Lumber & Reman, LLC	Alabama
UFP Franklinton, LLC	Michigan	Universal Consumer Products, Inc.	Michigan
UFP Gear, LLC	Michigan	Universal Forest Products of Canada, Inc.	Canada
UFP Gordon, LLC	Michigan	Universal Forest Products RMS, LLC	Michigan
UFP Grandview, LLC	Michigan	Universal Forest Products Texas LLC	Michigan
UFP Granger, LLC	Michigan	Upshur Forest Products, LLC	Michigan
UFP Great Lakes, LLC	Michigan	Western Building Professionals of California II Limited Partnership	Michigan
UFP Gulf, LLC	Michigan	Western Building Professionals of California, Inc.	Michigan
UFP Haleyville, LLC	Michigan	Western Building Professionals, LLC	Michigan
UFP Hamilton, LLC	Michigan		
UFP Harrisonville, LLC	Michigan		
UFP Hillsboro, LLC	Michigan		

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**Exhibit 23 (a) -Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in Registration Statement No. 333-75278 on Form S-3 and Registration Statements on Form S-8 for various employee option and incentive stock plans (Registration Statement Nos. 33-81128, 33-81116, 33-81450, 333-60630, 333-88056, 333-150345, and 333-156596) of our reports dated February 24, 2016, relating to the financial statements of Universal Forest Products, Inc., and the effectiveness of Universal Forest Product, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of Universal Forest Product, Inc. for the year ended December 26, 2015.

/s/ Deloitte & Touche LLP

Grand Rapids, Michigan  
February 24, 2016

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**Exhibit 23 (b) -Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Universal Forest Products, Inc. and subsidiaries of our report dated February 26, 2014, except for Note N, as to which the date is February 24, 2016, with respect to the consolidated financial statements of Universal Forest Products, Inc. and subsidiaries, included in the fiscal 2015 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, 333-88056, 333-150345 and 333-156596 on Form S-8 related to various employee option and incentive stock plans and Registration Statement file number 333-75278 on Form S-3 of our reports dated February 26, 2014, except for Note N, as to which the date is February 24, 2016, with respect to the consolidated financial statements of Universal Forest Products, Inc. and subsidiaries, incorporated by reference in this Annual Report (Form 10-K) for the fiscal year ended December 26, 2015.

/s/ Ernst & Young LLP

Grand Rapids, Michigan  
February 24, 2016

**Universal Forest Products, Inc.**

**Certification**

I, Matthew J. Missad, 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 24, 2016

/s/ Matthew J. Missad

Matthew J. Missad  
Chief Executive Officer and  
Principal 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 24, 2016

/s/ Michael R. Cole

Michael R. Cole

Chief Financial Officer,

Principal Financial Officer and

Principal Accounting 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, Matthew J. Missad, 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 27, 2014, 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 27, 2014 fairly presents, in all material respects, the financial condition and results of operations of Universal Forest Products, Inc.

UNIVERSAL FOREST PRODUCTS, INC.

Date: February 24, 2016

By: /s/ Matthew J. Missad  
Matthew J. Missad  
Its: Chief Executive Officer and  
Principal 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 27, 2014, 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 27, 2014 fairly presents, in all material respects, the financial condition and results of operations of Universal Forest Products, Inc.

UNIVERSAL FOREST PRODUCTS, INC.

Date: February 24, 2016

By: /s/ Michael R. Cole  
Michael R. Cole  
Its: Chief Financial Officer,  
Principal Financial Officer and  
Principal Accounting 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.